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

# FORM 10-Q

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

**For the quarterly period ended June 30, 2019**

**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 Inc.
**(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, or a smaller reporting company, or an emerging growth company. See the 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 |
| | | 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

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

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|---|---|---|
| Common Stock, $0.001 par value per share | EFC | The New York Stock Exchange |

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

| Class | Outstanding at August 2, 2019 |
|---|---|
| Common Stock, $0.001 par value per share | 33,770,776 |

**ELLINGTON FINANCIAL INC.**

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# PART I—FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements (Unaudited)

## ELLINGTON FINANCIAL INC.
## CONDENSED CONSOLIDATED BALANCE SHEET
## (UNAUDITED)

| *(In thousands, except share amounts)* | **June 30, 2019**<br>*Expressed in U.S. Dollars* |
|---|---|
| **Assets** | |
| Cash and cash equivalents[1] | $ 42,671 |
| Restricted cash[1] | 175 |
| Securities, at fair value | 1,668,677 |
| Loans, at fair value[1] | 1,091,523 |
| Investments in unconsolidated entities, at fair value[1] | 69,676 |
| Real estate owned[1] | 47,621 |
| Financial derivatives—assets, at fair value | 11,150 |
| Reverse repurchase agreements | 49,641 |
| Due from brokers[1] | 65,083 |
| Investment related receivables[1] | 77,882 |
| Other assets[1] | 3,495 |
| **Total Assets** | $ 3,127,594 |
| **Liabilities** | |
| Securities sold short, at fair value | $ 49,583 |
| Repurchase agreements[1] | 1,715,506 |
| Financial derivatives—liabilities, at fair value | 27,805 |
| Due to brokers | 9,951 |
| Investment related payables[1] | 49,516 |
| Other secured borrowings[1] | 101,925 |
| Other secured borrowings, at fair value[1] | 475,816 |
| Senior notes, net | 85,166 |
| Accounts payable and accrued expenses[1] | 6,281 |
| Base management fee payable to affiliate | 1,661 |
| Dividend payable | 4,267 |
| Interest payable[1] | 6,741 |
| Other liabilities[1] | 262 |
| **Total Liabilities** | 2,534,480 |
| Commitments and contingencies (Note 21) | |
| **Equity** | |
| Common stock, par value $0.001 per share, 100,000,000 shares authorized; 29,745,776 shares issued and outstanding | 30 |
| Additional paid-in-capital | 664,764 |
| Retained earnings (accumulated deficit) | (102,324) |
| **Total Stockholders' Equity** | 562,470 |
| Non-controlling interests[1] | 30,644 |
| **Total Equity** | 593,114 |
| **Total Liabilities and Equity** | $ 3,127,594 |

(1) Ellington Financial Inc.'s Condensed Consolidated Balance Sheet includes assets and liabilities of variable interest entities it has consolidated. See Note 9 for additional details on Ellington Financial Inc.'s consolidated variable interest entities.

See Notes to Condensed Consolidated Financial Statements

**ELLINGTON FINANCIAL INC.**
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**
**(UNAUDITED)**

| *(In thousands, except per share amounts)* | **Three-Month Period Ended June 30, 2019** | **Six-Month Period Ended June 30, 2019** |
|---|---|---|
| | *Expressed in U.S. Dollars* | |
| **Net Interest Income** | | |
| Interest income | $ 38,547 | $ 74,563 |
| Interest expense | (19,702) | (37,320) |
| Total net interest income | 18,845 | 37,243 |
| **Other Income (Loss)** | | |
| Realized gains (losses) on securities and loans, net | (1,505) | (6,827) |
| Realized gains (losses) on financial derivatives, net | (10,920) | (22,490) |
| Realized gains (losses) on real estate owned, net | 98 | 40 |
| Unrealized gains (losses) on securities and loans, net | 18,487 | 44,875 |
| Unrealized gains (losses) on financial derivatives, net | (4,921) | (10,610) |
| Unrealized gains (losses) on real estate owned, net | (266) | (513) |
| Other, net | 1,808 | 3,810 |
| Total other income (loss) | 2,781 | 8,285 |
| **Expenses** | | |
| Base management fee to affiliate (Net of fee rebates of $508 and $955, respectively)(1) | 1,661 | 3,383 |
| Investment related expenses: | | |
| Servicing expense | 2,244 | 4,637 |
| Debt issuance costs related to Other secured borrowings, at fair value | 1,671 | 1,671 |
| Other | 1,238 | 2,321 |
| Professional fees | 1,178 | 3,134 |
| Compensation expense | 903 | 1,975 |
| Other expenses | 1,053 | 2,038 |
| Total expenses | 9,948 | 19,159 |
| **Net Income (Loss) before Income Tax Expense and Earnings from Investments in Unconsolidated Entities** | 11,678 | 26,369 |
| Income tax expense (benefit) | 376 | 376 |
| Earnings from investments in unconsolidated entities | 2,354 | 4,151 |
| **Net Income (Loss)** | 13,656 | 30,144 |
| **Net Income (Loss) Attributable to Non-Controlling Interests** | 1,012 | 2,092 |
| **Net Income (Loss) Attributable to Common Stockholders** | $ 12,644 | $ 28,052 |
| **Net Income (Loss) per Share of Common Stock:** | | |
| Basic and Diluted | $ 0.43 | $ 0.94 |

(1) See Note 13 for further details on management fee rebates.

See Notes to Condensed Consolidated Financial Statements

**ELLINGTON FINANCIAL INC.**
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**(UNAUDITED)**

| | Common Stock | | Additional Paid-in Capital | Retained Earnings/(Accumulated Deficit) | Total Stockholders' Equity | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|
| | Shares | Par Value | | | | | |
| *(In thousands, except share amounts)* | | | | *Expressed in U.S. Dollars* | | | |
| **BALANCE, January 1, 2019** | 29,796,601 | $ — | $ 665,356 | $ (101,523) | $ 563,833 | $ 31,337 | $ 595,170 |
| Share conversion(1) | — | 30 | (30) | — | — | — | — |
| Net income (loss) | | | | 15,408 | 15,408 | 1,080 | 16,488 |
| Contributions from non-controlling interests | | | | | | 2,512 | 2,512 |
| Dividends(2) | | | | (16,360) | (16,360) | (404) | (16,764) |
| Distributions to non-controlling interests | | | | | | (4,306) | (4,306) |
| Adjustment to non-controlling interests | | | (4) | | (4) | 4 | — |
| Repurchase of shares of common stock | (50,825) | — | (782) | — | (782) | — | (782) |
| Share-based long term incentive plan unit awards | | | 114 | | 114 | 2 | 116 |
| **BALANCE, March 31, 2019** | 29,745,776 | 30 | 664,654 | (102,475) | 562,209 | 30,225 | 592,434 |
| Net income (loss) | | | | 12,644 | 12,644 | 1,012 | 13,656 |
| Contributions from non-controlling interests | | | | | | 4,936 | 4,936 |
| Dividends(2) | | | | (12,493) | (12,493) | (308) | (12,801) |
| Distributions to non-controlling interests | | | | | | (5,225) | (5,225) |
| Share-based long term incentive plan unit awards | | | 110 | | 110 | 4 | 114 |
| **BALANCE, June 30, 2019** | 29,745,776 | $ 30 | $ 664,764 | $ (102,324) | $ 562,470 | $ 30,644 | $ 593,114 |

(1) See Note 1 for further details on the share conversion.
(2) For the three- and six-month periods ended June 30, 2019, dividends totaling $0.42 and $0.97 per share of common stock outstanding were declared.

See Notes to Condensed Consolidated Financial Statements

**ELLINGTON FINANCIAL INC.**
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
**(UNAUDITED)**

| *(In thousands)* | **Six-Month Period Ended June 30, 2019** *Expressed in U.S. Dollars* |
|---|---|
| Net cash provided by (used in) operating activities | $ 43,334 |
| **Cash Flows from Investing Activities:** | |
| Purchase of securities | (1,278,398) |
| Purchase of loans | (433,740) |
| Capital improvements of real estate owned | (240) |
| Proceeds from disposition of securities | 1,047,270 |
| Proceeds from disposition of loans | 28,326 |
| Contributions to investments in unconsolidated entities | (30,132) |
| Distributions from investments in unconsolidated entities | 32,251 |
| Proceeds from disposition of real estate owned | 636 |
| Proceeds from principal payments of securities | 92,539 |
| Proceeds from principal payments of loans | 117,911 |
| Proceeds from securities sold short | 469,630 |
| Repurchase of securities sold short | (498,774) |
| Payments on financial derivatives | (53,100) |
| Proceeds from financial derivatives | 35,921 |
| Payments made on reverse repurchase agreements | (2,626,503) |
| Proceeds from reverse repurchase agreements | 2,786,295 |
| Due from brokers, net | 8,069 |
| Due to brokers, net | (2,744) |
| Net cash provided by (used in) investing activities | (304,783) |
| **Cash Flows from Financing Activities:** | |
| Repurchase of common stock | (782) |
| Dividends paid | (25,298) |
| Contributions from non-controlling interests | 7,448 |
| Distributions to non-controlling interests | (9,531) |
| Proceeds from issuance of Other secured borrowings | 20,430 |
| Principal payments on Other secured borrowings | (32,605) |
| Borrowings under repurchase agreements | 3,707,941 |
| Repayments of repurchase agreements | (3,479,161) |
| Proceeds from issuance of Other secured borrowings, at fair value | 70,988 |
| Debt issuance costs paid | (1,034) |
| Due from brokers, net | 1,818 |
| Due to brokers, net | (1,000) |
| Net cash provided by (used in) financing activities | 259,214 |
| **Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash** | (2,235) |
| **Cash, Cash Equivalents, and Restricted Cash, Beginning of Period** | 45,081 |
| **Cash, Cash Equivalents, and Restricted Cash, End of Period** | $ 42,846 |

See Notes to Condensed Consolidated Financial Statements

**ELLINGTON FINANCIAL INC.**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**

**(UNAUDITED)**

| *(In thousands)* | | **Six-Month Period Ended June 30, 2019** |
|---|---|---|
| | | *Expressed in U.S. Dollars* |
| **Supplemental disclosure of cash flow information:** | | |
| Interest paid | $ | 37,738 |
| Income tax paid | | 117 |
| Dividends payable | | 4,267 |
| Share-based long term incentive plan unit awards (non-cash) | | 230 |
| Purchase of investments (non-cash) | | (2,975) |
| Transfers from mortgage loans to real estate owned (non-cash) | | 17,713 |
| Proceeds from principal payments of investments (non-cash) | | 41,628 |
| Proceeds received from Other secured borrowings, at fair value (non-cash) | | 148,547 |
| Principal payments on Other secured borrowings, at fair value (non-cash) | | (41,628) |
| Repayments of repurchase agreements (non-cash) | | (148,158) |
| Repayment of senior notes (non-cash) | | (86,000) |
| Issuance of senior notes (non-cash) | | 86,000 |

See Notes to Condensed Consolidated Financial Statements

**ELLINGTON FINANCIAL INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**June 30, 2019**
**(UNAUDITED)**

## 1. Organization and Investment Objective

Ellington Financial Inc., formerly known as Ellington Financial LLC, was originally formed as a Delaware limited liability company on July 9, 2007 and commenced operations on August 17, 2007. On February 28, 2019, Ellington Financial LLC filed a certificate of conversion with the Secretary of State of the State of Delaware (the "Secretary") to convert from a Delaware limited liability company to a Delaware corporation (the "Conversion") and change its name to Ellington Financial Inc. The Conversion became effective on March 1, 2019, and upon effectiveness, each of Ellington Financial LLC's existing common shares representing limited liability company interests, no par value, converted into one issued and outstanding, fully paid and nonassessable share of common stock, $0.001 par value per share, of Ellington Financial Inc. In connection with the Conversion, Ellington Financial Inc.'s Board of Directors (the "Board of Directors") approved Ellington Financial Inc.'s Certificate of Incorporation (which was also filed with the Secretary) and Bylaws.

Ellington Financial Operating Partnership LLC (the "Operating Partnership"), a 97.6% owned consolidated subsidiary of Ellington Financial Inc., was formed as a Delaware limited liability company on December 14, 2012 and commenced operations on January 1, 2013. All of Ellington Financial Inc.'s operations and business activities are conducted through the Operating Partnership. Ellington Financial Inc., the Operating Partnership, and their consolidated subsidiaries are hereafter collectively referred to as the "Company." All intercompany accounts are eliminated in consolidation.

The Company conducts its operations to qualify and be taxed as a real estate investment trust, or "REIT," under the Internal Revenue Code of 1986, as amended (the "Code"), and has elected to be taxed as a corporation effective January 1, 2019. The Company intends to qualify and will elect to be taxed as a REIT for U.S. federal income tax purposes commencing with the tax year ending December 31, 2019, the tax return for which is expected to be filed in 2020. In anticipation of the Company's intended election to be taxed as a REIT under the Code beginning with its 2019 taxable year (the "REIT Election"), the Company implemented an internal restructuring as of December 31, 2018. As part of this restructuring, the Company moved certain of its non-REIT-qualifying investments and financial derivatives to taxable REIT subsidiaries or, "TRSs," and disposed of certain of its investments in non-REIT-qualifying investments and financial derivatives.

The Company 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," non-mortgage- and mortgage-related derivatives, equity investments in loan origination companies, 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"), which was approved by the Board of Directors effective March 13, 2018. 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 Board of Directors.

## 2. Significant Accounting Policies

*(A) Basis of Presentation*: The Company's unaudited interim condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, or "U.S. GAAP," and Regulation S-X. The condensed consolidated financial statements include the accounts of the Company, the Operating Partnership, its subsidiaries, and variable interest entities, or "VIEs," for which the Company is deemed to be the primary beneficiary. All intercompany balances and transactions have been eliminated. The preparation of condensed 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 condensed 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 condensed 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, 2018.

The Company adopted ASC 946, *Financial Services—Investment Companies* ("ASC 946") upon its commencement of operations in August 2007, and applied U.S. GAAP for investment companies. In connection with the Company's internal restructuring and the Company's intention to qualify as a REIT for the year ending December 31, 2019, the Company has determined that, effective January 1, 2019, it no longer qualifies for investment company accounting in accordance with ASC 946-10-25, and has prospectively discontinued its use. The Company will elect the fair value option, or "FVO," for, and therefore the Company will continue to measure at fair value, those of its assets and liabilities it had previously measured at fair value and for which such election is permitted, as provided for under ASC 825, *Financial Instruments* ("ASC 825"). Due to the prospective application of a change in accounting as required under ASC 946-10-25-2, the Company has determined that the presentation of its condensed consolidated financial statements for periods beginning after December 31, 2018 are not comparable to the consolidated financial statements previously prepared for prior periods for which the Company applied ASC 946. As a result, the Company has provided separate consolidated financial statements for applicable prior periods in Item 1 of this Quarterly Report on Form 10-Q.

*Reclassification and Presentation*

Effective January 1, 2019, the Company prospectively discontinued its application of ASC 946. Upon its change in status, the following significant changes and elections were made:

- Investments in securities are now accounted for in accordance with ASC 320, *Investments—Debt and Equity Securities* ("ASC 320");
- The Company elected the FVO as provided for under ASC 825-10-25-4 for all eligible financial instruments for which the Company had previously measured at fair value, including investments in securities, loans, financial derivatives, and certain of the Company's secured borrowings. As a result, all changes in the fair value of such financial instruments will continue to be recorded in earnings on the Company's Condensed Consolidated Statement of Operations;
- Real estate owned, or "REO," is not eligible for the FVO election. As a result, REO is carried at the lower of cost or fair value. The Company's cost basis in any REO that was previously measured at fair value under ASC 946 was adjusted on January 1, 2019 to equal the fair value of such investment as of December 31, 2018;
- The Company elected not to designate its financial derivatives as hedging instruments in accordance with ASC 815, *Derivatives and Hedging* ("ASC 815"). As a result, all changes in the fair value of financial derivatives will continue to be recorded in earnings on the Company's Condensed Consolidated Statement of Operations;
- Forward settling to-be-announced mortgage-backed-securities, or "TBAs," are no longer classified as investments. TBAs will be classified as financial derivatives, with the difference between the forward contract price and the market value of the TBA position as of the reporting date included in Unrealized gains (losses) on financial derivatives, net, on the Condensed Consolidated Statement of Operations; and
- The Company is required to account for certain of its equity investments under ASC 323-10, *Investments—Equity Method and Joint Ventures* ("ASC 323-10"). The Company has elected the FVO for such equity investments and changes in fair value will be reported in Earnings from investments in unconsolidated entities, on the Condensed Consolidated Statement of Operations.

The discontinuation of the Company's application of ASC 946 prospectively changed the presentation of the Company's condensed consolidated financial statements. The most significant changes are:

- The Consolidated Statement of Assets, Liabilities, and Equity has been changed to a Condensed Consolidated Balance Sheet;
- The Consolidated Condensed Schedule of Investments has been removed;
- The Consolidated Statement of Operations is no longer presented in the format required under ASC 946. The Company will present the Condensed Consolidated Statement of Operations as required under U.S. GAAP for operating companies. A Consolidated Statement of Other Comprehensive Income (Loss) will be presented, if and when applicable;
- The Condensed Consolidated Statement of Cash Flows has been changed, and now includes a section for investing activities;
- Certain footnotes have been changed to reflect conformity with applicable U.S. GAAP for operating companies;
- The Company re-evaluated its interests in all entities to determine whether they are variable interests, and re-evaluated its investments, including it investments in partially owned entities, to determine if they are VIEs, as required under ASC 810, *Consolidation* ("ASC 810"). The Company also re-evaluated consolidation considerations for all of its

investments in VIEs and partially owned entities, as required under ASC 810. Applicable disclosures related to VIEs have been included in these notes to condensed consolidated financial statements;

- Securities/loans sold under agreements to be repurchased at an agreed-upon price and date, which were formerly referred to as "reverse repurchase agreements," are now referred to as "repurchase agreements";
- Securities/loans purchased under agreements to resell at an agreed-upon price and date, which were formerly referred to as "repurchase agreements," are now referred to as "reverse repurchase agreements"; and
- The financial highlights disclosures, which are not required under U.S. GAAP for operating companies, have been removed.

*(B) Valuation*: The Company applies ASC 820-10, *Fair Value Measurement* ("ASC 820") to its holdings of financial instruments. ASC 820 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 and exchange-traded derivatives;
- 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 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," U.S. Treasury securities and sovereign debt, certain non-Agency RMBS, CMBS, CLOs, corporate debt, and actively traded derivatives such as interest rate swaps, foreign currency forwards, and other over-the-counter derivatives; and
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement. The types of financial instruments that the Company generally includes in this category are certain RMBS, CMBS, CLOs, ABS, and credit default swaps, or "CDS," on individual ABS, in each case where there is less price transparency. Also included in this category are residential and commercial mortgage loans, consumer loans, and private corporate debt and equity investments.

For certain financial instruments, the various inputs that management uses to measure fair value may fall into different levels of the fair value hierarchy. For each such financial instrument, the determination of which category within the fair value hierarchy is appropriate 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 given to inputs that are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets (Level 1), and the lowest priority given 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 financial instruments. The market approach uses third-party valuations and information obtained from market transactions involving identical or similar financial instruments. The income approach uses projections of the future economic benefit of an instrument to determine its fair value, such as in the discounted cash flow methodology. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with investing in these financial instruments. The leveling of each financial instrument is reassessed at the end of each period. Transfers between levels of the fair value hierarchy are assumed to occur at the end of the reporting period.

*Summary Valuation Techniques*

For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of the Company's financial instruments are not traded in an active market. Therefore, management generally uses third-party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as the discounted cash flow methodology. The following are summary descriptions, for various categories of financial instruments, of the valuation methodologies management uses in determining fair value of the Company's financial instruments in such categories. Management utilizes such methodologies to assign a 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," TBAs, CLOs, and 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, management may adjust the valuations it receives (e.g., downward adjustments for odd lots), and 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 financial 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. Given their relatively high level of price transparency, Agency RMBS pass-throughs are typically classified as Level 2. Non-Agency RMBS, CMBS, Agency interest only and inverse interest only RMBS, CLOs, and corporate bonds are generally classified as either Level 2 or Level 3 based on analysis of available market data and/or third-party valuations. Private equity investments are generally classified as Level 3. 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.

For residential and commercial mortgage loans and consumer loans, management determines fair value by taking into account both external pricing data, which includes third-party valuations, and internal pricing models. Management has obtained third-party valuations on the majority of these investments and expects to continue to solicit third-party valuations in the future. In determining fair value for non-performing mortgage loans, management evaluates third-party valuations, if applicable, as well as 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. In determining fair value for performing mortgage loans and consumer loans, management evaluates third-party valuations, if applicable, as well as discounted cash flows of the loans 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 are classified as Level 3.

The Company has securitized certain mortgage loans that are not deemed "qualified mortgage," or "QM," loans under the rules of the Consumer Financial Protection Bureau, or "non-QM loans." The Company's securitized non-QM loans are held as part of a collateralized financing entity, or "CFE." A CFE is a 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 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 FVO for initial and subsequent recognition of the debt issued by its consolidated securitization trusts and has determined that each consolidated securitization trust meets the definition of a CFE; see Note 10 "*Securitization Transactions—Residential Mortgage Loan Securitizations*" 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 each of its CFEs to be more observable than those of the financial assets and, as a result, has used the fair value of the financial liabilities of each of the CFEs to measure the fair value of the financial assets of each of the CFEs. The fair value of the debt issued by each CFE is typically valued using discounted cash flows and other market data. The securitized non-QM loans, which are assets of the CFEs, are included in Loans, at fair value, on the Company's Condensed Consolidated Balance Sheet. The debt issued by the CFEs is included in Other secured borrowings, at fair value, on the Company's Condensed Consolidated Balance Sheet. Unrealized gains (losses) from changes in fair value of Other secured borrowings, at fair value, are included in Other, net, on the Company's Condensed Consolidated Statement of Operations. The securitized non-QM loans and the debt issued by the Company's CFEs are both classified as Level 3.

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 or indices, market-standard pricing sources are used to obtain valuations; these financial derivatives are generally classified as Level 2. 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 classified as Level 2. Financial derivatives with less price transparency, such as CDS on individual ABS, are generally valued based on internal models, and are classified as Level 3. 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 financial derivatives, the Company also considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each financial derivative agreement.

Investments in private operating entities, such as loan 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 classified as Level 3.

The Company's repurchase and reverse repurchase agreements are carried at cost, which approximates fair value. Repurchase and reverse repurchase agreements are classified as Level 2, 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 (the "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 financial instruments. 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 condensed consolidated financial statements.

*(C) Accounting for Securities*: Purchases and sales of investments in securities are generally recorded on trade date, and realized and unrealized gains and losses are calculated based on identified cost. Investments in securities are recorded in accordance with ASC 320 or ASC 325-40, *Beneficial Interests in Securitized Financial Assets* ("ASC 325-40"). The Company generally classifies its securities as available-for-sale. The Company has chosen to elect the FVO pursuant to ASC 825 for its investments in securities. Electing the FVO allows the Company to record changes in fair value in the Condensed Consolidated Statement of Operations, as a component of Unrealized gains (losses) on securities and loans, net, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all investment activities will be recorded in a similar manner.

Many of the Company's investments in securities, such as MBS and CLOs, are issued by entities that are deemed to be VIEs. For the majority of such investments, the Company has determined it is not the primary beneficiary of such VIEs and therefore has not consolidated such VIEs. The Company's maximum risk of loss in these unconsolidated VIEs is generally limited to the fair value of the Company's investment in the VIE.

The Company evaluates its investments in interest only securities to determine whether they meet the requirements for classification as financial derivatives under ASC 815. For interest only securities, where the holder is entitled only to a portion of the interest payments made on the mortgages underlying certain MBS, and inverse interest only securities, which are interest only securities whose coupon has an inverse relationship to its benchmark rate, such as LIBOR, the Company has determined that such investments do not meet the requirements for treatment as financial derivatives and are classified as securities.

The Company evaluates the cost basis of its investments in securities for other-than-temporary impairment, or "OTTI," on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired requires judgments, estimates, and assumptions based on subjective and objective factors. As a result, the timing and amount of an OTTI constitutes an accounting estimate that may change materially over time.

When the fair value of a security is less than its amortized cost basis as of the balance sheet date, the security's cost basis is considered impaired, and the impairment is designated as either temporary or other-than-temporary. When a security's cost basis is impaired, an OTTI is considered to have occurred if (i) the Company intends to sell the security (i.e., a decision has been made as of the reporting date), (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, or (iii) the Company does not expect to recover the security's amortized cost basis, even if the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security. Additionally, for securities accounted for under ASC 325-40, an impairment of the cost basis is recorded when there is an adverse change in the expected cash flows to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows has occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those that a "market participant" would use and include observations of current information and events, and assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of potential credit losses. Cash flows are discounted at a rate equal to the current yield used to accrete interest income. Any resulting OTTI adjustments made to the cost basis of the security are reflected in Realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations.

*(D) Accounting for Loans*: The Company's loan portfolio generally consists of residential mortgage, commercial mortgage, and consumer loans. The Company's loans are accounted for under ASC 310-10, *Receivables*, and are classified as

held-for-investment when the Company has the intent and ability to hold such loans for the foreseeable future or to maturity/payoff. When the Company has the intent to sell loans, such loans will be classified as held-for-sale. Mortgage loans held-for-sale are accounted for under ASC 948-310, *Financial services—mortgage banking.* The Company may aggregate its loans into pools based on common risk characteristics at purchase. Once a pool of loans is assembled, its composition is maintained. The Company has chosen to elect the FVO pursuant to ASC 825 for its loan portfolios. Loans are recorded at fair value on the Condensed Consolidated Balance Sheet and changes in fair value are recorded in earnings on the Condensed Consolidated Statement of Operations as a component of Unrealized gains (losses) on securities and loans, net. Transfers between held-for-investment and held-for-sale occur once the Company's intent to sell the loans changes.

For residential and commercial mortgage loans, the Company generally accrues interest payments. Such loans are typically moved to non-accrual status if the loan becomes 90 days or more delinquent. The Company does not accrue interest payments on its consumer loans; interest payments are recorded upon receipt.

The Company evaluates the collectability of both interest and principal on each of its loan investments and whether the cost basis of the loan is impaired. A loan's cost basis is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan's cost basis is impaired, the Company does not record an allowance for loan loss as it has elected the FVO on all of its loan investments. The Company will recognize impairments through an adjustment to the amortized cost basis and recognize a realized loss in the period such adjustment was made, which is included in Realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations.

*(E) Interest Income*: The Company amortizes premiums and accretes discounts on its debt securities. 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 debt securities that are deemed to be of high credit quality at the time of purchase (generally Agency RMBS, exclusive of interest only securities), premiums and discounts are amortized/accreted into interest income over the life of such securities using the effective interest method. For such 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, or "Catch-up Premium Amortization Adjustment," is made to amortization to reflect the cumulative impact of the change in effective yield.

For debt securities (generally non-Agency RMBS, CMBS, ABS, CLOs, and interest only securities) 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. When the fair value of a debt security is less than its amortized cost basis as of the balance sheet date, the security's cost basis is considered impaired. The Company will adjust such impaired cost basis to the present value of the estimated future cash flows. This adjustment to the cost basis is reported in Realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations. For purposes of estimating the future expected cash flows, management uses 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. Changes in projected cash flows will result in prospective changes in the yield/interest income recognized on such securities based on the updated expected future cash flows.

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, based on current information and events, the Company re-assesses the collectability of interest and principal, and generally designates a loan as in non-accrual status 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 in non-accrual status, as long as principal is still expected to be collectible 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 collectible 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.

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 unit of account. 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 securities, 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.

*(F) Investments in unconsolidated entities*: The Company has made and may in the future make non-controlling equity investments in various entities, such as loan originators. Such investments are generally in the form of preferred and/or common equity, or membership interests. In certain cases, the Company can exercise significant influence over the entity (e.g. by having representation on the entity's board of directors) but the requirements for consolidation under ASC 810 are not met; in such cases the Company is required to account for such equity investments under ASC 323-10. The Company has chosen to elect the FVO pursuant to ASC 825 for its investments in unconsolidated entities, which, in management's view, more appropriately reflects the results of operations for a particular reporting period, as all investment activities will be recorded in a similar manner. The period change in fair value of the Company's investments in unconsolidated entities is recorded on the Condensed Consolidated Statement of Operations in Earnings from investments in unconsolidated entities.

*(G) 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's cost basis in REO is equal to the fair value of the associated mortgage loan at the time the Company obtains possession. REO valuations are reflected at the lower of cost or fair value. The fair value of such REO is typically based on management's estimates which generally use information including general economic data, BPOs, recent sales, property appraisals, and bids, and takes into account the expected costs to sell the property. REO recorded at fair value on a non-recurring basis are classified as Level 3.

*(H) Securities Sold Short*: The Company may purchase or engage in short sales of U.S. Treasury securities and sovereign debt to mitigate the potential impact of changes in interest rates and/or foreign exchange rates on the performance of its portfolio. When the Company sells securities short, it typically satisfies its security delivery settlement obligation by borrowing or purchasing the security sold short from the same or a different counterparty. When borrowing a security sold short from a counterparty, the Company generally is required to deliver cash or securities to such counterparty as collateral for the Company's obligation to return the borrowed security. The Company has chosen to elect the FVO pursuant to ASC 825 for its securities sold short. Electing the FVO allows the Company to record changes in fair value in the Condensed Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. As such, securities sold short are recorded at fair value on the Condensed Consolidated Balance Sheet and the period change in fair value is recorded in current period earnings on the Condensed Consolidated Statement of Operations as a component of Unrealized gains (losses) on securities and loans, net. 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 original sale price. Such realized gain or loss is recorded on the Company's Condensed Consolidated Statement of Operations in Realized gains (losses) on securities and loans, net.

*(I) Financial Derivatives*: The Company enters into various types of financial derivatives subject to its investment guidelines, which include restrictions associated with qualifying and maintaining qualification as a REIT. The Company's financial derivatives are predominantly subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Company may be required to deliver or receive cash or securities as collateral upon entering into derivative transactions. In addition, changes in the relative value of derivative transactions may require the Company or the counterparty to post or receive additional collateral. In the case of cleared derivatives, the clearinghouse becomes the Company's counterparty and a futures commission merchant acts as an intermediary between the Company and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral. Cash collateral received by the Company is included in Due to brokers, on the Condensed Consolidated Balance Sheet. Conversely, cash collateral posted by the Company is included in Due from brokers, on the

Condensed Consolidated Balance Sheet. The types of derivatives primarily utilized by the Company are swaps, TBAs, 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 and total return swaps is 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 also enters into interest rate swaps whereby the Company pays one floating rate and receives a different floating rate, or "basis swaps."

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 "reference asset" (usually a bond, loan, or an index or 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 reference asset (or underlying asset, in the case of a reference asset that is an index or basket) 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 reference asset (or underlying asset, in the case of a reference asset that is an index or basket) 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 obligor of the reference asset (or underlying obligor, in the case of a reference asset that is an index). The Company typically writes (sells) protection to take a "long" position with respect to the underlying reference assets, or purchases (buys) protection to take a "short" position with respect to the 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 on the Condensed Consolidated Statement of Operations. 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 Condensed Consolidated Balance Sheet and are recorded as a realized gain or loss on the termination date.

*TBA Securities*: The Company transacts in the forward settling TBA market. A TBA position is a forward contract for the purchase ("long position") or sale ("short position") of Agency RMBS at a predetermined price, face amount, issuer, coupon, and maturity on an agreed-upon future delivery date. For each TBA contract and delivery month, a uniform settlement date for all market participants is determined by the Securities Industry and Financial Markets Association. The specific Agency RMBS to be delivered into the contract at the settlement date are not known at the time of the transaction. The Company typically does not take delivery of TBAs, but rather enters into offsetting transactions and settles the associated receivable and payable balances with its counterparties. The Company uses TBAs to mitigate interest rate risk, usually by taking short positions. The Company also invests in TBAs as a means of acquiring additional exposure to Agency RMBS, or for speculative purposes, including holding long positions.

TBAs are accounted for by the Company as financial derivatives. The difference between the forward contract price and the market value of the TBA position as of the reporting date is included in Unrealized gains (losses) on financial derivatives, net, on the Condensed Consolidated Statement of Operations.

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

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

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

Financial derivative assets are included in Financial derivatives—assets, at fair value, on the Condensed Consolidated Balance Sheet. Financial derivative liabilities are included in Financial derivatives—liabilities, at fair value, on the Condensed Consolidated Balance Sheet. The Company has chosen to elect the FVO pursuant to ASC 825 for its financial derivatives. Electing the FVO allows the Company to record changes in fair value in the Condensed Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. Changes in unrealized gains and losses on financial derivatives are included in Unrealized gains (losses) on financial derivatives, net, on the Condensed Consolidated Statement of Operations. Realized gains and losses on financial derivatives are included in Realized gains (losses) on financial derivatives, net, on the Condensed Consolidated Statement of Operations.

*(J) 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. See Note 18 for further discussion of restricted cash balances.

*(K) Repurchase Agreements*: The Company enters into 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 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 repurchase agreement, on the amount borrowed over the term of the repurchase agreement. 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. When the Company enters into a 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 repurchase agreement. Repurchase agreements are carried at their contractual amounts, which approximate fair value as the debt is short-term in nature.

*(L) Reverse Repurchase Agreements*: The Company enters into reverse repurchase agreement transactions whereby it purchases securities under agreements to resell at an agreed-upon price and date. In general, securities received pursuant to reverse repurchase agreements are delivered to counterparties of short sale transactions. 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. Assets held pursuant to reverse repurchase agreements are reflected as assets on the Condensed Consolidated Balance Sheet. Reverse repurchase agreements are carried at their contractual amounts, which approximates fair value due to their short-term nature.

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 condensed consolidated financial statements.

*(M) 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."

*(N) 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. Consolidation of a VIE is required by the entity that is deemed to be the primary beneficiary of the VIE. The Company evaluates all of its interests in VIEs for consolidation under ASC 810. The primary beneficiary is generally the party with both (i) the power to direct the activities of the VIE that most significantly impact its economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant to the VIE.

When the Company has an interest in an entity that has been determined to be a VIE, the Company assesses whether it is deemed to be the primary beneficiary of the VIE. The Company will only consolidate a VIE for which it has concluded it is the primary beneficiary. To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes (i) identifying the activities that most significantly impact the VIE's economic performance; and (ii) identifying which party, if any, has power over those activities. To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, it considers all of its economic interests, including debt and/or equity investments, as well as other arrangements deemed to be variable interests in the VIE. These assessments to determine whether the Company is the primary beneficiary require significant judgment. In instances where the Company and its related parties have interests in a VIE, the Company considers whether there is a single party in the related party group that meets the criteria to be deemed the primary beneficiary. If one party within the related party group meets such criteria, that reporting entity would be deemed to be the primary beneficiary of the VIE and no further analysis is needed. If no party within the related party group on its own meets the criteria to be deemed the primary beneficiary, but the related party group as a whole meets such criteria, the determination of the primary beneficiary within the related party group requires significant judgment. The Company performs analysis which is based upon qualitative as well as quantitative factors, such as the relationship of the VIE to each of the members of the related party group, as well as the significance of the VIE's activities to those members, with the objective of determining which party is most closely associated with the VIE.

The Company performs ongoing reassessments of (i) whether any entities previously evaluated have become VIEs, based on certain events, and therefore subject to assessment to determine whether consolidation is appropriate, and (ii) whether changes in the facts and circumstances regarding the Company's involvement with a VIE causes its consolidation conclusion regarding the VIE to change. See Note 9 and Note 13 for further information on the Company's consolidated VIEs.

The Company's maximum amount at risk is generally limited to the Company's investment in the VIE. The Company is generally not contractually required to provide and has not provided any form of financial support to the VIEs.

The Company holds beneficial interests in certain 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 Company is determined to be the primary beneficiary, and the Company consolidates the trust and all intercompany transactions are eliminated in consolidation. In cases where the Company does not effectively retain control of the assets of, or have the power to direct the activities that most significantly impact the economic performance of, the related trust, it does not consolidate the trust. See Note 10 for further discussion of the Company's securitization trusts.

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

*(P) Debt Issuance Costs*: Debt issuance costs associated with debt for which the Company has elected the FVO are expensed at the issuance of the debt, and are included in Investment related expenses—Other on the Condensed Consolidated Statement of Operations. Costs associated with the issuance of debt for which the Company has not elected the FVO are deferred and amortized over the life of the debt, which approximates the effective interest rate method, and are included in Interest expense on the Condensed Consolidated Statement of Operations. Deferred debt issuance costs are presented on the Condensed Consolidated Balance Sheet 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 the Condensed Consolidated Balance Sheet. 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.

*(Q) Expenses*: Expenses are recognized as incurred on the Condensed Consolidated Statement of Operations.

*(R) Investment Related Expenses*: 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. The Company has elected the FVO for its investments, and as a result all investment related expenses are expensed as incurred and included in Investment related expenses on the Condensed Consolidated Statement of Operations.

*(S) Long term incentive plan units*: Long term incentive plan units of the Operating Partnership ("OP 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 OP LTIP Units issued to dedicated or partially dedicated personnel, or to the Company's 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 OP LTIP Units are typically one year from issuance for non-executive directors, and are typically one year to two years from issuance for dedicated or partially dedicated personnel.

*(T) Non-controlling interests*: Non-controlling interests include interests in the Operating Partnership represented by units convertible into shares of the Company's common stock ("Convertible Non-controlling Interests"). Convertible Non-controlling Interests include both the OP LTIP Units and those common units ("OP Units") of the Operating Partnership not held by the Company (collectively, the "Convertible Non-controlling Interest Units"). Non-controlling interests also include the interests of joint venture partners in certain of our consolidated subsidiaries. The joint venture partners' interests are not convertible into shares of the Company's common stock. The Company adjusts the Convertible Non-controlling Interests to align their carrying value with their share of total outstanding Operating Partnership units, including both the OP Units held by the Company and the Convertible Non-controlling Interests. Any such adjustments are reflected in Adjustment to non-controlling interests, on the Condensed Consolidated Statement of Changes in Equity. See Note 15 for further discussion of non-controlling interests.

*(U) Dividends*: Dividends payable are recorded on the declaration date.

*(V) Shares Repurchased*: Shares of common stock that are repurchased by the Company subsequent to issuance are immediately retired upon settlement and decrease the total number of shares of common stock issued and outstanding. The cost of such repurchases is charged against Additional paid-in-capital on the Company's Condensed Consolidated Balance Sheet.

*(W) Earnings Per Share ("EPS")*: Basic EPS is computed using the two class method by dividing net income (loss) after adjusting for the impact of Convertible Non-controlling Interests which are participating securities, by the weighted average number of shares of common stock outstanding calculated including Convertible Non-controlling Interests. Because the Company's Convertible Non-controlling Interests are participating securities, they are included in the calculation of both basic and diluted EPS.

*(X) Foreign Currency*: The functional currency of the Company is U.S. dollars. Assets and liabilities denominated in foreign currencies are remeasured 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 Other, net, on the Condensed Consolidated Statement of Operations.

Our reporting currency is U.S. Dollars. If the Company has investments in unconsolidated entities that have a functional currency other than U.S. Dollars, the fair value is translated to U.S. dollars using the current exchange rate at the valuation date. The cumulative translation adjustment, if any, associated with the Company's investments in unconsolidated entities is recorded in accumulated other comprehensive income (loss), a component of consolidated stockholders' equity.

*(Y) Income Taxes*: The Company intends to elect to be taxed as a REIT under Sections 856 through 860 of the Code. As a REIT, the Company is generally not subject to corporate-level federal and state income tax on net income it distributes to its stockholders within the prescribed timeframes. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including distributing at least 90% of its annual taxable income to stockholders. Even if the Company qualifies as a REIT, it may be subject to certain federal, state, local and foreign taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state, and local income taxes and may be precluded from qualifying as a REIT for the four taxable years following the year in which the Company fails to qualify as a REIT. The Company believes that it will operate in a manner that will allow it to qualify for taxation as a REIT. As a result of the Company's expected REIT qualification and expected distributions, it does not generally expect to pay federal or state corporate income taxes. Many of the REIT requirements, however, are highly technical and complex.

As a REIT, if the Company fails to distribute in any calendar year (subject to specific timing rules for certain dividends paid in January) at least the sum of (i) 85% of its ordinary income for such year, (ii) 95% of its capital gain net income for such year, and (iii) any undistributed taxable income from the prior year, the Company would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (i) the amounts actually distributed and (ii) the amounts of income retained and on which the Company has paid corporate income tax.

The Company elected to treat certain domestic and foreign subsidiaries as TRSs, and may in the future elect to treat other current or future subsidiaries as TRSs. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A domestic TRS may, but is not required to, declare dividends to the Company; such dividends will be included in the Company's taxable income/(loss) and may necessitate a distribution to the Company's stockholders. Conversely, if the Company retains earnings at the level of a domestic TRS, such earnings will increase the book equity of the consolidated entity. A domestic TRS is subject to U.S. federal, state, and local corporate income taxes. The Company has elected and may elect in the future to treat certain of its foreign corporate subsidiaries as TRSs and, accordingly, taxable income generated by these TRSs may not be subject to U.S. federal, state, and local corporate income taxation, but generally will be included in the Company's income on a current basis as Subpart F income, whether or not distributed. However, certain of the Company’s foreign subsidiaries may be subject to income taxes in the relevant foreign jurisdictions.

The Company's financial results are generally not expected to reflect provisions for current or deferred income taxes, except for any activities conducted through one or more TRSs that are subject to corporate income taxation.

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 more than 50% likely to be realized upon ultimate settlement. The Company did not have any unrecognized tax benefits resulting from tax positions related to the current period or to 2018, 2017, 2016, or 2015 (its open tax years). In the normal course of business, the Company may be subject to examination by federal, state, local, and foreign jurisdictions, where applicable, for the current period, 2018, 2017, 2016, and 2015 (its open tax years). 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 the authoritative guidance may be subject to review and adjustment at a later date based on changing tax laws, regulations, and interpretations thereof.

*(Z) 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 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 the additional disclosure requirements, as required under ASU 2018-13, is not expected to have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* ("ASU 2016-13"). ASU 2016-13 introduces a new model related to the accounting for credit losses on financial assets subject to credit losses and measured at amortized cost and certain off-balance sheet credit exposures. ASU 2016-13 amends the current guidance, which requires an OTTI charge only when fair value is below the amortized cost of an asset. The length of time the fair value of an available-for-sale debt security has been below the amortized cost will no longer impact the determination of whether a credit loss exists. As a result, it is no longer an other-than-temporary model. In addition, credit losses on available-for-sale debt securities will now be limited to the difference between the security's amortized cost basis and its fair value. The new debt security model will also require the use of an allowance to record estimated credit losses. The new guidance also expands the disclosure requirements regarding an entity's assumptions and models. In addition, public entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i.e., by vintage year). ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating its method of adoption and the impact this ASU will have on its consolidated financial statements.

### 3. Valuation

The table below reflects the value of the Company's Level 1, Level 2, and Level 3 financial instruments that are measured at fair value on a recurring basis as of June 30, 2019:

| Description | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| **Assets:** | | | | |
| **Securities, at fair value:** | | | | |
| Agency RMBS | $ — | $ 1,327,867 | $ 11,034 | $ 1,338,901 |
| Non-Agency RMBS | — | 88,226 | 96,790 | 185,016 |
| CMBS | — | 31,380 | 6,278 | 37,658 |
| CLOs | — | 58,989 | 17,222 | 76,211 |
| Asset-backed securities, backed by consumer loans | — | — | 25,019 | 25,019 |
| Corporate debt securities | — | — | 4,081 | 4,081 |
| Corporate equity securities | — | — | 1,791 | 1,791 |
| **Loans, at fair value:** | | | | |
| Residential mortgage loans | — | — | 663,880 | 663,880 |
| Commercial mortgage loans | — | — | 260,034 | 260,034 |
| Consumer loans | — | — | 162,609 | 162,609 |
| Corporate loans | — | — | 5,000 | 5,000 |
| **Investment in unconsolidated entities, at fair value** | — | — | 69,676 | 69,676 |
| **Financial derivatives–assets, at fair value:** | | | | |
| Credit default swaps on asset-backed securities | — | — | 1,090 | 1,090 |
| Credit default swaps on asset-backed indices | — | 2,164 | — | 2,164 |
| Credit default swaps on corporate bonds | — | 521 | — | 521 |
| Credit default swaps on corporate bond indices | — | 5,714 | — | 5,714 |
| Interest rate swaps | — | 1,434 | — | 1,434 |
| TBAs | — | 140 | — | 140 |
| Total return swaps | — | — | 87 | 87 |
| **Total assets** | $ — | $ 1,516,435 | $ 1,324,591 | $ 2,841,026 |

| Description | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| *(continued)* | | *(In thousands)* | | |
| **Liabilities:** | | | | |
| **Securities sold short, at fair value:** | | | | |
| Government debt | $ — | $ (49,113) | $ — | $ (49,113) |
| Corporate debt securities | — | (470) | — | (470) |
| **Financial derivatives–liabilities, at fair value:** | | | | |
| Credit default swaps on asset-backed indices | — | (202) | — | (202) |
| Credit default swaps on corporate bonds | — | (686) | — | (686) |
| Credit default swaps on corporate bond indices | — | (14,113) | — | (14,113) |
| Interest rate swaps | — | (7,658) | — | (7,658) |
| TBAs | — | (2,443) | — | (2,443) |
| Futures | (2,380) | — | — | (2,380) |
| Forwards | — | (265) | — | (265) |
| Total return swaps | — | (58) | — | (58) |
| **Other secured borrowings, at fair value** | — | — | (475,816) | (475,816) |
| **Total liabilities** | $ (2,380) | $ (75,008) | $ (475,816) | $ (553,204) |

The following table identifies the significant unobservable inputs that affect the valuation of the Company's Level 3 assets and liabilities as of June 30, 2019:

| Description | Fair Value | Valuation Technique | Unobservable Input | Range Min | Range Max | Weighted Average |
|---|---|---|---|---|---|---|
| | *(In thousands)* | | | | | |
| Non-Agency RMBS | $ 40,642 | Market Quotes | Non Binding Third-Party Valuation | $ 65.77 | $ 163.50 | $ 84.87 |
| CMBS | 5,201 | Market Quotes | Non Binding Third-Party Valuation | 5.87 | 79.27 | 67.48 |
| CLOs | 9,174 | Market Quotes | Non Binding Third-Party Valuation | 27.65 | 276.53 | 73.75 |
| Agency interest only RMBS | 935 | Market Quotes | Non Binding Third-Party Valuation | 1.84 | 17.07 | 7.42 |
| Total return swaps | 87 | Market Quotes | Non Binding Third-Party Valuation | 89.5 | 89.9 | 89.7 |
| Non-Agency RMBS | 56,148 | Discounted Cash Flows | Yield | 0.4% | 27.7% | 10.0% |
| | | | Projected Collateral Prepayments | 5.9% | 71.5% | 51.5% |
| | | | Projected Collateral Losses | 0.1% | 14.9% | 7.1% |
| | | | Projected Collateral Recoveries | 1.5% | 18.3% | 9.5% |
| | | | Projected Collateral Scheduled Amortization | 17.8% | 77.8% | 31.9% |
| | | | | | | 100.0% |
| Non-Agency CMBS | 1,077 | Discounted Cash Flows | Yield | 21.5% | 21.5% | 21.5% |
| | | | Projected Collateral Losses | 1.1% | 1.1% | 1.1% |
| | | | Projected Collateral Recoveries | 2.3% | 2.3% | 2.3% |
| | | | Projected Collateral Scheduled Amortization | 96.6% | 96.6% | 96.6% |
| | | | | | | 100.0% |
| Corporate debt and equity | 5,872 | Discounted Cash Flows | Yield | 10.0% | 22.9% | 18.9% |

| *(continued)* Description | Fair Value | Valuation Technique | Unobservable Input | Range Min | Range Max | Weighted Average |
|---|---|---|---|---|---|---|
| | *(In thousands)* | | | | | |
| CLOs | 8,048 | Discounted Cash Flows | Yield | 11.2% | 60.7% | 13.0% |
| | | | Projected Collateral Prepayments | 9.0% | 87.1% | 49.6% |
| | | | Projected Collateral Losses | 2.9% | 33.4% | 15.0% |
| | | | Projected Collateral Recoveries | 3.8% | 13.0% | 8.8% |
| | | | Projected Collateral Scheduled Amortization | —% | 77.3% | 26.6% |
| | | | | | | 100.0% |
| ABS backed by consumer loans | 25,019 | Discounted Cash Flows | Yield | 12.0% | 20.1% | 12.2% |
| | | | Projected Collateral Prepayments | 0.0% | 10.8% | 9.3% |
| | | | Projected Collateral Losses | 0.8% | 36.0% | 15.0% |
| | | | Projected Collateral Scheduled Amortization | 64.0% | 99.2% | 75.7% |
| | | | | | | 100.0% |
| Consumer loans | 162,609 | Discounted Cash Flows | Yield | 7.0% | 10.0% | 8.0% |
| | | | Projected Collateral Prepayments | 0.0% | 56.7% | 42.5% |
| | | | Projected Collateral Losses | 1.9% | 86.3% | 8.0% |
| | | | Projected Collateral Scheduled Amortization | 13.7% | 98.1% | 49.5% |
| | | | | | | 100.0% |
| Corporate loans | 5,000 | Discounted Cash Flows | Yield | 15.0% | 15.0% | 15.0% |
| Performing commercial mortgage loans | 206,710 | Discounted Cash Flows | Yield | 7.9% | 12.0% | 8.8% |
| Non-performing commercial mortgage loans | 53,324 | Discounted Cash Flows | Yield | 10.8% | 25.4% | 15.5% |
| | | | Months to Resolution | 2.0 | 6.0 | 3.0 |
| Performing and re-performing residential mortgage loans | 147,108 | Discounted Cash Flows | Yield | 3.9% | 29.3% | 6.5% |
| Securitized residential mortgage loans[(1)] | 503,090 | Discounted Cash Flows | Yield | 3.8% | 5.1% | 4.4% |
| Non-performing residential mortgage loans | 13,682 | Discounted Cash Flows | Yield | 3.6% | 56.0% | 12.3% |
| | | | Months to Resolution | 0.0 | 102.7 | 45.7 |
| Credit default swaps on asset-backed securities | 1,090 | Net Discounted Cash Flows | Projected Collateral Prepayments | 34.6% | 44.4% | 37.6% |
| | | | Projected Collateral Losses | 11.4% | 18.7% | 13.7% |
| | | | Projected Collateral Recoveries | 13.7% | 18.1% | 16.2% |
| | | | Projected Collateral Scheduled Amortization | 23.4% | 36.1% | 32.5% |
| | | | | | | 100.0% |
| Agency interest only RMBS | 10,099 | Option Adjusted Spread ("OAS") | LIBOR OAS[(2)] | 93 | 3,527 | 581 |
| | | | Projected Collateral Prepayments | 29.1% | 100.0% | 71.9% |
| | | | Projected Collateral Scheduled Amortization | 0.0% | 70.9% | 28.1% |
| | | | | | | 100.0% |

| *(continued)* Description | Fair Value | Valuation Technique | Unobservable Input | Range Min | Range Max | Weighted Average |
|---|---|---|---|---|---|---|
| | *(In thousands)* | | | | | |
| Investment in unconsolidated entities | 32,588 | Enterprise Value | Equity Price-to-Book[3] | 1.0x | 3.1x | 1.4x |
| Investment in unconsolidated entities | 3,000 | Recent Transactions | Transaction Price | n/a | n/a | n/a |
| Investment in unconsolidated entities | 34,088 | Discounted Cash Flows | Yield[4] | 3.1% | 15.6% | 9.1% |
| Other secured borrowings, at fair value[1] | (475,816) | Discounted Cash Flows | Yield | 3.1% | 4.5% | 3.8% |

(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) Shown in basis points.
(3) Represent an estimation of where market participants might value an enterprise on a price-to-book basis.
(4) Represents the significant unobservable inputs used to fair value the financial instruments of the unconsolidated entity. The fair value of such financial instruments is the largest component of the valuation of such entity 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, when available, 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 ("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. The Company considers the expected timeline to resolution in the determination of fair value for its non-performing commercial and residential mortgage 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 tables below include a roll-forward of the Company's financial instruments for the three- and six-month periods ended June 30, 2019 (including the change in fair value), for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

**Level 3—Fair Value Measurement Using Significant Unobservable Inputs:**

**Three-Month Period Ended June 30, 2019**

| *(In thousands)* | Beginning Balance as of March 31, 2019 | Accreted Discounts / (Amortized Premiums) | Net Realized Gain/ (Loss) | Change in Net Unrealized Gain/(Loss) | Purchases/ Payments | Sales/ Issuances | Transfers Into Level 3 | Transfers Out of Level 3 | Ending Balance as of June 30, 2019 |
|---|---|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | | | |
| **Securities, at fair value:** | | | | | | | | | |
| Agency RMBS | $ 6,389 | $ (676) | $ (450) | $ 349 | $ 1,594 | $ (236) | $ 4,889 | $ (825) | $ 11,034 |
| Non-Agency RMBS | 94,670 | 108 | (384) | 2,909 | 2,050 | (3,294) | 6,366 | (5,635) | 96,790 |
| CMBS | 5,137 | 25 | 50 | 363 | — | (374) | 1,077 | — | 6,278 |
| CLOs | 21,438 | 165 | (1,151) | 772 | — | — | 2,988 | (6,990) | 17,222 |
| Asset-backed securities backed by consumer loans | 24,108 | (360) | (152) | 95 | 4,610 | (3,282) | — | — | 25,019 |
| Corporate debt securities | 5,737 | 6 | (345) | (1) | 2,449 | (3,765) | — | — | 4,081 |
| Corporate equity securities | 1,469 | — | (142) | 464 | — | — | — | — | 1,791 |
| **Loans, at fair value:** | | | | | | | | | |
| Residential mortgage loans | 583,252 | (1,347) | 2,089 | 2,257 | 103,844 | (26,215) | — | — | 663,880 |
| Commercial mortgage loans | 239,623 | 834 | 1,413 | (2,018) | 47,555 | (27,373) | — | — | 260,034 |
| Consumer loans | 192,115 | (7,386) | (1,455) | 857 | 16,626 | (38,148) | — | — | 162,609 |
| Corporate loans | — | — | — | — | 5,000 | — | — | — | 5,000 |
| **Investment in unconsolidated entities, at fair value** | 58,148 | — | 124 | 2,230 | 17,026 | (7,852) | — | — | 69,676 |
| **Financial derivatives–assets, at fair value-** | | | | | | | | | |
| Credit default swaps on asset-backed securities | 1,233 | — | 128 | (143) | 5 | (133) | — | — | 1,090 |
| Total return swaps | — | — | 17 | 87 | — | (17) | — | — | 87 |
| **Total assets, at fair value** | $ 1,233,319 | $ (8,631) | $ (258) | $ 8,221 | $ 200,759 | $ (110,689) | $ 15,320 | $ (13,450) | $ 1,324,591 |
| **Liabilities:** | | | | | | | | | |
| Other secured borrowings, at fair value | $ (282,124) | $ — | $ — | $ (17) | $ 25,861 | $ (219,536) | $ — | $ — | $ (475,816) |
| **Total liabilities, at fair value** | $ (282,124) | $ — | $ — | $ (17) | $ 25,861 | $ (219,536) | $ — | $ — | $ (475,816) |

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Condensed Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at June 30, 2019, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended June 30, 2019. For Level 3 financial instruments held by the Company at June 30, 2019, change in net unrealized gain (loss) of $5.7 million, $3.8 million, $2.0 million, $(56) thousand, and $(17) thousand, for the three-month period ended June 30, 2019 relate to securities, loans, investments in unconsolidated entities, financial derivatives–assets, and other secured borrowings, at fair value, respectively.

At June 30, 2019, the Company transferred $13.5 million of assets from Level 3 to Level 2 and $15.3 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

### Six-Month Period Ended June 30, 2019

| *(In thousands)* | Beginning Balance as of January 1, 2019 | Accreted Discounts / (Amortized Premiums) | Net Realized Gain/ (Loss) | Change in Net Unrealized Gain/(Loss) | Purchases/ Payments | Sales/ Issuances | Transfers Into Level 3 | Transfers Out of Level 3 | Ending Balance as of June 30, 2019 |
|---|---|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | | | |
| **Securities, at fair value:** | | | | | | | | | |
| Agency RMBS | $ 7,293 | $ (1,449) | $ (1,075) | $ 642 | $ 1,600 | $ (236) | $ 5,596 | $ (1,337) | $ 11,034 |
| Non-Agency RMBS | 91,291 | 195 | (650) | 2,358 | 17,595 | (20,220) | 11,308 | (5,087) | 96,790 |
| CMBS | 803 | (23) | — | (7) | — | — | 5,505 | — | 6,278 |
| CLOs | 14,915 | (483) | (1,676) | 1,660 | 831 | — | 1,975 | — | 17,222 |
| Asset-backed securities backed by consumer loans | 22,800 | (969) | (665) | 857 | 9,551 | (6,555) | — | — | 25,019 |
| Corporate debt securities | 6,318 | 22 | (345) | (78) | 2,832 | (4,668) | — | — | 4,081 |
| Corporate equity securities | 1,534 | — | (142) | 399 | — | — | — | — | 1,791 |
| **Loans, at fair value:** | | | | | | | | | |
| Residential mortgage loans | 496,829 | (2,274) | 1,954 | 4,158 | 261,446 | (98,233) | — | — | 663,880 |
| Commercial mortgage loans | 195,301 | 1,139 | 1,414 | (2,352) | 96,412 | (31,880) | — | — | 260,034 |
| Consumer loans | 183,961 | (15,958) | (3,510) | 2,699 | 70,882 | (75,465) | — | — | 162,609 |
| Corporate loan | — | — | — | — | 5,000 | — | — | — | 5,000 |
| **Investment in unconsolidated entities, at fair value** | 72,298 | 276 | 1,684 | 2,190 | 30,454 | (37,226) | — | — | 69,676 |
| **Financial derivatives–assets, at fair value-** | | | | | | | | | |
| Credit default swaps on asset-backed securities | 1,472 | — | 403 | (382) | 8 | (411) | — | — | 1,090 |
| Total return swaps | — | — | 17 | 87 | — | (17) | — | — | 87 |
| **Total assets, at fair value** | $ 1,094,815 | $ (19,524) | $ (2,591) | $ 12,231 | $ 496,611 | $ (274,911) | $ 24,384 | $ (6,424) | $ 1,324,591 |
| **Liabilities:** | | | | | | | | | |
| Other secured borrowings, at fair value | $ (297,948) | $ — | $ — | $ 40 | $ 41,628 | $ (219,536) | $ — | $ — | $ (475,816) |
| **Total liabilities, at fair value** | $ (297,948) | $ — | $ — | $ 40 | $ 41,628 | $ (219,536) | $ — | $ — | $ (475,816) |

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Condensed Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at June 30, 2019, as well as Level 3 financial instruments disposed of by the Company during the six-month period ended June 30, 2019. For Level 3 financial instruments held by the Company at June 30, 2019, change in net unrealized gain (loss) of $6.1 million, $6.0 million, $(0.2) million, $(0.3) million, and $40 thousand, for the six-month period ended June 30, 2019 relate to securities, loans, investments in unconsolidated entities, financial derivatives–assets, and other secured borrowings, at fair value, respectively.

At June 30, 2019, the Company transferred $6.4 million of assets from Level 3 to Level 2 and $24.4 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.

The following table summarizes the estimated fair value of all other financial instruments not measured at fair value on a recurring basis as of June 30, 2019:

| *(In thousands)* | Fair Value | Carrying Value |
|---|---|---|
| **Other financial instruments** | | |
| Assets: | | |
| Cash and cash equivalents | $ 42,671 | $ 42,671 |
| Restricted cash | 175 | 175 |
| Due from brokers | 65,083 | 65,083 |
| Reverse repurchase agreements | 49,641 | 49,641 |
| Liabilities: | | |
| Repurchase agreements | 1,715,506 | 1,715,506 |
| Other secured borrowings | 101,925 | 101,925 |
| Senior notes, net | 85,166 | 85,166 |
| Due to brokers | 9,951 | 9,951 |

Cash and cash equivalents includes cash held in an interest bearing overnight account, for which fair value equals the carrying value, and cash held in money market accounts, which are liquid in nature and for which fair value equals the carrying value; such assets are considered Level 1. Restricted cash includes cash held in a segregated account for which fair value equals the carrying value; such assets are considered Level 1. 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; fair value of these items is approximated by carrying value and such items are considered Level 1. The Company's reverse repurchase agreements, repurchase agreements, and other secured borrowings are carried at cost, which approximates fair value due to their short term nature. Reverse repurchase agreements, repurchase agreements, and other secured borrowings are classified as Level 2 based on the adequacy of the collateral and their short term nature. 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. Investment in Securities

The Company's securities portfolio primarily consists of Agency RMBS, non-Agency RMBS, CMBS, CLOs, ABS backed by consumer loans, and corporate debt and equity. The following table details the Company's investment in securities as of June 30, 2019.

| | | | | Gross Unrealized | | | Weighted Average | | |
|---|---|---|---|---|---|---|---|---|---|
| *($ in thousands)* | Current Principal | Unamortized Premium (Discount) | Amortized Cost | Gains | Losses | Fair Value | Coupon(1) | Yield | Life (Years) (2) |
| Long: | | | | | | | | | |
| Agency RMBS: | | | | | | | | | |
| 15-year fixed-rate mortgages | 133,432 | 3,326 | 136,758 | 1,158 | (503) | 137,413 | 3.29% | 2.56% | 3.87 |
| 20-year fixed-rate mortgages | 839 | 57 | 896 | — | — | 896 | 4.50% | 3.03% | 5.00 |
| 30-year fixed-rate mortgages | 997,663 | 44,210 | 1,041,873 | 11,186 | (5,057) | 1,048,002 | 4.14% | 3.29% | 6.72 |
| Adjustable rate mortgages | 8,887 | 334 | 9,221 | 81 | (111) | 9,191 | 4.02% | 3.06% | 2.85 |
| Reverse mortgages | 109,314 | 8,157 | 117,471 | 1,334 | (311) | 118,494 | 4.50% | 3.08% | 6.74 |
| Interest only securities | n/a | n/a | 24,346 | 1,125 | (566) | 24,905 | 3.36% | 7.90% | 3.46 |
| Non-Agency RMBS | 281,461 | (118,422) | 163,039 | 19,690 | (1,398) | 181,331 | 3.78% | 6.57% | 4.84 |
| CMBS | 68,412 | (37,571) | 30,841 | 3,089 | — | 33,930 | 3.21% | 9.59% | 8.10 |
| Non-Agency interest only securities | n/a | n/a | 5,443 | 1,970 | — | 7,413 | 1.02% | 21.44% | 3.28 |
| CLOs | n/a | n/a | 77,992 | 697 | (2,478) | 76,211 | 3.14% | 15.27% | 5.61 |
| ABS backed by consumer loans | 30,892 | (6,541) | 24,351 | 978 | (310) | 25,019 | 14.61% | 14.37% | 1.15 |
| Corporate debt | 25,057 | (20,938) | 4,119 | 26 | (64) | 4,081 | 12.51% | 17.63% | 0.90 |
| Corporate equity | n/a | n/a | 1,445 | 347 | (1) | 1,791 | n/a | n/a | n/a |
| Total Long | 1,655,957 | (127,388) | 1,637,795 | 41,681 | (10,799) | 1,668,677 | 4.14% | 4.55% | 6.07 |
| Short: | | | | | | | | | |
| Corporate debt | (450) | (6) | (456) | — | (14) | (470) | 5.42% | 5.21% | 5.39 |
| U.S. Treasury securities | (37,900) | (492) | (38,392) | — | (582) | (38,974) | 2.34% | 2.19% | 8.13 |
| European sovereign bonds | (9,895) | 239 | (9,656) | — | (483) | (10,139) | 0.75% | 0.12% | 2.08 |
| Total Short | (48,245) | (259) | (48,504) | — | (1,079) | (49,583) | 2.06% | 1.80% | 6.87 |
| Total | 1,607,712 | (127,647) | 1,589,291 | 41,681 | (11,878) | 1,619,094 | 4.21% | 4.47% | 6.05 |

(1) Weighted average coupon represents the weighted average coupons of the securities, rather than, in the case of collateralized securities, the coupon rates or loan rates on the underlying collateral.
(2) Average lives of MBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

The following table details weighted average life of the Company's Agency RMBS as of June 30, 2019.

| ($ in thousands) | Agency RMBS | | | Agency Interest Only Securities | | |
|---|---|---|---|---|---|---|
| Estimated Weighted Average Life[(1)] | Fair Value | Amortized Cost | Weighted Average Coupon[(2)] | Fair Value | Amortized Cost | Weighted Average Coupon[(2)] |
| Less than three years | 52,440 | 51,998 | 4.86% | 8,248 | 8,047 | 3.27% |
| Greater than three years less than seven years | 597,007 | 594,329 | 4.13% | 16,657 | 16,299 | 3.41% |
| Greater than seven years less than eleven years | 664,549 | 659,892 | 3.97% | — | — | —% |
| Total | 1,313,996 | 1,306,219 | 4.08% | 24,905 | 24,346 | 3.36% |

(1) Average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.
(2) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

The following table details weighted average life of the Company's long non-Agency RMBS, CMBS, and CLOs and other securities as of June 30, 2019.

| ($ in thousands) | Non-Agency RMBS and CMBS | | | Non-Agency IOs | | | CLOs and Other Securities[(2)] | | |
|---|---|---|---|---|---|---|---|---|---|
| Estimated Weighted Average Life[(1)] | Fair Value | Amortized Cost | Weighted Average Coupon[(3)] | Fair Value | Amortized Cost | Weighted Average Coupon[(3)] | Fair Value | Amortized Cost | Weighted Average Coupon[(3)] |
| Less than three years | 81,826 | 66,955 | 2.59% | 3,625 | 2,062 | 0.12% | 32,566 | 31,927 | 12.98% |
| Greater than three years less than seven years | 63,052 | 61,152 | 5.43% | 3,788 | 3,381 | 1.57% | 71,122 | 73,126 | 3.25% |
| Greater than seven years less then eleven years | 49,899 | 45,239 | 3.95% | — | — | —% | — | — | —% |
| Greater than eleven years | 20,484 | 20,534 | 1.50% | — | — | —% | 1,623 | 1,409 | —% |
| Total | 215,261 | 193,880 | 3.69% | 7,413 | 5,443 | 1.02% | 105,311 | 106,462 | 6.12% |

(1) Average lives of MBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.
(2) Other Securities includes asset-backed securities, backed by consumer loans, corporate debt, and U.S. Treasury securities.
(3) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

The following table details the components of interest income by security type for the three- and six-month periods ended June 30, 2019:

| (In thousands) | Three-Month Period Ended June 30, 2019 | | | Six-Month Period Ended June 30, 2019 | | |
|---|---|---|---|---|---|---|
| Security Type | Coupon Interest | Net Amortization | Interest Income | Coupon Interest | Net Amortization | Interest Income |
| Agency RMBS | 14,466 | (4,965) | 9,501 | 26,656 | (9,593) | 17,063 |
| Non-Agency RMBS and CMBS | 3,282 | 689 | 3,971 | 7,131 | 1,236 | 8,367 |
| CLOs | 3,666 | (576) | 3,090 | 7,910 | (511) | 7,399 |
| Other securities[(1)] | 1,443 | (355) | 1,088 | 3,036 | (917) | 2,119 |
| Total | 22,857 | (5,207) | 17,650 | 44,733 | (9,785) | 34,948 |

(1) Other securities includes asset-backed securities, backed by consumer loans, corporate debt, and U.S. Treasury securities.

For the three- and six-month periods ended June 30, 2019 the Catch-Up Premium Amortization Adjustment was $(0.9) million and $(1.4) million, respectively.

The following table presents proceeds from sales and the resulting realized gains and (losses) of the Company's securities for the three- and six-month periods ended June 30, 2019.

| *(In thousands)* | Three-Month Period Ended June 30, 2019 | | | | Six-Month Period Ended June 30, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| **Security Type** | **Proceeds** | **Gross Realized Gains** | **Gross Realized Losses** | **Net Realized Gain (Loss)** | **Proceeds** | **Gross Realized Gains** | **Gross Realized Losses** | **Net Realized Gain (Loss)** |
| Agency RMBS | 259,207 | 1,872 | (1,565) | 307 | 387,511 | 2,578 | (3,238) | (660) |
| Non-Agency RMBS and CMBS | 19,139 | 825 | (1,536) | (711) | 148,684 | 2,092 | (4,975) | (2,883) |
| CLOs | 11,275 | 54 | (3,109) | (3,055) | 56,097 | 152 | (4,002) | (3,850) |
| Other securities(1) | 76,440 | 127 | (808) | (681) | 479,428 | 744 | (1,851) | (1,107) |
| Total | 366,061 | 2,878 | (7,018) | (4,140) | 1,071,720 | 5,566 | (14,066) | (8,500) |

(1) Other securities includes asset-backed securities, backed by consumer loans, corporate debt and equity, exchange-traded equity, and U.S. Treasury securities.

The following table presents the fair value and gross unrealized losses of our long securities by length of time that such securities have been in an unrealized loss position at June 30, 2019.

| *(In thousands)* | Less than 12 Months | | Greater than 12 Months | | Total | |
|---|---|---|---|---|---|---|
| **Security Type** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| Agency RMBS | 79,449 | (637) | 312,905 | (5,911) | 392,354 | (6,548) |
| Non-Agency RMBS and CMBS | 42,088 | (604) | 54,549 | (794) | 96,637 | (1,398) |
| CLOs | 42,086 | (2,172) | 5,161 | (306) | 47,247 | (2,478) |
| Other securities(1) | 6,157 | (145) | 2,027 | (230) | 8,184 | (375) |
| Total | 169,780 | (3,558) | 374,642 | (7,241) | 544,422 | (10,799) |

(1) Other securities includes asset-backed securities, backed by consumer loans, corporate debt and equity, and U.S. Treasury securities.

As described in Note 2, the Company evaluates the cost basis of its securities for impairment on at least a quarterly basis. For the three- and six-month periods ended June 30, 2019, the Company recognized an impairment charge of $4.7 million and $6.0 million, respectively, on the cost basis of its securities, which is included in Realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations. For each of the remaining securities in a loss position at June 30, 2019, the unrealized loss is due to market conditions and not to a change in the credit quality of the securities. In addition, any unrealized losses on the Company's Agency RMBS accounted for under ASC 320 are not due to credit losses given their explicit guarantee of principal and interest by the issuing government agency or government-sponsored enterprise, but rather are due to changes in interest rates and prepayment expectations.

## 5. Investment in Loans

The Company invests in various types of loans, such as residential mortgage, commercial mortgage, consumer loans, and corporate loans. As discussed in Note 2, the Company has elected the FVO for its investments in loans. The following table is a summary of the Company's investments in loans as of June 30, 2019:

| **Loan Type** | **Unpaid Principal Balance** | **Fair Value** |
|---|---|---|
| | *(In thousands)* | |
| Residential mortgage loans | $ 652,119 | $ 663,880 |
| Commercial mortgage loans | 285,169 | 260,034 |
| Consumer loans | 157,774 | 162,609 |
| Corporate loans | 5,000 | 5,000 |
| Total | $ 1,100,062 | $ 1,091,523 |

The Company is subject to credit risk in connection with its investments in loans. The two primary components of credit risk are default risk, which is the risk that a borrower fails to make scheduled principal and interest payments, and severity risk, which is the risk of loss upon a borrower default on a mortgage loan or other secured or unsecured loan. Severity risk includes the risk of loss of value of the property or other asset, if any, securing the loan, as well as the risk of loss associated with taking over the property or other asset, if any, including foreclosure costs.

The following table provides details, by accrual status, for loans that are 90 days or more past due as of June 30, 2019:

| *(In thousands)* | Unpaid Principal Balance | Fair Value |
|---|---|---|
| **90 days or more past due—non-accrual status** | | |
| Residential mortgage loans | $ 20,984 | $ 18,895 |
| Commercial mortgage loans | 77,276 | 53,324 |
| Consumer loans | 1,915 | 1,893 |

*Residential Mortgage Loans*

The table below details certain information regarding the Company's residential mortgage loans as of June 30, 2019:

| | | | | Gross Unrealized | | | Weighted Average | | |
|---|---|---|---|---|---|---|---|---|---|
| *($ in thousands)* | Unpaid Principal Balance | Premium (Discount) | Amortized Cost | Gains | Losses | Fair Value | Coupon | Yield | Life (Years) (1) |
| Residential mortgage loans, held-for-investment(2) | $ 652,119 | $ 5,258 | $ 657,377 | $ 7,681 | $ (1,178) | $ 663,880 | 6.49% | 5.12% | 5.48 |

(1) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.
(2) Includes $503.1 million of non-QM loans that have been securitized and are held in consolidated securitization trusts; see Note 10.

The table below summarizes the geographic distribution of the real estate collateral underlying the Company's residential mortgage loans as of June 30, 2019:

| Property Location by State | Percentage of Total Outstanding Unpaid Principal Balance |
|---|---|
| California | 48.8% |
| Florida | 12.9% |
| Texas | 12.6% |
| Colorado | 3.8% |
| Arizona | 3.0% |
| Oregon | 2.3% |
| Nevada | 1.9% |
| New York | 1.8% |
| Utah | 1.8% |
| Washington | 1.8% |
| Maryland | 1.2% |
| Illinois | 1.0% |
| Other | 7.1% |
| | 100.0% |

The following table presents information on the Company's residential mortgage loans by re-performing or non-performing status, as of June 30, 2019.

| (In thousands) | Unpaid Principal Balance | Fair Value |
|---|---|---|
| Re-performing | $ 15,923 | $ 13,866 |
| Non-performing | 18,641 | 16,996 |

As described in Note 2, the Company evaluates the cost basis of its residential mortgage loans for impairment on at least a quarterly basis. For the three- and six-month periods ended June 30, 2019, the Company recognized an impairment charge of $0.3 million and $0.4 million, respectively, on the cost basis of its residential mortgage loans, which is included in Realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations. The impairment charge recognized for the three-month period ended June 30, 2019, where the fair value of the residential mortgage loans was less than their carrying amount, related to residential mortgage loans with an aggregate unpaid principal balance of $5.4 million and fair value of $4.6 million.

As of June 30, 2019, the Company had residential mortgage loans that were in the process of foreclosure with a fair value of $8.4 million.

*Commercial Mortgage Loans*

The table below details certain information regarding the Company's commercial mortgage loans as of June 30, 2019:

| | | | | Gross Unrealized | | | Weighted Average | | |
|---|---|---|---|---|---|---|---|---|---|
| ($ in thousands) | Unpaid Principal Balance | Premium (Discount) | Amortized Cost | Gains | Losses | Fair Value | Coupon | Yield(1) | Life (Years) (2) |
| Commercial mortgage loans | $ 285,169 | $ (25,057) | $ 260,112 | $ 479 | $ (557) | $ 260,034 | 8.72% | 9.98% | 1.05 |

(1) Excludes commercial mortgage loans, held at par in non-accrual status, with a fair value of $25.7 million.
(2) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

The table below summarizes the geographic distribution of the real estate collateral underlying the Company's commercial mortgage loans as of June 30, 2019:

| Property Location by State | Percentage of Total Outstanding Unpaid Principal Balance |
|---|---|
| Florida | 19.7% |
| Connecticut | 16.6% |
| New York | 15.7% |
| New Jersey | 13.0% |
| North Carolina | 6.8% |
| Virginia | 6.6% |
| Massachusetts | 4.6% |
| Arizona | 3.7% |
| Kentucky | 3.5% |
| Indiana | 2.1% |
| Pennsylvania | 1.6% |
| Nevada | 1.4% |
| Tennessee | 1.4% |
| Louisiana | 1.3% |
| Georgia | 1.0% |
| Other | 1.0% |
| | 100.0% |

As of June 30, 2019, the Company had seven non-performing commercial mortgage loans with an unpaid principal balance and fair value of $77.3 million and $53.3 million, respectively. The Company evaluates the cost basis of its commercial mortgage loans for impairment on at least a quarterly basis.

As of June 30, 2019, the Company did not have any commercial mortgage loans that were in the process of foreclosure.

*Consumer Loans*

The table below details certain information regarding the Company's consumer loans as of June 30, 2019:

| | | | | Gross Unrealized | | | Weighted Average | |
|---|---|---|---|---|---|---|---|---|
| *($ in thousands)* | Unpaid Principal Balance | Premium (Discount) | Amortized Cost | Gains | Losses | Fair Value | Life (Years)(1) | Delinquency (Days) |
| Consumer loans | $ 157,774 | $ 2,947 | $ 160,721 | $ 2,520 | $ (632) | $ 162,609 | 0.76 | 4 |

(1) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

The table below provides details on the delinquency status of the Company's consumer loans, which the Company uses as an indicator of credit quality, as of June 30, 2019:

| Days Past Due | Delinquency Status(1) |
|---|---|
| Current | 95.3% |
| 30-59 Days | 2.0% |
| 60-89 Days | 1.5% |
| 90-119 Days | 1.2% |
| | 100.0% |

(1) As a percentage of total unpaid principal balance.

As described in Note 2, the Company evaluates the cost basis of its pools of consumer loans for impairments on at least a quarterly basis. For the three- and six-month period ended June 30, 2019, the Company recognized an impairment charge of $1.4 million and $3.5 million, respectively, on the cost basis of its consumer loan pools, which is included in Realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations. The impairment charge recognized for the three-month period ended June 30, 2019, where the fair value of the consumer loan pools was less than their carrying amount, related to consumer loan pools with an aggregate unpaid principal balance of $62.8 million and fair value of $64.7 million.

*Corporate Loans*

As of June 30, 2019, the Company held a $5.0 million corporate loan with an interest rate of 15% per annum and a maturity date in May 2020. The borrower is a mortgage originator in which the Company also holds an equity investment. See Note 13 for additional details.

**6. Investments in Unconsolidated Entities**

As of June 30, 2019 the Company had various equity investments in entities where the Company has the ability to exert significant influence over such entity, but does not control such entity. In these cases the criteria for consolidation have not been met and the Company is required to account for such investments under ASC 323-10; the Company has elected the FVO for its investments in unconsolidated entities. As of June 30, 2019, the Company's investments in unconsolidated entities had an aggregate fair value of $69.7 million, which is included on the Condensed Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value. For the three- and six-month periods ended June 30, 2019 the Company recognized $2.4 million and $4.2 million, respectively, in Earnings from investments in unconsolidated entities, on its Condensed Consolidated Statement of Operations. Certain of the entities that the Company accounts for under ASC 323-10 are deemed to be VIEs, and the maximum amount at risk is generally limited to the Company's investment in the VIE. As of June 30, 2019, the fair value of the Company's investments in unconsolidated entities that have been deemed to be VIEs was $33.5 million.

The following table provides details about the Company's investments in unconsolidated entities as of June 30, 2019:

| Investment in Unconsolidated Entity | Form of Investment | Percentage Ownership of Unconsolidated Entity |
|---|---|---|
| Longbridge Financial, LLC(1) | Preferred shares | 49.7% |
| LendSure Mortgage Corp.(1) | Common shares | 45.0% |
| Jepson Holdings Limited(1)(2) | Membership Interest | 30.1% |
| Elizon AFG 2018-1 LLC(1)(2) | Membership Interest | 12.8% |
| Elizon DB 2015-1 LLC(1)(2) | Membership Interest | 4.7% |
| Other | Various | 9.9%–55.0% |

(1) See Note 13 for additional details on the Company's related party transactions.
(2) The Company has evaluated this entity and determined that it meets the definition of a VIE. The Company evaluated its interest in the VIE and determined that the Company does not have the power to direct the activities of the VIE and does not have control of the underlying assets, where applicable. As a result, the Company determined that it is not the primary beneficiary of this VIE and therefore has not consolidated the VIE.

**7. Real Estate Owned**

As discussed in Note 2, the Company obtains possession of REO as a result of foreclosures on the associated mortgage loans. The following table details activity in the Company's carrying value of REO for the three- and six-month periods ended June 30, 2019.

| | Three-Month Period Ended June 30, 2019 | | Six-Month Period Ended June 30, 2019 | |
|---|---|---|---|---|
| | Number of Properties | Carrying Value | Number of Properties | Carrying Value |
| | | *(In thousands)* | | *(In thousands)* |
| Beginning Balance (3/31/2019 and 1/1/2019, respectively) | 21 | $ 31,003 | 20 | $ 30,778 |
| Transfers from mortgage loans | 2 | 17,414 | 4 | 17,713 |
| Capital expenditures and other adjustments to cost | | — | | 240 |
| Adjustments to record at the lower of cost or fair value | | (13) | | (263) |
| Disposals | (3) | (783) | (4) | (847) |
| Ending Balance (6/30/2019) | 20 | $ 47,621 | 20 | $ 47,621 |

During the three-month period ended June 30, 2019, the Company sold three REO properties, realizing a net gain (loss) of approximately $98 thousand. During the six-month period ended June 30, 2019, the Company sold four REO properties, realizing a net gain (loss) of approximately $40 thousand. Such realized gains (losses) are included in Realized gains (losses) on real estate owned, net, on the Company's Condensed Consolidated Statement of Operations. As of June 30, 2019 all of the Company's REO had been obtained as a result of obtaining physical possession through foreclosure. As of June 30, 2019, the Company had REO measured at fair value on a non-recurring basis of $20.2 million.

## 8. Financial Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company manages certain risks associated with its investments and borrowings, including interest rate, credit, liquidity, and foreign exchange rate risk primarily by managing the amount, sources, and duration of its investments and borrowings, and through the use of derivative financial instruments. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of its known or expected cash receipts and its known or expected cash payments principally related to its investments and borrowings.

The following table details the fair value of the Company's holdings of financial derivatives as of June 30, 2019:

| | June 30, 2019 |
|---|---|
| | *(In thousands)* |
| **Financial derivatives–assets, at fair value:** | |
| TBA securities purchase contracts | $ 121 |
| TBA securities sale contracts | 19 |
| Fixed payer interest rate swaps | 31 |
| Fixed receiver interest rate swaps | 1,403 |
| Credit default swaps on asset-backed securities | 1,090 |
| Credit default swaps on asset-backed indices | 2,164 |
| Credit default swaps on corporate bonds | 521 |
| Credit default swaps on corporate bond indices | 5,714 |
| Total return swaps | 87 |
| **Total financial derivatives–assets, at fair value** | $ 11,150 |
| **Financial derivatives–liabilities, at fair value:** | |
| TBA securities sale contracts | $ (2,443) |
| Fixed payer interest rate swaps | (7,658) |
| Credit default swaps on asset-backed indices | (202) |
| Credit default swaps on corporate bonds | (686) |
| Credit default swaps on corporate bond indices | (14,113) |
| Total return swaps | (58) |
| Futures | (2,380) |
| Forwards | (265) |
| **Total financial derivatives–liabilities, at fair value** | $ (27,805) |
| **Total** | $ (16,655) |

***Interest Rate Swaps***

The following table provides information about the Company's fixed payer interest rate swaps as of June 30, 2019:

| | | | Weighted Average | | |
|---|---|---|---|---|---|
| **Maturity** | **Notional Amount** | **Fair Value** | **Pay Rate** | **Receive Rate** | **Remaining Years to Maturity** |
| | *(In thousands)* | | | | |
| 2020 | $ 68,607 | $ (69) | 1.74% | 2.38% | 0.75 |
| 2021 | 124,050 | (576) | 2.03 | 2.03 | 1.93 |
| 2023 | 101,012 | (1,124) | 2.06 | 2.48 | 3.79 |
| 2024 | 2,900 | (274) | 2.60 | 2.60 | 4.51 |
| 2026 | 1,512 | (53) | 2.28 | 2.31 | 6.75 |
| 2028 | 32,942 | (1,493) | 2.40 | 2.41 | 8.84 |
| 2029 | 44,494 | (2,904) | 2.64 | 2.55 | 9.60 |
| 2030 | 685 | (26) | 2.38 | 2.52 | 11.40 |
| 2049 | 7,020 | (1,108) | 2.89 | 2.60 | 29.53 |
| Total | $ 383,222 | $ (7,627) | 2.11% | 2.32% | 4.25 |

The following table provides information about the Company's fixed receiver interest rate swaps as of June 30, 2019:

| | | | Weighted Average | | |
|---|---|---|---|---|---|
| **Maturity** | **Notional Amount** | **Fair Value** | **Pay Rate** | **Receive Rate** | **Remaining Years to Maturity** |
| | *(In thousands)* | | | | |
| 2022 | $ 53,974 | $ 354 | 2.52% | 1.85% | 2.67 |
| 2023 | 48,657 | 677 | 2.39 | 2.00 | 3.76 |
| 2024 | 11,342 | 372 | 2.60 | 2.33 | 4.73 |
| Total | $ 113,973 | $ 1,403 | 2.47% | 1.96% | 3.34 |

***Credit Default Swaps***

The following table provides information about the Company's credit default swaps as of June 30, 2019:

| Type(1) | Notional | Fair Value | Weighted Average Remaining Term (Years) |
|---|---|---|---|
| | (In thousands) | | |
| **Asset:** | | | |
| **Long:** | | | |
| Credit default swaps on asset-backed indices | $ 794 | $ 9 | 23.58 |
| Credit default swaps on corporate bonds | 430 | 2 | 0.98 |
| Credit default swaps on corporate bond indices | 140,543 | 5,714 | 3.08 |
| **Short:** | | | |
| Credit default swaps on asset-backed securities | (2,775) | 1,090 | 16.15 |
| Credit default swaps on asset-backed indices | (24,492) | 2,155 | 37.01 |
| Credit default swaps on corporate bonds | (3,033) | 519 | 1.74 |
| **Liability:** | | | |
| **Long:** | | | |
| Credit default swaps on asset-backed indices | 376 | (164) | 29.89 |
| Credit default swaps on corporate bonds | 2,980 | (501) | 1.72 |
| **Short:** | | | |
| Credit default swaps on asset-backed indices | (2,500) | (38) | 38.33 |
| Credit default swaps on corporate bonds | (10,245) | (185) | 0.70 |
| Credit default swaps on corporate bond indices | (238,213) | (14,113) | 2.77 |
| | $ (136,135) | $ (5,512) | 9.19 |

(1) Long notional represents contracts where the Company has written protection and short notional represents contracts where the Company has purchased protection.

***Futures***

The following table provides information about the Company's short positions in futures as of June 30, 2019:

| Description | Notional Amount | Fair Value | Remaining Months to Expiration |
|---|---|---|---|
| | (In thousands) | | |
| U.S. Treasury futures | $ (111,200) | $ (2,218) | 2.83 |
| Eurodollar futures | (28,000) | (82) | 7.15 |
| Currency futures | (12,653) | (80) | 2.60 |
| Total | $ (151,853) | $ (2,380) | 3.61 |

***TBAs***

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 generally liquid, have quoted market prices, and represent the most actively traded class of MBS. The Company uses TBAs to mitigate interest rate risk, usually by taking short positions. The Company also invests in TBAs as a means of acquiring additional exposure to Agency RMBS, or for speculative purposes, including holding long positions.

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.

As of June 30, 2019, the Company had outstanding TBA purchase and sale contracts as follows:

| TBA Securities | Notional Amount(1) | Cost Basis(2) | Market Value(3) | Net Carrying Value(4) |
|---|---|---|---|---|
| *(In thousands)* | | | | |
| Purchase contracts: | | | | |
| Assets | $ 107,101 | $ 110,827 | $ 110,948 | $ 121 |
| | 107,101 | 110,827 | 110,948 | 121 |
| Sale contracts: | | | | |
| Assets | (7,100) | (7,278) | (7,259) | 19 |
| Liabilities | (653,238) | (674,925) | (677,368) | (2,443) |
| | (660,338) | (682,203) | (684,627) | (2,424) |
| Total TBA securities, net | $ (553,237) | $ (571,376) | $ (573,679) | $ (2,303) |

(1) Notional amount represents the principal balance of the underlying Agency RMBS.
(2) Cost basis represents the forward price to be paid (received) for the underlying Agency RMBS.
(3) Market value represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of period end.
(4) Net carrying value represents the difference between the market value of the TBA contract as of period end and the cost basis, and is reported in Financial derivatives-assets, at fair value and Financial derivatives-liabilities, at fair value on the Condensed Consolidated Balance Sheet.

Gains and losses on the Company's derivative contracts for the three-month period ended June 30, 2019 are summarized in the table below:

| Derivative Type | Primary Risk Exposure | Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps | Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps(1) | Net Realized Gains (Losses) on Financial Derivatives(1) | Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps | Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps(2) | Change in Net Unrealized Gains (Losses) on Financial Derivatives(2) |
|---|---|---|---|---|---|---|---|
| *(In thousands)* | | | | | | | |
| Interest rate swaps | Interest Rate | $ 52 | $ (2,609) | $ (2,557) | $ 45 | $ (3,545) | $ (3,500) |
| Credit default swaps on asset-backed securities | Credit | | 129 | 129 | | (143) | (143) |
| Credit default swaps on asset-backed indices | Credit | | (239) | (239) | | (203) | (203) |
| Credit default swaps on corporate bond indices | Credit | | (761) | (761) | | 471 | 471 |
| Credit default swaps on corporate bonds | Credit | | (80) | (80) | | 77 | 77 |
| Total return swaps | Equity Market/Credit | | 1 | 1 | | (94) | (94) |
| TBAs | Interest Rate | | (5,681) | (5,681) | | 241 | 241 |
| Futures | Interest Rate/Currency | | (2,381) | (2,381) | | (1,226) | (1,226) |
| Forwards | Currency | | 657 | 657 | | (574) | (574) |
| Options | Interest Rate | | (2) | (2) | | 1 | 1 |
| Total | | $ 52 | $ (10,966) | $ (10,914) | $ 45 | $ (4,995) | $ (4,950) |

(1) Includes gain/(loss) on foreign currency transactions on financial derivatives in the amount of $6 thousand for the three-month period ended June 30, 2019, which is included on the Condensed Consolidated Statement of Operations in Other, net.
(2) Includes foreign currency remeasurement on financial derivatives in the amount of $(29) thousand for the three-month period ended June 30, 2019, which is included on the Condensed Consolidated Statement of Operations in Other, net.

Gains and losses on the Company's derivative contracts for the six-month period ended June 30, 2019 are summarized in the table below:

| Derivative Type | Primary Risk Exposure | Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps | Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps(1) | Net Realized Gains (Losses) on Financial Derivatives(1) | Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps | Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps(2) | Change in Net Unrealized Gains (Losses) on Financial Derivatives(2) |
|---|---|---|---|---|---|---|---|
| *(In thousands)* | | | | | | | |
| Interest rate swaps | Interest Rate | $ 770 | $ (1,151) | $ (381) | $ (231) | $ (9,317) | $ (9,548) |
| Credit default swaps on asset-backed securities | Credit | | 403 | 403 | | (382) | (382) |
| Credit default swaps on asset-backed indices | Credit | | (984) | (984) | | (751) | (751) |
| Credit default swaps on corporate bond indices | Credit | | (3,274) | (3,274) | | (1,936) | (1,936) |
| Credit default swaps on corporate bonds | Credit | | (505) | (505) | | 842 | 842 |
| Total return swaps | Equity Market/Credit | | (1,297) | (1,297) | | 35 | 35 |
| TBAs | Interest Rate | | (12,115) | (12,115) | | 2,139 | 2,139 |
| Futures | Interest Rate/Currency | | (4,814) | (4,814) | | (867) | (867) |
| Forwards | Currency | | 543 | 543 | | (151) | (151) |
| Options | Interest Rate | | (35) | (35) | | 1 | 1 |
| Total | | $ 770 | $ (23,229) | $ (22,459) | $ (231) | $ (10,387) | $ (10,618) |

(1) Includes gain/(loss) on foreign currency transactions on financial derivatives in the amount of $31 thousand for the six-month period ended June 30, 2019, which is included on the Condensed Consolidated Statement of Operations in Other, net.
(2) Includes foreign currency remeasurement on financial derivatives in the amount of $(8) thousand for the six-month period ended June 30, 2019, which is included on the Condensed Consolidated Statement of Operations in Other, net.

The table below details the average notional values of the Company's financial derivatives, using absolute value of month end notional values, for the six-month period ended June 30, 2019:

| Derivative Type | Six-Month Period Ended June 30, 2019 |
|---|---|
| *(In thousands)* | |
| Interest rate swaps | $ 774,539 |
| TBAs | 1,201,858 |
| Credit default swaps | 409,549 |
| Total return swaps | 38,507 |
| Futures | 239,826 |
| Options | 36,818 |
| Forwards | 35,530 |
| Warrants | 2,281 |

From time to time the Company enters into credit derivative contracts for which the Company sells credit protection ("written credit derivatives"). As of June 30, 2019, 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.

Written credit derivatives held by the Company at June 30, 2019 are summarized below:

| **Credit Derivatives** | **June 30, 2019** |
|---|---|
| *(In thousands)* | |
| Fair Value of Written Credit Derivatives, Net | $ 5,060 |
| Fair Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties [1] | (2,663) |
| Notional Value of Written Credit Derivatives [2] | 145,123 |
| Notional Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties [1] | 88,825 |

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

A credit default swap on a credit index or a corporate bond typically terminates at the stated maturity date in the case of corporate indices or bonds, or, in the case of ABX and CMBX indices, the date that all of the reference assets underlying the index are paid off in full, retired, or otherwise cease to exist. Implied credit spreads may be used to determine the market value of such contracts and are reflective of the cost of buying/selling credit protection. Higher spreads would indicate a greater likelihood that a seller will be obligated to perform (*i.e.*, make protection payments) under the contract. In situations where the credit quality of the underlying reference assets has deteriorated, the percentage of notional values that would be paid up front to enter into a new such contract ("points up front") is frequently used as an indication of credit risk. Credit protection sellers entering the market in such situations would expect to be paid points up front corresponding to the approximate fair value of the contract. For the Company's written credit derivatives that were outstanding at June 30, 2019, implied credit spreads on such contracts ranged between 26.2 and 460.6 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 $(0.6) million as of June 30, 2019. Estimated points up front on these contracts as of June 30, 2019 ranged between 48.5 and 82.3 points. Total net up-front payments (paid) or received relating to written credit derivatives outstanding at June 30, 2019 were $(3.6) million.

## 9. Consolidated VIEs

As discussed in Note 2, the Company has interests in entities that it has determined to be VIEs. The following table summarizes the assets and liabilities of the Company's consolidated VIEs that are included on the Company's Condensed Consolidated Balance Sheet as of June 30, 2019.

| *(In thousands)* | June 30, 2019(1) |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 5,214 |
| Restricted cash | 175 |
| Loans, at fair value | 1,078,023 |
| Investments in unconsolidated entities, at fair value | 6,413 |
| Real estate owned | 47,621 |
| Due from brokers | 190 |
| Investment related receivables | 26,928 |
| Other assets | 2,027 |
| **Total Assets** | $ 1,166,591 |
| **Liabilities** | |
| Repurchase agreements | $ 270,817 |
| Investment related payables | 271 |
| Other secured borrowings | 101,925 |
| Other secured borrowings, at fair value | 475,816 |
| Accounts payable and accrued expenses | 1,378 |
| Interest payable | 1,391 |
| Other liabilities | 262 |
| **Total Liabilities** | 851,860 |
| **Total Stockholders' Equity** | 298,080 |
| Non-controlling interests | 16,651 |
| **Total Equity** | 314,731 |
| **Total Liabilities and Equity** | $ 1,166,591 |

(1) See Note 10 and Note 13 for additional information on the Company's consolidated VIEs.

## 10. 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. Pursuant to the securitization, the Issuer issued senior and subordinated notes in the principal amount of $87.0 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. Subsequently, at the direction of the Company and the co-participant, the Acquiror sold the subordinated notes to a third party; such sales occurred prior to January 1, 2019. As of June 30, 2019, the Company's total interest in the Acquiror was approximately 49.3%. The Company's interest in the Acquiror, for which the Company has elected the FVO, is included on the Condensed Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value.

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 repurchase or replace such loans. Absent such breaches, the Company has no obligation to repurchase or replace any underlying consumer loans that become delinquent or otherwise default. Cash flows collected on the underlying consumer loans are distributed to service providers to the trust, noteholders, and trust certificate holders in accordance with the contractual priority of payments. In addition, another affiliate of Ellington (the "Administrator"), acts as the administrator for the securitization and is paid a monthly fee for its services.

The Issuer and the Aquiror are each deemed to be a VIE. The Company has evaluated its interest in the Issuer under ASC 810, and while the Company retains credit risk in the securitization trust through its beneficial ownership of most of the 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. As a result the Company determined that neither the Company nor the Aquiror is the primary beneficiary of the Issuer, and therefore the Company has not consolidated the Issuer. Additionally, the Company evaluated its interest in the Aquiror and determined that is does not have the power to direct the activities of the Aquiror that most significantly impact the Aquiror's economic performance. As a result, the Company determined that it is not the primary beneficiary of the Aquiror, and therefore the Company has not consolidated the Aquiror. The maximum amount at risk related to the Company's investment in the Aquiror is limited to the fair value of such investment, which was $2.7 million as of June 30, 2019.

***Participation in CLO Transactions***

Since June 2017, an affiliate of Ellington has sponsored four CLO securitization transactions (the "CLO I Securitization," the "CLO II Securitization," the "CLO III Securitization," and the "CLO IV 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, the CLO III Securitization, and the CLO IV 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," the "CLO III Issuer," and the "CLO IV Issuer"; collectively, the "CLO Issuers") issued various classes of notes, which were in turn sold to unrelated third parties and the applicable CLO Co-Participants. The notes issued by each CLO Issuer are backed by the cash flows from the underlying corporate loans (including loans to be purchased during a reinvestment period), which are applied in accordance with the contractual priority of payments.

For each of the Ellington-sponsored CLO Securitizations, with the exception of the CLO I 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 on the CLO closing date.

The CLO Issuers are each deemed to be VIEs. The Company evaluates its interests in the CLO Issuers under ASC 810, and while the Company retains credit risk in each of the securitization trusts through its beneficial ownership of most of the 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 or the power to direct the activities of the CLO Issuers that most significantly impact the CLO Issuers' economic performance. As a result, the Company determined that it is not the primary beneficiary of the CLO Issuers, and therefore the Company has not consolidated the CLO Issuers. The Company's maximum amount at risk is limited to the Company's investment in each of the CLO Issuers.

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

| Securitization Transaction | CLO Issuer(1) | CLO Pricing Date | CLO Closing Date | Total Face Amount of Notes Issued | Face Amount of Notes Initially Purchased | Aggregate Purchase Price of Notes Initially Purchased | Fair Value of Notes Held as of June 30, 2019 |
|---|---|---|---|---|---|---|---|
| | | | | | (In thousands) | | |
| CLO I Securitization | CLO I Issuer | 8/18 | 8/18 | $ 461,840 | $ 36,579 (2) | $ 25,622 | $ 16,090 (3) |
| CLO II Securitization | CLO II Issuer | 12/17 | 1/18 | 452,800 | 18,223 (4) | 16,621 | 13,871 (3) |
| CLO III Securitization | CLO III Issuer | 6/18 | 7/18 | 407,100 | 35,480 (4) | 32,394 | 15,941 (5) |
| CLO IV Securitization | CLO IV Issuer | 2/19 | 3/19 | 478,488 | 12,700 (4) | 10,618 | 10,110 (5) |

(1) The Company is not deemed to be the primary beneficiary of the CLO Issuers, which are deemed to be VIEs, as discussed above.
(2) The Company purchased secured and unsecured subordinated notes.
(3) Includes secured and unsecured subordinated notes.
(4) The Company purchased secured senior and secured and unsecured subordinated notes.
(5) Includes secured senior and secured and unsecured subordinated notes.

See Note 13 for further details on the Company's participation in CLO transactions.

***Residential Mortgage Loan Securitizations***

Since November 2017, the Company, through certain wholly owned subsidiaries (each, a "Sponsor"), has sponsored three securitizations of non-QM loans. In each case, the applicable Sponsor transferred a pool of non-QM loans (each, a Collateral Pool") to a wholly owned entity (each, a "Depositor") and on the closing date such loans were deposited into newly created securitization trusts (collectively, the "Issuing Entities"). Pursuant to the securitizations, the Issuing Entities issued various classes of mortgage pass-through certificates (the "Certificates") which are backed by the cash flows from the underlying non-QM loans.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, sponsors of securitizations are generally required to retain at least 5% of the economic interest in the credit risk of the securitized assets (the "Risk Retention Rules"). In order to comply with the Risk Retention Rules, in each securitization, the applicable Sponsor purchased the two most subordinated classes of Certificates and the excess cash flow certificates. The applicable Sponsor also purchased the Certificates entitled to excess servicing fees in each securitization, while the remaining classes of Certificates were purchased by unrelated parties.

Notwithstanding that the Certificates carry final scheduled distribution dates of October 25, 2047 or later, the applicable Depositor may, at its sole option, purchase all of the outstanding Certificates (an "Optional Redemption") following the earlier of (1) the two year anniversary of the closing date of the applicable securitization or (2) the date on which the aggregate unpaid principal balance of the applicable Collateral Pool has declined below 30% of the aggregate unpaid principal balance of the applicable Collateral Pool as of the date as of which such loans were originally transferred to the applicable Issuing Entity. The purchase price that the Depositor is required to pay in connection with an Optional Redemption is equal to the sum of the unpaid principal balance of each class of Certificates as of the redemption date and any accrued and unpaid interest thereon. In light of these Optional Redemption rights held by the Depositor, the transfers of non-QM loans to each of the Issuing Entities do not qualify as sales under ASC 860-10.

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.

Each Sponsor also serves as the servicing administrator of its respective securitization, for which it is entitled to receive a monthly fee equal to one-twelfth of the product of (a) 0.03% and (b) the unpaid principal balance of the underlying non-QM loans as of the first day of the related due period. Each Sponsor in its role as servicing administrator provides direction and consent for certain loss mitigation activities to the third-party servicer of the underlying non-QM loans. 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 each of the securitizations, together with the Optional Redemption rights and the Company's ability to direct the third-party servicer regarding certain loss mitigation activities, the Company is deemed to be the primary beneficiary of the Issuing Entities, which are VIEs, and has consolidated the Issuing Entities. Interest income from these loans and the expenses related to the servicing of these loans are included in Interest income and Investment related expenses—Servicing expense, respectively, on the Condensed Consolidated Statement of Operations.

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

The debt of the Issuing Entities is included in Other secured borrowings, at fair value, on the Condensed Consolidated Balance Sheet and is shown net of the Certificates held by the Company.

The following table details the Company's consolidated residential mortgage loan securitizations:

| Issuing Entity | Closing Date | Principal Balance of Loans Transferred to the Depositor | Total Face Amount of Certificates Issued |
|---|---|---|---|
| | | (In thousands) | |
| Ellington Financial Mortgage Trust 2017-1 | 11/17 | $ 141,233 | $ 141,233 (1) |
| Ellington Financial Mortgage Trust 2018-1 | 11/18 | 232,518 | 232,518 (2) |
| Ellington Financial Mortgage Trust 2019-1 | 6/19 | 226,913 | 226,913 (3) |

(1) 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.
(2) 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 5.7% of the fair value of all Certificates issued. The Sponsor also purchased, for an aggregate purchase price of $1.3 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.
(3) 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 6.1% of the fair value of all Certificates issued. The Sponsor also purchased, for an aggregate purchase price of $1.2 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.

The following table details the assets and liabilities of the consolidated securitization trusts included in the Company's Condensed Consolidated Balance Sheet as of June 30, 2019:

| *(In thousands)* | June 30, 2019 |
|---|---|
| **Assets:** | |
| Loans, at fair value | $ 503,090 |
| Investment related receivables | 6,026 |
| **Liabilities:** | |
| Interest payable | 91 |
| Other secured borrowings, at fair value | 475,816 |

## 11. Borrowings

### Secured Borrowings

The Company's secured borrowings consist of repurchase agreements, Other secured borrowings, and Other secured borrowings, at fair value. As of June 30, 2019, the Company's total secured borrowings were $2.293 billion.

*Repurchase Agreements*

The Company enters into repurchase agreements. A 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 repurchase agreements as collateralized borrowings, with the transferred assets effectively serving as collateral for the related borrowing. The Company's repurchase agreements typically range in term from 30 to 180 days, although the Company also has repurchase agreements that provide for longer or shorter terms. The principal economic terms of each 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 repurchase agreement and receives the related principal and interest payments. Interest rates on these borrowings are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and for most repurchase agreements, interest is generally paid at the termination of the repurchase agreement, at which time the Company may enter into a new 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 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, 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 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 repurchase agreements with several different counterparties in order to reduce the exposure to any single counterparty. The Company had outstanding borrowings under repurchase agreements with 24 counterparties as of June 30, 2019.

As of June 30, 2019 remaining days to maturity on the Company's open repurchase agreements ranged from 1 day to 874 days. Interest rates on the Company's open repurchase agreements ranged from 0.24% to 5.60% as of June 30, 2019.

The following table details the Company's outstanding borrowings under repurchase agreements for Agency RMBS, credit assets (which include non-Agency RMBS, CMBS, CLOs, consumer loans, corporate debt, residential mortgage loans, and commercial mortgage loans and REO), and U.S. Treasury securities, by remaining maturity as of June 30, 2019:

| *(In thousands)* | June 30, 2019 | | |
|---|---|---|---|
| | | Weighted Average | |
| **Remaining Maturity** | **Outstanding Borrowings** | **Interest Rate** | **Remaining Days to Maturity** |
| Agency RMBS: | | | |
| 30 Days or Less | $ 283,477 | 2.64% | 19 |
| 31-60 Days | 441,099 | 2.62% | 48 |
| 61-90 Days | 386,366 | 2.57% | 76 |
| 91-120 Days | 102,410 | 2.60% | 103 |
| 121-150 Days | 27,374 | 2.59% | 137 |
| Total Agency RMBS | 1,240,726 | 2.61% | 57 |
| Credit: | | | |
| 30 Days or Less | 142 | 4.57% | 1 |
| 31-60 Days | 107,370 | 3.52% | 50 |
| 61-90 Days | 80,450 | 3.60% | 77 |
| 91-120 Days | 100,032 | 4.56% | 117 |
| 121-150 Days | 612 | 3.92% | 150 |
| 151-180 Days | 9,118 | 4.32% | 168 |
| 181-360 Days | 89,488 | 4.60% | 205 |
| > 360 Days | 86,881 | 5.09% | 848 |
| Total Credit Assets | 474,093 | 4.26% | 246 |
| U.S. Treasury Securities: | | | |
| 30 Days or Less | 687 | 3.10% | 1 |
| Total U.S. Treasury Securities | 687 | 3.10% | 1 |
| Total | $ 1,715,506 | 3.06% | 109 |

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 repurchase agreements may be expected to be terminated early upon settlement of the sale of the underlying investment.

As of June 30, 2019, the fair value of investments transferred as collateral under outstanding borrowings under repurchase agreements was $2.013 billion. Collateral transferred under outstanding borrowings under repurchase agreements as of June 30, 2019 include investments in the amount of $36.3 million that were sold prior to period end but for which such sale had not yet settled. In addition the Company posted net cash collateral of $16.2 million and additional securities with a fair value of $0.2 million as of June 30, 2019 to its counterparties.

As of June 30, 2019, 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 has a two-year term ending in February 2021. The facility accrues interest on a floating-rate basis. As of June 30, 2019, the Company had outstanding borrowings under this facility in the amount of $14.3 million which is included under the caption Other secured borrowings, on the Company's Condensed Consolidated Balance Sheet, and the effective interest rate, inclusive of related deferred financing costs, was 4.56%. As of June 30, 2019, the fair value of unsecured loans collateralizing this borrowing was $21.1 million.

In December 2017, the Company amended its non-recourse secured borrowing facility that is used to finance a portfolio of unsecured loans. The facility includes a reinvestment period ending in December 2019 (or earlier following an early amortization event), whereby the Company can vary its borrowings based on the size of its portfolio, subject to certain maximum limits. Following the reinvestment period, the facility will begin to amortize based on the collections from the underlying loans. The facility accrues interest on a floating rate basis. As of June 30, 2019, the Company had outstanding borrowings under this facility in the amount of $87.7 million, which is included under the caption Other secured borrowings, on the Company's Condensed Consolidated Balance Sheet, and the effective interest rate on this facility, inclusive of related deferred financing costs, was 4.49%. As of June 30, 2019, the fair value of unsecured loans collateralizing this borrowing was $125.8 million.

The Company has completed securitization transactions, as discussed in Note 10, whereby it financed portfolios of non-QM loans. As of June 30, 2019, the fair value of the Company's outstanding liabilities associated with these securitization transactions was $475.8 million, representing the fair value of the securitization trust certificates held by third parties as of such date, and is included on the Company's Condensed Consolidated Balance Sheet in Other secured borrowings, at fair value. The weighted average coupon of the Certificates held by third parties was 3.76% as of June 30, 2019. As of June 30, 2019, the fair value of non-QM loans held in the consolidated securitization trusts was $503.1 million.

**Unsecured Borrowings**

*Senior Notes*

On August 18, 2017, the Company issued $86.0 million in aggregate principal amount of unsecured senior notes (the "Old Senior Notes"). The total net proceeds to the Company from the issuance of the Old Senior Notes was approximately $84.7 million, after deducting debt issuance costs. The Old Senior Notes had an interest rate of 5.25%, subject to adjustment based on changes in the ratings, if any, of the Old Senior Notes. On February 13, 2019, in connection with the REIT Election, the Company exchanged all $86.0 million in principal amount of the Old Senior Notes for new unsecured long-term debt jointly and severally co-issued by certain of its consolidated subsidiaries and fully guaranteed by the Company (the "Senior Notes"). At any time, the Company is permitted to add others of its consolidated subsidiaries as co-issuers of the Senior Notes. The Senior Notes bear interest at a rate of 5.50%, subject to adjustment based on changes, if any, in the ratings of the Senior Notes. Interest on the Senior Notes is payable semi-annually in arrears on March 1 and September 1 of each year. The Senior Notes mature on September 1, 2022. The Company may redeem the Senior Notes, at its option, in whole or in part, prior to March 1, 2022 at a price equal to 100% of the principal amount thereof, plus the applicable "make-whole" premium as of the applicable date of redemption. At any time on or after March 1, 2022, the Company may redeem the Senior Notes, in whole or in part, at a redemption price equal to 100% of the aggregate principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest. The Senior Notes are carried at amortized cost. There are a number of covenants, including several financial covenants, associated with the Senior Notes. As of June 30, 2019, 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 Condensed Consolidated Statement of Operations. The Senior Notes have an effective interest rate of 5.80%, 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 June 30, 2019:

| Year | Repurchase Agreements(1) | Other Secured Borrowings(2) | Senior Notes(1) | Total |
|---|---|---|---|---|
| (In thousands) | | | | |
| 2019 | $ 1,539,137 | $ 161,059 | $ — | $ 1,700,196 |
| 2020 | 93,995 | 283,639 | — | 377,634 |
| 2021 | 82,374 | 153,089 | — | 235,463 |
| 2022 | — | — | 86,000 | 86,000 |
| 2023 | — | — | — | — |
| Total | $ 1,715,506 | $ 597,787 | $ 86,000 | 2,399,293 |

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

## 12. Income Taxes

The Company intends to qualify and will elect to be taxed as a REIT beginning with its taxable year ending December 31, 2019. A REIT is generally not subject to U.S. federal, state, and local income tax on that portion of its income that is distributed to its owners if it distributes at least 90% of its REIT taxable income within the prescribed timeframes, determined without regard to the deduction for dividends paid and excluding any net capital gains. The Company intends to operate in a manner which will allow it to qualify as a REIT. Accordingly, the Company does not believe that it will be subject to U.S. federal, state, and local income tax on the portion of its net taxable income that is distributed to its stockholders as long as certain asset, income, and share ownership tests are met.

Certain foreign and domestic subsidiaries of the Company have elected to be treated as TRSs and therefore are taxed as corporations for U.S. federal, state, and local income tax purposes. To the extent that those entities incur U.S. federal, state, or local income taxes, such taxes are recorded in the Company's condensed consolidated financial statements.

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. Deferred income taxes reflect the net tax effects of temporary differences that may exist between the carrying amounts of assets and liabilities under U.S. GAAP and the carrying amounts used for income tax purposes. For the three- and six-month periods ended June 30, 2019, the Company accrued income tax expense of $0.4 million.

## 13. Related Party Transactions

The Company is party to the 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. 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 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 a majority of the Company's independent directors, the base management and incentive fees payable by the Company to its Manager will be reduced by an amount equal to the applicable portion (as described in the Management Agreement) of any such management, origination, or structuring fees.

*Summary information*—For the three-month period ended June 30, 2019, the total base management fee incurred was $1.7 million, consisting of $2.2 million of total gross base management fee incurred, less $0.5 million of management fee rebates. For the six-month period ended June 30, 2019, the total base management fee incurred was $3.4 million, consisting of

$4.4 million of total gross base management fee incurred, less $1.0 million of management fee rebates. See "—*Participation in CLO Transactions* below for details on management fee rebates.

***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 June 30, 2019, 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 stock 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 of common stock and OP Units issued in such issuance and the number of days that such issued shares of common stock and OP Units were outstanding during such fiscal quarter, using a first-in first-out basis of accounting (*i.e.* attributing any share of common stock and OP Unit repurchases to the earliest issuances first) and (B) the result obtained by dividing (I) retained earnings attributable to shares of common stock and OP Units at the beginning of such fiscal quarter by (II) the average number of shares of common stock and OP Units outstanding for each day during such fiscal quarter, (iii) the sum of (x) the average number of shares of common stock and long term incentive plan units of the Company outstanding for each day during such fiscal quarter, and (y) the average number of Convertible Non-controlling Interests outstanding for each day during such fiscal quarter. For purposes of determining the Hurdle Amount, issuances of common stock, and Convertible Non-controlling Interests (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 shares of common stock and cash, provided that at least 10% of any quarterly payment will be made in shares of common stock.

*Summary information*—The Company did not accrue an incentive fee for either of the three- or six-month periods ended June 30, 2019, since on a rolling four quarter basis, the Company's income did not exceed the prescribed hurdle amount.

***Termination Fees***

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

***Expense Reimbursement***

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

Manager. The Company will not reimburse the Manager for the salaries and other compensation of the Manager's personnel except that the Company will be responsible for expenses incurred by the Manager in employing certain dedicated or partially dedicated personnel as further described below.

The Company reimburses the Manager for the allocable share of the compensation, including, without limitation, wages, salaries, and employee benefits paid or reimbursed, as approved by the Compensation Committee of the Board of Directors to certain dedicated or partially dedicated personnel who spend all or a portion of their time managing the Company's affairs, based upon the percentage of time devoted by such personnel to the Company's affairs. In their capacities as officers or personnel of the Manager or its affiliates, such personnel will devote such portion of their time to the Company's affairs as is necessary to enable the Company to operate its business.

For the six-month period ended June 30, 2019, the Company reimbursed the Manager $6.0 million for previously incurred operating and compensation expenses. As of June 30, 2019, the outstanding payable to the Manager for operating and compensation expenses was $2.0 million, which are included in Accrued expenses on the Consolidated Balance Sheet.

***Transactions Involving Certain Loan Originators***

As of June 30, 2019, the loan 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 that the Company purchases the related residential mortgage loans from the mortgage originator. As of June 30, 2019, there were no advances outstanding. The Company has also entered into two agreements whereby it guarantees the performance of such mortgage originator under third-party master repurchase agreements. See Note 21, Commitments and Contingencies, for further information on the Company's guarantees of the third-party borrowing arrangements.

The Company, through a related party of Ellington, or the "Loan Purchaser," is a party to a consumer loan purchase and sale flow agreement with a consumer loan originator in which the Company holds an investment in preferred stock and warrants to purchase additional preferred stock, whereby the Loan Purchaser purchases consumer loans that satisfy certain specified criteria. The Company has investments in participation certificates related to consumer loans titled in the name of the Loan Purchaser. 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 participation certificates was $24.3 million as of June 30, 2019.

In May 2019 the Company entered into a note purchase agreement whereby it agreed to lend up to $5.0 million to a mortgage originator in which the Company also holds an equity investment. The note carries an interest rate of 15% per annum on the outstanding balance and has a maturity date in May 2020. As of June 30, 2019, the outstanding balance on the note was $5.0 million and is classified as Corporate loans and included in Loans, at fair value on the Condensed Consolidated Balance Sheet.

***Consumer, Residential, and Commercial Loan Transactions with Affiliates***

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 of Ellington 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 of Ellington purchase such beneficial interests from the Purchasing Entity, at the same price paid by the Purchasing Entity. During the six-month period ended June 30, 2019, the Company purchased loans under these agreements with an aggregate principal balance of $51.5 million. As of June 30, 2019, the estimated remaining contingent purchase obligations of the Company under these purchase agreements was approximately $133.3 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 underlying the Company's participation certificates and held in the related party trusts was $160.5 million as of June 30, 2019.

The Company has beneficial interests in residential mortgage loans and REO held in a trust owned by another related party of Ellington. Through these beneficial interests, the Company participates in the cash flows of the underlying loans held by such trust. The total amount of residential mortgage loans and REO underlying the Company's beneficial interests and held in the related party trust was $162.0 million as of June 30, 2019.

The Company is a co-investor in certain small balance commercial mortgage loans and REO with several other investors, including an unrelated third party and various affiliates of Ellington. These loans are beneficially owned by a consolidated subsidiary of the Company. As of June 30, 2019, the aggregate fair value of the small balance commercial loans was $8.9 million and the carrying value of the REO was $17.0 million. The non-controlling interests held by the unrelated third party and the Ellington affiliates were $1.5 million and $4.2 million, respectively.

The Company is also a co-investor in certain small balance commercial mortgage loans with other investors, including various unrelated third parties and various affiliates of Ellington. Each co-investor in a particular loan has an interest in the limited liability company that owns such loan. As of June 30, 2019, the aggregate fair value of the Company's investments in the jointly owned limited liability companies was approximately $18.0 million. Such investments are included in Investments in unconsolidated entities, on the Condensed Consolidated Balance Sheet.

The consumer, residential mortgage, and commercial mortgage loans that are the subject of the foregoing loan transactions are held in trusts, each of which the Company has determined to be a VIE. The Company has evaluated each of these VIEs and determined that the Company has the power to direct the activities of each VIE that most significantly impact such VIE's economic performance and the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. As a result the Company has determined it is the primary beneficiary of each of these VIEs and has consolidated each VIE.

***Equity Investment in Unconsolidated Entity***

The Company was a co-investor, together with other affiliates of Ellington, in Jepson Holdings Limited, the parent of an entity (the "Right Holder Entity") that held a call right (the "Call Right") to a European mortgage loan securitization (the "Initial Securitization"). The Right Holder Entity issued notes (the "Right Holder Notes") to the Company and its affiliates, and to an unrelated third party.

In March 2019, the Right Holder Entity assigned the Call Right to a newly formed entity, which exercised the Call Right and re-securitized the underlying European mortgage loan assets of the Initial Securitization through a new securitization trust (the "New Securitization"). In exchange for assigning the Call Right, the Right Holder Entity received a combination of (i) cash and (ii) certain notes issued by the New Securitization (the "New Securitization Notes"). The Right Holder Entity fully repaid the unrelated third party’s Right Holder Note with a combination of cash and New Securitization Notes. The Right Holder Notes held by the Company and its affiliates were also fully repaid with cash and New Securitization Notes. Certain of the New Securitization Notes were distributed to the Company and its affiliates on a pro rata basis. The Right Holder Entity is expected to continue to hold certain of the New Securitization Notes in order to comply with European risk retention rules. As of June 30, 2019, the Company’s equity investment in Jepson Holdings Limited had a fair value of $1.8 million. The Company's investment in the New Securitization Notes had a fair value of $4.9 million as of June 30, 2019 and is included in Securities, at fair value on the Condensed Consolidated Balance Sheet. See Note 6 for additional details on this equity investment.

***Participation in Multi-Borrower Financing Facilities***

The Company is a co-participant with certain other entities managed by Ellington or its affiliates (the "Affiliated Entities") in various entities (each, a "Joint Entity"), which were formed in order to facilitate the financing of small balance commercial mortgage loans, residential mortgage loans, and REO (collectively, the "Mortgage Loan and REO Assets"), through repurchase agreements. Each Joint Entity has a master repurchase agreement with a particular financing counterparty.

In connection with the financing of the Mortgage Loan and REO Assets under repurchase agreements, each of the Company and the Affiliated Entities transferred certain of their respective Mortgage Loan and REO Assets to one of the Joint Entities in exchange for its pro rata share of the financing proceeds that the respective Joint Entity received from the financing counterparty. While the Company's Mortgage Loan and REO Assets were transferred to the Joint Entity, the Company's Mortgage Loan and REO 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 Mortgage Loan and REO Assets. As of June 30, 2019, the Joint Entities had aggregate outstanding issued debt under the repurchase agreements in the amount of $333.6 million. The Company's segregated portion of this debt as of June 30, 2019, was $182.7 million, and is included under the caption Repurchase agreements on the Company's Condensed Consolidated Balance Sheet. To the extent that there is a default under the repurchase agreements, all of the assets of each respective Joint Entity, including those beneficially owned by any non-defaulting owners of such Joint Entity, could be used to satisfy the outstanding obligations under such repurchase agreement. As of June 30, 2019, no party to any of the repurchase agreements was in default.

Each of the Joint Entities has been determined to be a VIE. The Company has evaluated each of these VIEs and determined that it continued to retain the risks and rewards of ownership of its Mortgage Loan and REO Assets. Such Mortgage Loan and REO Assets and the related debt are segregated for the Company and each of the Affiliated Entities. On account of the segregation of each of the co-participant's assets and liabilities within each of the Joint Entities, as well as the retention by each co-participant of control over its specific Mortgage Loan and REO Assets within the Joint Entities, the Company has determined that it is the primary beneficiary of, and has consolidated its segregated portion of assets and liabilities within, each of the Joint Entities. See Note 9 and Note 11 for additional information.

***Participation in CLO Transactions***

As discussed in Note 10, the Company participated in a number of 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 Management Agreement, the Manager rebates to the Company the portion of the management fees payable by each CLO Issuer to the CLO Manager that are allocable to the Company's participating interest in the unsecured subordinated notes issued by such CLO Issuer. For the three-and six-month periods ended June 30, 2019, the amount of such management fee rebates was $0.5 million and $1.0 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 June 30, 2019, the Company's investments in such warehouse facilities was $10.9 million, which are included on the Condensed Consolidated Balance Sheet in Investments in unconsolidated entities.

**14. Long-Term Incentive Plan Units**

OP LTIP Units subject to the Company's incentive plans are generally exercisable by the holder at any time after vesting. Each OP LTIP Unit is convertible into an OP Unit on a one-for-one basis. Subject to certain conditions, the OP Units are redeemable by the holder for an equivalent number of shares of common stock of the Company or for the cash value of such shares of common stock, at the Company's election. Costs associated with the OP 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 OP LTIP Units issued under the Company's incentive plans for the three- and six-month periods ended June 30, 2019 was $0.1 million and $0.2 million, respectively.

The below table details unvested OP LTIP Units as of June 30, 2019:

| Grant Recipient | Number of OP LTIP Units Granted | Grant Date | Vesting Date[(1)] |
|---|---|---|---|
| Directors: | | | |
| | 14,440 | September 12, 2018 | September 11, 2019 |
| Partially dedicated employees: | | | |
| | 8,692 | December 11, 2018 | December 11, 2019 |
| | 8,691 | December 11, 2018 | December 11, 2020 |
| | 5,886 | December 12, 2017 | December 12, 2019 |
| Total unvested OP LTIP Units at June 30, 2019 | 37,709 | | |

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

The following table summarizes issuance and exercise activity of OP LTIP Units for the three- and six-month periods ended June 30, 2019:

| | Three-Month Period Ended June 30, 2019 | | | Six-Month Period Ended June 30, 2019 | | |
|---|---|---|---|---|---|---|
| | Manager | Director/ Employee | Total | Manager | Director/ Employee | Total |
| OP LTIP Units Outstanding (3/31/2019 and 1/1/19, respectively) | 375,000 | 146,371 | 521,371 | 375,000 | 146,371 | 521,371 |
| Granted | — | — | — | — | — | — |
| Exercised | — | — | — | — | — | — |
| OP LTIP Units Outstanding (6/30/19) | 375,000 | 146,371 | 521,371 | 375,000 | 146,371 | 521,371 |
| OP LTIP Units Unvested and Outstanding (6/30/19) | — | 37,709 | 37,709 | — | 37,709 | 37,709 |
| OP LTIP Units Vested and Outstanding (6/30/19) | 375,000 | 108,662 | 483,662 | 375,000 | 108,662 | 483,662 |

As of June 30, 2019, there were an aggregate of 1,874,223 shares of common stock of the Company underlying awards, including OP LTIP Units, available for future issuance under the Company's 2017 Equity Incentive Plan.

## 15. Non-controlling Interests

***Operating Partnership***

Non-controlling interests include the Convertible Non-controlling Interests in the Operating Partnership owned by an affiliate of our Manager, our directors, and certain current and former Ellington employees and their related parties. On December 31, 2018, the Company redeemed 503,988 outstanding long term incentive plan units of the Company and exchanged them on a one-for-one basis for OP LTIP Units. Income allocated to Convertible Non-controlling Interests 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 shares of common stock of the Company and Convertible Non-controlling Interests outstanding during the quarter. Holders of Convertible Non-controlling Interests are entitled to receive the same distributions that holders of shares of common stock of the Company receive. Convertible Non-controlling Interests are non-voting with respect to matters as to which holders of common stock of the Company are entitled to vote. As June 30, 2019, the Convertible Non-controlling Interests consisted of the outstanding 521,371 OP LTIP Units and 212,000 OP Units, and represented an interest of approximately 2.4% in the Operating Partnership. As of June 30, 2019, non-controlling interests related to the outstanding 521,371 OP LTIP Units and the outstanding 212,000 OP Units was $13.9 million.

***Joint Venture Interests***

Non-controlling interests also include the interests of joint venture partners in various consolidated subsidiaries of the Company. The subsidiaries hold the Company's investments in certain commercial mortgage loans and REO. These joint venture partners participate in the income, expense, gains and losses of such subsidiaries as set forth in the related operating agreements of the subsidiaries. These joint venture partners make capital contributions to the subsidiaries as new approved investments are purchased by the subsidiaries, and are generally entitled to distributions when investments are sold or otherwise disposed of. As of June 30, 2019, these joint venture partners' interests in subsidiaries of the Company were $16.7 million.

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

**16. Common Stock Capitalization**

The Company has authorized 100,000,000 shares of common stock, $0.001 par value per share. The Board of Directors may authorize the issuance of additional shares, subject to the approval of the holders of at least a majority of the shares of common stock then outstanding present in person or represented by proxy at a meeting of the stockholders. As of June 30, 2019, there were 29,745,776 shares of common stock outstanding.

During the three- and six-month periods ended June 30, 2019, the Board of Directors authorized dividends totaling $0.42 and $0.97, respectively, per share. Total dividends declared during the three- and six-month period ended June 30, 2019 were $12.8 million and $29.6 million, respectively.

The following table summarizes issuance, repurchase, and other activity with respect to the Company's common stock for the three- and six-month period ended June 30, 2019:

| | Three-Month Period Ended June 30, 2019 | Six-Month Period Ended June 30, 2019 |
|---|---|---|
| Shares of Common Stock Outstanding (3/31/2019 and 1/1/19, respectively) | 29,745,776 | 29,796,601 |
| Share Activity: | | |
| Shares of common stock repurchased | — | (50,825) |
| Director OP LTIP Units exercised | — | — |
| Shares of Common Stock Outstanding (6/30/19) | 29,745,776 | 29,745,776 |

If all Convertible Non-controlling Interests that have been previously issued were to become fully vested and exchanged for shares of common stock as of June 30, 2019, the Company's issued and outstanding shares of common stock would increase to 30,479,147 shares.

On June 13, 2018, the Board of Directors approved the adoption of a share repurchase program under which the Company is authorized to repurchase up to 1.55 million shares of common stock. 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 financial performance, among other considerations. During the three-month period ended June 30, 2019 the Company did not repurchase any shares. During the six-month period ended June 30, 2019, the Company repurchased 50,825 shares at an average price per share of $15.39 and a total cost of $0.8 million. From inception of the current repurchase plan through June 30, 2019, the Company repurchased 411,915 shares at an average price per share of $15.34 and a total cost of $6.3 million.

## 17. Earnings Per Share

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

| (In thousands except share amounts) | Three-Month Period Ended June 30, 2019 | Six-Month Period Ended June 30, 2019 |
|---|---|---|
| Net income (loss) attributable to common stockholders | $ 12,644 | $ 28,052 |
| Add: Net income (loss) attributable to Convertible Non-controlling Interests[1] | 312 | 692 |
| Net income (loss) related to common stockholders and Convertible Non-controlling Interests | 12,956 | 28,744 |
| **Dividends Paid:** | | |
| Common stockholders | (12,493) | (28,853) |
| Convertible Non-controlling Interests | (308) | (712) |
| Total dividends paid to common stockholders and Convertible Non-controlling Interests | (12,801) | (29,565) |
| **Undistributed (Distributed in excess of) earnings:** | | |
| Common stockholders | 151 | (801) |
| Convertible Non-controlling Interests | 4 | (20) |
| Total undistributed (distributed in excess of) earnings attributable to common stockholders and Convertible Non-controlling Interests | 155 | (821) |
| Weighted average shares outstanding (basic and diluted): | | |
| Weighted average shares of common stock outstanding | 29,745,776 | 29,746,652 |
| Weighted average Convertible Non-controlling Interest Units outstanding | 733,371 | 733,371 |
| Weighted average shares of common stock and Convertible Non-controlling Interest Units outstanding | 30,479,147 | 30,480,023 |
| **Basic earnings per share of common stock and Convertible Non-controlling Interest Unit:** | | |
| Distributed | $ 0.42 | $ 0.97 |
| Undistributed (Distributed in excess of) | 0.01 | (0.03) |
| | $ 0.43 | $ 0.94 |
| **Diluted earnings per share of common stock and Convertible Non-controlling Interest Unit:** | | |
| Distributed | $ 0.42 | $ 0.97 |
| Undistributed (Distributed in excess of) | 0.01 | (0.03) |
| | $ 0.43 | $ 0.94 |

(1) For the three- and six- month periods ended June 30, 2019, excludes net income (loss) of $0.7 million and $1.4 million, respectively, attributable to joint venture partners, which have non-participating interests as described in Note 15.

## 18. Restricted Cash

The Company is required to maintain a specific cash balance in a segregated account pursuant to a flow consumer loan purchase and sale agreement. As of June 30, 2019, the Company's restricted cash balance related to the flow consumer loan purchase and sale agreement was $0.2 million.

## 19. Offsetting of Assets and Liabilities

The Company generally records financial instruments at fair value as described in Note 2. All financial instruments are recorded on a gross basis on the Condensed Consolidated Balance Sheet. In connection with the vast majority of its derivative, reverse repurchase and 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 reverse repurchase and repurchase agreements.

The following table presents information about certain assets and liabilities representing financial instruments as of June 30, 2019. The Company has not entered into master netting agreements with any of its counterparties. Certain of the Company's reverse repurchase and repurchase agreements and financial derivative transactions are governed by underlying agreements that generally provide a right of offset in the event of default or in the event of a bankruptcy of either party to the transaction.

**June 30, 2019:**

| Description | Amount of Assets (Liabilities) Presented in the Condensed Consolidated Balance Sheet(1) | Financial Instruments Available for Offset | Financial Instruments Transferred or Pledged as Collateral(2)(3) | Cash Collateral (Received) Pledged(2)(3) | Net Amount |
|---|---|---|---|---|---|
| *(In thousands)* | | | | | |
| **Assets** | | | | | |
| Financial derivatives–assets | $ 11,150 | $ (7,170) | $ — | $ (1,217) | $ 2,763 |
| Reverse repurchase agreements | 49,641 | (49,641) | — | — | — |
| **Liabilities** | | | | | |
| Financial derivatives–liabilities | (27,805) | 7,170 | — | 16,372 | (4,263) |
| Repurchase agreements | (1,715,506) | 49,641 | 1,649,709 | 16,156 | — |

(1) In the Company's Condensed Consolidated Balance Sheet, all balances associated with repurchase agreements, reverse repurchase agreements, and financial derivatives are presented on a gross basis.
(2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's reverse repurchase agreements and cash collateral pledged on the Company's financial derivative liabilities. Total financial instruments transferred or pledged as collateral on the Company's reverse repurchase agreements as of June 30, 2019 was $2.01 billion. As of June 30, 2019, total cash collateral on financial derivative assets and liabilities excludes excess net cash collateral pledged of $2.0 million and $17.2 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.

## 20. Counterparty Risk

The Company is exposed to concentrations of counterparty risk. It seeks to mitigate such risk by diversifying its exposure among various counterparties, when appropriate. The following table summarizes the Company's exposure to counterparty risk as of June 30, 2019.

| | Amount of Exposure | Number of Counterparties with Exposure | Maximum Percentage of Exposure to a Single Counterparty[1] |
|---|---|---|---|
| | *(In thousands)* | | |
| Cash and cash equivalents | $ 42,671 | 10 | 70.7% |
| Collateral on repurchase agreements held by dealers[2] | 2,029,073 | 24 | 15.0% |
| Due from brokers | 65,083 | 21 | 26.5% |
| Receivable for securities sold[3] | 38,705 | 5 | 40.6% |

(1) Each counterparty is a large creditworthy financial institution.
(2) Includes securities and loans as well as cash posted as collateral for repurchase agreements.
(3) Included in Investment related receivables on the Condensed Consolidated Balance Sheet.

## 21. 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 June 30, 2019 the Company has no liabilities recorded for these agreements.

The Company's maximum risk of loss from credit events on its securities (excluding Agency securities, which are guaranteed by the issuing government agency or government-sponsored enterprise), loans, and investments in unconsolidated entities is limited to the amount paid for such investment.

*Commitments and Contingencies Related to Investments in Residential Mortgage Loans*

In connection with certain of the Company's investments in residential mortgage loans, the Company has unfunded commitments in the amount of $1.8 million as of June 30, 2019.

*Commitments and Contingencies Related to Investments in Mortgage Loan 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 13, the Company is party to a flow mortgage loan purchase and sale agreement with a mortgage loan originator. The Company has entered into two agreements whereby it guarantees the performance of this mortgage loan originator under master repurchase agreements. The Company's maximum guarantees are capped at $25.0 million. As of June 30, 2019 the mortgage loan originator had $15.8 million of outstanding borrowings under the agreements guaranteed by the Company. The Company's obligations under these arrangements are deemed to be guarantees under ASC 460-10. The Company has elected the FVO for its guarantees, which are included in Other Liabilities on the Condensed Consolidated Balance Sheet. As of June 30, 2019, the estimated fair value of such guarantees was insignificant.

## 22. Subsequent Events

On July 8, 2019, the Board of Directors approved a dividend in the amount of $0.14 per share payable on August 26, 2019 to stockholders of record as of July 31, 2019.

On July 22, 2019, the Company completed a follow-on offering of 3.5 million shares of its common stock, which generated net proceeds, after underwriters' discount and offering costs, of $60.7 million. On July 25, 2019, the Company issued an additional 525,000 shares of its common stock in connection with the exercise of the underwriters' option granted in the initial offering. The exercise of the underwriters' option resulted in net proceeds to the Company of an additional $9.1 million, after underwriters' discount and offering costs.

On August 7, 2019, the Board of Directors approved a dividend in the amount of $0.14 per share payable on September 25, 2019 to stockholders of record as of August 30, 2019.

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND EQUITY**
**(UNAUDITED)**

| | | December 31, 2018 |
|---|---|---|
| *(In thousands except share amounts)* | | *Expressed in U.S. Dollars* |
| **ASSETS** | | |
| Cash and cash equivalents | $ | 44,656 |
| Restricted cash | | 425 |
| Investments, financial derivatives, and repurchase agreements: | | |
| Investments, at fair value (Cost – $2,970,306) | | 2,939,311 |
| Financial derivatives–assets, at fair value (Net cost – $22,526) | | 20,001 |
| Repurchase agreements, at fair value (Cost – $61,274) | | 61,274 |
| Total investments, financial derivatives, and repurchase agreements | | 3,020,586 |
| Due from brokers | | 71,794 |
| Receivable for securities sold and financial derivatives | | 780,826 |
| Interest and principal receivable | | 37,676 |
| Other assets | | 15,536 |
| **Total Assets** | $ | 3,971,499 |
| **LIABILITIES** | | |
| Investments and financial derivatives: | | |
| Investments sold short, at fair value (Proceeds – $844,604) | $ | 850,577 |
| Financial derivatives–liabilities, at fair value (Net proceeds – $19,019) | | 20,806 |
| Total investments and financial derivatives | | 871,383 |
| Reverse repurchase agreements | | 1,498,849 |
| Due to brokers | | 5,553 |
| Payable for securities purchased and financial derivatives | | 488,411 |
| Other secured borrowings (Proceeds – $114,100) | | 114,100 |
| Other secured borrowings, at fair value (Proceeds – $298,706) | | 297,948 |
| Senior notes, net | | 85,035 |
| Accounts payable and accrued expenses | | 5,723 |
| Base management fee payable to affiliate | | 1,744 |
| Interest and dividends payable | | 7,159 |
| Other liabilities | | 424 |
| **Total Liabilities** | | 3,376,329 |
| **EQUITY** | | 595,170 |
| **TOTAL LIABILITIES AND EQUITY** | $ | 3,971,499 |
| Commitments and contingencies (Note 17) | | |
| **ANALYSIS OF EQUITY:** | | |
| Common shares, no par value, 100,000,000 shares authorized; | | |
| (29,796,601 shares issued and outstanding) | $ | 563,833 |
| Additional paid-in capital – Long term incentive plan units | | — |
| **Total Shareholders' Equity** | | 563,833 |
| Non-controlling interests | | 31,337 |
| **Total Equity** | $ | 595,170 |
| **PER SHARE INFORMATION:** | | |
| Common shares | $ | 18.92 |

See Notes to Consolidated Financial Statements

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**
**AT DECEMBER 31, 2018**
**(UNAUDITED)**

| Current Principal/Number of Shares | | Description | Rate | Maturity | Fair Value | |
|---|---|---|---|---|---|---|
| *(In thousands)* | | | | | *Expressed in U.S. Dollars* | |
| **Cash Equivalents—Money Market Funds (2.09%) (a) (b)** | | | | | | |
| **North America** | | | | | | |
| **Funds** | | | | | | |
| $ | 12,460 | Various | 2.31% - 2.34% | | $ | 12,460 |
| **Total Cash Equivalents—Money Market Funds (Cost $12,460)** | | | | | $ | 12,460 |
| **Long Investments (493.86%) (a) (b) (ad)** | | | | | | |
| **Mortgage-Backed Securities (300.21%)** | | | | | | |
| **Agency Securities (243.66%) (c)** | | | | | | |
| **Fixed Rate Agency Securities (230.23%)** | | | | | | |
| **Principal and Interest - Fixed Rate Agency Securities (148.68%)** | | | | | | |
| **North America** | | | | | | |
| **Mortgage-related—Residential** | | | | | | |
| $ | 143,523 | Federal National Mortgage Association Pools (30 Year) | 4.00% | 9/39 - 11/48 | $ | 147,395 |
| | 111,109 | Federal Home Loan Mortgage Corporation Pools (30 Year) | 4.00% | 11/41 - 12/48 | | 114,104 |
| | 82,189 | Federal National Mortgage Association Pools (30 Year) | 3.50% | 9/42 - 2/48 | | 82,450 |
| | 74,478 | Government National Mortgage Association Pools (30 Year) | 4.50% | 9/46 - 1/49 | | 77,266 |
| | 65,892 | Federal National Mortgage Association Pools (30 Year) | 4.50% | 10/41 - 12/48 | | 68,853 |
| | 51,362 | Government National Mortgage Association Pools (30 Year) | 4.00% | 7/45 - 5/48 | | 52,544 |
| | 46,026 | Government National Mortgage Association Pools (30 Year) | 5.00% | 2/48 - 12/48 | | 48,245 |
| | 45,670 | Federal Home Loan Mortgage Corporation Pools (30 Year) | 4.50% | 9/43 - 10/48 | | 47,583 |
| | 42,663 | Federal National Mortgage Association Pools (15 Year) | 3.50% | 3/28 - 3/32 | | 43,241 |
| | 38,420 | Federal National Mortgage Association Pools (30 Year) | 5.00% | 10/35 - 8/48 | | 40,652 |
| | 32,106 | Government National Mortgage Association Pools (30 Year) | 3.50% | 12/42 - 12/47 | | 32,253 |
| | 25,082 | Federal Home Loan Mortgage Corporation Pools (30 Year) | 3.50% | 1/42 - 3/48 | | 25,185 |
| | 21,807 | Government National Mortgage Association Pools (30 Year) | 5.50% | 4/48 - 12/48 | | 23,207 |
| | 10,899 | Federal National Mortgage Association Pools (15 Year) | 3.00% | 4/30 - 9/32 | | 10,895 |
| | 8,275 | Federal Home Loan Mortgage Corporation Pools (15 Year) | 3.50% | 9/28 - 12/32 | | 8,389 |
| | 7,287 | Federal Home Loan Mortgage Corporation Pools (Other) | 3.50% | 4/43 - 9/46 | | 7,316 |
| | 6,096 | Federal Home Loan Mortgage Corporation Pools (30 Year) | 5.00% | 7/44 - 10/48 | | 6,423 |
| | 5,728 | Federal National Mortgage Association Pools (15 Year) | 4.00% | 6/26 - 5/31 | | 5,823 |
| | 5,023 | Federal National Mortgage Association Pools (30 Year) | 5.50% | 10/39 - 6/48 | | 5,342 |
| | 4,547 | Federal National Mortgage Association Pools (Other) | 5.00% | 9/43 - 1/44 | | 4,772 |
| | 4,394 | Federal National Mortgage Association Pools (Other) | 4.00% | 12/47 | | 4,478 |
| | 3,408 | Government National Mortgage Association Pools (30 Year) | 6.00% | 5/48 - 11/48 | | 3,666 |
| | 2,773 | Federal Home Loan Mortgage Corporation Pools (30 Year) | 3.00% | 7/43 - 6/45 | | 2,722 |
| | 2,603 | Federal National Mortgage Association Pools (30 Year) | 3.00% | 1/42 - 6/45 | | 2,556 |
| | 2,508 | Government National Mortgage Association Pools (30 Year) | 3.75% | 7/47 | | 2,537 |
| | 2,348 | Federal Home Loan Mortgage Corporation Pools (Other) | 4.50% | 5/44 | | 2,432 |
| | 2,343 | Federal Home Loan Mortgage Corporation Pools (15 Year) | 3.00% | 4/30 | | 2,342 |
| | 2,177 | Federal National Mortgage Association Pools (15 Year) | 4.50% | 4/26 | | 2,265 |
| | 2,025 | Federal National Mortgage Association Pools (Other) | 4.50% | 5/41 | | 2,079 |
| | 1,677 | Federal Home Loan Mortgage Corporation Pools (30 Year) | 5.50% | 8/33 - 5/48 | | 1,786 |
| | 1,478 | Federal National Mortgage Association Pools (20 Year) | 4.00% | 12/33 | | 1,526 |

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**
**AT DECEMBER 31, 2018 (CONTINUED)**
**(UNAUDITED)**

| Current Principal/Notional Value | Description | Rate | Maturity | Fair Value |
|---|---|---|---|---|
| *(In thousands)* | | | | *Expressed in U.S. Dollars* |
| ***(continued)*** | | | | |
| $ 976 | Federal Home Loan Mortgage Corporation Pools (20 Year) | 4.50% | 12/33 | $ 1,021 |
| 886 | Federal Home Loan Mortgage Corporation Pools (15 Year) | 4.00% | 2/29 | 897 |
| 651 | Federal Home Loan Mortgage Corporation Pools (30 Year) | 6.00% | 5/40 | 697 |
| 710 | Government National Mortgage Association Pools (30 Year) | 3.00% | 11/42 | 695 |
| 588 | Federal National Mortgage Association Pools (30 Year) | 6.00% | 9/39 - 2/40 | 631 |
| 524 | Government National Mortgage Association Pools (30 Year) | 2.49% | 10/43 | 496 |
| 109 | Federal National Mortgage Association Pools (30 Year) | 3.28% | 6/42 | 106 |
| | | | | 884,870 |
| **Interest Only - Fixed Rate Agency Securities (1.77%)** | | | | |
| **North America** | | | | |
| **Mortgage-related—Residential** | | | | |
| 17,505 | Government National Mortgage Association | 4.00% | 2/45 - 6/45 | 2,828 |
| 10,446 | Federal National Mortgage Association | 4.50% | 12/20 - 6/44 | 1,223 |
| 4,768 | Government National Mortgage Association | 6.00% | 6/38 - 8/39 | 978 |
| 5,949 | Government National Mortgage Association | 4.50% | 6/39 - 7/44 | 808 |
| 3,401 | Federal National Mortgage Association | 5.50% | 10/39 | 749 |
| 3,612 | Government National Mortgage Association | 5.50% | 11/43 | 623 |
| 3,642 | Federal Home Loan Mortgage Corporation | 3.50% | 12/32 | 515 |
| 3,560 | Federal National Mortgage Association | 4.00% | 5/39 - 11/43 | 513 |
| 2,659 | Federal National Mortgage Association | 5.00% | 1/38 - 5/40 | 463 |
| 5,122 | Federal Home Loan Mortgage Corporation | 5.00% | 11/38 | 402 |
| 3,749 | Federal Home Loan Mortgage Corporation | 5.50% | 1/39 - 9/39 | 336 |
| 1,613 | Federal National Mortgage Association | 6.00% | 1/40 | 274 |
| 1,463 | Federal Home Loan Mortgage Corporation | 4.50% | 7/43 | 254 |
| 2,291 | Federal National Mortgage Association | 3.00% | 9/41 | 203 |
| 3,043 | Government National Mortgage Association | 5.00% | 5/37 - 5/41 | 181 |
| 842 | Government National Mortgage Association | 4.75% | 7/40 | 160 |
| | | | | 10,510 |
| **TBA - Fixed Rate Agency Securities (79.78%)** | | | | |
| **North America** | | | | |
| **Mortgage-related—Residential** | | | | |
| 299,455 | Government National Mortgage Association (30 Year) | 5.00% | 1/19 | 311,515 |
| 122,003 | Federal National Mortgage Association (30 Year) | 4.00% | 1/19 | 124,376 |
| 21,540 | Federal Home Loan Mortgage Corporation (30 Year) | 3.50% | 1/19 | 21,529 |
| 10,579 | Government National Mortgage Association (30 Year) | 5.50% | 1/19 | 11,058 |
| 4,800 | Government National Mortgage Association (30 Year) | 3.00% | 1/19 | 4,727 |
| 1,660 | Federal Home Loan Mortgage Corporation (15 Year) | 3.00% | 1/19 | 1,655 |
| | | | | 474,860 |
| **Total Fixed Rate Agency Securities (Cost $1,388,115)** | | | | 1,370,240 |

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**
**AT DECEMBER 31, 2018 (CONTINUED)**
**(UNAUDITED)**

| Current Principal/Notional Value | Description | Rate | Maturity | Fair Value |
|---|---|---|---|---|
| *(In thousands)* | | | | *Expressed in U.S. Dollars* |
| **Floating Rate Agency Securities (13.43%)** | | | | |
| **Principal and Interest - Floating Rate Agency Securities (10.24%)** | | | | |
| **North America** | | | | |
| **Mortgage-related—Residential** | | | | |
| $ 52,532 | Government National Mortgage Association Pools | 4.39% - 4.67% | 7/61 - 12/67 | $ 55,475 |
| 3,515 | Federal National Mortgage Association Pools | 2.70% - 4.69% | 9/35 - 5/45 | 3,650 |
| 1,808 | Federal Home Loan Mortgage Corporation Pools | 3.49% - 4.72% | 6/37 - 5/44 | 1,846 |
| | | | | 60,971 |
| **Interest Only - Floating Rate Agency Securities (3.19%)** | | | | |
| **North America** | | | | |
| **Mortgage-related—Residential** | | | | |
| 228,763 | Other Government National Mortgage Association | 0.38% - 5.64% | 6/31 - 10/66 | 10,772 |
| 70,568 | Other Federal National Mortgage Association | 1.13% - 5.50% | 6/33 - 11/46 | 4,880 |
| 48,699 | Other Federal Home Loan Mortgage Corporation | 1.55% - 4.19% | 3/36 - 1/44 | 3,256 |
| 5,220 | Resecuritization of Government National Mortgage Association (d) | 2.21% | 8/60 | 98 |
| | | | | 19,006 |
| **Total Floating Rate Agency Securities (Cost $81,873)** | | | | 79,977 |
| **Total Agency Securities (Cost $1,469,988)** | | | | 1,450,217 |
| **Private Label Securities (56.55%)** | | | | |
| **Principal and Interest - Private Label Securities (55.33%)** | | | | |
| **North America (27.62%)** | | | | |
| **Mortgage-related—Residential** | | | | |
| 227,479 | Various | 0.00% - 24.56% | 5/19 - 3/47 | 149,273 |
| **Mortgage-related—Commercial** | | | | |
| 37,171 | Various | 2.80% - 3.29% | 3/49 - 5/61 | 15,137 |
| **Total North America (Cost $153,769)** | | | | 164,410 |
| **Europe (27.71%)** | | | | |
| **Mortgage-related—Residential** | | | | |
| 183,154 | Various | 0.00% - 5.50% | 6/25 - 12/52 | 149,425 |
| **Mortgage-related—Commercial** | | | | |
| 24,978 | Various | 0.38% - 4.29% | 10/20 - 8/45 | 15,482 |
| **Total Europe (Cost $172,661)** | | | | 164,907 |
| **Total Principal and Interest - Private Label Securities (Cost $326,430)** | | | | 329,317 |

See Notes to Consolidated Financial Statements

# ELLINGTON FINANCIAL LLC
## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
## AT DECEMBER 31, 2018 (CONTINUED)
## (UNAUDITED)

| Current Principal/Notional Value | | Description | Rate | Maturity | Fair Value | |
|---|---|---|---|---|---|---|
| *(In thousands)* | | | | | *Expressed in U.S. Dollars* | |
| **Interest Only - Private Label Securities (1.22%)** | | | | | | |
| **North America** | | | | | | |
| **Mortgage-related—Residential** | | | | | | |
| $ | 30,842 | Various | 0.00% - 2.00% | 12/30 - 9/47 | $ | 3,941 |
| **Mortgage-related—Commercial** | | | | | | |
| | 41,707 | Various | 1.25% - 2.00% | 3/49 - 5/61 | | 3,289 |
| **Total Interest Only - Private Label Securities (Cost $5,189)** | | | | | | 7,230 |
| **Other Private Label Securities (0.00%)** | | | | | | |
| **North America** | | | | | | |
| **Mortgage-related—Commercial** | | | | | | |
| | — | Various | —% | 7/45 - 5/61 | | — |
| **Total Other Private Label Securities (Cost $0)** | | | | | | — |
| **Total Private Label Securities (Cost $331,619)** | | | | | | 336,547 |
| **Total Mortgage-Backed Securities (Cost $1,801,607)** | | | | | | 1,786,764 |
| **Collateralized Loan Obligations (20.82%)** | | | | | | |
| **North America (20.82%) (e)** | | | | | | |
| | 269,224 | Various | 0.00% - 10.54% | 4/20- 10/2118 | | 123,893 |
| **Total North America (Cost $139,424)** | | | | | | 123,893 |
| **Total Collateralized Loan Obligations (Cost $139,424)** | | | | | | 123,893 |
| **Consumer Loans and Asset-backed Securities backed by Consumer Loans (34.74%) (f)** | | | | | | |
| **North America (34.59%)** | | | | | | |
| **Consumer (g) (h)** | | | | | | |
| | 233,602 | Various | 5.31% - 76.50% | 1/19 - 12/23 | | 205,877 |
| **Total North America (Cost $211,221)** | | | | | | 205,877 |
| **Europe (0.15%)** | | | | | | |
| **Consumer** | | | | | | |
| | 3,540 | Various | —% | 12/30 | | 884 |
| **Total Europe (Cost $761)** | | | | | | 884 |
| **Total Consumer Loans and Asset-backed Securities backed by Consumer Loans (Cost $211,982)** | | | | | | 206,761 |

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**
**AT DECEMBER 31, 2018 (CONTINUED)**
**(UNAUDITED)**

| Current Principal/Number of Properties | | Rate | Maturity | Fair Value |
|---|---|---|---|---|
| *(In thousands)* | | | | *Expressed in U.S. Dollars* |
| **Corporate Debt (3.76%)** | | | | |
| **North America (1.95%)** | | | | |
| **Communications** | | | | |
| $ 938 | Various | —% | 5/22 | $ 824 |
| **Consumer** | | | | |
| 3,342 | Various | 6.69% | 1/27 | 3,141 |
| **Energy** | | | | |
| 2,080 | Various | 4.63% | 9/21 | 1,877 |
| **Industrial** | | | | |
| 1,755 | Various | 3.75% | 12/21 | 1,742 |
| **Technology** | | | | |
| 4,570 | **Various** | 0.00% - 4.38% | 5/20 - 5/22 | 4,002 |
| **Total North America (Cost $11,949)** | | | | 11,586 |
| **Europe (1.81%)** | | | | |
| **Consumer** | | | | |
| 20,574 | Various | —% | 1/19 | — |
| **Financial** | | | | |
| 11,235 | Various | 0.00% - 16.00% | 10/20 - 11/22 | 10,806 |
| **Total Europe (Cost $12,319)** | | | | 10,806 |
| **Total Corporate Debt (Cost $24,268)** | | | | 22,392 |
| **Secured Notes (1.83%) (n)** | | | | |
| **North America** | | | | |
| **Mortgage-related—Residential** | | | | |
| 17,608 | Various | 5.00% | 11/57 | 10,917 |
| **Total Secured Notes (Cost $12,138)** | | | | 10,917 |
| **Mortgage Loans (118.96%) (f)** | | | | |
| **North America** | | | | |
| **Mortgage-related—Commercial (j)** | | | | |
| 235,459 | Various | 4.31% - 12.74% | 3/19 - 10/37 | 211,185 |
| **Mortgage-related—Residential (k) (m)** | | | | |
| 493,248 | Various | 2.00% - 15.00% | 3/19 - 12/58 | 496,830 |
| **Total Mortgage Loans (Cost $703,366)** | | | | 708,015 |
| **Real Estate Owned (5.80%) (f) (l)** | | | | |
| **North America** | | | | |
| **Real estate-related** | | | | |
| 5 | Single-Family Houses | | | 1,296 |
| 18 | Commercial Properties | | | 33,204 |
| **Total Real Estate Owned (Cost $35,371)** | | | | 34,500 |

See Notes to Consolidated Financial Statements

# ELLINGTON FINANCIAL LLC
## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
## AT DECEMBER 31, 2018 (CONTINUED)
## (UNAUDITED)

| Current Principal/Number of Shares | | Rate | Maturity | Fair Value |
|---|---|---|---|---|
| *(In thousands)* | | | | *Expressed in U.S. Dollars* |
| **Common Stock (0.37%)** | | | | |
| **North America (0.37%)** | | | | |
| **Consumer** | | | | |
| 24 | Exchange Traded Equity | | | $ 25 |
| **Financial** | | | | |
| 213 | Exchange Traded Equity | | | 2,175 |
| **Total North America (Cost $2,482)** | | | | 2,200 |
| **Total Corporate Equity Investments (Cost $2,482)** | | | | 2,200 |
| **Corporate Equity Investments (7.36%)** | | | | |
| **North America (7.36%)** | | | | |
| **Communications** | | | | |
| 7 | Non-Exchange Traded Corporate Equity | | | 97 |
| **Consumer** | | | | |
| n/a | Non-Controlling Equity Interest in Limited Liability Company (i) | | | 4,045 |
| 3,000 | Non-Exchange Traded Preferred Equity Investment in Consumer Loan Originators (n) | | | 3,000 |
| 1,540 | Non-Exchange Traded Corporate Equity | | | — |
| **Diversified** | | | | |
| 144 | Non-Exchange Traded Corporate Equity | | | 1,433 |
| **Mortgage-related—Commercial (n)** | | | | |
| n/a | Non-Controlling Equity Interest in Limited Liability Company | | | 1,147 |
| **Mortgage-related—Residential (n)** | | | | |
| 23 | Non-Exchange Traded Preferred Equity Investment in Mortgage Originators | | | 27,317 |
| 9,818 | Non-Exchange Traded Common Equity Investment in Mortgage Originators | | | 6,750 |
| **Total North America (Cost $39,587)** | | | | 43,789 |
| **Europe (0.00%)** | | | | |
| **Consumer** | | | | |
| 125 | Non-Exchange Traded Corporate Equity | | | — |
| **Financial** | | | | |
| — | Non-Exchange Traded Corporate Equity | | | 4 |
| **Total Europe (Cost $5)** | | | | 4 |
| **Total Corporate Equity Investments (Cost $39,592)** | | | | 43,793 |
| **U.S. Treasury Securities (0.01%)** | | | | |
| **North America** | | | | |
| **Government** | | | | |
| $ 75 | U.S. Treasury Note | 2.75% | 4/23 | 76 |
| **Total U.S. Treasury Securities (Cost $76)** | | | | 76 |
| **Total Long Investments (Cost $2,970,306)** | | | | $ 2,939,311 |

See Notes to Consolidated Financial Statements

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**
**AT DECEMBER 31, 2018 (CONTINUED)**
**(UNAUDITED)**

| Current Principal | Description | Rate | Maturity | Fair Value |
|---|---|---|---|---|
| *(In thousands)* | | | | *Expressed in U.S. Dollars* |
| **Repurchase Agreements (10.30%) (a) (b) (o)** | | | | |
| $ 13,854 | JP Morgan Securities LLC | 3.25% | 1/19 | $ 13,854 |
| | Collateralized by Par Value $13,600 | | | |
| | U.S. Treasury Note, Coupon 2.88%, | | | |
| | Maturity Date 11/21 | | | |
| 10,712 | JP Morgan Securities LLC | 3.15% | 1/19 | 10,712 |
| | Collateralized by Par Value $10,451 | | | |
| | U.S. Treasury Note, Coupon 2.88%, | | | |
| | Maturity Date 10/23 | | | |
| 10,365 | JP Morgan Securities LLC | (0.75)% | 1/19 | 10,365 |
| | Collateralized by Par Value $10,102 | | | |
| | Sovereign Government Bond, Coupon 0.75% | | | |
| | Maturity Date 7/21 | | | |
| 9,379 | JP Morgan Securities LLC | (0.65)% | 1/19 | 9,379 |
| | Collateralized by Par Value $9,161 | | | |
| | Sovereign Government Bond, Coupon 2.75%, | | | |
| | Maturity Date 4/19 | | | |
| 3,562 | JP Morgan Securities LLC | 3.05% | 1/19 | 3,562 |
| | Collateralized by Par Value $3,400 | | | |
| | U.S. Treasury Note, Coupon 3.13%, | | | |
| | Maturity Date 11/28 | | | |
| 2,884 | JP Morgan Securities LLC | 2.95% | 1/19 | 2,884 |
| | Collateralized by Par Value $2,800 | | | |
| | U.S. Treasury Note, Coupon 2.88%, | | | |
| | Maturity Date 8/28 | | | |
| 2,098 | Bank of America Securities | 2.90% | 1/19 | 2,098 |
| | Collateralized by Par Value $2,062 | | | |
| | U.S. Treasury Note, Coupon 2.88%, | | | |
| | Maturity Date 11/23 | | | |
| 1,975 | Bank of America Securities | 2.90% | 1/19 | 1,975 |
| | Collateralized by Par Value $1,939 | | | |
| | U.S. Treasury Note, Coupon 2.75%, | | | |
| | Maturity Date 8/23 | | | |
| 1,710 | Barclays Capital Inc | (1.65)% | 1/19 | 1,710 |
| | Collateralized by Par Value $1,900 | | | |
| | Exchange-Traded Corporate Debt, Coupon 5.95%, | | | |
| | Maturity Date 12/26 | | | |
| 1,369 | Bank of America Securities | 3.05% | 1/19 | 1,369 |
| | Collateralized by Par Value $1,355 | | | |
| | U.S. Treasury Note, Coupon 2.75%, | | | |
| | Maturity Date 4/23 | | | |
| 957 | Morgan Stanley | (2.15)% | 1/19 | 957 |
| | Collateralized by Par Value $1,000 | | | |
| | Exchange-Traded Corporate Debt, Coupon 5.95%, | | | |
| | Maturity Date 12/26 | | | |

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**
**AT DECEMBER 31, 2018 (CONTINUED)**
**(UNAUDITED)**

| Current Principal | Description | Rate | Maturity | Fair Value |
|---|---|---|---|---|
| *(In thousands)* | | | | *Expressed in U.S. Dollars* |
| ***(continued)*** | | | | |
| $ 797 | Barclays Capital Inc | (0.75)% | 1/19 | $ 797 |
| | Collateralized by Par Value $1,200 | | | |
| | Exchange-Traded Corporate Debt, Coupon 9.88%, | | | |
| | Maturity Date 2/24 | | | |
| 531 | Barclays Capital Inc | (1.25)% | 1/19 | 531 |
| | Collateralized by Par Value $800 | | | |
| | Exchange-Traded Corporate Debt, Coupon 9.88%, | | | |
| | Maturity Date 2/24 | | | |
| 525 | RBC Capital Markets LLC | 2.05% | 1/19 | 525 |
| | Collateralized by Par Value $500 | | | |
| | Exchange-Traded Corporate Debt, Coupon 5.75%, | | | |
| | Maturity Date 10/22 | | | |
| 469 | Bank of America Securities | 3.05% | 1/19 | 469 |
| | Collateralized by Par Value $463 | | | |
| | U.S. Treasury Note, Coupon 2.63%, | | | |
| | Maturity Date 6/23 | | | |
| 87 | Societe Generale | (1.85)% | 1/19 | 87 |
| | Collateralized by Par Value $100 | | | |
| | Exchange-Traded Corporate Debt, Coupon 5.95%, | | | |
| | Maturity Date 12/26 | | | |
| **Total Repurchase Agreements (Cost $61,274)** | | | | $ 61,274 |
| **Investments Sold Short (-142.91%) (a) (b)** | | | | |
| **TBA - Fixed Rate Agency Securities Sold Short (-129.87%) (p)** | | | | |
| **North America** | | | | |
| **Mortgage-related—Residential** | | | | |
| $ (156,590) | Federal National Mortgage Association (30 year) | 4.50% | 1/19 | $ (162,119) |
| (117,590) | Government National Mortgage Association (30 year) | 4.50% | 1/19 | (121,637) |
| (107,397) | Federal Home Loan Mortgage Corporation (30 year) | 4.00% | 1/19 | (109,465) |
| (87,817) | Federal National Mortgage Association (30 year) | 5.00% | 1/19 | (91,971) |
| (86,893) | Government National Mortgage Association (30 year) | 4.00% | 1/19 | (88,994) |
| (76,912) | Federal National Mortgage Association (30 year) | 3.50% | 1/19 | (76,891) |
| (32,260) | Government National Mortgage Association (30 year) | 3.50% | 1/19 | (32,484) |
| (26,530) | Federal National Mortgage Association (15 year) | 3.50% | 1/19 | (26,859) |
| (24,841) | Federal Home Loan Mortgage Corporation (30 year) | 4.50% | 1/19 | (25,707) |
| (16,557) | Federal National Mortgage Association (30 year) | 3.00% | 1/19 | (16,153) |
| (13,450) | Federal National Mortgage Association (15 year) | 3.00% | 1/19 | (13,426) |
| (6,860) | Federal National Mortgage Association (30 year) | 5.50% | 1/19 | (7,258) |
| **Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -$766,777)** | | | | (772,964) |

See Notes to Consolidated Financial Statements

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**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**
**AT DECEMBER 31, 2018 (CONTINUED)**
**(UNAUDITED)**

| Current Principal/Number of Shares | Description | Rate | Maturity | Fair Value |
|---|---|---|---|---|
| *(In thousands)* | | | | *Expressed in U.S. Dollars* |
| **Government Debt Sold Short (-9.10%)** | | | | |
| **North America (-5.85%)** | | | | |
| **Government** | | | | |
| $ (13,600) | U.S. Treasury Note | 2.88% | 11/21 | $ (13,754) |
| (10,451) | U.S. Treasury Note | 2.88% | 10/23 | (10,631) |
| (3,400) | U.S. Treasury Note | 3.13% | 11/28 | (3,528) |
| (2,800) | U.S. Treasury Note | 2.88% | 8/28 | (2,844) |
| (2,062) | U.S. Treasury Note | 2.88% | 11/23 | (2,098) |
| (1,939) | U.S. Treasury Note | 2.75% | 8/23 | (1,962) |
| **Total North America (Proceeds -$34,410)** | | | | (34,817) |
| **Europe (-3.25%)** | | | | |
| **Government** | | | | |
| (19,006) | European Sovereign Bond | 0.75% - 2.75% | 4/19 - 7/21 | (19,334) |
| **Total Europe (Proceeds -$19,545)** | | | | (19,334) |
| **Total Government Debt Sold Short (Proceeds -$53,955)** | | | | (54,151) |
| **Common Stock Sold Short (-2.84%)** | | | | |
| **North America** | | | | |
| **Financial** | | | | |
| (277) | Exchange Traded Equity | | | (16,933) |
| **Total Common Stock Sold Short (Proceeds -$17,164)** | | | | (16,933) |
| **Corporate Debt Sold Short (-1.10%)** | | | | |
| **North America** | | | | |
| **Communications** | | | | |
| (1,730) | Various | 4.25% | 9/23 | (1,734) |
| **Consumer** | | | | |
| (500) | Various | 5.75% | 10/22 | (500) |
| **Energy** | | | | |
| (2,000) | Various | 9.88% | 2/24 | (1,230) |
| **Financial** | | | | |
| (3,600) | Various | 4.70% - 5.95% | 12/26 - 6/27 | (2,810) |
| **Technology** | | | | |
| (288) | Various | 4.95% | 4/23 | (255) |
| **Total Corporate Debt Sold Short (Proceeds -$6,708)** | | | | (6,529) |
| **Total Investments Sold Short (Proceeds -$844,604)** | | | | $ (850,577) |

See Notes to Consolidated Financial Statements

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**
**AT DECEMBER 31, 2018 (CONTINUED)**
**(UNAUDITED)**

| | Primary Risk Exposure | Notional Value | Range of Expiration Dates | Fair Value |
|---|---|---|---|---|
| *(In thousands)* | | | | *Expressed in U.S.Dollars* |
| **Financial Derivatives–Assets (3.36%) (a) (b)** | | | | |
| **Swaps (3.36%)** | | | | |
| **Long Swaps:** | | | | |
| Credit Default Swaps on Corporate Bond Indices (q) | Credit | $ 47,815 | 6/19 - 6/23 | $ 733 |
| Credit Default Swaps on Asset-Backed Indices (q) | Credit | 689 | 12/37 | 7 |
| Interest Rate Swaps (r) | Interest Rates | 29,198 | 1/19 - 2/19 | 61 |
| **North America** | | | | |
| Credit Default Swaps on Corporate Bonds (q) | | | | |
| Basic Materials | Credit | 4 | 12/22 | — |
| Communications | Credit | 3,090 | 12/20 - 12/23 | 18 |
| Consumer | Credit | 10,655 | 6/20 - 12/23 | 868 |
| Financial | Credit | 930 | 12/23 | 104 |
| Industrial | Credit | 485 | 12/23 | 13 |
| Total Credit Default Swaps on Corporate Bonds | | | | 1,003 |
| **Short Swaps:** | | | | |
| Credit Default Swaps on Asset-Backed Indices (s) | Credit | (56,207) | 5/46 - 11/59 | 8,085 |
| Interest Rate Swaps (t) | Interest Rates | (353,741) | 3/20 - 12/45 | 7,163 |
| **North America** | | | | |
| Credit Default Swaps on Asset-Backed Securities (s) | | | | |
| Mortgage-related—Residential | Credit | (3,186) | 6/35 - 12/35 | 1,472 |
| Credit Default Swaps on Corporate Bonds (s) | | | | |
| Basic Materials | Credit | (2,074) | 12/21 - 12/23 | 25 |
| Communications | Credit | (906) | 12/21 - 12/23 | 226 |
| Consumer | Credit | (2,065) | 3/20 | 30 |
| Energy | Credit | (7,610) | 6/19 - 6/23 | 950 |
| Technology | Credit | (4,070) | 6/20 - 6/22 | 239 |
| Total Credit Default Swaps on Corporate Bonds | | | | 1,470 |
| Total Return Swaps (u) | | | | |
| Financial | Equity Market | (17,740) | 7/19 - 10/19 | 1 |
| Total Total Return Swaps | | | | 1 |
| **Total Swaps (Net cost $22,524)** | | | | 19,995 |
| **Options (0.00%)** | | | | |
| **Purchased Options:** | | | | |
| Interest Rate Caps (w) | Interest Rates | 51,545 | 5/19 | — |
| **Total Options (Cost $2)** | | | | — |

See Notes to Consolidated Financial Statements

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**
**AT DECEMBER 31, 2018 (CONTINUED)**
**(UNAUDITED)**

| *(In thousands)* | Primary Risk Exposure | | Notional Value | Range of Expiration Dates | | Fair Value |
|---|---|---|---|---|---|---|
| | | | | | | *Expressed in U.S.Dollars* |
| **Futures (0.00%)** | | | | | | |
| **Short Futures:** | | | | | | |
| U.S. Treasury Note Futures (x) | Interest Rates | $ | (151,600) | 3/19 | $ | — |
| **Total Futures** | | | | | | — |
| **Forwards (0.00%)** | | | | | | |
| **Short Forwards:** | | | | | | |
| Currency Forwards (aa) | Interest Rates | | (802) | 3/19 | | 6 |
| **Total Forwards** | | | | | | 6 |
| **Total Financial Derivatives–Assets (Net cost $22,526)** | | | | | $ | 20,001 |
| **Financial Derivatives–Liabilities (-3.50%) (a) (b)** | | | | | | |
| **Swaps (-3.42%)** | | | | | | |
| **Long Swaps:** | | | | | | |
| Credit Default Swaps on Asset-Backed Indices (q) | Credit | $ | 14,838 | 3/49 - 11/60 | $ | (2,125) |
| Credit Default Swaps on Corporate Bond Indices (q) | Credit | | 2,330 | 12/23 | | (1,467) |
| Interest Rate Swaps (r) | Interest Rates | | 113,809 | 6/21 - 1/29 | | (1,987) |
| **North America** | | | | | | |
| Credit Default Swaps on Corporate Bonds (q) | | | | | | |
| Basic Materials | Credit | | 2,000 | 12/23 | | (25) |
| Communications | Credit | | 2,313 | 6/22 - 12/23 | | (396) |
| Consumer | Credit | | 3,741 | 3/20 - 6/21 | | (62) |
| Energy | Credit | | 5,144 | 6/20 - 6/23 | | (1,885) |
| Technology | Credit | | 1,953 | 6/20 - 6/23 | | (114) |
| Total Credit Default Swaps on Corporate Bonds | | | | | | (2,482) |
| Recovery Swaps (v) | | | | | | |
| Consumer | Credit | | 2,600 | 6/19 | | (8) |
| Total Recovery Swaps | | | | | | (8) |

See Notes to Consolidated Financial Statements

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**
**AT DECEMBER 31, 2018 (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 (t) | Interest Rates | $ | (71,672) | 5/20 - 11/28 | $ | (1,406) |
| Interest Rate Basis Swaps (z) | Interest Rates | | (12,900) | 6/19 | | (4) |
| Credit Default Swaps on Corporate Bond Indices (s) | Credit | | (279,163) | 6/19 - 12/23 | | (10,090) |
| Total Return Swaps (ab) | Credit | | (11,230) | 3/19 | | (6) |
| **North America** | | | | | | |
| Credit Default Swaps on Corporate Bonds (s) | | | | | | |
| Basic Materials | Credit | | (1,180) | 12/19 | | (57) |
| Communications | Credit | | (3,910) | 12/19 - 12/23 | | (11) |
| Consumer | Credit | | (12,830) | 6/19 - 12/23 | | (567) |
| Financial | Credit | | (930) | 12/23 | | (104) |
| Industrial | Credit | | (485) | 12/23 | | (13) |
| Technology | Credit | | (1,160) | 6/19 | | (4) |
| Total Credit Default Swaps on Corporate Bonds | | | | | | (756) |
| **Total Swaps (Net proceeds -$19,019)** | | | | | | (20,331) |
| **Futures (-0.06%)** | | | | | | |
| **Short Futures:** | | | | | | |
| Eurodollar Futures (ac) | Interest Rates | | (98,000) | 3/19 - 6/20 | | (53) |
| Currency Futures (y) | Interest Rates | | (47,931) | 3/19 | | (302) |
| **Total Futures** | | | | | | (355) |
| **Forwards (-0.02%)** | | | | | | |
| **Short Forwards:** | | | | | | |
| Currency Forwards (aa) | Interest Rates | | (16,497) | 3/19 | | (120) |
| **Total Forwards** | | | | | | (120) |
| **Total Financial Derivatives–Liabilities (Net proceeds -$19,019)** | | | | | $ | (20,806) |

See Notes to Consolidated Financial Statements

# ELLINGTON FINANCIAL LLC
# CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
# AT DECEMBER 31, 2018 (CONTINUED)
# (UNAUDITED)

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

(b) Classification percentages are based on Total Equity.

(c) At December 31, 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 93.99%, 42.12%, and 107.55% 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 $50.8 million that were issued and are managed by related parties of the Company. See Note 9 to the Notes to Consolidated Financial Statements.

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

(g) Includes investments in participation certificates related to loans titled in the name of a related party of Ellington Management Group, L.L.C. Through its participation certificates, the Company has beneficial interests in the loan cash flows, net of servicing-related fees and expenses. At December 31, 2018 loans for which the Company has beneficial interests in the net cash flows, totaled $21.9 million. See Note 9 to the Notes to Consolidated Financial Statements.

(h) Includes investments in participation certificates related to loans held in a trust owned by a related party of Ellington Management Group, L.L.C. Through its participation certificates, the Company participates in the cash flows of the underlying loans held by the trust. At December 31, 2018 loans held in the related party trust for which the Company has participating interests in the cash flows, totaled $181.5 million. See Note 9 to the Notes to Consolidated Financial Statements.

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

(j) Includes non-performing commercial mortgage loans in the amount of $47.3 million whereby principal and/or interest is past due and a maturity date is not applicable.

(k) As of December 31, 2018, the Company had residential mortgage loans that were in the process of foreclosure with a fair value of $9.1 million.

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

(m) Includes $314.2 million of non-qualified mortgage loans that have been securitized and are held in a consolidated securitization trusts. See Note 6 to the Notes to Consolidated Financial Statements.

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

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

(p) At December 31, 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 66.31%, 22.71%, and 40.85% of Total Equity, respectively.

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

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

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

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

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

(v) For long recovery swaps the Company receives a specified recovery rate in exchange for the actual recovery rate on the underlying.

(w) 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.

(x) Notional value represents the total face amount of U.S. Treasury securities underlying all contracts held. As of December 31, 2018, a total of 1,516 contracts were held.

(y) Notional value represents the total face amount of foreign currency underlying all contracts held; as of December 31, 2018, 411 contracts were held.

(z) Represents interest rate "basis" swaps whereby the Company pays one floating rate and receives a different floating rate.

(aa) Notional value represents U.S. Dollars to be received by the Company at the maturity of the forward contract.

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

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

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**
**AT DECEMBER 31, 2018 (CONCLUDED)**
**(UNAUDITED)**

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

| Rating Description | Percent of Equity |
|---|---|
| Unrated but Agency-Guaranteed | 243.66% |
| Aaa/AAA/AAA | 0.01% |
| Aa/AA/AA | 0.63% |
| A/A/A | 4.73% |
| Baa/BBB/BBB | 1.84% |
| Ba/BB/BB or below | 46.34% |
| Unrated | 196.65% |

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

| (In thousands except per share amounts) | Three-Month Period Ended June 30, 2018 | Six-Month Period Ended June 30, 2018 |
|---|---|---|
| | Expressed in U.S. Dollars | |
| **INVESTMENT INCOME** | | |
| Interest income(1) | $ 31,941 | $ 60,033 |
| Other income | 1,094 | 1,811 |
| Total investment income | 33,035 | 61,844 |
| **EXPENSES** | | |
| Base management fee to affiliate (Net of fee rebates of $252 and $527, respectively)(2) | 2,021 | 4,000 |
| Incentive fee to affiliate | 291 | 291 |
| Interest expense(1) | 13,383 | 24,946 |
| Other investment related expenses | | |
| Servicing expense | 1,774 | 3,230 |
| Other | 1,997 | 3,493 |
| Professional fees | 857 | 1,504 |
| Administration fees | 184 | 363 |
| Compensation expense | 657 | 1,167 |
| Insurance expense | 120 | 246 |
| Directors' fees and expenses | 67 | 139 |
| Share-based long term incentive plan unit expense | 99 | 192 |
| Other expenses | 594 | 1,039 |
| Total expenses | 22,044 | 40,610 |
| **NET INVESTMENT INCOME** | 10,991 | 21,234 |
| **NET REALIZED AND CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY TRANSACTIONS/TRANSLATION** | | |
| **Net realized gain (loss) on:** | | |
| Investments | (388) | 12,196 |
| Financial derivatives, excluding currency hedges | (3,632) | (2,730) |
| Financial derivatives—currency hedges | 3,787 | 1,584 |
| Foreign currency transactions | (1,110) | 658 |
| | (1,343) | 11,708 |
| **Change in net unrealized gain (loss) on:** | | |
| Investments | 7,457 | 605 |
| Other secured borrowings | 414 | 1,198 |
| Financial derivatives, excluding currency hedges | 6,553 | 9,749 |
| Financial derivatives—currency hedges | 76 | 877 |
| Foreign currency translation | (1,964) | (1,863) |
| | 12,536 | 10,566 |
| **NET REALIZED AND CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS, OTHER SECURED BORROWINGS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY TRANSACTIONS/TRANSLATION** | 11,193 | 22,274 |

See Notes to Consolidated Financial Statements

**ELLINGTON FINANCIAL LLC**

**CONSOLIDATED STATEMENT OF OPERATIONS (CONTINUED)**

**(UNAUDITED)**

| | Three-Month Period Ended June 30, 2018 | Six-Month Period Ended June 30, 2018 |
|---|---|---|
| | *Expressed in U.S. Dollars* | |
| **NET INCREASE IN EQUITY RESULTING FROM OPERATIONS** | $ 22,184 | $ 43,508 |
| **LESS: NET INCREASE IN EQUITY RESULTING FROM OPERATIONS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS** | 991 | 1,276 |
| **NET INCREASE IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS** | $ 21,193 | $ 42,232 |
| **NET INCREASE IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS PER SHARE:** | | |
| Basic and Diluted | $ 0.69 | $ 1.36 |
| **CASH DIVIDENDS PER SHARE:** | | |
| Dividends declared | $ 0.41 | $ 0.82 |

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

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

See Notes to Consolidated Financial Statements

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

| | Three-Month Period Ended June 30, 2018 | | | Six-Month Period Ended June 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Shareholders' Equity | Non-controlling Interest | Total Equity | Shareholders' Equity | Non-controlling Interest | Total Equity |
| *(In thousands)* | | | | *Expressed in U.S. Dollars* | | |
| **BEGINNING EQUITY (3/31/2018 and 12/31/2017, respectively)** | $ 594,474 | $ 15,476 | $ 609,950 | $ 600,099 | $ 20,862 | $ 620,961 |
| **CHANGE IN EQUITY RESULTING FROM OPERATIONS** | | | | | | |
| Net investment income | | | $ 10,991 | | | 21,234 |
| Net realized gain (loss) on investments, financial derivatives, and foreign currency transactions | | | (1,343) | | | 11,708 |
| Change in net unrealized gain (loss) on investments, other secured borrowings, financial derivatives, and foreign currency translation | | | 12,536 | | | 10,566 |
| Net increase in equity resulting from operations | 21,193 | 991 | 22,184 | 42,232 | 1,276 | 43,508 |
| **CHANGE IN EQUITY RESULTING FROM TRANSACTIONS** | | | | | | |
| Contributions from non-controlling interests | | 929 | 929 | | 2,165 | 2,165 |
| Dividends(1) | (12,563) | (87) | (12,650) | (25,327) | (174) | (25,501) |
| Distributions to non-controlling interests | | (3,609) | (3,609) | | (10,457) | (10,457) |
| Adjustment to non-controlling interest | (8) | 8 | — | (35) | 35 | — |
| Shares repurchased | (3,628) | | (3,628) | (17,593) | | (17,593) |
| Share-based long term incentive plan unit awards | 99 | — | 99 | 191 | 1 | 192 |
| Net increase (decrease) in equity from transactions | (16,100) | (2,759) | (18,859) | (42,764) | (8,430) | (51,194) |
| Net increase (decrease) in equity | 5,093 | (1,768) | 3,325 | (532) | (7,154) | (7,686) |
| **ENDING EQUITY (6/30/2018)** | $ 599,567 | $ 13,708 | $ 613,275 | $ 599,567 | $ 13,708 | $ 613,275 |

(1) For the three- and six-month periods ended June 30, 2018, dividends totaling $0.41 and $0.82 per common share and convertible unit outstanding, were declared and paid.

See Notes to Consolidated Financial Statements

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

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

See Notes to Consolidated Financial Statements

**ELLINGTON FINANCIAL LLC**

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**

**(UNAUDITED)**

| *(In thousands)* | Six-Month Period Ended June 30, 2018<br>*Expressed in U.S. Dollars* |
|---|---|
| **Cash flows provided by (used in) financing activities:** | |
| Contributions from non-controlling interests | $ 2,165 |
| Shares repurchased | (17,593) |
| Dividends paid | (25,501) |
| Distributions to non-controlling interests | (10,457) |
| Proceeds from issuance of Other secured borrowings | 51,170 |
| Principal payments on Other secured borrowings | (13,449) |
| Borrowings under reverse repurchase agreements | 2,296,100 |
| Repayments of reverse repurchase agreements | (2,083,909) |
| Net cash provided by (used in) financing activities | 198,526 |
| **NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH** | (25,162) |
| **CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD** | 47,658 |
| **CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD** | $ 22,496 |
| **Supplemental disclosure of cash flow information:** | |
| Interest paid | $ 24,041 |
| Share-based long term incentive plan unit awards (non-cash) | 192 |
| Aggregate TBA trade activity (buys + sells) (non-cash) | 14,759,189 |
| Purchase of investments (non-cash) | (10,831) |
| Proceeds from principal payments of investments (non-cash) | 22,807 |
| Proceeds from the disposition of investments (non-cash) | 10,831 |
| Principal payments on Other secured borrowings, at fair value (non-cash) | (22,807) |

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

See Notes to Consolidated Financial Statements

**ELLINGTON FINANCIAL LLC**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 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 97.6% 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 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," non-mortgage and mortgage-related derivatives, equity investments in loan origination companies, 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 and those differences could be material. In management's opinion, all material adjustments considered necessary for a fair statement of the Company's interim consolidated financial statements have been included and are only of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the entire fiscal year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

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

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

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

*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.

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 loan 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

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 collectibility 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 collectible 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 collectible in full, the cost recovery method is used (i.e., no interest income is recognized, and all payments received—whether contractually interest or principal—are applied to cost).

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

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

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

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

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

*(E) Financial Derivatives*: The Company enters into various types of financial derivatives. The Company's financial derivatives are predominantly subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Company may be required to deliver or receive cash or securities as

collateral upon entering into derivative transactions. In addition, changes in the relative value of derivative transactions may require the Company or the counterparty to post or receive additional collateral. In the case of cleared derivatives, the clearinghouse becomes the Company's counterparty and a futures commission merchant acts as an intermediary between the Company and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral. Cash collateral received by the Company is reflected on the Consolidated Statement of Assets, Liabilities, and Equity as "Due to Brokers." Conversely, cash collateral posted by the Company is reflected as "Due from Brokers" on the Consolidated Statement of Assets, Liabilities, and Equity. The major types of derivatives utilized by the Company are swaps, futures, options, and forwards.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 loan 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.

*(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 of the Company ("LTIP Units") and long term incentive plan units of the Operating Partnership ("OP 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 and OP 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 and OP 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 interests in the Operating Partnership represented by units convertible into the Company's common shares (“Convertible Non-controlling Interests”). Convertible Non-controlling Interests include both the OP LTIP Units and those common units ("OP Units") of the Operating Partnership not held by the Company. Non-controlling interests also include the interests of joint venture partners in certain of our consolidated subsidiaries. The joint venture partners' interests are not convertible into the Company's common shares. The Company adjusts the Convertible Non-controlling Interests to align their carrying value with their share of total outstanding Operating Partnership units, including both the OP Units held by the Company and the Convertible Non-controlling Interests. 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. Convertible Non-controlling Interests 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

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.

### 3. Valuation

The table below reflects the value of the Company's Level 1, Level 2, and Level 3 financial instruments at December 31, 2018:

| Description | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| **Assets:** | | | | |
| **Cash equivalents** | $ 12,460 | $ — | $ — | $ 12,460 |
| **Investments, at fair value-** | | | | |
| Agency residential mortgage-backed securities | $ — | $ 1,442,924 | $ 7,293 | $ 1,450,217 |
| U.S. Treasury securities | — | 76 | — | 76 |
| Private label residential mortgage-backed securities | — | 211,348 | 91,291 | 302,639 |
| Private label commercial mortgage-backed securities | — | 33,105 | 803 | 33,908 |
| Commercial mortgage loans | — | — | 211,185 | 211,185 |
| Residential mortgage loans | — | — | 496,830 | 496,830 |
| Collateralized loan obligations | — | 108,978 | 14,915 | 123,893 |
| Consumer loans and asset-backed securities backed by consumer loans | — | — | 206,761 | 206,761 |
| Corporate debt | — | 16,074 | 6,318 | 22,392 |
| Secured notes | — | — | 10,917 | 10,917 |
| Real estate owned | — | — | 34,500 | 34,500 |
| Common stock | 2,200 | — | — | 2,200 |
| Corporate equity investments | — | — | 43,793 | 43,793 |
| **Total investments, at fair value** | 2,200 | 1,812,505 | 1,124,606 | 2,939,311 |
| **Financial derivatives–assets, at fair value-** | | | | |
| Credit default swaps on asset-backed securities | — | — | 1,472 | 1,472 |
| Credit default swaps on corporate bond indices | — | 733 | — | 733 |
| Credit default swaps on corporate bonds | — | 2,473 | — | 2,473 |
| Credit default swaps on asset-backed indices | — | 8,092 | — | 8,092 |
| Total return swaps | — | 1 | — | 1 |
| Interest rate swaps | — | 7,224 | — | 7,224 |
| Forwards | — | 6 | — | 6 |
| **Total financial derivatives–assets, at fair value** | — | 18,529 | 1,472 | 20,001 |
| **Repurchase agreements, at fair value** | — | 61,274 | — | 61,274 |
| **Total investments, financial derivatives–assets, and repurchase agreements, at fair value** | $ 2,200 | $ 1,892,308 | $ 1,126,078 | $ 3,020,586 |
| **Liabilities:** | | | | |
| **Investments sold short, at fair value-** | | | | |
| Agency residential mortgage-backed securities | $ — | $ (772,964) | $ — | $ (772,964) |
| Government debt | — | (54,151) | — | (54,151) |
| Corporate debt | — | (6,529) | — | (6,529) |
| Common stock | (16,933) | — | — | (16,933) |
| **Total investments sold short, at fair value** | (16,933) | (833,644) | — | (850,577) |

| Description | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| *(continued)* | | *(In thousands)* | | |
| **Financial derivatives–liabilities, at fair value-** | | | | |
| Credit default swaps on corporate bond indices | $ — | $ (11,557) | $ — | $ (11,557) |
| Credit default swaps on corporate bonds | — | (3,246) | — | (3,246) |
| Credit default swaps on asset-backed indices | — | (2,125) | — | (2,125) |
| Interest rate swaps | — | (3,397) | — | (3,397) |
| Total return swaps | — | (6) | — | (6) |
| Futures | (355) | — | — | (355) |
| Forwards | — | (120) | — | (120) |
| **Total financial derivatives–liabilities, at fair value** | (355) | (20,451) | — | (20,806) |
| **Other secured borrowings, at fair value** | — | — | (297,948) | (297,948) |
| **Total investments sold short, financial derivatives–liabilities, and other secured borrowings, at fair value** | $ (17,288) | $ (854,095) | $ (297,948) | $ (1,169,331) |

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, 2018:

| Description | Fair Value | Valuation Technique | Unobservable Input | Range Min | Range Max | Weighted Average |
|---|---|---|---|---|---|---|
| | *(In thousands)* | | | | | |
| Private label residential mortgage-backed securities | $ 36,945 | Market Quotes | Non Binding Third-Party Valuation | $ 17.42 | $ 178.00 | $ 78.31 |
| Collateralized loan obligations | 5,828 | Market Quotes | Non Binding Third-Party Valuation | 2.64 | 375.00 | 167.78 |
| Corporate debt, non-exchange traded corporate equity, and secured notes | 13,976 | Market Quotes | Non Binding Third-Party Valuation | 9.69 | 91.00 | 59.18 |
| Private label commercial mortgage-backed securities | 576 | Market Quotes | Non Binding Third-Party Valuation | 5.93 | 6.36 | 6.14 |
| Agency interest only residential mortgage-backed securities | 744 | Market Quotes | Non Binding Third-Party Valuation | 1.70 | 9.12 | 5.64 |
| Private label residential mortgage-backed securities | 54,346 | Discounted Cash Flows | Yield | 3.5% | 66.1% | 10.7% |
| | | | Projected Collateral Prepayments | 16.0% | 92.1% | 50.4% |
| | | | Projected Collateral Losses | 0.0% | 23.1% | 8.7% |
| | | | Projected Collateral Recoveries | 1.5% | 14.6% | 7.3% |
| | | | Projected Collateral Scheduled Amortization | 6.1% | 61.8% | 33.6% |
| | | | | | | 100.0% |
| Private label commercial mortgage-backed securities | 227 | Discounted Cash Flows | Yield | 3.4% | 3.4% | 3.4% |
| | | | Projected Collateral Losses | 2.0% | 2.0% | 2.0% |
| | | | Projected Collateral Recoveries | 6.6% | 6.6% | 6.6% |
| | | | Projected Collateral Scheduled Amortization | 91.4% | 91.4% | 91.4% |
| | | | | | | 100.0% |
| Corporate debt and non-exchange traded corporate equity | 4,793 | Discounted Cash Flows | Yield | 17.5% | 17.5% | 17.5% |

| *(continued)* Description | Fair Value | Valuation Technique | Unobservable Input | Range Min | Range Max | Weighted Average |
|---|---|---|---|---|---|---|
| | *(In thousands)* | | | | | |
| Collateralized loan obligations | $ 9,087 | Discounted Cash Flows | Yield | 12.6% | 103.1% | 26.7% |
| | | | Projected Collateral Prepayments | 8.1% | 88.4% | 65.2% |
| | | | Projected Collateral Losses | 3.7% | 40.8% | 13.5% |
| | | | Projected Collateral Recoveries | 4.2% | 38.0% | 11.9% |
| | | | Projected Collateral Scheduled Amortization | 3.5% | 13.5% | 9.4% |
| | | | | | | 100.0% |
| Consumer loans and asset-backed securities backed by consumer loans | 206,761 | Discounted Cash Flows | Yield | 7.0% | 18.3% | 8.5% |
| | | | Projected Collateral Prepayments | 0.0% | 45.9% | 33.5% |
| | | | Projected Collateral Losses | 2.6% | 84.8% | 9.1% |
| | | | Projected Collateral Scheduled Amortization | 15.2% | 96.6% | 57.4% |
| | | | | | | 100.0% |
| Performing commercial mortgage loans | 163,876 | Discounted Cash Flows | Yield | 8.0% | 22.5% | 9.6% |
| Non-performing commercial mortgage loans and commercial real estate owned | 80,513 | Discounted Cash Flows | Yield | 9.6% | 27.4% | 13.2% |
| | | | Months to Resolution | 3.0 | 16.0 | 7.9 |
| Performing residential mortgage loans | 171,367 | Discounted Cash Flows | Yield | 2.7% | 12.9% | 6.0% |
| Securitized residential mortgage loans(1) | 314,202 | Discounted Cash Flows | Yield | 4.3% | 4.6% | 4.6% |
| Non-performing residential mortgage loans and residential real estate owned | 12,557 | Discounted Cash Flows | Yield | 4.3% | 25.1% | 11.3% |
| | | | Months to Resolution(2) | 1.9 | 42.2 | 27.8 |
| Credit default swaps on asset-backed securities | 1,472 | Net Discounted Cash Flows | Projected Collateral Prepayments | 33.6% | 42.0% | 36.5% |
| | | | Projected Collateral Losses | 11.1% | 15.6% | 12.8% |
| | | | Projected Collateral Recoveries | 10.3% | 18.7% | 15.8% |
| | | | Projected Collateral Scheduled Amortization | 32.0% | 36.5% | 34.9% |
| | | | | | | 100.0% |
| Agency interest only residential mortgage-backed securities | 6,549 | Option Adjusted Spread ("OAS") | LIBOR OAS(3) | 211 | 3,521 | 677 |
| | | | Projected Collateral Prepayments | 37.7% | 100.0% | 66.2% |
| | | | Projected Collateral Scheduled Amortization | 0.0% | 62.3% | 33.8% |
| | | | | | | 100.0% |
| Non-exchange traded common equity investment in mortgage-related entity | 6,750 | Enterprise Value | Equity Price-to-Book(4) | 3.3x | 3.3x | 3.3x |
| Non-exchange traded preferred equity investment in mortgage-related entity | 27,317 | Enterprise Value | Equity Price-to-Book(4) | 1.1x | 1.1x | 1.1x |
| Non-exchange traded preferred equity investment in loan origination entity | 3,000 | Recent Transactions | Transaction Price | N/A | N/A | N/A |
| Non-controlling equity interest in limited liability company | 5,192 | Discounted Cash Flows | Yield(5) | 12.9% | 16.1% | 15.4% |
| Other secured borrowings, at fair value(1) | (297,948) | Discounted Cash Flows | Yield | 3.9% | 4.4% | 4.3% |

(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 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 mortgage 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.

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

**Level 3—Fair Value Measurement Using Significant Unobservable Inputs:**

**Three-Month Period Ended June 30, 2018**

| *(In thousands)* | Ending Balance as of March 31, 2018 | Accreted Discounts / (Amortized Premiums) | Net Realized Gain/ (Loss) | Change in Net Unrealized Gain/(Loss) | Purchases/ Payments | Sales/ Issuances | Transfers Into Level 3 | Transfers Out of Level 3 | Ending Balance as of June 30, 2018 |
|---|---|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | | | |
| **Investments, at fair value-** | | | | | | | | | |
| Agency residential mortgage-backed securities | $ 6,128 | $ (547) | $ 18 | $ (41) | $ 1,533 | $ (569) | $ — | $ (633) | $ 5,889 |
| Private label residential mortgage-backed securities | 111,862 | (1,889) | 211 | (1,845) | 13,596 | (10,999) | 3,073 | (17,613) | 96,396 |
| Private label commercial mortgage-backed securities | 13,709 | 28 | (104) | 784 | — | (4,194) | — | (1,462) | 8,761 |
| Commercial mortgage loans | 109,294 | 226 | 553 | 610 | 20,132 | (25,864) | — | — | 104,951 |
| Residential mortgage loans | 240,781 | (464) | 637 | (267) | 76,785 | (24,000) | — | — | 293,472 |
| Collateralized loan obligations | 27,479 | (377) | 2 | 300 | 11,442 | (7,889) | — | (24,848) | 6,109 |
| Consumer loans and asset-backed securities backed by consumer loans | 148,422 | (6,955) | 450 | 3,782 | 83,069 | (29,514) | — | — | 199,254 |
| Corporate debt | 18,000 | 59 | 96 | (761) | 448 | (1,944) | — | (7,048) | 8,850 |
| Secured notes | — | 92 | — | (234) | 11,268 | — | — | — | 11,126 |
| Real estate owned | 29,110 | — | 10 | (1) | 5,472 | (252) | — | — | 34,339 |
| Corporate equity investments | 50,869 | — | 1,182 | (1) | — | (7,282) | — | — | 44,768 |
| **Total investments, at fair value** | 755,654 | (9,827) | 3,055 | 2,326 | 223,745 | (112,507) | 3,073 | (51,604) | 813,915 |
| **Financial derivatives–assets, at fair value-** | | | | | | | | | |
| Credit default swaps on asset-backed securities | 3,069 | — | 161 | (478) | 22 | (183) | — | — | 2,591 |
| **Total financial derivatives–assets, at fair value** | 3,069 | — | 161 | (478) | 22 | (183) | — | — | 2,591 |
| **Total investments and financial derivatives–assets, at fair value** | $ 758,723 | $ (9,827) | $ 3,216 | $ 1,848 | $ 223,767 | $ (112,690) | $ 3,073 | $ (51,604) | $ 816,506 |
| **Liabilities:** | | | | | | | | | |
| Other secured borrowings, at fair value | $ (113,775) | $ — | $ — | $ 414 | $ 12,261 | $ — | $ — | $ — | $ (101,100) |
| **Total other secured borrowings, at fair value** | $ (113,775) | $ — | $ — | $ 414 | $ 12,261 | $ — | $ — | $ — | $ (101,100) |

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at June 30, 2018, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended June 30, 2018. For Level 3 financial instruments held by the Company at June 30, 2018, change in net unrealized gain (loss) of $1.6 million, $(0.5) million, and $0.4 million, for the three-month period ended June 30, 2018 relate to investments, financial derivatives–assets, and other secured borrowings, at fair value, respectively.

As of June 30, 2017, the Company modified its procedures to determine the level within the hierarchy for certain financial instruments. Under the revised procedures, the Company examines financial instruments individually rather than in cohorts of like instruments as it had previously. As of June 30, 2018, the Company transferred $51.6 million of securities from Level 3 to Level 2 and $3.1 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third party pricing sources.

### Six-Month Period Ended June 30, 2018

| *(In thousands)* | Ending Balance as of December 31, 2017 | Accreted Discounts / (Amortized Premiums) | Net Realized Gain/ (Loss) | Change in Net Unrealized Gain/(Loss) | Purchases/ Payments | Sales/ Issuances | Transfers Into Level 3 | Transfers Out of Level 3 | Ending Balance as of June 30, 2018 |
|---|---|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | | | |
| **Investments, at fair value-** | | | | | | | | | |
| Agency residential mortgage-backed securities | $ 6,173 | $ (1,172) | $ 57 | $ 229 | $ 2,635 | $ (957) | $ — | $ (1,076) | $ 5,889 |
| Private label residential mortgage-backed securities | 101,297 | 156 | 2,719 | (986) | 24,623 | (29,439) | 9,301 | (11,275) | 96,396 |
| Private label commercial mortgage-backed securities | 12,347 | (163) | 1,618 | 1,043 | 8,046 | (13,890) | — | (240) | 8,761 |
| Commercial mortgage loans | 108,301 | 844 | 884 | 449 | 24,119 | (29,646) | — | — | 104,951 |
| Residential mortgage loans | 182,472 | (1,179) | 583 | (920) | 149,825 | (37,309) | — | — | 293,472 |
| Collateralized loan obligations | 24,911 | 78 | 3 | 527 | 21,537 | (16,099) | — | (24,848) | 6,109 |
| Consumer loans and asset-backed securities backed by consumer loans | 135,258 | (12,851) | 950 | 7,585 | 125,203 | (56,891) | — | — | 199,254 |
| Corporate debt | 23,947 | (56) | 148 | (396) | 905 | (8,650) | — | (7,048) | 8,850 |
| Secured notes | — | 92 | — | (234) | 11,268 | — | — | — | 11,126 |
| Real estate owned | 26,277 | — | (447) | 615 | 9,570 | (1,676) | — | — | 34,339 |
| Corporate equity investments | 37,465 | — | 1,182 | 4,325 | 9,078 | (7,282) | — | — | 44,768 |
| **Total investments, at fair value** | 658,448 | (14,251) | 7,697 | 12,237 | 386,809 | (201,839) | 9,301 | (44,487) | 813,915 |
| **Financial derivatives–assets, at fair value-** | | | | | | | | | |
| Credit default swaps on asset-backed securities | 3,140 | — | 247 | (549) | 45 | (292) | — | — | 2,591 |
| **Total financial derivatives–assets, at fair value** | 3,140 | — | 247 | (549) | 45 | (292) | — | — | 2,591 |
| **Total investments and financial derivatives–assets, at fair value** | $ 661,588 | $ (14,251) | $ 7,944 | $ 11,688 | $ 386,854 | $ (202,131) | $ 9,301 | $ (44,487) | $ 816,506 |
| **Liabilities:** | | | | | | | | | |
| Other secured borrowings, at fair value | $ (125,105) | $ — | $ — | $ 1,198 | $ 22,807 | $ — | $ — | $ — | $ (101,100) |
| **Total other secured borrowings, at fair value** | $ (125,105) | $ — | $ — | $ 1,198 | $ 22,807 | $ — | $ — | $ — | $ (101,100) |

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

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

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 $86.0 million as of December 31, 2018. 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 December 31, 2018:

| *(In thousands)* | | As of December 31, 2018 |
|---|---|---|
| **Assets:** | | |
| TBA securities, at fair value (Current principal: $460,037) | $ | 474,860 |
| Receivable for securities sold relating to unsettled TBA sales | | 766,574 |
| **Liabilities:** | | |
| TBA securities sold short, at fair value (Current principal: -$753,697) | $ | (772,964) |
| Payable for securities purchased relating to unsettled TBA purchases | | (473,386) |
| **Net short TBA securities, at fair value** | | (298,104) |

## 5. Financial Derivatives

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

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

(1) Includes gain/(loss) on foreign currency transactions on derivatives in the amount of $22 thousand and $(0.2) million, for the three- and six-month periods ended June 30, 2018, respectively, which is included on the Consolidated Statement of Operations in Realized gain (loss) on foreign currency transactions.
(2) Includes foreign currency translation on derivatives in the amount of $0.2 million and $0.3 million, for the three- and six-month periods ended June 30, 2018, respectively, which is included on the Consolidated Statement of Operations in Change in net unrealized gain (loss) on foreign currency translation.

The table below details the average notional values of the Company's financial derivatives, using absolute value of month end notional values, for the year ended December 31, 2018:

| Derivative Type | Year Ended December 31, 2018 |
|---|---|
| | *(In thousands)* |
| Interest rate swaps | $ 1,059,756 |
| Credit default swaps | 566,805 |
| Total return swaps | 53,603 |
| Futures | 201,295 |
| Options | 99,891 |
| Forwards | 45,522 |

From time to time the Company enters into credit derivative contracts for which the Company sells credit protection ("written credit derivatives"). As of December 31, 2018 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.

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

| Credit Derivatives | | December 31, 2018 |
|---|---|---|
| *(In thousands)* | | |
| Fair Value of Written Credit Derivatives, Net | $ | (4,339) |
| Fair Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties (1) | | (284) |
| Notional Value of Written Credit Derivatives (2) | | 98,586 |
| Notional Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties (1) | | 41,134 |

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

A credit default swap on a credit index or a corporate bond typically terminates at the stated maturity date in the case of corporate indices or bonds, or, in the case of ABX and CMBX indices, the date that all of the reference assets underlying the index are paid off in full, retired, or otherwise cease to exist. Implied credit spreads may be used to determine the market value of such contracts and are reflective of the cost of buying/selling credit protection. Higher spreads would indicate a greater likelihood that a seller will be obligated to perform (*i.e.*, make protection payments) under the contract. In situations where the credit quality of the underlying reference assets has deteriorated, the percentage of notional values that would be paid up front to enter into a new such contract ("points up front") is frequently used as an indication of credit risk. Credit protection sellers entering the market in such situations would expect to be paid points up front corresponding to the approximate fair value of the contract. For the Company's written credit derivatives that were outstanding at December 31, 2018, implied credit spreads on such contracts ranged between 42.6 and 815.1 basis points. Excluded from this spread range 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 $(1.0) million as of December 31, 2018. Estimated points up front on these contracts as of December 31, 2018 ranged between 36.9 and 75.2 points. Total net up-front payments (paid) or received relating to written credit derivatives outstanding at December 31, 2018 were $(2.0) million.

## 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 in 2018, the Acquiror sold the remaining portion of the subordinated notes which were beneficially owned by the Company, and as a result as of December 31, 2018, the Company's total interest in the Acquiror was approximately 62%. The Company's interest in the Acquiror is accounted for as a beneficial interest and is included on the Consolidated Condensed Schedule of Investments in Corporate Equity Investments.

The notes and trust certificates issued by the Issuer are backed by the cash flows from the underlying consumer loans. If there are breaches of representations and warranties with respect to any underlying consumer loans, the Company could, under certain circumstances, be required to purchase or replace such loans. Absent such breaches, the Company has no obligation to repurchase or replace any underlying consumer loans that become delinquent or otherwise default. Cash flows collected on the underlying consumer loans are distributed to service providers to the trust, noteholders, and trust certificate holders in accordance with the contractual priority of payments. In addition, another affiliate of Ellington (the "Administrator"), acts as the administrator for the securitization and is paid a monthly fee for its services.

While the Company retains credit risk in the securitization trust through its beneficial ownership of the most subordinated interests of the securitization trust, which are the first to absorb credit losses on the securitized assets, the Company does not retain control of these assets or the power to direct the activities of the Issuer that most significantly impact the Issuer's economic performance. See Note 9 for further details on the Company’s participation in the multi-seller consumer loan securitization.

***Participation in CLO Transactions***

Since June 2017, an affiliate of Ellington sponsored three CLO securitization transactions (the "CLO I Securitization," the "CLO II Securitization," and the "CLO III Securitization"; collectively, the "Ellington-sponsored CLO Securitizations"), collateralized by corporate loans and managed by an affiliate of Ellington (the "CLO Manager"). Ellington, the Company, several other affiliates of Ellington, and, in the case of the CLO II Securitization and the CLO III Securitization, several third parties, participated in the Ellington-sponsored CLO Securitizations (collectively, the "CLO Co-Participants").

Pursuant to each Ellington-sponsored CLO Securitization, a newly formed securitization trust (the "CLO I Issuer," the "CLO II Issuer," and the "CLO III Issuer"; collectively, the "CLO Issuers") issued various classes of notes, which were in turn sold to unrelated third parties and the applicable CLO Co-Participants. The notes issued by each CLO Issuer are backed by the cash flows from the underlying corporate loans (including loans to be purchased during a reinvestment period); 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. As of December 31, 2018, the Company did not have an ownership interest in the CLO I Risk Retention Vehicle.

Under the Risk Retention Rules, sponsors of securitizations are generally required to retain at least 5% of the economic interest in the credit risk of the securitized assets. However, in February 2018, the U.S. Court of Appeals for the District of Columbia Circuit, or the "Court of Appeals," ruled that open-market CLO securitizations are exempt from the Risk Retention Rules, as long as certain requirements are met, and in April 2018 the Court of Appeals gave effect to this ruling. As a result, Risk Retention Rules no longer apply to managers of open-market CLOs, and those managers are now permitted to sell the interests in existing open-market CLOs that were originally retained in order to comply with the Risk Retention Rules, as long as those securitizations meet the requirements for exemption. After the decision by the Court of Appeals, the CLO Manager determined that the CLO II Securitization met the requirements for exemption from the Risk Retention Rules and subsequently distributed, in-kind, the subordinated notes held in the CLO II Risk Retention Vehicle to the CLO Co-Participants pro rata based on each CLO Co-Participant's respective ownership percentage of the CLO II Risk Retention Vehicle. The subordinated notes distributed to the Company from the CLO II Risk Retention Vehicle had a face amount of $5.6 million. Such notes had a fair value of $4.3 million as of December 31, 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 all of the liquidation proceeds have been distributed to the applicable CLO Co-Participants. As of December 31, 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(1) | CLO Pricing Date | CLO Closing Date | Total Face Amount of Notes Issued | Face Amount of Notes Initially Purchased | Aggregate Purchase Price | Notes Held(2) as of December 31, 2018 |
|---|---|---|---|---|---|---|
| *($ in thousands)* | | | | | | |
| CLO I Issuer(3)(4) | 5/17 | 6/17 | $ 373,550 | $ 36,606 (5) | $ 35,926 | $ — |
| CLO I Issuer(4) | 8/18 | 8/18 | 461,840 | 36,579 (5) | 25,622 | 16,973 (6) |
| CLO II Issuer | 12/17 | 1/18 | 452,800 | 18,223 (7) | 16,621 | 14,721 (6) |
| CLO III Issuer | 6/18 | 7/18 | 407,100 | 35,480 (7) | 32,394 | 19,071 (8) |

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

Since November 2017, the Company, through its wholly owned subsidiary, Ellington Financial REIT TRS LLC (the "Sponsor"), has sponsored two securitizations of non-QM loans. In each case, the Sponsor transferred non-QM loans to a wholly owned, newly created entity (the "Depositor") and on the closing date such loans were deposited into newly created securitization trusts (Ellington Financial Mortgage Trust 2017-1 and Ellington Financial Mortgage Trust 2018-1, collectively the "Issuing Entities"). Pursuant to the securitizations, the Issuing Entities issued various classes of mortgage pass-through certificates (the "Certificates") which are backed by the cash flows from the underlying non-QM loans. As detailed further in the table below, in order to comply with the Risk Retention Rules, in each securitization the Sponsor purchased the two most subordinated classes of Certificates and the excess cash flow certificates. The Sponsor also purchased the Certificates entitled to excess servicing fees in each securitization, while the remaining classes of Certificates were purchased by unrelated parties.

The Certificates issued in November 2017 and 2018 have final scheduled distribution dates of October 25, 2047 and October 25, 2058, respectively. However, the Depositor may, with respect to each securitization, at its sole option, purchase all of the outstanding Certificates (an "Optional Redemption") following the earlier of (1) the two year anniversary of the closing date of such securitization or (2) the date on which the aggregate unpaid principal balance of the underlying non-QM loans has declined below 30% of the aggregate unpaid principal balance of the underlying non-QM loans as of the date as of which such loans were originally transferred to the applicable Issuing Entity. The purchase price that the Depositor is required to pay in connection with an Optional Redemption is equal to the sum of the unpaid principal balance of each class of Certificates as of the redemption date and any accrued and unpaid interest thereon. In light of these Optional Redemption rights held by the Depositor, the transfers of non-QM loans to each of the Issuing Entities do not qualify as sales 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 of each securitization and as such, is entitled to receive a monthly fee equal to one-twelfth of the product of (a) 0.03% and (b) the unpaid principal balance of the underlying 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 for certain loss mitigation activities to the third-party servicer of the underlying non-QM loans. 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 each of the securitizations, together with the Optional Redemption rights and the Company's ability to direct the third-party servicer regarding certain loss mitigation activities, the Issuing Entities are deemed to be an extension of the Company's business. The non-QM loans held by the Issuing Entities 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 Entities each meet the definition of a CFE as defined in Note 2, and as a result the assets of the Issuing Entities have been valued using the fair value of the liabilities of the Issuing Entities, as such liabilities have been assessed to be more observable than such assets.

The debt of the Issuing Entities 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 residential mortgage loan securitizations:

| Issuing Entity | Closing Date | Principal Balance of Loans Transferred to the Depositor | Total Face Amount of Certificates Issued |
|---|---|---|---|
| | | *(In thousands)* | |
| Ellington Financial Mortgage Trust 2017-1 | 11/15/2017 | $ 141,233 | $ 141,233 (1) |
| Ellington Financial Mortgage Trust 2018-1 | 11/13/2018 | 232,518 | 232,518 (2) |

(1) 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.
(2) 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 5.7% of the fair value of all Certificates issued. The Sponsor also purchased, for an aggregate purchase price of $1.3 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.

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

| *(In thousands)* | As of December 31, 2018 |
|---|---|
| **Assets:** | |
| Cash and cash equivalents | $ — |
| Investments, at fair value | 314,202 |
| Interest and dividends receivable | 3,527 |
| **Liabilities:** | |
| Interest and dividends payable | 103 |
| Other secured borrowings, at fair value | 297,948 |

## 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 December 31, 2018 the Company's total secured borrowings were $1.911 billion.

*Reverse Repurchase Agreements*

The Company enters into reverse repurchase agreements. A reverse repurchase agreement involves the sale of an asset to a counterparty together with a simultaneous agreement to repurchase the transferred asset or similar asset from such counterparty at a future date. The Company accounts for its reverse repurchase agreements as collateralized borrowings, with the transferred assets effectively serving as collateral for the related borrowing. The Company's reverse repurchase agreements typically range in term from 30 to 180 days, although the Company also has reverse repurchase agreements that provide for longer or shorter terms. The principal economic terms of each reverse repurchase agreement—such as loan amount, interest rate, and maturity date—are typically negotiated on a transaction-by-transaction basis. Other terms and conditions, such as those relating to events of default, are typically governed under the Company's master repurchase agreements. Absent an event of default, the Company maintains beneficial ownership of the transferred securities during the term of the reverse repurchase agreement and receives the related principal and interest payments. Interest rates on these borrowings are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and for most reverse repurchase agreements, interest is generally paid at the termination of the reverse repurchase agreement, at which time the Company may enter into a new reverse repurchase agreement at prevailing market rates with the same counterparty, repay that counterparty and possibly negotiate financing terms with a different counterparty, or choose to no longer finance the related asset. Some reverse repurchase agreements provide for periodic payments of interest, such as monthly payments. In response to a decline in the fair value of the transferred securities, whether as a result of changes in market conditions, security paydowns, or other factors, reverse repurchase agreement counterparties will typically make a margin call, whereby the Company will be required to post additional securities and/or cash as collateral with the counterparty in order to re-establish the agreed-upon collateralization 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 23 counterparties as of December 31, 2018.

At December 31, 2018, approximately 21% of open reverse repurchase agreements were with one counterparty. As of December 31, 2018 remaining days to maturity on the Company's open reverse repurchase agreements ranged from 2 days to 871 days. Interest rates on the Company's open reverse repurchase agreements ranged from 0.23% to 6.07% as of December 31, 2018.

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 December 31, 2018:

| *(In thousands)* | December 31, 2018 | | |
|---|---|---|---|
| | | Weighted Average | |
| **Remaining Maturity** | **Outstanding Borrowings** | **Interest Rate** | **Remaining Days to Maturity** |
| Agency RMBS: | | | |
| 30 Days or Less | $ 245,956 | 2.46% | 17 |
| 31-60 Days | 415,379 | 2.58% | 46 |
| 61-90 Days | 255,421 | 2.74% | 76 |
| 91-120 Days | 506 | 3.31% | 91 |
| Total Agency RMBS | 917,262 | 2.59% | 47 |
| Credit: | | | |
| 30 Days or Less | 30,426 | 2.55% | 22 |
| 31-60 Days | 189,937 | 3.32% | 48 |
| 61-90 Days | 93,202 | 3.21% | 74 |
| 121-150 Days | 26,222 | 4.60% | 123 |
| 151-180 Days | 9,491 | 4.64% | 166 |
| 181-360 Days | 91,730 | 4.54% | 316 |
| > 360 Days | 140,306 | 5.15% | 636 |
| Total Credit Assets | 581,314 | 3.98% | 240 |
| U.S. Treasury Securities: | | | |
| 30 Days or Less | 273 | 3.10% | 2 |
| Total U.S. Treasury Securities | 273 | 3.10% | 2 |
| Total | $ 1,498,849 | 3.13% | 122 |

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 December 31, 2018, the fair value of investments transferred as collateral under outstanding borrowings under reverse repurchase agreements was $1.79 billion. Collateral transferred under outstanding borrowings as of December 31, 2018 include investments in the amount of $86.7 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 $17.0 million and additional securities with a fair value of $0.2 million as of December 31, 2018 to its counterparties.

As of December 31, 2018, 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 December 31, 2018, the Company had outstanding borrowings under this facility in the amount of $13.2 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 4.72%. As of December 31, 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 December 31, 2018 the Company had outstanding borrowings under this facility in the amount of $101.0 million which is included under the caption Other secured borrowings, on the Company's Consolidated Statement of Assets, Liabilities, and Equity, and the effective interest rate on this facility, inclusive of related deferred financing costs, was 4.68% as of December 31, 2018. As of December 31, 2018 the fair value of unsecured loans collateralizing this borrowing was $149.0 million.

The Company has completed securitization transactions, as discussed in Note 6, whereby it financed portfolios of non-QM loans. As of December 31, 2018 the fair value of the Company’s outstanding liabilities associated with these securitization transactions were $297.9 million, 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 3.72% as of December 31, 2018. As of December 31, 2018 the fair value of non-QM loans held in the securitization trusts were $314.2 million.

**Unsecured Borrowings**

*Senior Notes*

On August 18, 2017, the Company issued $86.0 million in aggregate principal amount of Senior Notes. The total net proceeds to the Company from the issuance of the Senior Notes was approximately $84.7 million, after deducting debt issuance costs. The Senior Notes bear an interest rate of 5.25%, subject to adjustment based on changes in the ratings, if any, of the Senior Notes. Interest on the Senior notes is payable semi-annually in arrears on March 1 and September 1 of each year. The Senior Notes mature on September 1, 2022. The Company may redeem the Senior Notes, at its option, in whole or in part, prior to March 1, 2022 at a price equal to 100% of the principal amount thereof, plus the applicable "make-whole" premium as of the applicable date of redemption. At any time on or after March 1, 2022, the Company may redeem the Senior Notes, in whole or in part, at a redemption price equal to 100% of the aggregate principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest. The Senior Notes are carried at amortized cost. There are a number of covenants, including several financial covenants, associated with the Senior Notes. As of December 31, 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 December 31, 2018:

| Year | Reverse Repurchase Agreements(1) | Other Secured Borrowings(2) | Senior Notes(1) | Total |
|---|---|---|---|---|
| *(In thousands)* | | | | |
| 2019 | $ 1,358,542 | $ 194,135 | $ — | $ 1,552,677 |
| 2020 | 78,530 | 205,198 | — | 283,728 |
| 2021 | 61,776 | 13,150 | — | 74,926 |
| 2022 | — | — | 86,000 | 86,000 |
| 2023 | — | — | — | — |
| Total | $ 1,498,848 | $ 412,483 | $ 86,000 | $ 1,997,331 |

(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, state, and local income tax purposes. The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. Deferred income taxes reflect the net tax effects of temporary differences that may exist between the carrying amounts of assets and liabilities under U.S. GAAP and the amounts used for income tax purposes. As of December 31, 2018, one of the Company's domestic TRS's had a net operating loss carry-forward, resulting in a gross deferred tax asset, which has been fully reserved through a valuation allowance.

## 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 a majority of the Company's independent directors, the base management and incentive fees payable by the Company to its Manager will be reduced by an amount equal to the applicable portion (as described in the management agreement) of any such management, origination, or structuring fees.

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

***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 December 31, 2018, there was a Loss Carryforward of $2.1 million.

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 (x) the average number of common shares and LTIP Units outstanding for each day during such fiscal quarter, and (y) the average number of OP Units and OP LTIP Units outstanding for each day during such fiscal quarter. For purposes of determining the Hurdle Amount, issuances of common shares, OP LTIP Units, and OP Units (a) as equity incentive awards, (b) to the Manager as part of its base management fee or incentive fee and (c) to the Manager or any of its affiliates in privately negotiated transactions, are excluded from the calculation. The payment of the incentive fee will be in a combination of common shares and cash, provided that at least 10% of any quarterly payment will be made in common shares.

*Summary information*—Total incentive fee incurred for the three- and six-month periods ended June 30, 2018 was $0.3 million.

***Termination Fees***

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

***Expense Reimbursement***

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

The Company reimburses the Manager for the allocable share of the compensation, including, without limitation, wages, salaries, and employee benefits paid or reimbursed, as approved by the Compensation Committee of the Board of Directors to certain dedicated or partially dedicated personnel who spend all or a portion of their time managing the Company's affairs, based upon the percentage of time devoted by such personnel to the Company's affairs. In their capacities as officers or personnel of the Manager or its affiliates, such personnel will devote such portion of their time to the Company's affairs as is necessary to enable the Company to operate its business.

For the six-month period ended June 30, 2018 the Company reimbursed the Manager $3.8 million for previously incurred operating and compensation expenses.

***Equity Investments in Certain Mortgage Originators***

As of December 31, 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 December 31, 2018, there were no advances outstanding. The Company has also entered into two agreements whereby it guarantees the performance of such mortgage originator under third-party 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, through a related party of Ellington, or the "Loan Purchaser," is a beneficiary to a consumer loan purchase and sale flow agreement whereby the Loan Purchaser purchases consumer loans that satisfy certain specified criteria. The Company has investments in participation certificates related to consumer loans titled in the name of the Loan Purchaser. 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 $21.9 million as of December 31, 2018 and is included on the Company's Consolidated Condensed Schedule of Investments in Consumer Loans and Asset-backed Securities backed by Consumer Loans. In addition, the Company also holds an investment in preferred stock and warrants to purchase additional preferred stock of the consumer loan originator that sells consumer loans to the Loan Purchaser.

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 year ended December 31, 2018, the Company purchased loans under these agreements with an aggregate principal balance of $166.3 million. As of December 31, 2018, the estimated remaining contingent purchase obligations of the Company under these purchase agreements was approximately $263.5 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 $181.5 million as of December 31, 2018 and is included on the Company's Consolidated Condensed Schedule of Investments in Consumer Loans and Asset-backed Securities backed by Consumer Loans.

The Company has investments in participation certificates related to residential mortgage loans and REO held in a trust owned by another related party of Ellington. Through its participation certificates, the Company participates in the cash flows of the underlying loans held by such trust. The total amount of residential mortgage loans and REO held in the related party trust, for which the Company has participating interests in the net cash flows, and the residential mortgage loans previously held in the related party trust that now reside in the securitization trusts as described in Note 6 was $498.1 million as of December 31, 2018 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 beneficially owned by a consolidated subsidiary of the Company. As of December 31, 2018, the aggregate fair value of these loans was $25.3 million and the non-controlling interests held by the unrelated third party and the various Ellington affiliates were $1.4 million and $4.1 million, respectively.

The Company is also a co-investor in certain small balance commercial mortgage loans with other investors, including unrelated third parties and various affiliates of Ellington. Each co-investor has an interest in a limited liability company that owns the loans. As of December 31, 2018 the Company's ownership percentage of the jointly owned limited liability company was approximately 15% 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 "Holding Entity"), that holds a call right to a securitization. The Holding Entity issued notes to the Company and its affiliates, and to an unrelated third party. As of December 31, 2018 the notes held by the Company had a fair value of $10.9 million, which are included on the Company's Consolidated Condensed Schedule of Investments in Secured Notes.

***Participation in Multi-Borrower Financing Facilities***

The Company is a co-participant with certain other entities managed by Ellington (the "Affiliated Entities") in two entities (each, a “Jointly Owned Entity”), which were formed in order to facilitate the financing of small balance commercial mortgage loans and REO (collectively, "SBC Assets"). Each Jointly Owned Entity has a reverse repurchase agreement with a particular financing counterparty.

From time to time, when the Company and/or the Affiliated Entities wish to finance an SBC Asset through one of the Jointly Owned Entities, Ellington submits such SBC Asset for approval to the financing counterparty for such Jointly Owned Entity. Upon obtaining such approval, the Company and/or the Affiliated Entities, as the case may be, transfers such SBC Assets to the Jointly Owned Entity in exchange for its pro rata share of the financing proceeds that the Jointly Owned Entity receives from the financing counterparty. While the Company transferred certain SBC Assets to the Jointly Owned Entities, such 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 December 31, 2018 , the Jointly Owned Entities have outstanding issued debt under the reverse repurchase agreements in the amount of $149.0 million. The Company's portion of this debt as of December 31, 2018 was $77.0 million 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 one of these reverse repurchase agreements, all of the assets of the applicable Jointly Owned Entity, including those assets beneficially owned by any non-defaulting owners of such Jointly Owned Entity, could be used to satisfy the outstanding obligations under such reverse repurchase agreement. As of December 31, 2018, no party to either of the reverse repurchase agreements was in default. There was no receivable from the Jointly Owned Entities as of December 31, 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. In December 2018, the Acquiror sold the Company's share of the subordinated note, and as a result as of December 31, 2018 there were no amounts outstanding amounts under the Acquiror Repurchase Agreement or the Reverse Agreement. 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- and six-month periods ended June 30, 2018 the amount of such fee rebates was $0.3 million and $0.5 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 December 31, 2018 the Company's loan receivable related to the warehouse facility in operation at such time was in the amount of $11.6 million 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. The Company subsequently sold one of the loans and the remaining loan had a fair value of $1.6 million at December 31, 2018 and is included on the Company's Consolidated Condensed Schedule of Investments in Corporate Debt.

## 10. Long-Term Incentive Plan Units

LTIP Units and OP LTIP Units held pursuant to the Company's incentive plans are generally exercisable by the holder at any time after vesting. Each LTIP Unit is convertible into one common share. Each OP LTIP Unit is convertible into an OP Unit on a one-for-one basis. Subject to certain conditions, the OP Units are redeemable by the holder for an equivalent number of common shares of the Company or for the cash value of such common shares, at the Company's election. Costs associated with the LTIP Units and the OP 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 and OP LTIP Units issued under the

Company's incentive plans for each of the three- and six-month periods ended June 30, 2018 was $0.1 million and $0.2 million, respectively.

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.

On December 11, 2018, the Company's Board of Directors authorized the issuance of 17,383 OP LTIP Units to certain of its partially dedicated employees pursuant to the Company's 2017 Equity Incentive Plan. These OP LTIP Units will vest and become non-forfeitable on December 11, 2019 with respect to 8,692 OP LTIP Units and December 11, 2020 with respect to 8,691 OP LTIP Units.

On December 31, 2018, the Company redeemed all 503,988 outstanding LTIP Units which it had originally issued under its incentive plans, with each LTIP unitholder receiving in exchange an equal number of OP LTIP Units (the "Redemption Transaction").

The below table details unvested OP LTIP Units as of December 31, 2018:

| Grant Recipient | Number of OP LTIP Units | Grant Date | Vesting Date[(1)] |
|---|---|---|---|
| Directors: | | | |
| | 14,440 | September 12, 2018 | September 11, 2019 |
| Partially dedicated employees: | | | |
| | 8,692 | December 11, 2018 | December 11, 2019 |
| | 8,691 | December 11, 2018 | December 11, 2020 |
| | 1,723 | March 7, 2018 | March 7, 2019 |
| | 5,886 | December 12, 2017 | December 12, 2019 |
| Total unvested OP LTIP Units at December 31, 2018 | 39,432 | | |

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

The following table summarizes issuance and exercise activity of LTIP Units and OP LTIP Units for the three- and six-month periods ended June 30, 2018:

| | Three-Month Period Ended June 30, 2018 | | | Six-Month Period Ended June 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Manager | Director/ Employee | Total | Manager | Director/ Employee | Total |
| LTIP Units and OP LTIP Units Outstanding (3/31/2018 and 12/31/2017, respectively) | 375,000 | 117,882 | 492,882 | 375,000 | 116,159 | 491,159 |
| Granted | — | — | — | — | 1,723 | 1,723 |
| Exercised | — | — | — | — | — | — |
| LTIP Units and OP LTIP Units Outstanding (3/31/2018) | 375,000 | 117,882 | 492,882 | 375,000 | 117,882 | 492,882 |
| LTIP Units and OP LTIP Units Vested and Outstanding (6/30/2018) | 375,000 | 86,155 | 461,155 | 375,000 | 86,155 | 461,155 |

As of December 31, 2018, there were an aggregate of 1,874,223 common shares underlying awards, including OP 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 Convertible Non-controlling Interests in the Operating Partnership owned by an affiliate of our Manager, our directors, and certain current and former Ellington employees and their related parties. These interests consist of OP Units and OP LTIP Units. On January 1, 2013, 212,000 OP Units were purchased by the initial non-controlling interest member. On December 11, 2018, the Company issued 17,383 OP LTIP Units to certain officers of the Company. On December 31, 2018, the Company redeemed 503,988 LTIP Units and distributed 503,988 OP LTIP Units to non-controlling interest members pursuant to the Redemption Transaction. Income allocated to these non-controlling interests 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 and OP LTIP 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. Each OP LTIP Unit is convertible into an OP Unit on a one-for-one basis. OP Units and OP LTIP Units are non-voting with respect to matters as to which common shareholders are entitled to vote. As December 31, 2018, the Convertible Non-controlling Interests consisted of the outstanding 521,371 OP LTIP Units and 212,000 OP Units, and represented an interest of approximately 2.4% in the Operating Partnership. As of December 31, 2018 non-controlling interests related to the outstanding 521,371 OP LTIP Units and the outstanding 212,000 OP Units was $13.9 million.

***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 December 31, 2018 these joint venture partners' interests in subsidiaries of the Company were $17.3 million.

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

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

| | Three-Month Period Ended June 30, 2018 | Six-Month Period Ended June 30, 2018 |
|---|---|---|
| Common Shares Outstanding (3/31/2018 and 12/31/2017, respectively) | 30,392,041 | 31,335,938 |
| Share Activity: | | |
| Shares repurchased | (242,161) | (1,186,058) |
| Director LTIP Units exercised | — | — |
| Common Shares Outstanding (6/30/2018) | 30,149,880 | 30,149,880 |

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

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

## 13. Earnings Per Share

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

| *(In thousands except share amounts)* | Three-Month Period Ended June 30, 2018 | Six-Month Period Ended June 30, 2018 |
|---|---|---|
| Net increase in shareholders' equity resulting from operations | $ 21,193 | $ 42,232 |
| Add: Net increase in equity resulting from operations attributable to the participating non-controlling interest(1) | 146 | 289 |
| Net increase in equity resulting from operations related to common shares, LTIP Unit holders, and participating non-controlling interest | 21,339 | 42,521 |
| Net increase in shareholders' equity resulting from operations available to common share and LTIP Unit holders: | | |
| Net increase in shareholders' equity resulting from operations– common shares | 20,853 | 41,561 |
| Net increase in shareholders' equity resulting from operations– LTIP Units | 340 | 671 |
| **Dividends Paid(2):** | | |
| Common shareholders | (12,361) | (24,923) |
| LTIP Unit holders | (202) | (404) |
| Non-controlling interest | (87) | (174) |
| Total dividends paid to common shareholders, LTIP Unit holders, and non-controlling interest | (12,650) | (25,501) |
| **Undistributed (Distributed in excess of) earnings:** | | |
| Common shareholders | 8,492 | 16,638 |
| LTIP Unit holders | 138 | 267 |
| Non-controlling interest | 59 | 115 |
| Total undistributed (distributed in excess of) earnings attributable to common shareholders, LTIP Unit holders, and non-controlling interest | $ 8,689 | $ 17,020 |
| Weighted average shares outstanding (basic and diluted): | | |
| Weighted average common shares outstanding | 30,202,262 | 30,514,702 |
| Weighted average participating LTIP Units | 492,882 | 492,263 |
| Weighted average non-controlling interest units | 212,000 | 212,000 |
| **Basic earnings per common share:** | | |
| Distributed | $ 0.41 | $ 0.82 |
| Undistributed (Distributed in excess of) | 0.28 | 0.54 |
| | $ 0.69 | $ 1.36 |
| **Diluted earnings per common share:** | | |
| Distributed | $ 0.41 | $ 0.82 |
| Undistributed (Distributed in excess of) | 0.28 | 0.54 |
| | $ 0.69 | $ 1.36 |

(1) For the three- and six-month periods ended June 30, 2018, excludes net increase (decrease) in equity resulting from operations of $0.8 million and $1.0 million 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 December 31, 2018, investments with an aggregate value of approximately $1.79 billion were held with dealers as collateral for various reverse repurchase agreements. The investments held as collateral include securities in the amount of $86.7 million that were sold prior to period end but for which such sale had not yet settled as of December 31, 2018.

The following table details the percentage of such collateral held by counterparties who hold greater than 15% of the aggregate $1.79 billion in collateral for various reverse repurchase agreements as of December 31, 2018. In addition to the below, unencumbered investments, on a settlement date basis, of approximately $13.3 million were held in custody at the Bank of New York Mellon Corporation as of December 31, 2018.

| Dealer | % of Total Collateral on Reverse Repurchase Agreements |
|---|---|
| Royal Bank of Canada | 19% |

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 December 31, 2018:

| Dealer | % of Total Due from Brokers |
|---|---|
| Morgan Stanley | 37% |
| J.P. Morgan Securities LLC | 30% |

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 December 31, 2018:

| Dealer | % of Total Receivable for Securities Sold |
|---|---|
| J.P. Morgan Securities LLC | 25% |
| Bank of America Securities | 26% |
| CS First Boston Limited | 34% |

In addition, the Company held cash and cash equivalents of $44.7 million as of December 31, 2018. The below table details the concentration of cash and cash equivalents held by each counterparty:

| Counterparty | As of December 31, 2018 |
|---|---|
| Bank of New York Mellon Corporation | 64% |
| Deutsche Bank Securities | 5% |
| Bank of America Securities | 2% |
| Morgan Stanley Institutional Liquidity Fund—Government Portfolio | 10% |
| BlackRock Liquidity Funds FedFund Portfolio | 9% |
| Goldman Sachs Financial Square Funds—Government Fund | 9% |
| Lakeland Bank Inc. | 1% |

**15. Restricted Cash**

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

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

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 December 31, 2018.

| | December 31, 2018 |
|---|---|
| | *(In thousands)* |
| Restricted cash balance related to: | |
| Minimum account balance required for regulatory purposes | $ 250 |
| Flow consumer loan purchase and sale agreement | 175 |
| Total | $ 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 December 31, 2018. 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.

**December 31, 2018:**

| Description | Amount of Assets (Liabilities) Presented in the Consolidated Statements of Assets, Liabilities, and Equity(1) | Financial Instruments Available for Offset | Financial Instruments Transferred or Pledged as Collateral(2)(3) | Cash Collateral (Received) Pledged(2)(3) | Net Amount |
|---|---|---|---|---|---|
| *(In thousands)* | | | | | |
| **Assets** | | | | | |
| Financial derivatives–assets | $ 20,001 | $ (10,910) | $ — | $ (2,514) | $ 6,577 |
| Repurchase agreements | 61,274 | (61,274) | — | — | — |
| **Liabilities** | | | | | |
| Financial derivatives–liabilities | (20,806) | 10,910 | — | 9,896 | — |
| Reverse repurchase agreements | (1,498,849) | 61,274 | 1,420,601 | 16,974 | — |

(1) In the Company's Consolidated Statement of Assets, Liabilities, and Equity, all balances associated with repurchase agreements, reverse repurchase agreements, and financial derivatives are presented on a gross basis.
(2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's reverse repurchase agreements and cash collateral pledged on the Company's financial derivative liabilities. Total financial instruments transferred or pledged as collateral on the Company's reverse repurchase agreements as of December 31, 2018 were $1.79 billion. As of December 31, 2018 total cash collateral on financial derivative assets excludes excess net cash collateral pledged of $0.1 million. As of December 31, 2018 total cash collateral on financial derivative liabilities excludes excess cash collateral pledged of $16.4 million.
(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 December 31, 2018, the Company has no liabilities recorded for these agreements.

*Commitments and Contingencies Related to Investments in Residential Mortgage Loans*

In connection with certain of the Company's investments in residential mortgage loans, the Company has unfunded commitments in the amount of $1.0 million as of December 31, 2018.

*Commitments and Contingencies Related to Investments in Mortgage Originators*

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

As described in Note 9, Related Party Transactions, the Company is party to a flow mortgage loan purchase and sale agreement with a mortgage originator. The Company has entered into two agreements whereby it guarantees the performance of this mortgage originator under master repurchase agreements. The Company's maximum guarantees are capped at $25.0 million. As of December 31, 2018 the mortgage originator had $2.9 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 December 31, 2018 the estimated fair value of such guarantees was zero.

## 18. Financial Highlights

***Results of Operations for a Share Outstanding Throughout the Periods:***

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

(1) Calculated based on average common shares outstanding and can differ from the calculation for EPS (See Note 13).
(2) Per share impact on dividends paid relating to share issuances/repurchases during the period as well as dividends paid to LTIP and OP Unit holders.
(3) If all LTIP Units and OP Units previously issued were vested and exchanged for common shares as of June 30, 2018 shareholders' equity per share would be $19.57.

***Total Return:***

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

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

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

| | Three-Month Period Ended June 30, 2018 | Six-Month Period Ended June 30, 2018 |
|---|---|---|
| Total Return | 3.78% | 8.24% |

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

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

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

(1) Average equity is calculated using month end values.
(2) Includes all items of income and expense on an annualized basis except for incentive fee expense which is included on a non-annualized basis.

***Expense Ratios to Average Equity:*** [(1)(2)]

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

(1) Average equity is calculated using month end values.
(2) Ratios are annualized except for the incentive fee which is not annualized.

**20. Subsequent Events**

On February 13, 2019, the Company announced that it will elect to be taxed as a REIT for U.S. federal income tax purposes for the taxable year ending December 31, 2019. To facilitate this planned election, it has elected to be taxed as a corporation for U.S. federal income tax purposes effective January 1, 2019.

Also on February 13, 2019, the Company exchanged $86 million of 5.50% Senior Notes due 2022 (the "New Senior Notes") for its existing 5.25% senior notes due 2022 (the "Existing Senior Notes"). The New Senior Notes were jointly and severally issued by two of the Company's subsidiaries and fully guaranteed by the Company. The indenture governing the New Senior Notes contains a number of covenants, including several financial covenants.

On February 14, 2019, the Company's Board of Directors approved a dividend in the amount of $0.41 per share payable on March 15, 2019 to shareholders of record as of March 1, 2019.

On February 28, 2019, the Company filed a certificate of conversion with the Secretary of State of the State of Delaware (the "Secretary of State") to convert from a Delaware limited liability company to a Delaware corporation (the "Conversion") and change its name to Ellington Financial Inc. (the "Corporation"). The Conversion became effective on March 1, 2019, and upon effectiveness, each of the Company's existing common shares representing limited liability company interests, no par value, converted into one issued and outstanding, fully paid and nonassessable share of common stock, $0.001 par value per share, of the Corporation. In connection with the Conversion, the Board approved the Company's Certificate of Incorporation, which the Company also filed with the Secretary of State, and the Company's Bylaws.

On March 11, 2019, the Company's Board of Directors approved a dividend in the amount of $0.14 per share payable on April 25, 2019 to stockholders of record as of March 29, 2019.

In connection with the Conversion and the Company's plan to qualify as a REIT for the year ending December 31, 2019, effective January 1, 2019 the Company no longer qualifies for investment company accounting in accordance with ASC 946 and will discontinue its use prospectively. The Company will continue to measure its qualifying assets and liabilities at fair value by electing the fair value option where applicable.

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

*Except where the context suggests otherwise, references in this Quarterly Report on Form 10-Q to "EFC," "Ellington Financial," "we," "us," and "our" refer to (i) Ellington Financial Inc. and its consolidated subsidiaries, including Ellington Financial Operating Partnership LLC, our operating partnership subsidiary, which we refer to as our "Operating Partnership," following our conversion to a corporation effective March 1, 2019 (our "corporate conversion"), and (ii) Ellington Financial LLC and its consolidated subsidiaries, including our Operating Partnership, before the corporate conversion. References in this Quarterly Report on Form 10-Q to (1) "common shares" refer to (a) common shares of beneficial interest, no par value, prior to our corporate conversion, and (b) shares of our common stock, $0.001 par value per share ("common stock"), after our corporate conversion and (2) "common shareholders" refer to (a) holders of our common shares of beneficial interest, no par value, prior to our corporate conversion and (b) holders of shares of our common stock after our corporate conversion. 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"; our ability to qualify and maintain our qualification as a real estate investment trust, or "REIT"; 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 invest in a diverse array of real-estate-related and other 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," non-mortgage and mortgage-related derivatives, equity investments in loan origination companies, 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 24-year history of investing in the credit markets.

We conduct all of our operations and business activities through the Operating Partnership. As of June 30, 2019, we have an ownership interest of approximately 97.6% in the Operating Partnership. The remaining ownership interest of approximately 2.4% in the Operating Partnership represents the interests in the Operating Partnership that are owned by an affiliate of our Manager, our directors, and certain current and former Ellington employees and their 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 stockholders. We seek to attain this objective by utilizing an opportunistic strategy to make investments, without restriction as to ratings, structure, or position in the capital structure, that we believe compensate us appropriately for the risks associated with them rather than targeting a specific yield. Our evaluation of the potential risk-adjusted return of any potential investment typically involves weighing the potential returns of such investment under a variety of economic scenarios against the perceived likelihood of the various scenarios. Potential investments subject to greater risk (such as those with lower credit ratings and/or those with a lower position in the capital structure) will generally require a higher potential return to be attractive in comparison to investment alternatives with lower potential return and a lower degree of risk. However, at any particular point in time, depending on how we perceive the market's pricing of risk both generally and across sectors, we may favor higher-risk assets or we may favor lower-risk assets, or a combination of the two, in the interests of portfolio diversification or other considerations.

Through June 30, 2019, 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, to help maintain our exclusion from registration as an investment company under the Investment Company Act, and to help qualify as well as maintain our qualification as a REIT. 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 amount of Agency RMBS.

The strategies that we employ are intended to capitalize on opportunities in the current market environment. Subject to qualifying and maintaining our qualification as a REIT, 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.

Subject to qualifying and maintaining our qualification as a REIT, 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.

As detailed in Note 2 of the notes to our condensed consolidated financial statements, effective January 1, 2019, as a result of our prospective change in accounting, the naming conventions for repurchase agreements and reverse repurchase agreements were changed. Securities/loans sold under agreements to be repurchased at an agreed-upon price and date, which were formerly referred to as "reverse repurchase agreements," are now referred to as "repurchase agreements," or "repos." Securities/loans purchased under agreements to resell at an agreed-upon price and date, which were formerly referred to as "repurchase agreements," are now referred to as "reverse repurchase agreements," or "reverse repos." For purposes of this Management's Discussion and Analysis of Financial Condition and Results of Operations, we will use the naming conventions that took effect on January 1, 2019 in connection with our change in accounting.

Additionally, due to the prospective application of a change in accounting as required under ASC 946-10-25-2, we have determined that the presentation of our condensed consolidated financial statements for periods beginning after December 31, 2018 are not comparable to the consolidated financial statements previously prepared for prior periods for which we applied ASC 946, *Financial Services—Investment Companies* ("ASC 946"). As a result, we have not provided comparisons or discussion of period-over-period fluctuations of certain components of our financial condition and results of operations that we believe are not directly comparable.

We also use leverage in our credit strategy, albeit significantly less leverage than that used in our Agency RMBS strategy. Through June 30, 2019, we financed the vast majority of our Agency RMBS assets, and the majority of our credit assets, through 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 repos. In addition to financing assets through 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, through the securitization markets, 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. We have also issued unsecured long-term debt.

As of June 30, 2019, outstanding borrowings under repos and Total other secured borrowings (which include Other secured borrowings and Other secured borrowings, at fair value, as presented on our Condensed Consolidated Balance Sheet) were $2.3 billion, of which approximately 54%, or $1.2 billion, relates to our Agency RMBS holdings and U.S. Treasury securities. The remaining outstanding borrowings relate to our credit portfolio and U.S. Treasury securities.

As of June 30, 2019, we also had $86.0 million outstanding of unsecured long-term debt, maturing in September of 2022, or the "Senior Notes." The Senior Notes bear interest at a rate of 5.50%, subject to adjustment based on changes, if any, in the ratings of the Senior Notes. The indenture governing the Senior Notes contains a number of covenants, including several financial covenants. The Senior Notes were issued in connection with an exchange of our previously issued unsecured long-term debt (the "Old Senior Notes") on February 13, 2019 (the "Note Exchange"), in connection with our intended election to be taxed as a REIT. See Note 11 of the notes to our consolidated financial statements for the six-month period ending June 30, 2019 for further detail on the Senior Notes and the Note Exchange.

As of June 30, 2019, our book value per share was $18.91. Our debt-to-equity ratio was 4.0 to 1 as of June 30, 2019. 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. Excluding repos on U.S. Treasury securities, our recourse debt-to-equity ratio was 2.8:1 as of June 30, 2019.

During the six-month period ended June 30, 2019 we repurchased 50,825 shares of our common stock at an average price per share of $15.39 and a total cost of $0.8 million. We did not repurchase any shares during the three-month period ended June 30, 2019. 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.

On July 22, 2019, we completed a follow-on offering of 3.5 million shares of our common stock, which generated net proceeds, after underwriters' discount and offering costs, of $60.7 million. On July 25, 2019, we issued an additional 525,000 shares of our common stock in connection with the exercise of the underwriters' option granted in the initial offering. The exercise of the underwriters' option resulted in net proceeds to us of an additional $9.1 million, after underwriters' discount and offering costs.

We intend to qualify and will elect to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or "the Code," commencing with the taxable year ending December 31, 2019. Provided that we qualify and maintain our qualification as a REIT, we generally will not be subject to U.S. federal, state, and local income tax on our REIT taxable income that is currently distributed to our stockholders. Any taxes paid by a domestic taxable REIT subsidiary, or "TRS," will reduce the cash available for distribution to our stockholders. REITs are subject to a number of organizational and operational requirements, including a requirement that they currently distribute at least 90% of their annual REIT taxable income excluding net capital gains.

On February 28, 2019, we filed a certificate of conversion with the Secretary of State of the State of Delaware (the "Secretary of State") to convert from a Delaware limited liability company to a Delaware corporation (the "Conversion") and change our name to Ellington Financial Inc. (the "Corporation"). The Conversion became effective on March 1, 2019, and upon effectiveness, each of our existing common shares representing limited liability company interests, no par value, converted into one issued and outstanding, fully paid and nonassessable share of common stock, $0.001 par value per share, of the Corporation.

**Our Targeted Asset Classes**

Our targeted asset classes currently include investments in the U.S. and Europe (as applicable) in the categories listed below. Subject to qualifying and maintaining our qualification as a REIT, we expect to continue to invest in these targeted asset classes. Also, we expect to hold certain of our targeted assets through one or more domestic TRSs. As a result, a portion of the income from such assets will be subject to U.S. federal corporate income tax.

| Asset Class | Principal Assets |
|---|---|
| Agency RMBS | • Whole pool pass-through certificates;<br>• Partial pool pass-through certificates;<br>• Agency collateralized mortgage obligations, or "CMOs," including interest only securities, or "IOs," principal only securities, or "POs," inverse interest only securities, or "IIOs"; and |
| CLOs | • Retained tranches from CLO securitizations, including participating in the accumulation of the underlying assets for such securitization by providing capital to the vehicle accumulating assets. |
| CMBS and Commercial Mortgage Loans | • CMBS; and<br>• Commercial mortgages and other commercial real estate debt. |
| Consumer Loans and ABS | • Consumer loans;<br>• ABS, including ABS backed by consumer loans; and<br>• Retained tranches from securitizations to which we have contributed assets. |
| Mortgage-Related Derivatives | • To-Be-Announced mortgage pass-through certificates, or "TBAs."<br>• Credit Default Swaps, or "CDS," on individual RMBS, on the ABX, CMBX and PrimeX indices and on other mortgage-related indices; and<br>• Other mortgage-related derivatives. |
| Non-Agency RMBS | • RMBS backed by prime jumbo, Alt-A, manufactured housing, and subprime mortgages;<br>• RMBS backed by fixed rate mortgages, Adjustable rate mortgages, or "ARMs," Option-ARMs, and Hybrid ARMs;<br>• RMBS backed by first lien and second lien mortgages;<br>• Investment grade and non-investment grade securities;<br>• Senior and subordinated securities;<br>• IOs, POs, IIOs, and inverse floaters;<br>• Collateralized debt obligations, or "CDOs";<br>• RMBS backed by European residential mortgages, or "European RMBS"; and<br>• Retained tranches from securitizations in which we have participated. |
| Residential Mortgage Loans | • Residential non-performing mortgage loans, or "NPLs";<br>• 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;<br>• Residential "transition loans," such as residential bridge loans and residential "fix-and-flip" loans;<br>• Non-QM loans; and<br>• Retained tranches from securitizations to which we have contributed assets. |
| Other | • Real estate, including commercial and residential real property;<br>• Strategic debt and/or equity investments in loan originators and mortgage-related entities;<br>• Mortgage servicing rights, or "MSRs";<br>• Credit risk transfer securities, or "CRTs"; and<br>• Other non-mortgage-related derivatives. |

***Agency RMBS***

Our Agency RMBS assets consist primarily of whole pool (and to a lesser extent, partial pool) pass-through certificates, the principal and interest of which are guaranteed by a federally chartered corporation, such as the Federal National Mortgage

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

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

***CLOs***

CLOs are a form of asset-backed security collateralized by syndicated corporate loans. We have retained, and may retain in the future, tranches from CLO securitizations for which we have participated in the accumulation of the underlying assets, typically by providing capital to a vehicle accumulating assets for such CLO securitization. Such vehicles may enter into warehouse financing facilities 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 hotel, industrial, multi-family, office and retail 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. Some of the commercial mortgage loans that we acquire may be non-performing, underperforming, or otherwise distressed; these loans are typically acquired at a discount both to their unpaid principal balances and to the value of the underlying real estate.

We also 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, including 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.

***TBAs and Other Mortgage-Related Derivatives***

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

We 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.

We also take long and short positions in various other mortgage-related derivative instruments, including mortgage-related 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 RMBS***

We acquire non-Agency RMBS backed by prime jumbo, Alt-A, manufactured housing, and subprime residential mortgage loans. Our non-Agency 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.

We also have acquired, and may acquire in the future, European RMBS, including retained tranches from European RMBS securitizations in which we have participated.

***Residential Mortgage Loans***

Our residential mortgage loans include newly originated non-QM loans, residential transition 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 residential transition loans that we originate or purchase include: (i) loans made to real estate investors for the purpose of acquiring residential homes, making value-add improvements to such homes, and reselling the newly rehabilitated homes for a potential profit, and (ii) loans 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 pending qualification for longer-term lower-rate financing. Our residential transition 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 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 loan originators, CRTs, 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 loan originators and other related entities in the form of debt and/or equity and, to date, our investments have represented non-controlling interests. We have also entered into flow agreements with certain of the loan originators in which we have invested. We have not yet acquired mortgage servicing rights, 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, subject to qualifying and maintaining our qualification as a REIT. 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.

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."

*Interest Rate Hedging*

We opportunistically hedge our interest rate risk by using various hedging strategies, subject to qualifying and maintaining our qualification as a REIT. The interest rate hedging instruments that we use and may use in the future include, without limitation:

- 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.

Because fluctuations in short-term interest rates may expose us to fluctuations in the spread between the interest we earn on our investments and the interest we pay on our borrowings, we may seek to manage such exposure by entering into short positions in interest rate swaps. 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.

*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, subject to qualifying and maintaining our qualification as a REIT. In particular, we may use currency forward contracts and other currency-related derivatives to mitigate this risk.

**Trends and Recent Market Developments**

*Market Overview*

- Similar to its previous meetings in 2019, the U.S. Federal Reserve, or the "Federal Reserve," elected at both its April/May and June 2019 meetings to maintain the target range for the federal funds rate of 2.25%–2.50%. LIBOR rates, which drive many of our financing costs, declined during the second quarter, with one-month LIBOR decreasing ten basis points to end the quarter at 2.40%, and three-month LIBOR falling 28 basis points to 2.32%. This marked the first time in more than ten years that three-month LIBOR dropped below one-month LIBOR, an indication that the markets were expecting the Federal Reserve to cut short-term interest rates in the near future.
- In accordance with the plan that had been laid out by the Federal Reserve in March, the tapering of Agency RMBS continued at $20 billion per month during the second quarter, and in May the tapering of U.S. Treasury reinvestments decreased from $30 billion per month to $15 billion per month.
- Interest rates declined sharply during the second quarter. The 2-year U.S. Treasury yield fell 51 basis points to end the second quarter at 1.75%, while the 10-year U.S. Treasury yield declined 40 basis points to 2.01%. After nine consecutive quarters of flattening, the spread between the 2-year and 10-year U.S. Treasury yield steepened modestly, to 25 basis points from 15 basis points at the end of the previous quarter. As of the end of the quarter, the entire 2-month through 3-year segment of the U.S. Treasury curve was inverted, with 2-month Treasury bills yielding 2.15%, and 3-year Treasury notes yielding 1.71%.
- Mortgage rates continued to fall in the second quarter, with the Freddie Mac Survey 30-year mortgage rate decreasing 33 basis points to end the quarter at 3.73%.
- During the quarter, prepayments rose as mortgage rates declined. Fannie Mae 30-year MBS prepayments increased from a CPR of 9.0% in March to 11.2% in April, and to 13.2% in May, before declining slightly to 12.8% in June. The Mortgage Bankers Association's Refinance Index, which measures refinancing application volumes, increased 8% quarter over quarter and 93% year over year, to its highest level since November 2016.
- U.S. real GDP increased at an estimated annualized rate of 2.1% in the second quarter, down from 3.1% in the previous quarter. Total unemployment declined modestly in June to 3.7%, compared to 3.8% at the end of the first quarter.
- For the second quarter, the Bloomberg Barclays US MBS Index generated a positive return of 2.00%, but generated a negative excess return (on a duration-adjusted basis) of (0.39)% relative to the Bloomberg Barclays US Treasury Index, reflecting that Agency RMBS generally underperformed their benchmark hedging instruments during the quarter. The Bloomberg Barclays US Corporate Bond Index generated a positive return of 4.71% and an excess return of 1.18%, while the Bloomberg Barclays US Corporate High Yield Bond Index generated a positive return of 2.68% and an excess return of 0.53%.

The beginning of the second quarter of 2019 continued many of the trends of the prior quarter: dovish messaging from the Federal Reserve continued to appease the stock and bond markets, volatility remained low, and equities and many credit assets continued to perform well. In April, the S&P 500 and Nasdaq reached record highs. Meanwhile, declining interest rates continued to drive increases in actual and projected prepayments, which in turn led to modest widening of Agency RMBS yield spreads and increases in pay-ups on specified pools during the month.

Volatility returned to the markets in May, however, as global trade tensions escalated. By the end of May, the Merrill Lynch Option Volatility Estimate Index, or "MOVE Index," which had just reached an all-time low in March, spiked to its highest level in more than two years. Meanwhile, domestic equities sold off, yield spreads on most fixed income assets widened, and interest rates plummeted. Over the course of the month, the S&P 500 declined 6% while the yield on the 10-year U.S. Treasury fell 38 basis points. Both the Bloomberg Barclays US Corporate Bond and Corporate High Yield Bond Indexes underperformed relative to U.S. Treasuries, while the Bloomberg Barclays US MBS Index had its worst performance relative to U.S. Treasuries since November 2016.

In June, the Federal Reserve again soothed the markets and spurred a broad rally across most asset classes. Although it held short-term interest rates steady, the Federal Reserve stated that it would "act as appropriate to sustain the expansion" while citing "uncertainties" about the economic outlook. In the wake of these announcements, interest rate futures markets implied a near-certain probability of a rate cut in July. Domestic equity markets also welcomed the message, with the S&P 500 again reaching a record high on June 20th and posting its best June in more than 60 years. Long-term U.S. Treasury yields continued their precipitous decline, with the 10-year yield dropping below 2% for the first time since November 2016. In Europe, the European Central Bank signaled that it was ready to launch another round of stimulus, and the total amount of negative-yielding sovereign bonds reached $13 trillion globally.

Over the course of the first half of 2019, it was clear that market optimism over lower interest rates and global stimulus prevailed over a long list of macroeconomic concerns, including escalating trade wars, geopolitical tensions, and slowing global growth. Through the first six months of 2019, the S&P 500 was up 17%, its best performance over the first half of a year since 1997.

*Portfolio Overview and Outlook*

Our total long credit portfolio (including REO but excluding hedges and other derivative positions) was $1.539 billion as of June 30, 2019 as compared to $1.473 billion as of March 31, 2019. Excluding non-retained tranches of our consolidated non-QM securitization trusts, our total long credit portfolio was $1.069 billion as of June 30, 2019, a decrease of 10.6% from $1.195 billion as of March 31, 2019. As of June 30, 2019, our long Agency RMBS portfolio increased 17.0% to $1.339 billion, from $1.144 billion as of March 31, 2019.

During the quarter, we completed our third non-QM securitization, which was the primary driver of the decline of the size of our credit portfolio, excluding non-retained tranches of these securitizations. We also continued to pare down our holdings of non-REIT-qualifying assets, principally UK non-conforming RMBS and CLOs, and rotate that capital into REIT-qualifying assets, most notably Agency RMBS, small balance commercial mortgage loans and residential transition loans.

*Credit Summary* [(1)]

| | June 30, 2019 | | As of March 31, 2019 | |
|---|---|---|---|---|
| *($ in thousands)* | **Fair Value** | **% of Total Long Credit Portfolio** | **Fair Value** | **% of Total Long Credit Portfolio** |
| Dollar Denominated: | | | | |
| CLOs[(2)] | $ 78,225 | 5.1% | $ 98,497 | 6.7% |
| CMBS | 34,350 | 2.2% | 29,995 | 2.0% |
| Commercial Mortgage Loans and Real Estate Owned, or "REO"[(3)(4)] | 324,536 | 21.1% | 277,947 | 18.9% |
| Consumer Loans and ABS Backed by Consumer Loans[(2)] | 189,671 | 12.3% | 218,027 | 14.8% |
| Corporate Debt and Equity and Corporate Loans | 7,632 | 0.5% | 3,867 | 0.3% |
| Equity Investments in Loan Origination Entities | 35,588 | 2.3% | 34,849 | 2.4% |
| Non-Agency RMBS | 122,651 | 8.0% | 130,372 | 8.8% |
| Residential Mortgage Loans and REO[(3)(5)] | 665,594 | 43.3% | 584,779 | 39.7% |
| Non-Dollar Denominated: | | | | |
| CLO | 8,925 | 0.6% | 4,332 | 0.3% |
| CMBS | 3,308 | 0.2% | 3,198 | 0.2% |
| Consumer Loans and ABS Backed by Consumer Loans | 694 | —% | 770 | 0.1% |
| Corporate Debt and Equity | 3,240 | 0.2% | 3,335 | 0.2% |
| RMBS[(6)] | 64,182 | 4.2% | 82,846 | 5.6% |
| Total Long Credit | $ 1,538,596 | 100.0% | $ 1,472,814 | 100.0% |

(1) This information does not include U.S. Treasury securities, interest rate swaps, TBA positions, or other hedge positions.
(2) Includes equity investments in securitization-related vehicles.
(3) As discussed in Note 2 of the notes to consolidated financial statements, REO is not considered a financial instrument and as a result is included at the lower of cost or fair value.
(4) Includes investments in unconsolidated entities holding small balance commercial mortgage loans.
(5) Includes an investment in an unconsolidated entity holding residential mortgage loans.
(6) Includes European RMBS secured by non-performing loans and REO, and an investment in an unconsolidated entity holding European RMBS.

Driven by steady net interest income and gains from securitizations, our credit portfolio continued to be the primary driver of earnings in the second quarter. Our strongest-performing credit strategies for the quarter included residential non-performing mortgage loans, non-QM loans, residential transition mortgage loans, European RMBS, non-Agency RMBS, and CMBS. In addition, we continued to benefit from excellent performance in small balance commercial mortgage loans and consumer loans. Investments in retained tranches in Ellington-sponsored CLOs underperformed during the quarter. The interest rate hedges in our credit portfolio, which in the second quarter consisted primarily of interest rate swaps, generated small losses as interest rates declined, as did our credit hedges, which in the second quarter consisted primarily of derivative positions on high yield corporate credit and CMBX. We had net gains in our credit portfolio on our foreign currency-related transactions and remeasurement that exceeded the net losses on our foreign currency hedges.

*Agency RMBS Summary*

| *($ in thousands)* | June 30, 2019 | | As of March 31, 2019 | |
|---|---|---|---|---|
| | **Fair Value** | **% of Long Agency Portfolio** | **Fair Value** | **% of Long Agency Portfolio** |
| Long Agency RMBS: | | | | |
| Fixed Rate | $ 1,186,311 | 88.6% | $ 1,019,982 | 89.2% |
| Floating Rate | 9,191 | 0.7% | 9,460 | 0.8% |
| Reverse Mortgages | 118,494 | 8.8% | 89,345 | 7.8% |
| IOs | 24,905 | 1.9% | 25,428 | 2.2% |
| Total Long Agency RMBS | 1,338,901 | 100.0% | 1,144,215 | 100.0% |

During the second quarter, we benefited from solid results in our Agency RMBS portfolio. With interest rates declining, prices on our Agency specified pool assets rallied and we generated net realized and unrealized gains on our Agency assets. Additionally, the outperformance of Agency specified pools compared to TBAs, in the form of higher pay-ups for specified pools, contributed to results, as we continued to concentrate our long investments in specified pools as opposed to TBAs. Pay-ups are price premiums for specified pools relative to their TBA counterparts. The key drivers of the expansion in specified pool pay-ups were increases in actual and projected prepayments, as a result of declining mortgage rates. Average pay-ups on our specified pools increased to 1.37% as of June 30, 2019, as compared to 0.94% as of March 31, 2019.

Meanwhile, declining interest rates during the quarter led to losses on our interest rate hedges, and these hedging losses partially offset the gains on our assets. During the quarter we continued to hedge interest rate risk in our Agency strategy, primarily through the use of short positions in TBAs, interest rate swaps, U.S. Treasury securities, and futures. In our interest rate hedging portfolio, the relative proportion, based on 10-year equivalents, of short positions in TBAs decreased period over period relative to other hedging instruments. Ten-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.

As of June 30, 2019 and March 31, 2019, the weighted average net pass-through rate on our fixed-rate specified pools was 4.1% and 4.2%, respectively. Portfolio turnover for our Agency strategy was approximately 21% for the quarter (as measured by sales and excluding paydowns).

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 June 30, 2019, March 31, 2019, December 31, 2018, September 30, 2018, and June, 30, 2018.

| | **Three-Month Period Ended** | | | | |
|---|---|---|---|---|---|
| | **June 30, 2019** | **March 31, 2019** | **December 31, 2018** | **September 30, 2018** | **June 30, 2018** |
| Three-Month Constant Prepayment Rates | 12.8% | 7.8% | 8.4% | 8.3% | 7.7% |

The following table provides details about the composition of our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) as of June 30, 2019 and March 31, 2019:

| | | June 30, 2019 | | | March 31, 2019 | | |
|---|---|---|---|---|---|---|---|
| | 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 | $ 68,591 | $ 70,059 | 60 | $ 12,525 | $ 12,663 | 41 |
| | 3.50 | 58,146 | 60,354 | 39 | 51,106 | 52,413 | 32 |
| | 4.00 | 4,916 | 5,141 | 65 | 5,375 | 5,561 | 62 |
| | 4.50 | 1,779 | 1,859 | 99 | 1,921 | 1,994 | 96 |
| Total 15-year fixed-rate mortgages | | 133,432 | 137,413 | 52 | 70,927 | 72,631 | 37 |
| 20-year fixed-rate mortgages: | | | | | | | |
| | 4.00 | — | — | — | 1,375 | 1,434 | 65 |
| | 4.50 | 839 | 896 | 46 | 892 | 943 | 64 |
| Total 20-year fixed-rate mortgages | | 839 | 896 | 46 | 2,267 | 2,377 | 65 |
| 30-year fixed-rate mortgages: | | | | | | | |
| | 2.50 | — | — | — | 521 | 503 | 65 |
| | 3.00 | 8,438 | 8,570 | 46 | 5,962 | 5,967 | 60 |
| | 3.28 | 107 | 108 | 84 | 108 | 109 | 81 |
| | 3.50 | 214,770 | 222,498 | 26 | 138,035 | 140,930 | 33 |
| | 3.75 | 2,123 | 2,200 | 23 | 2,394 | 2,462 | 20 |
| | 4.00 | 480,775 | 504,401 | 26 | 426,248 | 442,670 | 26 |
| | 4.50 | 170,802 | 181,090 | 26 | 196,514 | 206,871 | 26 |
| | 5.00 | 81,716 | 87,390 | 31 | 111,897 | 118,940 | 23 |
| | 5.50 | 34,015 | 36,445 | 14 | 20,107 | 21,534 | 21 |
| | 6.00 | 4,917 | 5,300 | 34 | 4,629 | 4,988 | 35 |
| Total 30-year fixed-rate mortgages | | 997,663 | 1,048,002 | 26 | 906,415 | 944,974 | 27 |
| Total fixed-rate Agency RMBS | | $ 1,131,934 | $ 1,186,311 | 29 | $ 979,609 | $ 1,019,982 | 28 |

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 3.2% and 2.4% as of June 30, 2019 and March 31, 2019, 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 $592.2 million and a fair value of $613.9 million as of June 30, 2019, as compared to a notional value of $626.9 million and a fair value of $647.3 million as of March 31, 2019. Excluding these TBA hedging positions, our Agency premium as a percentage of fair value was approximately 4.9% and 4.2% as of June 30, 2019 and March 31, 2019, 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.

*Financing*

The following table details our borrowings outstanding and debt-to-equity ratios as of June 30, 2019 and March 31, 2019:

| | As of | |
|---|---|---|
| *($ in thousands)* | **June 30, 2019** | **March 31, 2019** |
| Recourse[1] Borrowings: | | |
| Repurchase Agreements | $ 1,550,219 | $ 1,449,521 |
| Other Secured Borrowings | 14,255 | 11,375 |
| Senior Notes, at par | 86,000 | 86,000 |
| Total Recourse Borrowings | $ 1,650,474 | $ 1,546,896 |
| Debt-to-Equity Ratio Based on Total Recourse Borrowings[1] | 2.8:1 | 2.6:1 |
| Debt-to-Equity Ratio Based on Total Recourse Borrowings Excluding U.S. Treasury Securities | 2.8:1 | 2.6:1 |
| Non-Recourse[2] Borrowings: | | |
| Repurchase Agreements | $ 165,287 | $ 100,495 |
| Other Secured Borrowings | 87,670 | 105,940 |
| Other Secured Borrowings, at fair value[3] | 475,816 | 282,124 |
| Total Recourse and Non-Recourse Borrowings | $ 2,379,247 | $ 2,035,455 |
| Debt-to-Equity Ratio Based on Total Recourse and Non-Recourse Borrowings | 4.0:1 | 3.4:1 |
| Debt-to-Equity Ratio Based on Total Recourse and Non-Recourse Borrowings Excluding U.S. Treasury Securities | 4.0:1 | 3.4:1 |

(1) Excludes borrowings at certain unconsolidated entities that are recourse to us. Including such borrowings, our debt-to-equity ratio based on total recourse borrowings is 2.8:1 and 2.6:1 as of June 30, 2019 and March 31, 2019, respectively.
(2) All of our non-recourse borrowings are secured by collateral. In the event of default under a non-recourse 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).
(3) Relates to our non-QM loan securitizations, where we have elected the fair value option on the related debt.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or "Dodd-Frank Act," bank capital treatment of repo transactions has become more onerous, thereby making it less attractive for banks to provide certain forms of repo financing. While large banks still dominate the repo market, many non-bank firms, not subject to the same regulations as large banks, are also active in providing repo financing. The vast majority of our outstanding repo financing is still provided by larger banks and dealers; however, in limited amounts, we have also entered into 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 repos, Total other secured borrowings, and our Senior Notes, increased to 4.0:1, excluding repos on U.S. Treasury securities, as of June 30, 2019, as compared to 3.4:1 as of March 31, 2019, as we added financing to accommodate our larger Agency RMBS and (on a consolidated basis) non-QM loan holdings. Excluding repos on U.S. Treasury securities, our recourse debt-to-equity ratio was 2.8:1 as of June 30, 2019.

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 repo borrowings, Total other secured borrowings, and Senior Notes. The average cost of funds of our repo borrowings and Total other secured borrowings was 3.43% for the three-month period ended June 30, 2019, as compared to 3.52% for the three-month period ended March 31, 2019. The interest rates on our repo borrowings and Total other secured borrowings are based on, or correlated with, LIBOR. Our overall borrowing costs decreased in part because of the decline in LIBOR, and in part because of the increase in the proportion of our borrowings on Agency RMBS, which typically have lower borrowing costs than our credit investments.

## Critical Accounting Policies

We adopted ASC 946 upon commencement of operations in August 2007, and applied U.S. GAAP for investment companies. In connection with our internal restructuring and our intention to qualify as a REIT for the year ending December 31, 2019, we have determined that, effective January 1, 2019, we no longer qualify for investment company accounting in accordance with ASC 946-10-25, and have prospectively discontinued its use. We will elect the fair value option for, and therefore we will continue to measure at fair value, those of our assets and liabilities for which such election is permitted, as provided for under ASC 825, *Financial Instruments* ("ASC 825").

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 condensed 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 condensed 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 condensed 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 condensed 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 condensed consolidated financial statements for a description of relevant recent accounting pronouncements.

**Financial Condition**

The following table summarizes our investment portfolio[1] as of June 30, 2019.

| *(In thousands)* | Fair Value |
|---|---|
| Long: | |
| Credit: | |
| Dollar Denominated: | |
| CLO[2] | $ 78,225 |
| CMBS | 34,350 |
| Commercial Mortgage Loans and REO[3][4] | 324,536 |
| Consumer Loans and ABS backed by Consumer Loans[2] | 189,671 |
| Corporate Debt and Equity and Corporate Loans | 7,632 |
| Equity Investments in Loan Origination Entities | 35,588 |
| Non-Agency RMBS | 122,651 |
| Residential Mortgage Loans and REO[3][5] | 665,594 |
| Non-Dollar Denominated: | |
| CLO[2] | 8,925 |
| CMBS | 3,308 |
| Consumer Loans and ABS backed by Consumer Loans | 694 |
| Corporate Debt and Equity | 3,240 |
| RMBS[6] | 64,182 |
| Agency: | |
| Fixed-Rate Specified Pools | 1,186,311 |
| Floating-Rate Specified Pools | 9,191 |
| IOs | 24,905 |
| Reverse Mortgage Pools | 118,494 |
| Total Long | $ 2,877,497 |
| Short: | |
| Credit: | |
| Dollar Denominated: | |
| Corporate Debt and Equity | $ (470) |
| Government Debt: | |
| Dollar Denominated | (38,974) |
| Non-Dollar Denominated | (10,139) |
| Total Short | $ (49,583) |

(1) For more detailed information about the investments in our portfolio, please see the notes to condensed consolidated financial statements.
(2) Includes equity investment in securitization-related vehicles.
(3) REO is not eligible to elect the fair value option as described in Note 2 of the notes to condensed consolidated financial statements and, as a result, is included at the lower of cost or fair value.
(4) Includes investments in unconsolidated entities holding small balance commercial mortgage loans.
(5) Includes an investment in an unconsolidated entity holding residential mortgage loans.
(6) Includes European RMBS secured by non-performing loans and REO, and an investment in an unconsolidated entity holding European RMBS.

The following table summarizes our investment portfolio[1] as of December 31, 2018.

| *(In thousands)* | Fair Value |
|---|---|
| Long: | |
| Credit: | |
| Dollar Denominated: | |
| CLO[2] | $ 123,893 |
| CMBS | 18,426 |
| Commercial Mortgage Loans and REO[3] | 245,536 |
| Consumer Loans and ABS Backed by Consumer Loans[2] | 209,922 |
| Corporate Debt and Equity | 15,316 |
| Debt and Equity Investments in Loan Origination Entities | 37,067 |
| Non-Agency RMBS | 153,214 |
| Residential Mortgage Loans and REO | 498,126 |
| Non-Dollar Denominated: | |
| CLO | — |
| CMBS | 15,482 |
| Consumer Loans and ABS Backed by Consumer Loans | 884 |
| Corporate Debt and Equity | 10,810 |
| RMBS[4] | 160,342 |
| Agency: | |
| Fixed-Rate Specified Pools | 884,870 |
| Floating-Rate Specified Pools | 5,496 |
| IOs | 29,516 |
| Reverse Mortgage Pools | 55,475 |
| TBAs | 474,860 |
| Government: | |
| Dollar Denominated | 76 |
| Total Long | 2,939,311 |
| Reverse repos | |
| Dollar Denominated | 41,530 |
| Non-Dollar Denominated | 19,744 |
| Total Repurchase Agreements | 61,274 |
| Short: | |
| Credit: | |
| Dollar Denominated: | |
| Corporate Debt and Equity | (23,462) |
| Agency: | |
| TBAs | (772,964) |
| Government: | |
| Dollar Denominated | (34,817) |
| Non-Dollar Denominated | (19,334) |
| Total Short | (850,577) |
| Net Total | $ 2,150,008 |

(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.

The following table summarizes our financial derivatives portfolio[1][2] as of June 30, 2019.

| (In thousands) | Notional | | | Net |
|---|---|---|---|---|
| | Long | Short | Net | Fair Value |
| Mortgage-Related Derivatives: | | | | |
| CDS on MBS and MBS Indices | $ 1,170 | $ (29,767) | $ (28,597) | $ 3,052 |
| **Total Net Mortgage-Related Derivatives** | 1,170 | (29,767) | (28,597) | 3,052 |
| Corporate-Related Derivatives: | | | | |
| CDS on Corporate Bonds and Corporate Bond Indices | 143,953 | (251,491) | (107,538) | (8,564) |
| Total Return Swaps on Corporate Bond Indices and Corporate Debt[3] | 1,318 | (38,210) | (36,892) | 29 |
| **Total Net Corporate-Related Derivatives** | 145,271 | (289,701) | (144,430) | (8,535) |
| Interest Rate-Related Derivatives: | | | | |
| TBAs | 107,101 | (660,338) | (553,237) | (2,303) |
| Interest Rate Swaps | 113,973 | (383,222) | (269,249) | (6,224) |
| U.S. Treasury Futures[4] | — | (111,200) | (111,200) | (2,218) |
| Eurodollar Futures[5] | — | (28,000) | (28,000) | (82) |
| **Total Interest Rate-Related Derivatives** | | | | (10,827) |
| Other Derivatives: | | | | |
| Foreign Currency Forwards[6] | — | (26,068) | (26,068) | (265) |
| Foreign Currency Futures[7] | — | (12,653) | (12,653) | (80) |
| **Total Net Other Derivatives** | | | | (345) |
| Net Total | | | | $ (16,655) |

(1) For more detailed information about the financial derivatives in our portfolio, please refer to Note 8 of the notes to condensed consolidated financial statements for the three- and six-month periods ended June 30, 2019.
(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 June 30, 2019, derivative assets and derivative liabilities were $11.2 million and $(27.8) million, respectively, for a net fair value of $(16.7) million, as reflected in "Net Total" above.
(3) Notional value represents the face amount of the underlying asset.
(4) Notional value represents the total face amount of U.S. Treasury securities underlying all contracts held. As of June 30, 2019, a total of 1,112 short U.S. Treasury futures contracts were held.
(5) Every $1,000,000 in notional value represents one contract.
(6) Short notional value represents U.S. Dollars to be received by us at the maturity of the forward contract.
(7) Notional value represents the total face amount of currency futures underlying all contracts held. As of June 30, 2019, a total of 89 short foreign currency futures contracts were held.

The following table summarizes our financial derivatives portfolio[1][2] as of December 31, 2018.

| (In thousands) | Notional Long | Notional Short | Notional Net | Net Fair Value |
|---|---|---|---|---|
| Mortgage-Related Derivatives: | | | | |
| CDS on MBS and MBS Indices | $ 15,527 | $ (59,393) | $ (43,866) | $ 7,439 |
| **Total Net Mortgage-Related Derivatives** | 15,527 | (59,393) | (43,866) | 7,439 |
| Corporate-Related Derivatives: | | | | |
| CDS on Corporate Bonds and Corporate Bond Indices | 83,060 | (316,383) | (233,323) | (11,597) |
| Total Return Swaps on Corporate Equities[3] | — | (17,740) | (17,740) | 1 |
| Total Return Swaps on Corporate Bond Indices[4] | — | (11,230) | (11,230) | (6) |
| **Total Net Corporate-Related Derivatives** | 83,060 | (345,353) | (262,293) | (11,602) |
| Interest Rate-Related Derivatives: | | | | |
| Interest Rate Swaps | 143,007 | (425,413) | (282,406) | 3,831 |
| U.S. Treasury Futures[5] | — | (151,600) | (151,600) | — |
| Eurodollar Futures[6] | — | (98,000) | (98,000) | (53) |
| **Total Interest Rate-Related Derivatives** | | | | 3,778 |
| Other Derivatives: | | | | |
| Foreign Currency Forwards[7] | — | (17,299) | (17,299) | (114) |
| Foreign Currency Futures[8] | — | (47,931) | (47,931) | (302) |
| Other[9] | n/a | n/a | n/a | (4) |
| **Total Net Other Derivatives** | | | | (420) |
| Net Total | | | | $ (805) |

(1) For more detailed information about the financial derivatives in our portfolio, please refer to the Consolidated Condensed Schedule of Investments as of December 31, 2018 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 December 31, 2018, derivative assets and derivative liabilities were $20.0 million and $(20.8) million, respectively, for a net fair value of $(0.8) 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 December 31, 2018, a total of 1,516 short U.S. Treasury futures contracts were held.
(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.
(8) Notional value represents the total face amount of currency futures underlying all contracts held. As of December 31, 2018, a total of 411 short foreign currency futures contracts were held.
(9) As of December 31, 2018, includes interest rate caps and interest rate "basis" swaps whereby we pay one floating rate and receive a different floating rate.

As of June 30, 2019, our Condensed Consolidated Balance Sheet reflected total assets of $3.1 billion and total liabilities of $2.5 billion. Our portfolios of investments in securities, loans, unconsolidated entities, and financial derivatives as well as real estate owned included in total assets were $2.9 billion as of June 30, 2019. Our investments in securities sold short and financial derivatives included in total liabilities were $77.4 million as of June 30, 2019. As of June 30, 2019, investments in securities sold short consisted principally of short positions in sovereign bonds and U.S. Treasury securities, which we primarily use to hedge the risk of rising interest rates and foreign currency risk.

As of December 31, 2018, our Consolidated Statement of Assets, Liabilities, and Equity reflected total assets of $4.0 billion and total liabilities of $3.4 billion. Our portfolios of investments, financial derivatives, and repurchase agreements included in total assets were $3.0 billion as of December 31, 2018. Our investments sold short and financial derivatives included in total liabilities were $871.4 million as of December 31, 2018. As of December 31, 2018 investments in securities sold short consisted principally of short positions in TBAs, which we primarily use to hedge the risk of rising interest rates on our investment portfolio.

As of June 30, 2019, as a result of our prospective change of accounting, TBAs are classified as financial derivatives, rather than investments, as was the case as of December 31, 2018. 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

June 30, 2019 and December 31, 2018, we had a net short notional TBA position of $553.2 million and $293.7 million, respectively.

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 in this sector 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. 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 may hold long and/or short positions in corporate bonds or equities. Our long and short positions in corporate bonds or equities may serve as outright investments or portfolio hedges.

We use a variety of instruments to hedge interest rate risk in our portfolio, including non-derivative instruments such as U.S. Treasury securities and sovereign debt instruments, and derivative instruments such as interest rate swaps, TBAs, 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 and futures contracts in order to hedge risks associated with foreign currency fluctuations.

We have entered into repos to finance many of our assets. As of June 30, 2019 indebtedness outstanding on our repos was approximately $1.7 billion. As of June 30, 2019, our assets financed with repos consisted of Agency RMBS of $1.3 billion, credit assets of $707.5 million, and U.S. Treasury securities of $0.7 million. As of June 30, 2019, outstanding indebtedness under repos was $1.2 billion for Agency RMBS, $474.1 million for credit assets, and $0.7 million for U.S. Treasury securities. As of December 31, 2018, indebtedness outstanding on our repos was approximately $1.5 billion. As of December 31, 2018, our assets financed with repos consisted of Agency RMBS of $972.7 million, credit assets of $815.1 million, and U.S. Treasury securities of $0.3 million. As of December 31, 2018 outstanding indebtedness under repos was $917.3 million for Agency RMBS, $581.3 million for credit assets, and $0.3 million for U.S. Treasury securities.

Our repos bear interest at rates that have historically moved in close relationship to LIBOR. We account for our repos as collateralized borrowings. In addition to our repos, as of June 30, 2019 we had Total other secured borrowings of $577.7 million, used to finance $649.9 million of non-QM and consumer loans. This compares to Total other secured borrowings of $412.0 million as of December 31, 2018, used to finance $483.5 million of non-QM and consumer loans. In addition to our secured borrowings, we had $86.0 million of Senior Notes outstanding as of June 30, 2019 and $86.0 million of Old Senior Notes outstanding as of December 31, 2018.

As of June 30, 2019 and December 31, 2018 our debt-to-equity ratio was 4.0:1 and 3.4:1, respectively. Excluding repos on U.S. Treasury securities, our recourse debt-to-equity ratio was 2.8:1 as of June 30, 2019. See the discussion in "—*Liquidity and Capital Resources*" below for further information on our borrowings.

**Equity**

As of June 30, 2019, our equity decreased by approximately $2.1 million to $593.1 million from $595.2 million as of January 1, 2019. This decrease principally consisted of dividends declared of $29.6 million, distributions to non-controlling interests of approximately $9.5 million, and payments to repurchase shares of common stock of $0.8 million. These decreases were largely offset by net income for the six-month period ended June 30, 2019 of $30.1 million and an increase related to contributions from our non-controlling interests of approximately $7.4 million. Stockholders' 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 $562.5 million as of June 30, 2019.

**Results of Operations for the Three- and Six-Month Periods Ended June 30, 2019 and 2018**

The following table summarizes our results of operations for the three- and six-month periods ended June 30, 2019:

| *(In thousands except per share amounts)* | Three-Month Period Ended June 30, 2019 | Six-Month Period Ended June 30, 2019 |
|---|---|---|
| **Interest Income (Expense)** | | |
| Interest income | $ 38,547 | $ 74,563 |
| Interest expense | (19,702) | (37,320) |
| Net interest income | 18,845 | 37,243 |
| **Other Income (Loss)** | | |
| Realized and unrealized gains (losses) on securities and loans, net | 16,982 | 38,048 |
| Realized and unrealized gains (losses) on financial derivatives, net | (15,841) | (33,100) |
| Realized and unrealized gains (losses) on real estate owned, net | (168) | (473) |
| Other, net | 1,808 | 3,810 |
| Total other income (loss) | 2,781 | 8,285 |
| **Expenses** | | |
| Base management fee to affiliate (Net of fee rebates of $508 and $955, respectively) | 1,661 | 3,383 |
| Other investment related expenses | 5,153 | 8,629 |
| Other operating expenses | 3,134 | 7,147 |
| **Total expenses** | 9,948 | 19,159 |
| **Net Income (Loss) before Income Tax Expense and Earnings from investments in unconsolidated entities** | 11,678 | 26,369 |
| Income tax expense (benefit) | 376 | 376 |
| Earnings from investments in unconsolidated entities | 2,354 | 4,151 |
| **Net Income (Loss)** | 13,656 | 30,144 |
| **Net Income (Loss) Attributable to Non-Controlling Interests** | 1,012 | 2,092 |
| **Net Income (Loss) Attributable to Common Stockholders** | $ 12,644 | $ 28,052 |
| **Net Income (Loss) Per Common Share** | $ 0.43 | $ 0.94 |

The following table summarizes our results of operations for the three- and six-month periods ended June 30, 2018:

| *(In thousands except per share amounts)* | Three-Month Period Ended June 30, 2018 | Six-Month Period Ended June 30, 2018 |
|---|---|---|
| **Investment Income** | | |
| Interest income | $ 31,941 | $ 60,033 |
| Other income | 1,094 | 1,811 |
| Total investment income | 33,035 | 61,844 |
| **Expenses** | | |
| Base management fee to affiliate (Net of fee rebates of $252 and $527, respectively) | 2,021 | 4,000 |
| Incentive fee to affiliate | 291 | 291 |
| Interest expense | 13,383 | 24,946 |
| Other investment related expenses | 3,771 | 6,723 |
| Other operating expenses | 2,578 | 4,650 |
| Total expenses | 22,044 | 40,610 |
| **Net investment income** | 10,991 | 21,234 |
| Net realized and change in net unrealized gain (loss) on investments | 7,069 | 12,801 |
| Net realized and change in net unrealized gain (loss) on other secured borrowings | 414 | 1,198 |
| Net realized and change in net unrealized gain (loss) on financial derivatives, excluding currency hedges | 2,921 | 7,019 |
| Net realized and change in net unrealized gain (loss) on financial derivatives—currency hedges | 3,863 | 2,461 |
| Net foreign currency gain (loss) | (3,074) | (1,205) |
| **Net increase (decrease) in equity resulting from operations** | 22,184 | 43,508 |
| **Less: Net increase (decrease) in equity resulting from operations attributable to non-controlling interests** | 991 | 1,276 |
| **Net increase (decrease) in shareholders' equity resulting from operations** | $ 21,193 | $ 42,232 |
| **Net increase (decrease) in shareholders' equity resulting from operations per share** | $ 0.69 | $ 1.36 |

**Core Earnings**

In connection with our conversion to a corporation and intended election to be taxed as a REIT (the "REIT Conversion"), we have included the calculation of Core Earnings. Prior to the REIT Conversion, we did not calculate Core Earnings. We calculate Core Earnings as U.S. GAAP net income (loss) as adjusted for: (i) realized and unrealized gain (loss) on securities and loans, REO, financial derivatives (excluding net accrued periodic (payments) receipts on interest rate swaps), other secured borrowings, at fair value, and foreign currency transactions; (ii) incentive fee to affiliate; (iii) Catch-up Premium Amortization Adjustment (as defined below); (iv) non-cash equity compensation expense; (v) miscellaneous non-recurring expenses; (vi) provision for income taxes; and (vii) certain other income or loss items that are of a non-recurring nature. For certain investments in unconsolidated entities, we include the relevant components of net operating income in core earnings. The Catch-up Premium Amortization Adjustment is a quarterly adjustment 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). The adjustment is calculated as of the beginning of each quarter based on our then-current assumptions about cashflows and prepayments, and can vary significantly from quarter to quarter.

Core Earnings is a supplemental non-GAAP financial measure. We believe that the presentation of Core Earnings provides a consistent measure of operating performance by excluding the impact of gains and losses and other adjustments listed above from operating results. We believe that Core Earnings provides information useful to investors because it is a metric that we use to assess performance and to evaluate the effective net yield provided by our portfolio. In addition, we believe that presenting Core Earnings enables our investors to measure, evaluate, and compare our operating performance to that of our peers. However, because Core Earnings is an incomplete measure of our financial results and differs from net income (loss) computed in accordance with U.S. GAAP, it should be considered as supplementary to, and not as a substitute for, net income (loss) computed in accordance with U.S. GAAP.

The following table provides U.S. GAAP measures of net income (loss) and details with respect to reconciling the aforementioned line items to Core Earnings for the three- and six-month periods ended June 30, 2019.

| *(In thousands, except per share amounts)* | **Three-Month Period Ended June 30, 2019** | **Six-Month Period Ended June 30, 2019** |
|---|---|---|
| **Net income (loss)** | $ 13,656 | $ 30,144 |
| Income tax expense | 376 | 376 |
| **Net income (loss) before income tax expense** | 14,032 | 30,520 |
| Adjustments: | | |
| Realized (gains) losses on securities and loans, net | 1,505 | 6,827 |
| Realized (gains) losses on financial derivatives, net (1) | 10,972 | 23,260 |
| Realized (gains) losses on real estate owned, net | (98) | (40) |
| Unrealized (gains) losses on securities and loans, net | (18,487) | (44,875) |
| Unrealized (gains) losses on financial derivatives, net (2) | 4,966 | 10,379 |
| Unrealized (gains) losses on real estate owned, net | 266 | 513 |
| Other realized and unrealized (gains) losses (3) | (55) | (441) |
| Non-cash equity compensation expense | 114 | 230 |
| Catch-up Premium Amortization Adjustment | 896 | 1,403 |
| Debt issuance costs related to Other secured borrowings, at fair value | 1,671 | 1,671 |
| Miscellaneous non-recurring expenses(4) | 241 | 1,317 |
| (Earnings) losses from investments in unconsolidated entities (5) | (1,304) | (1,667) |
| Total Core Earnings | 14,719 | 29,097 |
| Core Earnings attributable to non-controlling interests | 1,099 | 2,128 |
| **Core Earnings Attributable to Common Stockholders** | $ 13,620 | $ 26,969 |
| **Core Earnings Attributable to Common Stockholders, per share** | $ 0.46 | $ 0.91 |

(1) Adjustment excludes net realized gains (losses) on accrued periodic settlements of interest rate swaps of $52 thousand and $0.8 million for the three-and six-month periods ended June 30, 2019.
(2) Adjustment excludes net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of $45 thousand and $(0.2) million for the three- and six-month periods ended June 30, 2019.
(3) Includes realized and unrealized gains (losses) on foreign currency and unrealized gain (loss) on other secured borrowings, at fair value, included in Other, net, on the Condensed Consolidated Statement of Operations.
(4) Miscellaneous non-recurring expenses consist mostly of professional fees related to the REIT Conversion.
(5) Adjustment represents, for certain investments in unconsolidated entities, the net realized and unrealized gains and losses of the underlying investments of such entities.

## Results of Operations for the Three-Month Periods Ended June 30, 2019 and 2018

### Net Income (Loss) Attributable to Common Stockholders

For the three-month period ended June 30, 2019 we had Net Income (Loss) Attributable to Common Stockholders of $12.6 million. We had Interest income of $38.5 million, Interest expense of $19.7 million, Total other income (loss) of $2.8 million, Earnings from investments in unconsolidated entities of $2.4 million, Income tax expense of $0.4 million, and Total expenses of $9.9 million, less Net Income Attributable to Non-Controlling Interests of $1.0 million.

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

For the three-month period ended June 30, 2018 we had a net increase in shareholders' equity resulting from operations of $21.2 million. We had interest income of $31.9 million, other income of $1.1 million, net realized and unrealized gains of $11.2 million, and total expenses of $22.0 million, less net increase (decrease) in equity resulting from operations attributable to non-controlling interests of $1.0 million.

### Interest Income

Interest income was $38.5 million for the three-month period ended June 30, 2019, as compared to $31.9 million for the three-month period ended June 30, 2018. Interest income for both periods 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 portfolio along with slightly higher asset yields for the three-month period ended June 30, 2019, as compared to the three-month period ended June 30, 2018.

For the three-month period ended June 30, 2019, interest income from our credit portfolio was $28.6 million, as compared to $21.0 million for the three-month period ended June 30, 2018. This period-over-period increase was primarily due to the larger size of the credit portfolio for the three-month period ended June 30, 2019, as well as higher average asset yields on this portfolio. For the three-month period ended June 30, 2019, interest income from our Agency RMBS was $9.5 million, as compared to $8.3 million for the three-month period ended June 30, 2018. This period-over-period increase was primarily due to the larger size of the Agency portfolio for the three-month period ended June 30, 2019, partially offset by lower average asset yields on this portfolio.

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 June 30, 2019 and 2018:

| | Credit(1) | | | Agency(1) | | | Total(1) | | |
|---|---|---|---|---|---|---|---|---|---|
| *(In thousands)* | Interest Income | Average Holdings | Yield | Interest Income | Average Holdings | Yield | Interest Income | Average Holdings | Yield |
| Three-month period ended June 30, 2019 | $ 28,554 | $ 1,372,590 | 8.32% | $ 9,501 | $ 1,269,508 | 2.99% | $ 38,055 | $ 2,642,098 | 5.76% |
| Three-month period ended June 30, 2018 | $ 20,962 | $ 1,055,478 | 7.94% | $ 8,345 | $ 970,272 | 3.44% | $ 29,307 | $ 2,025,750 | 5.79% |

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

Some of the variability in our interest income and portfolio yields is due to the Catch-up Premium Amortization Adjustment. For the three-month period ended June 30, 2019, we had a negative Catch-up Premium Amortization Adjustment of approximately $(0.9) million, which decreased our interest income. Excluding the Catch-up Premium Amortization Adjustment, the weighted average yield of our overall portfolio was 5.90% for the three-month period ended June 30, 2019. By comparison, for the three-month period ended June 30, 2018 the Catch-up Premium Amortization Adjustment increased interest income by approximately $0.3 million. Excluding this Catch-up Premium Amortization Adjustment, the weighted average yield on our overall portfolio for the three-month period ended June 30, 2018 was 5.73%.

### Interest Expense

Interest expense primarily includes interest on funds borrowed under 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 $19.7 million for the three-month period ended June 30, 2019, as compared to $13.4 million for the three-month period ended June 30, 2018, largely reflecting the increase in borrowings related to the growth of our portfolio, as well as higher average rates on our repo and other secured borrowings, which rose as LIBOR increased, and as borrowings used to finance loans, which have higher borrowing costs, constituted a greater portion of our overall borrowings.

The table below summarizes the components of interest expense for the three-month periods ended June 30, 2019 and 2018.

| (In thousands) | For the Three-Month Period Ended June 30, 2019 | For the Three-Month Period Ended June 30, 2018 |
|---|---|---|
| Repos and Total other secured borrowings | $ 18,358 | 10,809 |
| Senior Notes (1) | 1,249 | 1,195 |
| Securities sold short (2) | 91 | 1,202 |
| Other (3) | 4 | 177 |
| Total | $ 19,702 | 13,383 |

(1) Amount includes the related amortization of debt issuance costs. For the three-month period ended June 30, 2019, amount includes interest expense on the Senior Notes. For the three-month period ended June 30, 2018, amount includes interest expense on the Old Senior Notes.
(2) Amount includes the related net accretion and amortization of purchase discounts and premiums.
(3) Primarily includes interest expense on our counterparties' cash collateral held by us, and reverse repos 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 repos and Total other secured borrowings, for the three-month periods ended June 30, 2019 and 2018.

| | For the Three-Month Period Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2019 | | | June 30, 2018 | | |
| Collateral for Secured Borrowing | Average Borrowings | Interest Expense | Average Cost of Funds | Average Borrowings | Interest Expense | Average Cost of Funds |
| (In thousands) | | | | | | |
| Credit[1] | $ 975,638 | $ 10,474 | 4.31% | $ 661,977 | $ 6,324 | 3.83% |
| Agency RMBS | 1,172,136 | 7,876 | 2.70% | 891,285 | 4,446 | 2.00% |
| Subtotal[1] | 2,147,774 | 18,350 | 3.43% | 1,553,262 | 10,770 | 2.78% |
| U.S. Treasury Securities | 1,252 | 8 | 2.49% | 8,561 | 39 | 1.85% |
| Total | $ 2,149,026 | $ 18,358 | 3.43% | $ 1,561,823 | $ 10,809 | 2.78% |
| Average One-Month LIBOR | | | 2.44% | | | 1.97% |
| Average Six-Month LIBOR | | | 2.50% | | | 2.50% |

(1) Excludes U.S. Treasury Securities.

Among other instruments, we use interest rate swaps to hedge 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 3.38% for the three-month period ended June 30, 2019 and to 2.66% for the three-month period ended June 30, 2018. 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 2.38% and 3.13% for the three-month periods ended June 30, 2019 and 2018, respectively. These metrics do not include costs associated with other instruments that we use to hedge interest rate risk, such as TBAs and futures.

**Base Management Fees**

For the three-month periods ended June 30, 2019 and 2018, base management fee incurred, which is based on total equity at the end of each quarter, was $1.7 million and $2.0 million, respectively, net of fee rebates. During the three-month periods ended June 30, 2019 and 2018, our Manager credited us with rebates on our base management fee, related to those of our CLO investments for which Ellington or one of its affiliates earned CLO management fees, of $0.5 million and $0.3 million, respectively. The period-over-period decrease in the base management fee was primarily due to our smaller average capital base in the later period as well as the period-over-period increase in the fee rebate from our Manager.

**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. No incentive fee was incurred for the three-month period ended June 30, 2019, since on a rolling four quarter basis, our income did not exceed the prescribed hurdle amount. Incentive fee incurred for the three-month period ended June 30, 2018 was $0.3 million. Because our operating results can vary materially from one period to another, incentive fee expense can 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 June 30, 2019 and 2018 other investment related expenses were $5.2 million and $3.8 million, respectively. The increase in other investment related expenses was primarily due to debt issuance costs, incurred in the current period, related to Other secured borrowings, at fair value.

**Other Operating Expenses**

Other operating expenses consist of professional fees, compensation expense related to our dedicated or partially dedicated personnel, 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 $3.1 million for the three-month period ended June 30, 2019 as compared to $2.6 million for the three-month period ended June 30, 2018. The increase in other operating expenses for the three-month period ended June 30, 2019 was primarily due to an increase in professional fees relating to our REIT Conversion and an increase in compensation expense.

**Other Income (Loss)**

Other income (loss) consists of net realized and unrealized gains (losses) on securities and loans, financial derivatives, and real estate owned. Other, net, another component of Other income (loss), includes rental income and income related to loan origination, as well as realized gains (losses) on foreign currency transactions and unrealized gains (losses) on foreign currency remeasurement and Other Secured Borrowings, at fair value. For the three-month period ended June 30, 2019, other income was $2.8 million, consisting primarily of net realized and unrealized gains of $17.0 million on our securities and loans and gains included in Other, net of $1.8 million, partially offset by net realized and unrealized losses of $(15.8) million on our financial derivatives. Net realized and unrealized gains of $17.0 million on our securities and loans primarily resulted from net realized and unrealized gains on Agency RMBS, non-Agency RMBS, CMBS, and residential mortgage loans, partially offset by net realized and unrealized losses on CLOs, U.S. Treasury securities, and consumer loans. Net realized and unrealized losses of $(15.8) million on our financial derivatives was primarily related to net realized and unrealized losses on interest rate swaps, TBAs, and futures.

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

During the three-month period ended June 30, 2018, we had net realized and unrealized gains on investments of $7.1 million. Included in these investments are short positions in TBAs, U.S. Treasury securities, and sovereign securities, 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 $7.1 million for the three-month period ended June 30, 2018 resulted principally from net realized and unrealized gains on European consumer ABS, CMBS, non-Agency RMBS, small balance commercial and residential mortgage loans, CLOs, consumer loans, TBAs, and U.S. Treasury securities, partially offset by net realized and unrealized losses on Agency RMBS and corporate debt.

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

During the three-month period ended June 30, 2018, we had net realized and unrealized gains on our financial derivatives of $6.8 million. Our financial derivatives consisted of interest rate derivatives, used primarily to hedge interest rate risk, and of credit derivatives and total return swaps, both used primarily to hedge credit risk, but also for non-hedging purposes. Our derivatives also included foreign currency forwards and futures, used to hedge foreign currency risk. Our interest rate derivatives were primarily in the form of net short positions in interest rate swaps, Eurodollar futures, and U.S. Treasury Note futures.

Net realized and unrealized gains of $6.8 million on our financial derivatives for the three-month period ended June 30, 2018 resulted primarily from net gains on our futures, CDS on corporate bonds, and interest rate 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.

## Results of Operations for the Six-Month Periods Ended June 30, 2019 and 2018

### Net Income (Loss) Attributable to Common Stockholders

For the six-month period ended June 30, 2019 we had Net Income (Loss) Attributable to Common Stockholders of $28.1 million. We had Interest income of $74.6 million, Interest expense of $37.3 million, Total other income (loss) of $8.3 million, Earnings from investments in unconsolidated entities of $4.2 million, Income tax expense of $0.4 million, and Total expenses of $19.2 million, less Net Income Attributable to Non-Controlling Interests of $2.1 million.

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

For the six-month period ended June 30, 2018 we had a net increase in shareholders' equity resulting from operations of $42.2 million. We had interest income of $60.0 million, other income of $1.8 million, net realized and unrealized gains of $22.3 million, and total expenses of $40.6 million, less net increase (decrease) in equity resulting from operations attributable to non-controlling interests of $1.3 million.

### Interest Income

Interest income was $74.6 million for the six-month period ended June 30, 2019, as compared to $60.0 million for the six-month period ended June 30, 2018. Interest income for both periods 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.

For the six-month period ended June 30, 2019, interest income from our credit portfolio was $56.4 million, as compared to $40.2 million for the six-month period ended June 30, 2018. This period-over-period increase was primarily due to the larger size of the credit portfolio for the six-month period ended June 30, 2019, as well as higher average asset yields on this portfolio. For the six-month period ended June 30, 2019, interest income from our Agency RMBS was $17.1 million, as compared to $15.0 million for the six-month period ended June 30, 2018. This period-over-period increase was primarily due to the larger size of the Agency portfolio for the six-month period ended June 30, 2019, partially offset by lower average asset yields on this portfolio.

The following table details our interest income, average holdings of yield-bearing assets, and weighted average yield based on amortized cost for the six-month periods ended June 30, 2019 and 2018:

| | Credit[(1)] | | | Agency[(1)] | | | Total[(1)] | | |
|---|---|---|---|---|---|---|---|---|---|
| *(In thousands)* | Interest Income | Average Holdings | Yield | Interest Income | Average Holdings | Yield | Interest Income | Average Holdings | Yield |
| Six-month period ended June 30, 2019 | $ 56,405 | $ 1,356,350 | 8.32% | $ 17,063 | $ 1,119,006 | 3.05% | $ 73,468 | $ 2,475,356 | 5.94% |
| Six-month period ended June 30, 2018 | $ 40,228 | $ 1,017,246 | 7.91% | $ 15,038 | $ 941,323 | 3.20% | $ 55,266 | $ 1,958,569 | 5.64% |

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

Some of the variability in our interest income and portfolio yields is due to the Catch-up Premium Amortization Adjustment. For the six-month period ended June 30, 2019, we had a negative Catch-up Premium Amortization Adjustment of approximately $(1.4) million, which decreased our interest income. Excluding the Catch-up Premium Amortization Adjustment, the weighted average yield of our overall portfolio was 6.05% for the six-month period ended June 30, 2019. By comparison, for the six-month period ended June 30, 2018 the Catch-up Premium Amortization Adjustment increased interest income by approximately $13 thousand, which only slightly increased our interest income, and had little impact on the weighted average yield of our overall portfolio for the six-month period ended June 30, 2018, which was 5.64% whether including or excluding the Catch-up Premium Amortization Adjustment.

### Interest Expense

Interest expense primarily includes interest on funds borrowed under 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 $37.3 million for the six-month period ended June 30, 2019, as compared to $24.9 million for the six-month period ended June 30, 2018, largely reflecting the increase in borrowings related to the growth of our portfolio, as well as higher average rates on our repo and other secured borrowings, which rose as LIBOR increased, and as borrowings used to finance credit assets constituted a greater portion of our overall borrowings.

The table below summarizes the components of interest expense for the six-month periods ended June 30, 2019 and 2018.

| | For the Six-Month Period Ended | |
|---|---|---|
| *(In thousands)* | June 30, 2019 | June 30, 2018 |
| Repos and Total other secured borrowings | $ 34,425 | 19,472 |
| Senior Notes (1) | 2,472 | 2,390 |
| Securities sold short (2) | 402 | 2,573 |
| Other (3) | 21 | 511 |
| Total | $ 37,320 | 24,946 |

(1) Amount includes the related amortization of debt issuance costs. For the six-month period ended June 30, 2019, amount includes interest expense on the Senior Notes and the Old Senior Notes. For the six-month period ended June 30, 2018, amount includes interest expense on the Old Senior Notes.
(2) Amount includes the related net accretion and amortization of purchase discounts and premiums.
(3) Primarily includes interest expense on our counterparties' cash collateral held by us, and reverse repos 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 repos and Total other secured borrowings, for the six-month periods ended June 30, 2019 and 2018.

| | For the Six-Month Period Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2019 | | | June 30, 2018 | | |
| **Collateral for Secured Borrowing** | Average Borrowings | Interest Expense | Average Cost of Funds | Average Borrowings | Interest Expense | Average Cost of Funds |
| *(In thousands)* | | | | | | |
| Credit(1) | $ 971,893 | $ 20,501 | 4.25% | $ 627,393 | $ 11,495 | 3.69% |
| Agency RMBS | 1,033,830 | 13,858 | 2.70% | 866,209 | 7,921 | 1.84% |
| Subtotal(1) | 2,005,723 | 34,359 | 3.45% | 1,493,602 | 19,416 | 2.55% |
| U.S. Treasury Securities | 5,519 | 66 | 2.41% | 6,639 | 56 | 1.71% |
| Total | $ 2,011,242 | $ 34,425 | 3.45% | $ 1,500,241 | $ 19,472 | 2.62% |
| Average One-Month LIBOR | | | 2.47% | | | 1.81% |
| Average Six-Month LIBOR | | | 2.63% | | | 2.30% |

(1) Excludes U.S. Treasury Securities.

Among other instruments, we use interest rate swaps to hedge 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 3.36% for the six-month period ended June 30, 2019 and to 2.54% for the six-month period ended June 30, 2018. 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 2.57% and 3.10% for the six-month periods ended June 30, 2019 and 2018, respectively. These metrics do not include costs associated with other instruments that we use to hedge interest rate risk, such as TBAs and futures.

**Base Management Fees**

For the six-month periods ended June 30, 2019 and 2018, base management fee incurred, which is based on total equity at the end of each quarter, was $3.4 million and $4.0 million, respectively, net of fee rebates. During the six-month periods ended June 30, 2019 and 2018, our Manager credited us with rebates on our base management fee, related to those of our CLO investments for which Ellington or one of its affiliates earned CLO management fees, of $1.0 million and $0.5 million, respectively. The period-over-period decrease in the base management fee was primarily due to our smaller average capital base in the later period as well as the period-over-period increase in the fee rebate from our Manager.

**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. No incentive fee was incurred for the six-month period ended June 30, 2019, since on a rolling four quarter basis, our income did not exceed the prescribed hurdle amount. Incentive fee incurred for the six-month period ended June 30, 2018 was $0.3 million. Because our operating results can vary materially from one period to another, incentive fee expense can 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 six-month periods ended June 30, 2019 and 2018 other investment related expenses were $8.6 million and $6.7 million, respectively. The increase in other investment related expenses was primarily due to debt issuance costs, incurred in the current period, related to Other secured borrowings, at fair value.

**Other Operating Expenses**

Other operating expenses consist of professional fees, compensation expense related to our dedicated or partially dedicated personnel, 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 $7.1 million for the six-month period ended June 30, 2019 as compared to $4.7 million for the six-month period ended June 30, 2018. The increase in other operating expenses for the six-month period ended June 30, 2019 was primarily due to an increase in professional fees relating to our REIT Conversion and an increase in compensation expense.

**Other Income (Loss)**

Other income (loss) consists of net realized and unrealized gains (losses) on securities and loans, financial derivatives, and real estate owned. Other, net, another component of Other income (loss), includes rental income and income related to loan origination, as well as realized gains (losses) on foreign currency transactions and unrealized gains (losses) on foreign currency remeasurement and Other Secured Borrowings, at fair value. For the six-month period ended June 30, 2019, other income was $8.3 million, consisting primarily of net realized and unrealized gains of $38.0 million on our securities and loans and gains included in Other, net of $3.8 million, partially offset by net realized and unrealized losses of $(33.1) million on our financial derivatives. Net realized and unrealized gains of $38.0 million on our securities and loans primarily resulted from net realized and unrealized gains on Agency RMBS, residential mortgage loans, and non-Agency RMBS and CMBS, partially offset by net realized and unrealized losses on consumer loans, small balance commercial loans, CLOs, and U.S. Treasury securities. Net realized and unrealized losses of $(33.1) million on our financial derivatives was primarily related to net realized and unrealized losses on interest rate swaps, TBAs, futures, CDS on corporate bond indices, and CDS on asset-backed indices partially offset by net realized and unrealized gains on forwards.

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

During the six-month period ended June 30, 2018, we had net realized and unrealized gains on investments of $12.8 million. Included in these investments are short positions in TBAs, U.S. Treasury securities, and sovereign securities, 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 $12.8 million for the six-month period ended June 30, 2018 resulted principally from net realized and unrealized gains on European consumer ABS, TBAs, equity investments in mortgage originators, 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.

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

During the six-month period ended June 30, 2018, we had net realized and unrealized gains on our financial derivatives of $9.5 million. Our financial derivatives consisted of interest rate derivatives, used primarily to hedge interest rate risk, and of credit derivatives and total return swaps, both used primarily to hedge credit risk, but also for non-hedging purposes. Our derivatives also included foreign currency forwards and futures, used to hedge foreign currency risk. Our interest rate derivatives were primarily in the form of net short positions in interest rate swaps, Eurodollar futures, and U.S. Treasury Note futures.

Net realized and unrealized gains of $9.5 million on our financial derivatives for the six-month period ended June 30, 2018 resulted primarily from net gains on our interest rate swaps, CDS on corporate bonds, and futures. 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.

**Liquidity and Capital Resources**

Liquidity refers to our ability to meet our cash needs, including repaying our borrowings, funding and maintaining positions in our targeted 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 repos, reverse repos, and financial derivative contracts, repayment of repo borrowings and other secured borrowings to 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 dividends. 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 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 borrowings under repos by remaining maturity:

| *(In thousands)* | June 30, 2019 | |
|---|---|---|
| **Remaining Days to Maturity** | **Outstanding Borrowings** | **%** |
| 30 Days or Less | $ 284,306 | 16.6% |
| 31 - 60 Days | 548,469 | 32.0% |
| 61 - 90 Days | 466,816 | 27.2% |
| 91 - 120 Days | 202,442 | 11.8% |
| 121 - 150 Days | 27,986 | 1.6% |
| 151 - 180 Days | 9,118 | 0.5% |
| 181 - 360 Days | 89,488 | 5.2% |
| > 360 Days | 86,881 | 5.1% |
| | $ 1,715,506 | 100.0% |

Repos involving underlying investments that we sold prior to June 30, 2019, for settlement following June 30, 2019 are shown using their original maturity dates even though such repos may be expected to be terminated early upon settlement of the sale of the underlying investment.

The amounts borrowed under our repo agreements are generally subject to the application of "haircuts." A haircut is the percentage discount that a repo lender applies to the market value of an asset serving as collateral for a repo borrowing, for the purpose of determining whether such repo borrowing is adequately collateralized. As of June 30, 2019, the weighted average contractual haircut applicable to the assets that serve as collateral for our outstanding repo borrowings (excluding repo borrowings related to U.S. Treasury securities) was 32.5% with respect to credit assets, 5.0% with respect to Agency RMBS assets, and 14.7% overall. As of December 31, 2018 these respective weighted average contractual haircuts were 28.5%, 5.4%, and 15.9%.

We expect to continue to borrow funds in the form of repos as well as other similar types of financings. The terms of our 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 repo lenders.

As of June 30, 2019, we had $1.7 billion of borrowings outstanding under our repos. As of June 30, 2019, the remaining terms on our repos ranged from 1 day to 874 days, with a weighted average remaining term of 109 days. Our repo borrowings were with a total of 24 counterparties as of June 30, 2019. As of June 30, 2019, our repos, excluding those on U.S. Treasury securities, had a weighted average borrowing rate of 3.06%. As of June 30, 2019, our repos had interest rates ranging from 0.24% to 5.60%. Investments transferred as collateral under repos had an aggregate fair value of $2.0 billion as of June 30, 2019.

As of December 31, 2018, we had $1.5 billion of borrowings outstanding under our repos. As of December 31, 2018, the remaining terms on our repos ranged from 2 days to 871 days, with a weighted average remaining term of 121 days. Our repo borrowings were with a total of 23 counterparties as of December 31, 2018. As of December 31, 2018, our repos, excluding those on U.S. Treasury securities, had a weighted average borrowing rate of 3.13%. As of December 31, 2018, our repos had interest rates ranging from 0.23% to 6.07%. Investments transferred as collateral under repos had an aggregate fair value of $1.8 billion as of December 31, 2018.

The interest rates of our 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 repos will be funded primarily through the roll/re-initiation of repos and, if we are unable or unwilling to roll/re-initiate our repos, through free cash and proceeds from the sale of securities.

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

| Quarter Ended | Borrowings Outstanding at Quarter End | Average Borrowings Outstanding | Maximum Borrowings Outstanding at Any Month End |
|---|---|---|---|
| | | *(In thousands)* | |
| June 30, 2019 | $ 1,715,506 | $ 1,769,909 | $ 1,962,866 |
| March 31, 2019 | 1,550,016 | 1,471,592 | 1,550,016 |
| December 31, 2018 | 1,498,849 | 1,509,819 | 1,595,118 |
| 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(1) | 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 |

(1) Our repo borrowings as of December 31, 2017 increased relative to our average 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 repo borrowings on non-QM loans in anticipation of completing a securitization transaction. This reduced our average outstanding repo borrowings for the fourth quarter of 2017. Additionally, at the end of 2017 we increased the size of our Credit portfolio by purchasing certain more liquid, lower-risk securities which we subsequently financed through repos.

In addition to our borrowings under repos, we have entered into various other types of transactions to finance certain of our non-QM and consumer loans; these transactions are accounted for as collateralized borrowings. As of June 30, 2019 we had outstanding borrowings related to such transactions in the amount of $577.7 million, which is reflected under the captions "Other secured borrowings" and "Other secured borrowings, at fair value" on the Condensed Consolidated Balance Sheet. As of June 30, 2019, the fair value of non-QM and consumer loans collateralizing our Total other secured borrowings was $649.9 million. As of December 31, 2018 we had outstanding borrowings related to such transactions in the amount of $412.0 million, 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 December 31, 2018, the fair value of non-QM and consumer loans collateralizing our Total other secured borrowings was $483.5 million. See Note 11 in the notes to our condensed consolidated financial statements for the six-month period ended June 30, 2019 and Note 7 in the notes to our consolidated financial statements for the six-month period ended June 30, 2018 for further information on our other secured borrowings.

As of June 30, 2019, we had $86.0 million outstanding of Senior Notes, maturing in September 2022 and bearing interest at a rate of 5.50%, subject to adjustment based on changes, if any, in the ratings of the Senior Notes. These Senior Notes were issued on February 13, 2019 in connection with the Note Exchange. As of December 31, 2018, we had $86.0 million outstanding of Old Senior Notes, which had an interest rate of 5.25%. See Note 11 in the notes to our condensed consolidated financial statements for the six-month period ended June 30, 2019 and Note 7 in the notes to our consolidated financial statements for the six-month period ended June 30, 2018 for further detail on the Senior Notes and the Old Senior Notes.

As of June 30, 2019, we had an aggregate amount at risk under our repos with 24 counterparties of approximately $313.6 million, and as of December 31, 2018, we had an aggregate amount at risk under our repos with 23 counterparties of approximately $306.4 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 repos. If the amounts outstanding under 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 June 30, 2019 and December 31, 2018 does not include approximately $2.7 million and $2.6 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 June 30, 2019, we had an aggregate amount at risk under our derivative contracts, excluding TBAs, with 10 counterparties of approximately $18.6 million. We also had $6.8 million of initial margin for cleared over-the-counter, or "OTC," derivatives posted to central clearinghouses as of that date. As of December 31, 2018, we had an aggregate amount at risk under our derivatives contracts, excluding TBAs, with 12 counterparties of approximately $25.2 million. We also had $8.3 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 June 30, 2019, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with 10 counterparties of approximately $4.7 million. As of December 31, 2018, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with five counterparties of approximately $1.7 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 $42.7 million and $44.7 million as of June 30, 2019 and December 31, 2018, respectively.

On June 13, 2018, our Board of Directors approved the adoption of a share repurchase program under which we are authorized to repurchase up to 1.55 million shares of common stock. 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 six-month period ended June 30, 2019, we repurchased 50,825 shares at an average price per share of $15.39 and a total cost of $0.8 million; we did not repurchase any shares during the three-month period ended June 30, 2019. From inception of the current repurchase plan through August 2, 2019, we repurchased 411,915 shares at an average price per share of $15.34 and a total cost of $6.3 million.

On July 22, 2019, we completed a follow-on offering of 3.5 million shares of our common stock, which generated net proceeds, after underwriters' discount and offering costs, of $60.7 million. On July 25, 2019, we issued an additional 525,000 shares of our common stock in connection with the exercise of the underwriters' option granted in the initial offering. The exercise of the underwriters' option resulted in net proceeds to us of an additional $9.1 million, after underwriters' discount and offering costs.

Additionally, on April 3, 2019, 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 shares of common stock from time to time with a maximum aggregate gross offering price of up to $150 million. Through August 2, 2019 we have not yet issued shares of common stock under the ATM program.

We may declare dividends based on, among other things, our earnings, our financial condition, the REIT qualification requirements of the Internal Revenue Code of 1986, as amended, our working capital needs and new opportunities. The declaration of dividends to our stockholders and the amount of such dividends are at the discretion of our Board of Directors.

The following table sets forth the dividend distributions authorized by the Board of Directors payable to shareholders and holders of Convertible Non-controlling Interest Units (as defined in Note 2 of the notes to condensed consolidated financial statements for the six-month period ended June 30, 2019) for the periods indicated below:

*Six-Month Period Ended June 30, 2019*

| Declaration Date | Dividend Per Share | Dividend Amount | Record Date | Payment Date |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| February 14, 2019 | $0.41 | $ 12,496 | March 1, 2019 | March 15, 2019 |
| March 11, 2019 | 0.14 | 4,267 | March 29, 2019 | April 25, 2019 |
| April 5, 2019 | 0.14 | 4,267 | April 30, 2019 | May 28, 2019 |
| May 7, 2019 | 0.14 | 4,267 | May 31, 2109 | June 25, 2019 |
| June 7, 2019 | 0.14 | 4,267 | June 28, 2019 | July 25, 2019 |

*Six-Month Period Ended June 30, 2018*

| Declaration Date | Dividend Per Share | Dividend Amount | Record Date | Payment Date |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| February 6, 2018 | $0.41 | $ 12,850 | March 1, 2018 | March 15, 2018 |
| May 2, 2018 | 0.41 | 12,650 | June 1, 2018 | June 15, 2018 |

On July 8, 2019, our Board of Directors approved a dividend in the amount of $0.14 per share payable on August 26, 2019 to stockholders of record as of July 31, 2019, and on August 7, 2019, our Board of Directors approved a dividend in the amount of $0.14 per share payable on September 25, 2019 to stockholders of record as of August 30, 2019.

For the six-month period ended June 30, 2019, our operating activities provided net cash in the amount of $43.3 million and our investing activities used net cash in the amount of $304.8 million. Our repo activity used to finance many of our investments (including repayments, in conjunction with the sales of investments, of amounts borrowed under our repos) provided net cash of $229.6 million. We received $91.4 million in proceeds from the issuance of Total other secured borrowings, we used $32.6 million for principal payments on Other secured borrowings, and we used $1.0 million for Debt issuance costs, which were related to Other secured borrowings, at fair value. Thus our operating and investing activities, when combined with our repo financings, Other secured borrowings (net of repayments), provided net cash of $25.9 million for the six-month period ended June 30, 2019. In addition, contributions from non-controlling interests provided cash of $7.4 million. We used $25.3 million to pay dividends, $9.5 million for distributions to non-controlling interests (our joint venture partners), and $0.8 million to repurchase common stock. As a result there was a decrease in our cash holdings of $2.2 million, from $45.1 million as of December 31, 2018 to $42.8 million as of June 30, 2019.

For the six-month period ended June 30, 2018, our operating activities used net cash in the amount of $223.7 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 $212.2 million. We received $51.2 million in proceeds from the issuance of Other secured borrowings, and we used $13.4 million for principal payments on Other secured borrowings. Thus our operating activities, when combined with our reverse repo financings and Other secured borrowings (net of repayments), provided net cash of $26.2 million for the six-month period ended June 30, 2018. In addition, contributions from non-controlling interests provided cash of $2.2 million. We used $25.5 million to pay dividends, $10.5 million for distributions to non-controlling interests (our joint venture partners), and $17.6 million to repurchase common shares. As a result there was a decrease in our cash holdings of $25.2 million, from $47.7 million as of December 31, 2017 to $22.5 million as of June 30, 2018.

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 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 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 13 of the notes to our condensed consolidated financial statements for the six-month period ended June 30, 2019.

We have numerous contractual obligations and commitments related to our outstanding borrowings (see Note 11 of the notes to our condensed consolidated financial statements for the six-month period ended June 30, 2019) and related to our financial derivatives (see Note 8 of the notes to our condensed consolidated financial statements for the six-month period ended June 30, 2019).

See Note 21 of the notes to our condensed consolidated financial statements for the six-month period ended June 30, 2019 for further detail on our other contractual obligations and commitments.

**Off-Balance Sheet Arrangements**

As of June 30, 2019, 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 9, Note 10, and Note 13 of the notes to our condensed consolidated financial statements for the six-month period ended June 30, 2019 for further detail about a multi-seller consumer loan securitization transaction we entered into in August 2016.

At June 30, 2019 we have not entered into any 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 June 30, 2019 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 RMBS, CMBS, mortgage loans, CLOs, investments in securitization warehouses, 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 lower-rated or unrated CLO investments and our corporate debt investments in loan originators, have significant risk of loss, and our efforts to protect these investments may involve substantial 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 a borrower fails to make scheduled principal and interest payments on a mortgage loan or other debt obligation. 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 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. Our repurchase agreements generally carry interest rates that are determined by reference to LIBOR or similar short-term benchmark rates for those same periods. Whenever one of our fixed-rate repo borrowings matures, it will generally be replaced with a new fixed-rate repo borrowing based on market interest rates prevailing at such time. Subject to qualifying and maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we opportunistically 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 RMBS and CMBS positions.

The following sensitivity analysis table shows the estimated impact on the value of our portfolio segregated by certain identified categories as of June 30, 2019, 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** | |
| **Category of Instruments** | **Market Value** | **% of Total Equity** | **Market Value** | **% of Total Equity** | **Market Value** | **% of Total Equity** | **Market Value** | **% of Total Equity** |
| Agency RMBS | $ 8,064 | 1.36 % | $ 10,431 | 1.76 % | $ (13,762) | (2.32)% | $ (33,224) | (5.60)% |
| Non-Agency RMBS, CMBS, ABS and Loans | 3,696 | 0.62 % | 7,608 | 1.28 % | (3,481) | (0.59)% | (6,746) | (1.14)% |
| U.S. Treasury Securities, and Interest Rate Swaps, Options, and Futures | (11,142) | (1.88)% | (22,761) | (3.84)% | 10,665 | 1.80 % | 20,854 | 3.52 % |
| Mortgage-Related Derivatives | 9 | — % | 20 | — % | (7) | — % | (13) | — % |
| Corporate Securities and Derivatives on Corporate Securities | (7) | — % | (15) | — % | 7 | — % | 14 | — % |
| Repurchase Agreements and Reverse Repurchase Agreements | (2,384) | (0.40)% | (4,751) | (0.80)% | 2,395 | 0.40 % | 4,802 | 0.81 % |
| Total | $ (1,764) | (0.30)% | $ (9,468) | (1.60)% | $ (4,183) | (0.71)% | $ (14,313) | (2.41)% |

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 June 30, 2019 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 "—*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 June 30, 2019. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2019.

### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II

## 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 be subject to regulatory inquiries or proceedings" included in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

## 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, 2018. 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 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 Inc.'s Quarterly Report on Form 10-Q for the three- and six-month periods ended June 30, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet, (ii) Condensed Consolidated Statement of Operations, (iii) Condensed Consolidated Statements of Changes in Equity, (iv) Condensed Consolidated Statements of Cash Flows, (v) Notes to Condensed Consolidated Financial Statements, (vi) Consolidated Statement of Assets, Liabilities, and Equity, (vii) Consolidated Condensed Schedule of Investments, (viii) Consolidated Statement of Operations, (ix) Consolidated Statements of Changes in Equity, (x) Consolidated Statements of Cash Flows and (xi) 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.

## 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 INC. | |
| Date: | August 9, 2019 | By: | /s/ LAURENCE PENN |
| | | | Laurence Penn<br>Chief Executive Officer<br>(Principal Executive Officer) |
| | | ELLINGTON FINANCIAL INC. | |
| Date: | August 9, 2019 | By: | /s/ JR HERLIHY |
| | | | JR Herlihy<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) |

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Laurence Penn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ellington Financial Inc.;

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: August 9, 2019

/s/ Laurence Penn

Laurence Penn
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, JR Herlihy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ellington Financial Inc.;

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: August 9, 2019

/s/ JR Herlihy

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

**Exhibit 32.1**

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

In connection with the Quarterly Report of Ellington Financial Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Laurence Penn, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: August 9, 2019

/s/ Laurence Penn

Laurence Penn
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 32.2**

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

In connection with the Quarterly Report of Ellington Financial Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, JR Herlihy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: August 9, 2019

/s/ JR Herlihy

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