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

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from to

Commission file number 001-34569

Ellington Financial 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 Offices) (Zip Code)

(203) 698-1200

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Name of each exchange on which registered
Common stock, par value $0.001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ☐

Indicate by check mark 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

As of June 29, 2018, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the Registrant's common shares held by non-affiliates was $420,571,067 based on the closing price as reported by the New York Stock Exchange on that date.

Number of shares of the Registrant's common stock outstanding as of March 8, 2019: 29,745,776

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement with respect to its 2019 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the Registrant's fiscal year are incorporated by reference into Part III hereof as noted therein.

ELLINGTON FINANCIAL LLC

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PART I

Item 1. Business

Except where the context suggests otherwise, references in this Annual Report on Form 10-K 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 Annual Report on Form 10-K to (1) "common shares" refer to shares of our common stock previously outstanding prior to our corporate conversion and (2) "common shareholders" refer to holders of shares of our common stock prior to 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 Annual Report on Form 10-K, 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 this 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.

Our Company

We were originally formed as a Delaware limited liability company in July 2007 and commenced operations in August 2007. Through December 31, 2018, we believe we were organized and had operated so that we qualified to be treated for U.S. federal income tax purposes as a partnership and not as an association or a publicly traded partnership taxable as a corporation. In February 2019, we elected to be taxed as a corporation for U.S. federal income tax purposes effective as of January 1, 2019, and we will elect and intend to qualify to be treated as a REIT for U.S. federal income tax purposes commencing with our taxable year ending December 31, 2019. Effective March 1, 2019, we converted to a Delaware corporation and changed our name to Ellington Financial Inc. We acquire and manage mortgage-related, consumer-related, corporate-related, and other financial assets. Our primary objective is to generate attractive, risk-adjusted total returns for our stockholders by making investments that we believe compensate us appropriately for the risks associated with them. We seek to attain this objective by utilizing an opportunistic strategy. Our targeted asset classes currently include investments in the U.S. and Europe (as applicable) in the categories listed below. Subject to maintaining our qualification as a REIT, we expect to continue to invest in these targeted asset classes, although the allocation of our capital among these targeted asset classes will likely vary from our historical allocations in light of our REIT status. Also, some of these asset classes may be held in taxable REIT subsidiaries, or "TRSs." Finally, certain asset classes we have previously included in our list of targeted asset classes, such as corporate debt and equity and derivatives, are no longer included.

- residential mortgage-backed securities, or "RMBS," backed by loans for which the principal and interest payments are not guaranteed by a U.S. government agency or a U.S. government-sponsored entity, collectively referred to as "non-Agency RMBS" if issued in the United States;
- 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";
- commercial mortgage-backed securities, or "CMBS," commercial mortgage loans and other commercial real estate debt;
- residential mortgage loans, including mortgage loans that are not deemed "qualified mortgage," or "QM," loans under the rules of the Consumer Financial Protection Bureau, or "non-QM loans," non-performing and re-performing residential mortgage loans, or "residential NPLs," including "legacy" (i.e. issued before the 2008 financial crisis) NPLs, and residential transition loans;
- consumer loans and asset-backed securities, or "ABS," backed by consumer loans;
- collateralized loan obligations, or "CLOs";
- mortgage-related and non-mortgage-related derivatives; and
- other investments, including strategic investments in companies from which we purchase, or may in the future purchase, targeted assets.

Subject to qualifying and maintaining our qualification as a REIT, we opportunistically utilize derivatives and other hedging instruments to hedge our credit, interest rate, and foreign currency risk.

Our investments in residential and commercial mortgage loans may consist of performing, non-performing, or sub-performing loans. In addition, we may from time to time acquire real property. We also have made, and may in the future make, investments in the debt and/or equity of other entities engaged in loan-related businesses, such as loan originators and mortgage-related entities. In connection with investments in loan originators, we may also enter into flow agreements that will allow us to purchase new loans from the loan originators in which we invest in accordance with the parameters set forth in the applicable flow agreement. We also opportunistically engage in relative value trading strategies, whereby we seek to identify and capitalize on short-term pricing disparities in various equity and/or fixed-income markets. We may also opportunistically acquire and manage other types of mortgage-related and financial assets not listed above, such as mortgage servicing rights, or "MSRs," and credit risk transfer securities, or "CRTs."

Our "credit portfolio," which includes all of our assets other than 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. We also 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 and 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 maintain some amount of Agency RMBS. For more information on our targeted assets, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Our Targeted Asset Classes."

As of December 31, 2018, we believe we were organized and had operated so that we qualified to be treated as a partnership for U.S. federal income tax purposes. Effective January 1, 2019, we will elect and intend to qualify to be treated as a REIT for U.S. federal income tax purposes commencing with our taxable year ending December 31, 2019.

Our Manager and Ellington

We are externally managed and advised by our Manager, an affiliate of Ellington, pursuant to a management agreement. Our Manager was formed solely to serve as our manager and does not have any other clients. In addition, our Manager currently does not have any employees and instead relies on the employees of Ellington to perform its obligations to us. Ellington is an investment management firm and registered investment advisor with a 24-year history of investing in a broad spectrum of mortgage-backed securities, or "MBS," and related derivatives.

The members of our management team include Michael Vranos, founder and Chief Executive Officer of Ellington, who serves as our Co-Chief Investment Officer; Laurence Penn, Vice Chairman and Chief Operating Officer of Ellington, who serves as our Chief Executive Officer and President and a member of our Board of Directors; Mark Tecotzky, a Managing Director of Ellington, who serves as our Co-Chief Investment Officer; JR Herlihy, a Director of Ellington, who serves as our Chief Financial Officer; Christopher Smernoff, who serves as our Chief Accounting Officer, Daniel Margolis, General Counsel of Ellington, who serves as our General Counsel; Vincent Ambrico, who serves as our Controller; and Jason Frank, Associate General Counsel of Ellington, who serves as our Secretary. Each of these individuals is an officer of our Manager.

Our Manager is responsible for administering our business activities and day-to-day operations and, pursuant to a services agreement between our Manager and Ellington, relies on the resources of Ellington to support our operations. Ellington has well-established portfolio management resources for each of our targeted asset classes and an established infrastructure supporting those resources. Through our relationship with our Manager, we benefit from Ellington's highly analytical investment processes, broad-based deal flow, extensive relationships in the financial community, financial and capital structuring skills, investment surveillance database, and operational expertise. For example, Ellington's analytic approach to the investment process involves collection of substantial amounts of data regarding historical performance of MBS collateral and MBS market transactions. Ellington analyzes this data to identify possible relationships and trends and develops financial models used to support our investment and risk management process. In addition, throughout Ellington's 24-year investing history, it has developed strong relationships with a wide range of dealers and other market participants that provide Ellington access to a broad range of trading opportunities and market information. As a result, Ellington provides us with access to a wide variety of asset acquisition and disposition opportunities and information that assist us in making asset management decisions across our targeted asset classes, which we believe provides us with a significant competitive advantage. We also benefit from Ellington's finance, accounting, operational, legal, compliance, and administrative functions.

As of December 31, 2018, Ellington employed over 150 employees and had assets under management of approximately $7.6 billion, of which approximately $5.8 billion consisted of our company and Ellington Residential Mortgage REIT, a REIT listed on the New York Stock Exchange, or the "NYSE," under the ticker "EARN," that focuses its investment strategy primarily on Agency RMBS, and various hedge funds and other alternative investment vehicles that employ financial leverage, and approximately $1.8 billion consisted of accounts that do not employ financial leverage. The $7.6 billion and $5.8 billion in assets under management include approximately $1.1 billion in Ellington-managed CLOs. For these purposes, the Ellington-managed CLO figure represents the aggregate outstanding balance of CLO notes and market value of CLO equity, excluding any notes and equity held by other Ellington-managed funds and accounts.

Our Strategy

We utilize an opportunistic strategy to seek to generate attractive, risk-adjusted returns. We pursue value across various types of mortgage-related, consumer-related, corporate-related, and other financial assets, through investments primarily in securities and loans.

Our strategy is adaptable to changing market environments, subject to qualifying and maintaining our qualification as a REIT for U.S. federal income tax purposes and maintaining our exclusion from registration as an investment company under the Investment Company Act. As a result, although we focus on the targeted assets described in the section captioned "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Our Targeted Asset Classes," our acquisition and management decisions depend on prevailing market conditions and our targeted asset classes may vary over time in response to market conditions. We may engage in a high degree of trading volume as we implement our strategy. Our Manager is authorized to follow very broad investment guidelines and, as a result, we cannot predict our portfolio composition. 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. We may change our strategy and policies without a vote of our stockholders. Moreover, although our independent directors may periodically review our investment guidelines and our portfolio, they generally do not review our proposed asset acquisitions or asset management decisions.

We believe that Ellington's capabilities allow our Manager to identify attractive assets, value these assets, monitor and forecast the performance of these assets, and opportunistically hedge our risk with respect to these assets. Ellington's continued emphasis on and development of proprietary credit, interest rate, and prepayment models, as well as other proprietary research and analytics, underscores the importance it places on a disciplined and analytical approach to fixed income investing. We leverage these skills and resources to seek to meet our investment objectives.

With respect to structured products including MBS, Ellington seeks investments across a wide range of sectors without any restriction as to ratings, structure, or position in the capital structure. Over time and through market cycles, opportunities will present themselves in varying sectors and in varying forms. By rotating between and allocating among various sectors of the structured product markets and adjusting the extent to which it hedges, Ellington believes that it is able to capitalize on the disparities between these sectors as well as on overall trends in the marketplace, and therefore provide better and more consistent returns for its investors. Disparities between sectors vary from time to time and are driven by a combination of factors. For example, as various structured product sectors fall in and out of favor, the relative yields that the market demands for those sectors may vary. In addition, Ellington's performance projections for certain sectors may differ from those of other market participants and such disparities will naturally cause us, from time to time, to gravitate towards certain sectors and away from others. Disparities between structured product sectors and individual securities within such sectors may also be driven by differences in collateral performance (for example, loans originated during certain periods of time when underwriting standards were generally stricter may on average perform better than loans originated during other times) and in the structure of particular investments (for example, in the timing of cash flows or the level of credit enhancement), and our Manager may believe that other market participants are overestimating or underestimating the value of these differences. Furthermore, we believe that risk management, including opportunistic portfolio hedging and prudent financing and liquidity management, is essential for consistent generation of attractive, risk-adjusted total returns across market cycles.

With respect to loans, we have tended to focus on underserved, niche market segments where inefficiencies exist, and where the segment's size or complexity could present a barrier to entry. Since the financial crisis, capital requirements and other regulations in the banking industry have curtailed bank origination and ownership of certain types of loans, and as a result, capital availability for certain loan products is lower than it was historically, thus creating better opportunities for Ellington to invest in these loan products. Ellington uses its deep network of industry relationships to source new loan investments. These relationships have generated a regular flow of offerings from diversified sources, including flow agreements with certain loan origination partners. By investing opportunistically in both loans and securities, we believe we are able to achieve attractive diversification and can take advantage of relative value across investment classes.

We believe that our Manager is uniquely qualified to implement our strategy. Our strategy is consistent with Ellington's investment approach, which is based on its distinctive strengths in sourcing, analyzing, trading, and hedging complex structured products. Furthermore, we believe that Ellington's extensive experience in buying, selling, analyzing, and structuring fixed income securities, coupled with its broad access to market information and trading flows, provides us with a steady flow of opportunities to acquire assets with favorable trade executions.

In executing our strategies, subject to qualifying and maintaining our qualification as a REIT, we employ a wide variety of hedging instruments and derivative contracts. See "—Risk Management."

Investment Process

Our investment process benefits from the resources and professionals of our Manager and Ellington. The process is managed by an investment and risk management committee, which includes, among others, the following three officers of our Manager: Messrs. Vranos, Penn, and Tecotzky. These officers of our Manager also serve as our Co-Chief Investment Officer, Chief Executive Officer, and Co-Chief Investment Officer, respectively. The investment and risk management committee operates under investment guidelines and meets periodically to develop a set of preferences for the composition of our portfolio. The primary focus of the investment and risk management committee, as it relates to us, is to review and approve our investment policies and our portfolio holdings and related compliance with our investment policies and guidelines, and to give guidance and oversight to the various investment teams that make our day-to-day investment decisions. The investment and risk management committee has authority delegated by our Board of Directors to authorize transactions consistent with our investment guidelines.

Ellington has focused investment teams for many of our targeted asset classes. Our asset acquisition process includes sourcing and screening of asset acquisition opportunities, credit analysis, due diligence, structuring, financing, and hedging, each as appropriate, to seek attractive total returns commensurate with our risk tolerance. Our asset acquisition process is also informed by our objective to maintain our exclusion from registration as an investment company under the Investment Company Act, and to qualify and maintain our qualification as a REIT for U.S. federal income tax purposes.

Valuation of Assets

Our Manager's valuation process is subject to the oversight of our Manager's Valuation Committee as well as the oversight of the independent members of our Board of Directors. See Note 2 of the notes to consolidated financial statements included in this report for a complete discussion of our valuation process.

Risk Management

Risk management is a cornerstone of Ellington's portfolio management process. Ellington's risk management infrastructure system includes "ELLiN," a proprietary portfolio management system that Ellington uses for all of its accounts, which provides real time and batch reporting to all departments at Ellington, including trading, research, risk management, finance, operations, accounting, and compliance. We benefit from Ellington's comprehensive risk management infrastructure and ongoing assessment of both portfolio and operational risks. In addition, we utilize derivatives and other hedging instruments to opportunistically hedge our credit, interest rate, and foreign currency risk.

Credit Risk Hedging

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

Interest Rate Hedging

We opportunistically hedge our interest rate risk by using various hedging strategies to mitigate such risks, subject to qualifying and maintaining our qualification as a REIT and maintaining our exclusion from registration as an investment company under the Investment Company Act. The interest rate hedging instruments that we use and may use in the future include, without limitation:

- To-Be-Announced mortgage pass-through certificates, or "TBAs";
- interest rate swaps (including floating-to-fixed, fixed-to-floating, or more complex swaps such as floating-to-inverse floating, callable or non-callable);
- collateralized mortgage obligations, or "CMOs";
- U.S. Treasury securities;
- swaptions, caps, floors, and other derivatives on interest rates;
- futures and forward contracts; and
- options on any of the foregoing.

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

Foreign Currency Hedging

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

Liquidity Management

As part of the risk management and liquidity management functions that our Manager performs for us, our Manager computes a "cash buffer," which, at any given point in time, represents the amount of our free cash in excess of what our Manager estimates would conservatively be required, especially in times of market dislocation, to support our particular assets and liabilities at such time. Thus, rather than focusing solely on our leverage, our Manager typically seeks to maintain a positive cash buffer. However, our Manager is not required to maintain a positive cash buffer and may choose not to maintain a positive cash buffer at certain times, including, for example, if it believes there are compelling market opportunities to pursue.

Our Financing Strategies and Use of Leverage

We finance our assets with what we believe to be a prudent amount of leverage, the level of which varies from time to time based upon the particular characteristics of our portfolio, availability of financing, and market conditions. As of December 31, 2018, the majority of our debt financings consisted of reverse repurchase agreements, or "reverse repos."

Currently, the majority of our reverse repos are collateralized by Agency RMBS; however, we also have reverse repo borrowings that are collateralized by our credit assets, and, from time to time, U.S. Treasury securities. In a reverse repo, we sell an asset to a counterparty at a discounted value, or the loan amount, and simultaneously agree to repurchase the same asset from such counterparty at a specified later date at a price equal to the loan amount plus an interest factor. Despite being legally structured as sales and subsequent repurchases, reverse repos are accounted for as collateralized borrowings. During the term of a reverse repo, we generally receive the income and other payments distributed with respect to the underlying assets, and pay interest to the counterparty. While the proceeds of our reverse repo financings are often used to purchase the assets subject to the transaction, our financing arrangements do not restrict our ability to use proceeds from these arrangements to support our other liquidity needs. Our reverse repo arrangements are typically documented under the Securities Industry and Financial Markets Association's, or "SIFMA's," standard form master repurchase agreement with the ability for both parties to demand margin (i.e., to demand that the other party post additional collateral or repay a portion of the funds advanced) should the value of the underlying assets and posted collateral change. As the value of our collateral fluctuates, under most of our master repurchase agreements, we and our reverse repo counterparties are required to post additional collateral to each other from time to time as part of the normal course of our business. Our reverse repo financing counterparties generally have the right, to varying degrees, to determine the value of the underlying collateral for margining purposes, subject to the terms and conditions of our agreement with the counterparty.

In addition to using reverse repos to finance many of our assets, we have also entered into securitization transactions, and secured borrowing facilities, to finance other assets. For those secured financings, other than reverse repos, for which the associated transfer of assets is not accounted for as a sale, the associated borrowings are included under the captions Other secured borrowings and Other secured borrowings, at fair value, on our Consolidated Statement of Assets, Liabilities, and Equity. In addition, we have issued senior notes, or "Senior Notes," that are unsecured and are effectively subordinated to our secured indebtedness, to the extent of the value of the collateral securing such indebtedness.

We may utilize other types of borrowings in the future, including more complex financing structures. We also may raise capital by issuing additional debt securities, preferred or common stock, warrants, or other securities.

Our use of leverage, especially in order to increase the amount of assets supported by our capital base, may have the effect of increasing losses when these assets underperform. Our investment policies require no minimum or maximum leverage, and our Manager's investment and risk management committee has the discretion, without the need for further approval by our Board of Directors, to change both our overall leverage and the leverage used for individual asset classes. Because our strategy is flexible, dynamic, and opportunistic, our overall leverage will vary over time. As a result, we do not have a targeted debt-to-equity ratio.

Management Agreement

We entered into a management agreement with our Manager upon our inception in August 2007, pursuant to which our Manager provides for the day-to-day management of our operations.

The management agreement, as amended, requires our Manager to manage our assets, operations, and affairs in conformity with the policies and the investment guidelines that are approved and monitored by our Board of Directors. Our Manager is under the supervision and direction of our Board of Directors. Our Manager is responsible for:

- the selection, purchase, and sale of assets in our portfolio;
- our financing and risk management activities;
- providing us with advisory services; and
- providing us with a management team, inclusive of a partially dedicated Chief Financial Officer and appropriate support personnel as necessary.

Our Manager is responsible for our day-to-day operations and performs (or causes to be performed) such services and activities relating to the management, operation, and administration of our assets and liabilities, and business as may be appropriate.

Under the management agreement, we pay our Manager a management fee quarterly in arrears, which includes a "base" component and an "incentive" component, and we reimburse certain expenses of our Manager.

If we invest at issuance in the equity of any collateralized debt obligation, or "CDO," that is managed, structured, or originated by Ellington or one of its affiliates, or if we invest 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 us to our Manager will be reduced by (or our Manager will otherwise rebate to us) an amount equal to the applicable portion of any such related management, origination, or structuring fees.

The management agreement provides that 10% of each incentive fee payable to our Manager is to be paid in common shares, with the balance paid in cash; provided, however, that our Manager may, in its sole discretion, elect to receive a greater percentage of any incentive fee in the form of common shares by providing our Board of Directors with written notice of its election to receive a greater percentage of its incentive fee in common shares before the first day of the last calendar month in the quarter to which such incentive fee relates. Our management agreement further provides that our Manager may not elect to receive common shares as payment of its incentive fee, other than in accordance with all applicable securities exchange rules and securities laws (including prohibitions on insider trading). The number of our common shares to be received by our Manager is based on the fair market value of those common shares, which is determined based on the average of the closing prices of our common shares as reported by the NYSE during the last calendar month of the quarter to which such incentive fee relates. Common shares delivered as payment of the incentive fee are immediately vested, provided that our Manager has agreed not to sell such common shares prior to one year after the date they are issued to our Manager, provided further, however, that this transfer restriction will immediately lapse if the management agreement is terminated.

Base Management Fees, Incentive Fees, and Reimbursement of Expenses

Base Management Fees

Under the management agreement, we pay our Manager a base management fee quarterly in arrears in an amount equal to 1.50% per annum of the equity of the Operating Partnership (calculated in accordance with U.S Generally Accepted Accounting Principles, or "U.S. GAAP") as of the end of each fiscal quarter (before deductions for base management and incentive fees payable with respect to such fiscal quarter), provided that the equity of the Operating Partnership is adjusted to exclude one-time events pursuant to changes in U.S. GAAP, as well as non-cash charges after discussion between our Manager and our independent directors, and approval by a majority of our independent directors in the case of non-cash charges.

Incentive Fees

In addition to the base management fee, with respect to each fiscal quarter we pay our Manager an incentive fee equal to the excess, if any, of (i) the product of (A) 25% and (B) the excess of (1) our 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/(decrease) in equity resulting from operations of the Operating Partnership (or such equivalent U.S. GAAP measure based on the basis of presentation of our consolidated financial statements), 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. Adjusted Net Income will be adjusted to exclude one-time events pursuant to changes in U.S. GAAP, as well as non-cash charges after discussion between our Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges. For the avoidance of doubt, Adjusted Net Income includes both net investment income and net realized and unrealized gains and losses.

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 net increase in equity resulting from operations of the Operating Partnership (expressed as a positive number) or the net decrease in equity resulting from operations of the Operating Partnership (expressed as a negative number) for such fiscal quarter (or such equivalent U.S. GAAP measures as may be appropriate depending on the basis of presentation of our consolidated financial statements), as the case may be, calculated in accordance with U.S. GAAP, adjusted to exclude one-time events pursuant to changes in U.S. GAAP, as well as non-cash charges after discussion between our Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.

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 operating partnership unit, or "OP Unit," issuances since our inception 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 long term incentive plan units, or "LTIP Units," outstanding for each day during such fiscal quarter and (y) the average number of OP Units, and limited liability company interests in the Operating Partnership which are designated as LTIP Units, or "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.

Reimbursement of Expenses

We do not maintain an office or employ personnel. We rely on the facilities and resources of our Manager to conduct our operations. We pay all of our direct operating expenses, except those specifically required to be borne by our Manager under the management agreement. Our Manager is responsible for all costs incident to the performance of its duties under the management agreement, including compensation of Ellington's employees and other related expenses, other than our allocable portion of the costs incurred by our Manager for certain dedicated or partially dedicated employees including, a Chief Financial Officer, one or more controllers, an in-house legal counsel, an investor relations professional, certain internal audit staff in connection with Sarbanes-Oxley compliance initiatives and certain other personnel performing duties for us, based on the portion of their working time and efforts spent on our matters and subject to approval of the reimbursed amounts by the Compensation Committee of the Board of Directors. In addition, other than as expressly described in the management agreement, we are not required to pay any portion of rent, telephone, utilities, office furniture, equipment, machinery, and other office, internal and overhead expenses of our Manager and its affiliates. Expense reimbursements to our Manager are made within 60 days following delivery of the expense statement by our Manager.

Term and Termination

The management agreement has a current term that expires on December 31, 2019, and will automatically renew for a one year term on each anniversary date thereafter unless notice of non-renewal is delivered by either party to the other party at least 180 days prior to the expiration of the then current term. Our independent directors review our Manager's performance annually, and the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding common shares, based upon unsatisfactory performance by our Manager that is materially detrimental to us or a determination by our independent directors that the fees payable to our Manager are not fair, subject to our Manager's right to prevent a fee-based termination by accepting a mutually acceptable reduction of its fees. In the event we terminate the management agreement without cause or elect not to renew the management agreement, we will be required to pay our Manager a termination fee equal to the amount of three times the sum of (i) the average annual base management fee earned by our Manager during the 24-month period immediately preceding the date of notice of termination or non-renewal, calculated as of the end of the most recently completed fiscal quarter prior to the date of notice of termination or non-renewal and (ii) the average annual incentive fee earned by our Manager during the 24-month period immediately preceding the date of notice of termination or non-renewal, calculated as of the end of the most recently completed fiscal quarter prior to the date of notice of termination or non-renewal.

We may also terminate the management agreement without payment of the termination fee with 30 days prior written notice from our Board of Directors for cause, which is defined as:

- our Manager's continued material breach of any provision of the management agreement following a period of 30 days after written notice of such breach;
- our Manager's fraud, misappropriation of funds, or embezzlement against us;
- our Manager's gross negligence in performance of its duties under the management agreement;
- the occurrence of certain events with respect to the bankruptcy or insolvency of our Manager, including, but not limited to, an order for relief in an involuntary bankruptcy case or our Manager authorizing or filing a voluntary bankruptcy petition;
- the dissolution of our Manager; and
- certain changes of control of our Manager, including but not limited to the departure of Mr. Vranos from senior management of Ellington, whether through resignation, retirement, withdrawal, long-term disability, death or termination of employment with or without cause or for any other reason.

Our Manager may terminate the management agreement effective upon 60 days prior written notice of termination to us in the event that we default in the performance or observance of any material term, condition or covenant in the management agreement and the default continues for a period of 30 days after written notice to us specifying the default and requesting that the default be remedied in such 30-day period. In the event our Manager terminates the management agreement due to our default in the performance or observance of any material term, condition, or covenant in the management agreement, we will be required to pay our Manager the termination fee. Our Manager may also terminate the management agreement in the event we become regulated as an investment company under the Investment Company Act, with such termination deemed to occur immediately prior to such event; provided, however, that in the case of such termination, if our Manager was not at fault for our becoming regulated as an investment company under the Investment Company Act, we will be required to pay the termination fee.

Conflicts of Interest; Equitable Allocation of Opportunities

Ellington manages, and expects to continue to manage, other funds, accounts, and vehicles that have strategies that are similar to, or that overlap with, our strategy, including Ellington Residential Mortgage REIT, a REIT listed on the NYSE that focuses its investment strategy primarily on Agency RMBS. As of December 31, 2018, Ellington managed various funds, accounts, and other vehicles that have strategies that are similar to, or that overlap with, our strategy, that have assets under management of approximately $6.8 billion, excluding our assets but including $1.8 billion of accounts that do not employ financial leverage. The $6.8 billion in assets under management include approximately $1.1 billion in Ellington-managed CLOs. For these purposes, the Ellington-managed CLO figure represents the aggregate outstanding balance of CLO notes and market value of CLO equity, excluding any notes and equity held by other Ellington-managed funds and accounts. Ellington makes available to our Manager all opportunities to acquire assets that it determines, in its reasonable and good faith judgment, based on our objectives, policies and strategies, and other relevant factors, are appropriate for us in accordance with Ellington's written investment allocation policy, it being understood that we might not participate in each such opportunity, but will on an overall basis equitably participate with Ellington's other accounts in all such opportunities. Ellington's Investment and Risk Management Committee and its Compliance Committee (headed by its Chief Compliance Officer) are responsible for monitoring the administration of, and facilitating compliance with, Ellington's investment allocation procedures and policies.

Because many of our targeted assets are typically available only in specified quantities and are also targeted assets for other Ellington accounts, Ellington often is not able to buy as much of any given asset as required to satisfy the needs of all its accounts. In these cases, Ellington's investment allocation procedures and policies typically allocate such assets to multiple accounts in proportion to their needs and available capital. Ellington may at times allocate opportunities on a preferential basis to accounts that are in a "start-up" or "ramp-up" phase. The policies permit departure from such proportional allocation under certain circumstances, including, for example, when such allocation would result in an inefficiently small amount of the security being purchased for an account. In that case, the policies allow for a protocol of allocating assets so that, on an overall basis, each account is treated equitably. In addition, as part of these policies, we may be excluded from specified allocations of assets for tax, regulatory, risk management, or similar reasons.

Other policies of Ellington that our Manager applies to the management of our company include controls for:

- *Cross Transactions*—defined as transactions between us or one of our subsidiaries, on the one hand, and an account (other than us or one of our subsidiaries) managed by Ellington or our Manager, on the other hand. It is Ellington's policy to engage in a cross transaction only when the transaction is in the best interests of, and is consistent with the objectives and policies of, both accounts involved in the transaction. Pursuant to the terms of the management agreement, Ellington or our Manager may enter into cross transactions where it acts both on our behalf and on behalf of the other party to the transaction. Although we believe such restrictions on our Manager's ability to engage in cross transactions on our behalf mitigate many risks, cross transactions, even at market prices, may potentially create a conflict of interest between our Manager's and our officers' duties to and interests in us and their duties to and interests in the other party. Upon written notice to our Manager, we may at any time revoke our consent to our Manager's executing cross transactions. Additionally, unless approved in advance by a majority of our independent directors or pursuant to and in accordance with a policy that has been approved by a majority of our independent directors, all cross transactions must be effected at the then-prevailing market prices. Pursuant to our Manager's current policies and procedures, assets for which there are no readily observable market prices may be purchased or sold in cross transactions (i) at prices based upon third-party bids received through auction, (ii) at the average of the highest bid and lowest offer quoted by third-party dealers, or (iii) according to another pricing methodology approved by our Manager's Chief Compliance Officer.
- *Principal Transactions*—defined as transactions between Ellington or our Manager (or any related party of Ellington or our Manager, which includes employees of Ellington and our Manager and their families), on the one hand, and us or one of our subsidiaries, on the other hand. Certain cross transactions may also be considered principal transactions whenever our Manager or Ellington (or any related party of Ellington or our Manager, which includes employees of Ellington and our Manager and their families) have a substantial ownership interest in one of the transacting parties. Our Manager is only authorized to execute principal transactions with the prior approval of a majority of our

independent directors and in accordance with applicable law. Such prior approval includes approval of the pricing methodology to be used, including with respect to assets for which there are no readily observable market prices.

- *Investment in Other Ellington Accounts*—pursuant to our management agreement, if we invest at issuance in the equity of any CDO that is managed, structured, or originated by Ellington or one of its affiliates, or if we invest 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 us to our 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.
- *Split Price Executions*—pursuant to our management agreement, our Manager is authorized to combine purchase or sale orders on our behalf together with orders for other accounts managed by Ellington, our Manager or their affiliates and allocate the securities or other assets so purchased or sold, on an average price basis or other fair and consistent basis, among such accounts.

Our Manager is authorized to follow very broad investment guidelines. Our independent directors will periodically review our investment guidelines and our portfolio. However, our independent directors generally will not review our proposed asset acquisitions, dispositions, or other management decisions. In addition, in conducting periodic reviews, our independent directors will rely primarily on information provided to them by our Manager. Furthermore, our Manager may arrange for us to use complex strategies or to enter into complex transactions that may be difficult or impossible to unwind by the time they are reviewed by our independent directors. Our Manager has great latitude within our broad investment guidelines to determine the types of assets it may decide are proper for purchase by us. The management agreement with our Manager does not restrict the ability of its officers and employees from engaging in other business ventures of any nature, whether or not such ventures are competitive with our business. We may acquire assets from entities affiliated with our Manager, even where the assets were originated by such entities. Affiliates of our Manager may also provide services to entities in which we have invested. Our executive officers and the officers and employees of our Manager are also officers and employees of Ellington, and we compete with other Ellington accounts for access to these individuals. We have not adopted a policy that expressly prohibits our directors, officers, security holders, or affiliates from having a direct or indirect pecuniary interest in any asset to be acquired or disposed of by us or any of our subsidiaries or in any transaction to which we or any of our subsidiaries is a party or has an interest, nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. However, our code of business conduct and ethics contains a conflicts of interest policy that prohibits our directors, officers, and employees, as well as employees of our Manager who provide services to us, from engaging in any transaction that involves an actual or apparent conflict of interest with us, absent approval by the Board of Directors or except as expressly set forth above or as provided in the management agreement between us and our Manager. In addition, nothing in the management agreement binds or restricts our Manager or any of its affiliates, officers, or employees from buying, selling, or trading any securities or commodities for their own accounts or for the accounts of others for whom our Manager or any of its affiliates, officers, or employees may be acting.

Competition

In acquiring our assets, we compete with other mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies, and other entities. Many of our competitors are significantly larger than us, have greater access to capital and other resources, and may have other advantages over us. Our competitors may include other investment vehicles managed by Ellington or its affiliates, including Ellington Residential Mortgage REIT. In addition to existing companies, other companies may be organized for similar purposes in the future, including companies focused on purchasing mortgage assets. A proliferation of such companies may increase the competition for equity capital and thereby adversely affect the market price of our common stock. An increase in the competition for sources of funding could adversely affect the availability and cost of financing, and thereby adversely affect the market price of our common stock. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of assets, or pay higher prices, than we can.

In the face of this competition, we have access to our Manager's and Ellington's professionals and their industry expertise, which may provide us with a competitive advantage and help us assess risks and determine appropriate pricing for certain potential assets. In addition, we believe that these relationships enable us to compete more effectively for attractive asset acquisition opportunities. However, we may not be able to achieve our business goals or expectations due to the competitive risks that we face.

Operating and Regulatory Structure

Tax Requirements

As of December 31, 2018, we believe we were organized and had operated so that we qualified to be treated for U.S. federal income tax purposes as a partnership and not as an association or a publicly traded partnership taxable as a corporation. In general, an entity that is treated as a partnership for U.S. federal income tax purposes is not subject to U.S. federal income tax at the entity level, except that, for taxable years beginning after December 31, 2017, a partnership will be required to pay the taxes attributable to an audit assessment, unless the partnership elects to pass through the tax to its partners. Consequently, through our taxable year ended December 31, 2018, holders of our common shares were required to take into account their allocable share of items of our income, gain, loss, deduction, and credit for our taxable year ending within or with their taxable year, regardless of whether we made cash distributions on a current basis with which to pay any resulting tax.

We will elect and intend to qualify to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or "the Code," commencing with our taxable year ended December 31, 2019. Provided that we qualify and maintain our qualification as a REIT, we generally will not be subject to U.S. federal income tax on our REIT taxable income that is currently distributed 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. We cannot assure you that we will be able to comply with such requirements. Failure to qualify as a REIT in any taxable year would cause us to be subject to U.S. federal income tax on our taxable income at regular corporate rates (and any applicable state and local taxes). Even if we qualify for taxation as a REIT, we may be subject to certain federal, state, local, and non-U.S. taxes on our income. For example, any income generated by our domestic TRSs will be subject to U.S. federal, state, and local income tax. Any taxes paid by a TRS will reduce the cash available for distribution to our stockholders.

Investment Company Act Exclusions

Most of our business is conducted through various wholly-owned and majority-owned subsidiaries in a manner such that neither we nor our subsidiaries are subject to registration under the Investment Company Act. Under Section 3(a)(1) of the Investment Company Act, a company is deemed to be an "investment company" if:

- it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, or trading in securities (Section 3(a)(1)(A)); or
- it is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities and does own or proposes to acquire "investment securities" having a value exceeding 40% of the value of its total assets (excluding U.S. government securities and cash) on an unconsolidated basis, or "the 40% Test" (Section 3(a)(1)(C)). "Investment securities" excludes U.S. government securities and securities of majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company for private funds under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We believe we and our Operating Partnership, and a holding company subsidiary of our Operating Partnership, or the "Holding Subsidiary," will not be considered investment companies under Section 3(a)(1) of the Investment Company Act, because we and they satisfy the 40% Test and because we and they do not engage primarily (or hold ourselves or themselves out as being engaged primarily) in the business of investing, reinvesting, or trading in securities. Rather, through wholly-owned or majority-owned subsidiaries, we, our Operating Partnership, and the Holding Subsidiary are primarily engaged in the non-investment company businesses of these subsidiaries.

Our Operating Partnership currently has several subsidiaries that rely on the exclusion provided by Section 3(c)(7) of the Investment Company Act, each a "3(c)(7) subsidiary." In addition, the Holding Subsidiary currently has two 3(c)(7) subsidiaries and one subsidiary that relies on the exclusion provided by Section 3(c)(5)(C) of the Investment Company Act, or a "3(c)(5)(C) subsidiary." While investments in 3(c)(7) subsidiaries are considered investment securities for the purposes of the 40% Test, investments in 3(c)(5)(C) subsidiaries are not considered investment securities for the purposes of the 40% Test, nor are investments in subsidiaries that rely on the exclusion provided by Section 3(a)(1)(C).

Therefore, our Operating Partnership's investments in its 3(c)(7) subsidiaries and its other investment securities cannot exceed 40% of the value of our Operating Partnership's total assets (excluding U.S. government securities and cash) on an unconsolidated basis. In addition, the Holding Subsidiary's investment in its 3(c)(7) subsidiaries and its other investment securities cannot exceed 40% of the value of our Holding Subsidiary's total assets (excluding U.S. government securities and cash) on an unconsolidated basis.

Section 3(c)(5)(C) of the Investment Company Act is designed for entities primarily engaged in the business of "purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exclusion generally requires that at least 55% of the entity's assets on an unconsolidated basis consist of qualifying real estate assets and at least 80% of the entity's assets on an unconsolidated basis consist of qualifying real estate assets or real estate-related assets. Both the 40% Test and the requirements of the Section 3(c)(5)(C) exclusion limit the types of businesses in which we may engage and the types of assets we may hold, as well as the timing of sales and purchases of assets.

On August 31, 2011, the SEC published a concept release entitled "Companies Engaged in the Business of Acquiring Mortgages and Mortgage Related Instruments" (Investment Company Act Rel. No. 29778). This release notes that the SEC is reviewing the Section 3(c)(5)(C) exclusion relied upon by companies similar to us that invest in mortgage loans and mortgage-backed securities. There can be no assurance that the laws and regulations governing the Investment Company Act status of companies similar to ours, or the guidance from the Division of Investment Management of the SEC regarding the treatment of assets as qualifying real estate assets or real estate-related assets, will not change in a manner that adversely affects our operations as a result of this review. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon our exclusion from the need to register under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies that we have chosen. Furthermore, although we intend to monitor the assets of the 3(c)(5)(C) subsidiary regularly, there can be no assurance that any such subsidiary will be able to maintain this exclusion from registration. In that case, our investment in any such subsidiary would be classified as an investment security, and we might not be able to maintain our overall exclusion from registering as an investment company under the Investment Company Act.

If we or our subsidiaries were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), and portfolio composition, including restrictions with respect to diversification and industry concentration and other matters. Compliance with the restrictions imposed by the Investment Company Act would require us to make material changes to our strategy which could materially adversely affect our business, financial condition and results of operations, and our ability to make distributions to our stockholders. Accordingly, to avoid that result, we may be required to adjust our strategy, which could limit our ability to make certain investments or require us to sell assets in a manner, at a price or at a time that we otherwise would not have chosen. This could negatively affect the value of our common stock, the sustainability of our business model and our ability to make distributions. See "Risk Factors—Maintenance of our exclusion from registration as an investment company under the Investment Company Act imposes significant limitations on our operations."

Investment Advisers Act of 1940

Both Ellington and our Manager are registered as investment advisers under the Investment Advisers Act of 1940, as amended, and are subject to the regulatory oversight of the Division of Investment Management of the SEC.

Staffing

We have no employees. All of our executive officers, and our dedicated or partially dedicated personnel, which include our Chief Financial Officer, Chief Accounting Officer, controller, accounting staff, in-house legal counsel, internal audit staff, and other personnel providing services to us are employees of Ellington or one or more of its affiliates. See "—Management Agreement" above.

Additional Information

A copy of this Annual Report on Form 10-K, as well as our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available, free of charge, on our internet website at *www.ellingtonfinancial.com*. All of these reports are made available on our internet website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Our Corporate Governance Guidelines and Code of Business Conduct and Ethics and the charters of the Audit, Compensation and Nominating and Corporate Governance Committees of our Board of Directors are also available at *www.ellingtonfinancial.com* and are available in print to any stockholder upon request in writing to Ellington Financial LLC, c/o Investor Relations, 53 Forest Avenue, Old Greenwich, CT 06870. The information on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filing we make with the SEC.

In addition, all of our reports filed with or furnished to the SEC can be obtained at the SEC's website at *www.sec.gov*.

Item 1A. Risk Factors

If any of the following risks occurs, our business, financial condition or results of operations could be materially and *adversely affected. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance. In connection with the forward-looking statements that appear in our periodic reports on Form 10-Q and Form 10-K, our Current Reports on Form 8-K, our press releases and our other written and oral communications, you should also carefully review the cautionary statements referred to in such reports and other communications referred to under "Special Note Regarding Forward-Looking Statements."*

Risks Related To Our Business

Difficult conditions in the mortgage and residential real estate markets as well as general market concerns may adversely affect the value of the assets in which we invest.

Our business is materially affected by conditions in the residential mortgage market, the residential real estate market, the financial markets, and the economy, including inflation, energy costs, unemployment, geopolitical issues, concerns over the creditworthiness of governments worldwide and the stability of the global banking system. In particular, the residential mortgage markets in the U.S. and Europe have experienced a variety of difficulties and challenging economic conditions in the past, including defaults, credit losses, and liquidity concerns. Certain commercial banks, investment banks, insurance companies, and mortgage-related investment vehicles incurred extensive losses from exposure to the residential mortgage market as a result of these difficulties and conditions. These factors have impacted, and may in the future impact, investor perception of the risks associated with RMBS, other real estate-related securities and various other asset classes in which we may invest. As a result, values for RMBS, other real estate-related securities and various other asset classes in which we may invest have experienced, and may in the future experience, significant volatility. Any deterioration of the mortgage market and investor perception of the risks associated with RMBS, residential mortgage loans, real estate-related securities, and various other assets that we acquire could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac, and Ginnie Mae and the U.S. Government, may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

The payments we receive on our Agency RMBS depend upon a steady stream of payments on the underlying mortgages and such payments are guaranteed by 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." Fannie Mae and Freddie Mac are government-sponsored enterprises, or "GSEs," but their guarantees are not backed by the full faith and credit of the United States. Ginnie Mae, which guarantees MBS backed by federally insured or guaranteed loans primarily consisting of loans insured by the Federal Housing Administration, or "FHA," or guaranteed by the Department of Veterans Affairs, or "VA," is part of a U.S. Government agency and its guarantees are backed by the full faith and credit of the United States.

In September 2008, in response to the deteriorating financial condition of Fannie Mae and Freddie Mac, the U.S. Government placed Fannie Mae and Freddie Mac into the conservatorship of the Federal Housing Finance Agency, or "FHFA," their federal regulator, pursuant to its powers under The Federal Housing Finance Regulatory Reform Act of 2008, a part of the Housing and Economic Recovery Act of 2008. Under this conservatorship, Fannie Mae and Freddie Mac are required to reduce the amount of mortgage loans they own or for which they provide guarantees on Agency RMBS.

Shortly after Fannie Mae and Freddie Mac were placed in federal conservatorship, the Secretary of the U.S. Treasury noted that the guarantee structure of Fannie Mae and Freddie Mac required examination and that changes in the structures of the entities were necessary to reduce risk to the financial system. The future roles of Fannie Mae and Freddie Mac could be significantly reduced, and the nature of their guarantees could be considerably limited relative to historical measurements or even eliminated. The substantial financial assistance provided by the U.S. Government to Fannie Mae and Freddie Mac, especially in the course of their being placed into conservatorship and thereafter, together with the substantial financial assistance provided by the U.S. Government to the mortgage-related operations of other GSEs and government agencies, such as the FHA, VA, and Ginnie Mae, has stirred debate among many federal policymakers over the continued role of the U.S. Government in providing such financial support for the mortgage-related GSEs in particular, and for the mortgage and housing markets in general. Recent media reports have indicated that the Trump administration is supportive of ending the conservatorship of Fannie Mae and Freddie Mac. However, no definitive proposals or legislation have been released or enacted with respect to ending the conservatorship, unwinding the GSEs or a material reduction in the roles of the GSEs in the U.S. mortgage market, and it is not possible at this time to predict the scope and nature of the actions that the U.S. Government will ultimately take with respect to these GSEs.

Fannie Mae, Freddie Mac, and Ginnie Mae could each be dissolved, and the U.S. Government could determine to stop providing liquidity support of any kind to the mortgage market. If Fannie Mae, Freddie Mac, or Ginnie Mae were eliminated, or their structures were to change radically, or the U.S. Government significantly reduced its support for any or all of them, we may be unable or significantly limited in our ability to acquire Agency RMBS, which would drastically reduce the amount and type of Agency RMBS available for purchase which, in turn, could materially adversely affect our ability to maintain our exclusion from registration as an investment company under the Investment Company Act. Moreover, any changes to the nature of the guarantees provided by, or laws affecting, Fannie Mae, Freddie Mac, and Ginnie Mae could materially adversely affect the credit quality of the guarantees, could increase the risk of loss on purchases of Agency RMBS issued by these GSEs and could have broad adverse market implications for the Agency RMBS they currently guarantee. Any action that affects the credit quality of the guarantees provided by Fannie Mae, Freddie Mac, and Ginnie Mae could materially adversely affect the value of our Agency RMBS. In addition, any market uncertainty that arises from such proposed changes could have a similar impact on us and our Agency RMBS.

In addition, we rely on our Agency RMBS as collateral for our financings under the reverse repos that we enter into. Any decline in their value, or perceived market uncertainty about their value, would make it more difficult for us to obtain financing on our Agency RMBS on acceptable terms or at all, or to maintain compliance with the terms of any financing transactions.

Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, our targeted assets.

The U.S. Government, through the U.S. Treasury, FHA, and the Federal Deposit Insurance Corporation, or "FDIC," has in the past, and may in the future, implement programs designed to provide homeowners with assistance in avoiding mortgage loan foreclosures. The programs may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans.

Loan modification and refinance programs may adversely affect the performance of Agency and non-Agency RMBS, and residential mortgage loans. In the case of non-Agency RMBS, a significant number of loan modifications with respect to a given security, including those related to principal forgiveness and coupon reduction, could negatively impact the realized yields and cash flows on such security. Similarly, principal forgiveness and/or coupon reduction could negatively impact the performance of any residential mortgage loans we own. In addition, it is also likely that loan modifications would result in increased prepayments on some RMBS. See "—Prepayment rates can change, adversely affecting the performance of our assets," below.

The U.S. Congress and various state and local legislatures may pass mortgage-related legislation that would affect our business, including legislation that would permit limited assignee liability for certain violations in the mortgage loan origination process, and legislation that would allow judicial modification of loan principal in the event of personal bankruptcy. We cannot predict whether or in what form Congress or the various state and local legislatures may enact legislation affecting our business or whether any such legislation will require us to change our practices or make changes in our portfolio in the future. These changes, if required, could materially adversely affect our business, results of operations and financial condition, and our ability to pay dividends to our stockholders, particularly if we make such changes in response to new or amended laws, regulations or ordinances in any state where we acquire a significant portion of our mortgage loans, or if such changes result in us being held responsible for any violations in the mortgage loan origination process.

The existing loan modification programs, together with future legislative or regulatory actions, including possible amendments to the bankruptcy laws, which result in the modification of outstanding residential mortgage loans and/or changes in the requirements necessary to qualify for refinancing mortgage loans with Fannie Mae, Freddie Mac, or Ginnie Mae, may adversely affect the value of, and the returns on, our assets, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

The principal and interest payments on our non-Agency RMBS are not guaranteed by any entity, including any government entity or GSE, and therefore are subject to increased risks, including credit risk.

Our portfolio includes non-Agency RMBS which are backed by residential mortgage loans that do not conform to the Fannie Mae or Freddie Mac underwriting guidelines, including subprime, manufactured housing, Alt-A, and prime jumbo mortgage loans. Consequently, the principal and interest on non-Agency RMBS, unlike those on Agency RMBS, are not guaranteed by GSEs such as Fannie Mae and Freddie Mac or, in the case of Ginnie Mae, the U.S. Government.

Non-Agency RMBS are subject to many of the risks of the respective underlying mortgage loans. A residential mortgage loan is typically secured by single-family residential property and is subject to risks of delinquency and foreclosure and risk of loss. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors, including a general economic downturn, unemployment, acts of God, terrorism, social unrest, and civil disturbances, may impair borrowers' abilities to repay their mortgage loans. In periods following home price declines, "strategic defaults" (decisions by borrowers to default on their mortgage loans despite having the ability to pay) also may become more prevalent. In addition, the Tax Cuts and Jobs Act, or “TCJA,” reduced the mortgage interest deduction limit, eliminated the deduction for interest with respect to home equity indebtedness, with certain exceptions, and limited the state and local income and property tax deduction. These changes could reduce home affordability and adversely impact housing prices in certain regions, which could lead to an increase in defaults on mortgage loans underlying many of our investments.

In the event of defaults under mortgage loans backing any of our non-Agency RMBS, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan.

Additionally, in the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan. If borrowers default on the mortgage loans backing our non-Agency RMBS and we are unable to recover any resulting loss through the foreclosure process, our business, financial condition and results of operations, and our ability to pay dividends to our stockholders, could be materially adversely affected.

Less stringent underwriting guidelines and the resultant potential for delinquencies or defaults on certain mortgage loans could lead to losses on many of the non-Agency RMBS and non-conforming RMBS we hold.

Many of the non-Agency RMBS in which we invest are collateralized by Alt-A and subprime mortgage loans, which are mortgage loans that were originated using less stringent underwriting guidelines than those used in underwriting prime mortgage loans (mortgage loans that generally conform to Fannie Mae or Freddie Mac underwriting guidelines). In addition, many of our "non-conforming RMBS," which are non-Agency RMBS issued in the United Kingdom, were originated using less stringent underwriting guidelines. These underwriting guidelines were more permissive as to borrower credit history or credit score, borrower debt-to-income ratio, loan-to-value ratio, and/or as to documentation (such as whether and to what extent borrower income was required to be disclosed or verified). In addition, even when specific underwriting guidelines were represented by loan originators as having been used in connection with the origination of mortgage loans, these guidelines were in many cases not followed as a result of aggressive lending practices, fraud (including borrower or appraisal fraud), or other factors. Mortgage loans that were underwritten pursuant to less stringent or looser underwriting guidelines, or that were poorly underwritten to their stated guidelines, have experienced, and should be expected to experience in the future, substantially higher rates of delinquencies, defaults, and foreclosures than those experienced by mortgage loans that were underwritten in a manner more consistent with Fannie Mae or Freddie Mac guidelines. Thus, because of the higher delinquency rates and losses associated with Alt-A and subprime mortgage loans, the performance of RMBS backed by Alt-A and subprime mortgage loans that we may acquire could be correspondingly adversely affected, which could adversely impact our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

We rely on analytical models and other data to analyze potential asset acquisition and disposition opportunities and to manage our portfolio. Such models and other data may be incorrect, misleading or incomplete, which could cause us to purchase assets that do not meet our expectations or to make asset management decisions that are not in line with our strategy.

Our Manager relies on the analytical models (both proprietary and third-party models) of Ellington and information and data supplied by third parties. These models and data may be used to value assets or potential asset acquisitions and dispositions and also in connection with our asset management activities. If Ellington's models and data prove to be incorrect, misleading, or incomplete, any decisions made in reliance thereon could expose us to potential risks. Our Manager's reliance on Ellington's models and data may induce it to purchase certain assets at prices that are too high, to sell certain other assets at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging activities that are based on faulty models and data may prove to be unsuccessful.

Some of the risks of relying on analytical models and third-party data include the following:

- collateral cash flows and/or liability structures may be incorrectly modeled in all or only certain scenarios, or may be modeled based on simplifying assumptions that lead to errors;
- information about assets or the underlying collateral may be incorrect, incomplete, or misleading;
- asset, collateral or MBS historical performance (such as historical prepayments, defaults, cash flows, etc.) may be incorrectly reported, or subject to interpretation (e.g., different MBS issuers may report delinquency statistics based on

different definitions of what constitutes a delinquent loan); and

- asset, collateral or MBS information may be outdated, in which case the models may contain incorrect assumptions as to what has occurred since the date information was last updated.

Some models, such as prepayment models or default models, may be predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses. In addition, the predictive models used by our Manager may differ substantially from those models used by other market participants, with the result that valuations based on these predictive models may be substantially higher or lower for certain assets than actual market prices. Furthermore, because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data, and, in the case of predicting performance in scenarios with little or no historical precedent (such as extreme broad-based declines in home prices, or deep economic recessions or depressions), such models must employ greater degrees of extrapolation and are therefore more speculative and of more limited reliability.

All valuation models rely on correct market data inputs. If incorrect market data is entered into even a well-founded valuation model, the resulting valuations will be incorrect. However, even if market data is input correctly, "model prices" will often differ substantially from market prices, especially for securities with complex characteristics or whose values are particularly sensitive to various factors. If our market data inputs are incorrect or our model prices differ substantially from market prices, our business, financial condition and results of operations, and our ability to pay dividends to our stockholders could be materially adversely affected.

Valuations of some of our assets are inherently uncertain, may be based on estimates, may fluctuate over short periods of time, and may differ from the values that would have been used if a ready market for these assets existed.

The values of some of the assets in our portfolio are not readily determinable. We value these assets monthly at fair value, as determined in good faith by our Manager, subject to the oversight of our Manager's valuation committee. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our Manager's determinations of fair value may differ from the values that would have been used if a ready market for these assets existed or from the prices at which trades occur. Furthermore, we may not obtain third-party valuations for all of our assets. Changes in the fair value of our assets directly impact our net income through recording unrealized appreciation or depreciation of our investments and derivative instruments, and so our Manager's determination of fair value has a material impact on our net income.

While in many cases our Manager's determination of the fair value of our assets is based on valuations provided by third-party dealers and pricing services, our Manager can and does value assets based upon its judgment and such valuations may differ from those provided by third-party dealers and pricing services. Valuations of certain assets are often difficult to obtain or are unreliable. In general, dealers and pricing services heavily disclaim their valuations. Additionally, dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental, or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. Higher valuations of our assets have the effect of increasing the amount of base management fees and incentive fees we pay to our Manager. Therefore, conflicts of interest exist because our Manager is involved in the determination of the fair value of our assets.

Our business, financial condition and results of operations, and our ability to pay dividends to our stockholders could be materially adversely affected if our Manager's fair value determinations of these assets were materially different from the values that would exist if a ready market existed for these assets.

We depend on third-party service providers, including mortgage servicers, for a variety of services related to our non-Agency RMBS, European assets, securitizations, and whole mortgage loans and loan pools. We are, therefore, subject to the risks associated with third-party service providers.

We depend on a variety of services provided by third-party service providers related to our non-Agency RMBS, European assets, securitizations, and whole mortgage loans and loan pools. We rely on the mortgage servicers who service the mortgage loans backing our non-Agency RMBS, our European assets, our securitizations, as well as the mortgage loans and loan pools that we own directly, to, among other things, collect principal and interest payments on the underlying mortgages and perform loss mitigation services. These mortgage servicers and other service providers to our non-Agency RMBS, European assets, and securitizations, such as trustees, bond insurance providers, due diligence vendors, and custodians, may not perform in a manner that promotes our interests. In addition, legislation that has been enacted or that may be enacted in order to reduce or prevent foreclosures through, among other things, loan modifications, may reduce the value of mortgage loans backing our non-Agency

RMBS or whole mortgage loans that we acquire. Mortgage servicers may be incentivized by the U.S. federal, state, or local governments to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interests of the beneficial owners of the mortgage loans. In addition to legislation that creates financial incentives for mortgage loan servicers to modify loans and take other actions that are intended to prevent foreclosures, legislation has also been adopted that creates a safe harbor from liability to creditors for servicers that undertake loan modifications and other actions that are intended to prevent foreclosures. Finally, legislation has been adopted that delays the initiation or completion of foreclosure proceedings on specified types of residential mortgage loans or otherwise limit the ability of mortgage servicers to take actions that may be essential to preserve the value of the mortgage loans underlying the mortgage servicing rights. Any such limitations are likely to cause delayed or reduced collections from mortgagors and generally increase servicing costs. As a result of these legislative actions, the mortgage loan servicers on which we rely may not perform in our best interests or up to our expectations. If our third-party service providers, including mortgage servicers, do not perform as expected, our business, financial condition and results of operations, and ability to pay dividends to our stockholders may be materially adversely affected.

We rely on mortgage servicers for our loss mitigation efforts, and we also may engage in our own loss mitigation efforts with respect to whole mortgage loans that we own directly. Such loss mitigation efforts may be unsuccessful or not cost effective.

Both default frequency and default severity of mortgage loans are highly dependent on the quality of the mortgage servicer. We depend on the loss mitigation efforts of mortgage servicers and in some cases "special servicers," which are mortgage servicers who specialize in servicing non-performing loans. If mortgage servicers are not vigilant in encouraging borrowers to make their monthly payments, the borrowers are far less likely to make those payments. In addition, for the whole mortgage loans that we own directly, we may engage in our own loss mitigation efforts over and beyond the efforts of the mortgage servicers, including more hands-on mortgage servicer oversight and management, borrower refinancing solicitations, as well as other efforts. Our and our mortgage servicers' loss mitigation efforts may be unsuccessful in limiting delinquencies, defaults, and losses, or may not be cost effective, which may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders. In addition, our ability to accomplish such loss mitigation may be limited by the tax rules governing REITs.

We may be affected by deficiencies in foreclosure practices of third parties, as well as related delays in the foreclosure process.

One of the biggest risks overhanging the non-Agency RMBS and non-conforming RMBS markets has been uncertainty around the timing and ability of servicers to foreclose on defaulted loans, so that they can liquidate the underlying properties and ultimately pass the liquidation proceeds through to RMBS holders. Given the magnitude of the housing crisis, and in response to the well-publicized failures of many servicers to follow proper foreclosure procedures, mortgage servicers are being held to much higher foreclosure-related documentation standards than they previously were. However, because many mortgages have been transferred and assigned multiple times (and by means of varying assignment procedures) throughout the origination, warehouse, and securitization processes, mortgage servicers are generally having much more difficulty furnishing the requisite documentation to initiate or complete foreclosures. This leads to stalled or suspended foreclosure proceedings, and ultimately additional foreclosure-related costs. Foreclosure-related delays also tend to increase ultimate loan loss severities as a result of property deterioration, amplified legal and other costs, and other factors. Many factors delaying foreclosure, such as borrower lawsuits and judicial backlog and scrutiny, are outside of a servicer's control and have delayed, and will likely continue to delay, foreclosure processing in both judicial states (where foreclosures require court involvement) and non-judicial states. The concerns about deficiencies in foreclosure practices of servicers and related delays in the foreclosure process may impact our loss assumptions and affect the values of, and our returns on, our investments in RMBS and residential whole loans.

To the extent that due diligence is conducted on potential assets, such due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead to losses.

Before making an investment, our Manager may decide to conduct (either directly or using third parties) certain due diligence. There can be no assurance that our Manager will conduct any specific level of due diligence, or that, among other things, our Manager's due diligence processes will uncover all relevant facts or that any purchase will be successful, which could result in losses on these assets, which, in turn, could adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Sellers of the mortgage loans that we acquire, or that underlie the non-Agency RMBS or non-conforming RMBS in which we invest, may be unable to repurchase defective mortgage loans, which could have a material adverse effect on the value of our loans, or the loans held by the trust that issued the RMBS, and could cause shortfalls in the payments due on the RMBS or losses on the mortgage loans.

Sellers of mortgage loans that we acquire or that are sold to the trusts that issued the non-Agency RMBS or non-conforming RMBS in which we invest made various representations and warranties related to the mortgage loans sold by them to us or the trusts that issued the RMBS. If a seller fails to cure a material breach of its representations and warranties with respect to any mortgage loan in a timely manner, then we, or the trustee or the servicer of the loans, may have the right to require that the seller repurchase the defective mortgage loan (or in some cases substitute a performing mortgage loan). It is possible, however, that for financial or other reasons, the seller either may not be capable of repurchasing defective mortgage loans, or may dispute the validity of or otherwise resist its obligation to repurchase defective mortgage loans. The inability or unwillingness of a seller to repurchase defective mortgage loans from us or from a non-Agency RMBS trust or non-conforming RMBS trust in which we invest would likely cause higher rates of delinquencies, defaults, and losses for the mortgage loans we hold, or the mortgage loans backing such non-Agency RMBS or non-conforming RMBS, and ultimately greater losses for our investment in such assets.

Our assets include subordinated and lower-rated securities that generally have greater risk of loss than senior and higher-rated securities.

Certain securities that we acquire are deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. Other securities we acquire have the lowest quality ratings or are unrated. Many securities that we acquire are subordinated in cash flow priority to other more "senior" securities of the same securitization. The exposure to defaults on the underlying mortgages is severely magnified in subordinated securities. Certain subordinated securities ("first loss securities") absorb all losses from default before any other class of securities is at risk. Such securities therefore are considered to be highly speculative investments. Also, the risk of declining real estate values, in particular, is amplified in subordinated RMBS, as are the risks associated with possible changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies. Accordingly, the subordinated and lower-rated (or unrated) securities in which we invest may experience significant price and performance volatility relative to more senior or higher-rated securities, and they are subject to greater risk of loss than more senior or higher-rated securities which, if realized, could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Investments in second lien mortgage loans could subject us to increased risk of losses.

We may invest in second-lien mortgage loans or RMBS backed by such loans. If a borrower defaults on a second-lien mortgage loan or on its senior debt (*i.e.,* a first-lien loan, in the case of a residential mortgage loan), or in the event of a borrower bankruptcy, such loan will be satisfied only after all senior debt is paid in full. As a result, if we invest in second-lien mortgage loans and the borrower defaults, we may lose all or a significant part of our investment.

Prepayment rates can change, adversely affecting the performance of our assets.

The frequency at which prepayments (including both voluntary prepayments by borrowers and liquidations due to defaults and foreclosures) occur on mortgage loans, including those underlying our RMBS, 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. Generally, borrowers tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. When borrowers prepay their mortgage loans at rates that are faster or slower than expected, it results in prepayments that are faster or slower than expected on such loans or the related RMBS. These faster or slower than expected payments may adversely affect our profitability.

We may purchase securities or loans that have a higher interest rate than the then-prevailing market interest rate. In exchange for this higher interest rate, we may pay a premium to par value to acquire the security or loan. In accordance with U.S. GAAP, we amortize this premium as an expense over the expected term of the security or loan based on our prepayment assumptions. If a security or loan is prepaid in whole or in part at a faster than expected rate, however, we must expense all or a part of the remaining unamortized portion of the premium that was paid at the time of the purchase, which will adversely affect our profitability.

We also may purchase securities or loans that have a lower interest rate than the then-prevailing market interest rate. In exchange for this lower interest rate, we may pay a discount to par value to acquire the security or loan. We accrete this discount as income over the expected term of the security or loan based on our prepayment assumptions. If a security or loan is prepaid at a slower than expected rate, however, we must accrete the remaining portion of the discount at a slower than expected rate. This will extend the expected life of investment portfolio and result in a lower than expected yield on securities and loans purchased at a discount to par.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise. Since many RMBS, especially fixed rate RMBS, will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these RMBS may be adversely affected by changes in prepayments in any interest rate environment.

Prepayment rates are also affected by factors not directly tied to interest rates, and are difficult to predict. Prepayments can also occur when borrowers sell their properties or when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the underlying property and/or from the proceeds of a mortgage insurance policy or other guarantee. Fannie Mae and Freddie Mac will generally, among other conditions, purchase mortgages that are 120 days or more delinquent from the Agency RMBS pools that they have issued when the cost of guaranteed payments to security holders, including advances of interest at the security coupon rate, exceeds the cost of holding the non-performing loans in their portfolios. Consequently, prepayment rates also may be affected by conditions in the housing and financial markets, which may result in increased delinquencies on mortgage loans. Prepayment rates can also be affected by actions of the GSEs and their cost of capital, general economic conditions, and the relative interest rates on fixed and adjustable rate loans. Additionally, changes in the GSEs' decisions as to when to repurchase delinquent loans can materially impact prepayment rates on Agency RMBS.

The adverse effects of prepayments may impact us in various ways. First, particular investments may experience outright losses, as in the case of IOs and IIOs in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to any hedges that our Manager may have constructed for these assets, resulting in a loss to us. In particular, prepayments (at par) may limit the potential upside of many RMBS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss. Furthermore, to the extent that faster prepayment rates are due to lower interest rates, the principal payments received from prepayments will tend to be reinvested in lower-yielding assets, which may reduce our income in the long run. Therefore, if actual prepayment rates differ from anticipated prepayment rates our business, financial condition and results of operations, and ability to pay dividends to our stockholders could be materially adversely affected.

Increases in interest rates could negatively affect the value of our assets and increase the risk of default on our assets.

Our fixed rate investments, especially most fixed rate mortgage loans, fixed rate MBS, and most MBS backed by fixed rate mortgage loans, decline in value when long-term interest rates increase. Even in the case of Agency RMBS, the guarantees provided by GSEs do not protect us from declines in market value caused by changes in interest rates. In the case of RMBS backed by ARMs, increases in interest rates can lead to increases in delinquencies and defaults as borrowers become less able to make their mortgage payments following interest payment resets. Additionally, an increase in short-term interest rates would increase the amount of interest owed on our reverse repo borrowings. See "—Interest rate mismatches between our assets and our borrowings may reduce our income during periods of changing interest rates, and increases in interest rates could adversely affect the value of our assets" below.

An increase in interest rates may cause a decrease in the issuance volumes of certain of our targeted assets, which could adversely affect our ability to acquire targeted assets that satisfy our investment objectives and to generate income and pay dividends.

Rising interest rates generally reduce the demand for mortgage loans due to the higher cost of borrowing. A reduction in the volume of mortgage loans originated may affect the volume of targeted assets available to us, which could adversely affect our ability to acquire assets that satisfy our investment objectives. If rising interest rates cause us to be unable to acquire a sufficient volume of our targeted assets with a yield that is above our borrowing cost, our ability to satisfy our investment objectives and to generate income and pay dividends to our stockholders may be materially and adversely affected.

Interest rate caps on the ARMs and hybrid ARMs that back our RMBS may reduce our net interest margin during periods of rising or high interest rates.

ARMs and hybrid ARMs (i.e., residential mortgage loans that have interest rates that are fixed for a specified period of time (typically three, five, seven or ten years) and, thereafter, adjust to a fixed increment over a specified interest rate index) are typically subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase through the maturity of the loan. Our borrowings typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, our financing costs could increase without limitation while caps could limit the interest we earn on our RMBS backed by ARMs and hybrid ARMs. This problem is magnified for ARMs and hybrid ARMs that are not fully indexed because such periodic interest rate caps prevent the coupon on the security from fully reaching the specified rate in one reset. Further, some ARMs and hybrid ARMs may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, we may receive less cash income on RMBS backed by ARMs and hybrid ARMs than necessary to pay interest on our related borrowings. Interest rate caps on RMBS backed by ARMs and hybrid ARMs could reduce our net interest margin if interest rates were to increase beyond the level of the caps, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Residential mortgage loans, including residential NPLs, non-QM loans, and residential transition loans, are subject to increased risks.

We acquire and manage residential mortgage loans. Residential mortgage loans, including residential NPLs, non-QM loans, and residential transition loans, are subject to increased risk of loss. Unlike Agency RMBS, residential mortgage loans generally are not guaranteed by the U.S. Government or any GSE, though in some cases they may benefit from private mortgage insurance. Additionally, by directly acquiring residential mortgage loans, we do not receive the structural credit enhancements that benefit senior tranches of RMBS. A residential whole mortgage loan is directly exposed to losses resulting from default. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower, and the priority and enforceability of the lien will significantly impact the value of such mortgage loan. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of such real estate may not be sufficient to recover our cost basis in the loan, and any costs or delays involved in the foreclosure or liquidation process may increase losses.

Residential mortgage loans are also subject to property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies, or "special hazard risk," and to reduction in a borrower's mortgage debt by a bankruptcy court, or "bankruptcy risk." In addition, claims may be assessed against us on account of our position as a mortgage holder or property owner, including assignee liability, environmental hazards, and other liabilities. We could also be responsible for property taxes. In some cases, these liabilities may be "recourse liabilities" or may otherwise lead to losses in excess of the purchase price of the related mortgage or property.

If we subsequently resell any whole mortgage loans that we acquire, we may be required to repurchase such loans or indemnify purchasers if we breach representations and warranties.

If we subsequently resell any whole mortgage loans that we acquire, we would generally be required to make customary representations and warranties about such loans to the loan purchaser. Our residential mortgage loan sale agreements and terms of any securitizations into which we sell loans will generally require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan. The remedies available to a purchaser of mortgage loans are generally broader than those available to us against an originating broker or correspondent. Repurchased loans are typically worth only a fraction of the original price. Significant repurchase activity could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

The commercial mortgage loans that we acquire or originate, and the mortgage loans underlying our CMBS investments, are subject to the ability of the commercial property owner to generate net income from operating the property as well as to the risks of delinquency and foreclosure.

Commercial mortgage loans are secured by multi-family or commercial property and are subject to risks of delinquency and foreclosure, and risk of loss that may be greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be adversely affected by, among other things:

- tenant mix;
- declines in tenant income and/or changes to tenant businesses;
- property management decisions;
- property location, condition, and design;
- new construction of competitive properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- changes in national, regional, or local economic conditions and/or specific industry segments, including the credit and securitization markets;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates, real estate tax rates, and other operating expenses;
- costs of remediation and liabilities associated with environmental conditions;
- the potential for uninsured or underinsured property losses;

- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation, and the related costs of compliance; and
- acts of God, terrorist attacks, social unrest, and civil disturbances.

In the event of any default under a mortgage loan held directly by us, we will bear a risk of loss to the extent of any deficiency between the value of the collateral and our cost basis in the outstanding principal and accrued interest of the mortgage loan, and any such losses could have a material adverse effect on our cash flow from operations and our ability to pay dividends to our stockholders.

In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan.

CMBS are secured by a single commercial mortgage loan or a pool of commercial mortgage loans. Accordingly, the CMBS we invest in are subject to all of the risks of the respective underlying commercial mortgage loans.

Our investments in CMBS are at risk of loss.

Our investments in CMBS are at risk of loss. In general, losses on real estate securing a mortgage loan included in a securitization will be borne first by the owner of the property, then by the holder of a mezzanine loan or a subordinated participation interest in a bifurcated first lien loan, or "B-Note," if any, then by the "first loss" subordinated security holder (generally, the B-piece buyer) and then by the holder of a higher-rated security. In the event of losses on mortgage loans included in a securitization and the subsequent exhaustion of any applicable reserve fund, letter of credit, or classes of securities junior to those in which we invest, we may not be able to recover all of our investment in the securities we purchase. In addition, if any of the real estate underlying the securitization mortgage portfolio has been overvalued by the originator, or if real estate values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related CMBS, we may incur losses. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

We may not control the special servicing of the mortgage loans included in the CMBS in which we invest and, in such cases, the special servicer may take actions that could adversely affect our interests.

With respect to the CMBS in which we invest, overall control over the special servicing of the related underlying mortgage loans will be held by a "directing certificateholder" or a "controlling class representative," which is generally appointed by the holders of the most subordinate class of CMBS in such series. In connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificateholder, take actions with respect to the specially serviced mortgage loans that could adversely affect our interests. For further discussion of the risks of our reliance on special servicers, see "—We rely on mortgage servicers for our loss mitigation efforts, and we also may engage in our own loss mitigation efforts with respect to whole mortgage loans that we own directly. Such loss mitigation efforts may be unsuccessful or not cost effective" above.

A portion of our investments currently are, and in the future may be, in the form of non-performing and sub-performing commercial and residential mortgage loans, or loans that may become non-performing or sub-performing, which are subject to increased risks relative to performing loans.

A portion of our investments currently are, and in the future may be, in the form of commercial and residential whole mortgage loans, including subprime mortgage loans and non-performing and sub-performing mortgage loans, which are subject to increased risks of loss. Such loans may already be, or may become, non-performing or sub-performing for a variety of reasons, including because the underlying property is too highly leveraged or the borrower falls upon financial distress. Such non-performing or sub-performing loans may require a substantial amount of workout negotiations and/or restructuring, which may divert the attention of our Manager from other activities and entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments, and a substantial write-down of the principal of the loan. However, even if such restructuring were successfully accomplished, a risk exists that the borrower will not be able or willing to maintain the restructured payments or refinance the restructured mortgage upon maturity. In addition, such modifications could affect our compliance with the tests applicable to REITs, including by increasing our distribution requirement.

In addition, certain non-performing or sub-performing loans that we acquire may have been originated by financial institutions that are or may become insolvent, suffer from serious financial stress, or are no longer in existence. As a result, the standards by which such loans were originated, the recourse to the selling institution, and/or the standards by which such loans are being serviced or operated may be adversely affected. Further, loans on properties operating under the close supervision of a mortgage lender are, in certain circumstances, subject to certain additional potential liabilities that may exceed the value of our investment.

In the future, it is possible that we may find it necessary or desirable to foreclose on some, if not many, of the loans we acquire, and the foreclosure process may be lengthy and expensive. Borrowers or junior lenders may resist mortgage foreclosure actions by asserting numerous claims, counterclaims, and defenses against us including, without limitation, numerous lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action and force the lender into a modification of the loan or capital structure or a favorable buy-out of the borrower's or junior lender's position. In some states, foreclosure actions can sometimes take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file, or a junior lender may cause the borrower to file, for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process. Foreclosure and associated litigation may create a negative public perception of the related mortgaged property, resulting in a diminution of its value. Even if we are successful in foreclosing on a loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our cost basis in the loan, resulting in a loss to us, and the borrower or junior lenders may continue to challenge whether the foreclosure process was commercially reasonable, which could result in additional costs and potential liability. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property, or defending challenges brought after the completion of a foreclosure, will further reduce the liquidation proceeds and thus increase the loss. Any such reductions could materially and adversely affect the value we realize from the loans in which we invest.

Whether or not our Manager has participated in the negotiation of the terms of any such mortgage loans, there can be no assurance as to the adequacy of the protection of the terms of the loan, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, claims may be asserted that might interfere with enforcement of our rights. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of such real estate may not be sufficient to recover our cost basis in the loan, resulting in a loss to us.

Commercial whole mortgage loans are also subject to special hazard risk and to bankruptcy risk. In addition, claims may be assessed against us on account of our position as mortgage holder or property owner, including assignee liability, responsibility for tax payments, environmental hazards and other liabilities. In some cases, these liabilities may be "recourse liabilities" or may otherwise lead to losses in excess of the purchase price of the related mortgage or property.

Our real estate assets and our real estate-related assets (including mortgage loans and MBS) are subject to the risks associated with real property.

We own assets secured by real estate, we own real estate directly, and may acquire additional real estate directly in the future, either through direct acquisitions or upon a default of mortgage loans. Real estate assets are subject to various risks, including:

- declines in the value of real estate;
- acts of God, including earthquakes, floods, wildfires, hurricanes, mudslides, volcanic eruptions and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and zoning ordinances;
- costs of remediation and liabilities associated with environmental conditions such as indoor mold;
- potential liabilities for other legal actions related to property ownership including tort claims; and
- the potential for uninsured or under-insured property losses.

The occurrence of any of the foregoing or similar events may reduce our return from an affected property or asset and, consequently, materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

We engage in short selling transactions, which may subject us to additional risks.

Many of our hedging transactions, and occasionally our investment transactions, are short sales. Short selling may involve selling securities that are not owned and typically borrowing the same securities for delivery to the purchaser, with an obligation to repurchase the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. A short sale may create the risk of an unlimited loss, in that the price of the underlying security might theoretically increase without limit, thus increasing the cost of repurchasing the securities. There can be no assurance that securities sold short will be available for repurchase or borrowing. Repurchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

We use leverage in executing our business strategy, which may adversely affect the return on our assets and may reduce cash available for distribution to our stockholders, as well as increase losses when economic conditions are unfavorable.

We use leverage to finance our investment activities and to enhance our financial returns. Most of our leverage is in the form of short-term reverse repos for our Agency and credit portfolio assets. Other forms of leverage include our term secured bank facilities, our securitizations, our Senior Notes, and may in the future include credit facilities, including term loans and revolving credit facilities.

Through the use of leverage, we may acquire positions with market exposure significantly greater than the amount of capital committed to the transaction. For example, by entering into reverse repos with advance rates, or haircut levels, of 5%, we could theoretically leverage capital allocated to Agency RMBS by an asset-to-equity ratio of as much as 20 to 1. 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.

Although we may from time to time enter into certain contracts with third parties, such as certain financing arrangements with lenders, that may limit our leverage, our governing documents do not specifically limit the amount of leverage that we may use. Leverage can enhance our potential returns but can also exacerbate losses. Even if an asset increases in value, if the asset fails to earn a return that equals or exceeds our cost of borrowing, the leverage will diminish our returns.

Leverage also increases the risk of our being forced to precipitously liquidate our assets. See "—Our lenders and derivative counterparties may require us to post additional collateral, which may force us to liquidate assets, and if we fail to post sufficient collateral our debts may be accelerated and/or our derivative contracts terminated on unfavorable terms" below.

Our access to financing sources, which may not be available on favorable terms, or at all, may be limited, and this may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

We depend upon the availability of adequate capital and financing sources to fund our operations. Our lenders are primarily large global financial institutions, with exposures both to global financial markets and to more localized conditions. In addition to borrowing from large banks, we borrow from smaller non-bank financial institutions as well. Whether because of a subsequent global or local financial crisis or other circumstances, if one or more of our lenders experiences severe financial difficulties, they or other lenders could become unwilling or unable to provide us with financing, could increase the costs of that financing, or could become insolvent, as was the case with Lehman Brothers in 2008. Moreover, we are currently party to short-term borrowings (in the form of reverse repos) and there can be no assurance that we will be able to replace these borrowings, or "roll" them, as they mature on a continuous basis and it may be more difficult for us to obtain debt financing on favorable terms, or at all. In addition, if regulatory capital requirements imposed on our lenders change, they may be required to limit, or increase the cost of, the financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price. Consequently, depending on market conditions at the relevant time, we may have to rely on additional equity issuances to meet our capital and financing needs, which may be dilutive to our stockholders, or we may have to rely on less efficient forms of debt financing that consume a larger portion of our cash flow from operations, thereby reducing funds available for our operations, future business opportunities, cash dividends to our stockholders, and other purposes. We cannot assure you that we will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which may cause us to curtail our asset acquisition activities and/or dispose of assets, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

A failure to comply with restrictive covenants in our financing arrangements would have a material adverse effect on us, and any future financings may require us to provide additional collateral or pay down debt.

We are subject to various restrictive covenants contained in our existing financing arrangements and may become subject to additional covenants in connection with future financings. For example, the indenture governing our Senior Notes contains covenants that, subject to a number of exceptions and adjustments, among other things: limit our ability to incur additional indebtedness; require us to maintain a minimum Net Asset Value (as defined in the indenture governing the Senior Notes); require us to maintain a ratio of Consolidated Unencumbered Assets (as defined in indenture governing the Senior Notes) to the aggregate principal amount of the outstanding Senior Notes at or above a specified threshold, and impose certain conditions on our merger or consolidation with another person.

The covenants in our financing arrangements may limit our flexibility to pursue certain investments or incur additional debt. If we fail to meet or satisfy any of these covenants, subject to certain cure provisions, as applicable, we would be in default under these agreements and our indebtedness could be declared due and payable. In addition, our lenders could terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights under our financing arrangements, whereby a default (such as a failure to comply with a covenant) under one financing arrangement can trigger a default under other financing arrangements.

Our securitizations may expose us to additional risks.

In order to generate additional cash for funding new investments, we have securitized, and may in the future seek to securitize, certain of our assets, especially our loan assets. Some securitizations are treated as financing transactions for U.S. GAAP, while others are treated as sales. In a typical securitization, we convey assets to a special purpose vehicle, the issuer, which then issues one or more classes of notes secured by the assets pursuant to the terms of an indenture. To the extent that we retain the most subordinated economic interests in the issuer, we would continue to be exposed to losses on the assets for as long as those retained interests remained outstanding and therefore able to absorb such losses. Furthermore, our retained interests in a securitization could be less liquid than the underlying assets themselves, and may be subject to U.S. Risk Retention Rules (See "—We, Ellington, or its affiliates may be subject to adverse legislative or regulatory changes," below) and similar European rules. Moreover, even though we might accumulate assets with a view towards possible securitization, we cannot be assured that we will be able to access the securitization market, or be able to do so under favorable terms. The inability to securitize certain segments of our portfolio, especially certain of our loan assets, could hurt our performance and our ability to grow our business.

In addition, in anticipation of a securitization transaction, we (either alone or in conjunction with other investors, including other Ellington affiliates) may provide capital to a vehicle accumulating assets for the securitization. If the securitization is not ultimately completed, or if the assets do not perform as expected during the accumulation period, we could lose all or a portion of the capital that we provided to the vehicle. Furthermore, because we may enter into these types of transactions along with investors, including other Ellington affiliates, there may be conflicts between us, on the one hand, and the other investors, including other Ellington affiliates, on the other hand. These accumulation vehicles typically enter into warehouse financing facilities to facilitate their accumulation of assets, and so such vehicles carry with them the additional risks associated with financial leverage and covenant compliance.

In connection with our securitizations, we generally are required to prepare disclosure documentation for investors, including term sheets and offering memoranda, which contain information regarding the securitization generally, the securities being issued, and the assets being securitized. If our disclosure documentation for a securitization is alleged or found to contain material inaccuracies or omissions, we may be liable under federal securities laws, state securities laws or other applicable laws for damages to the investors in such securitization, we may be required to indemnify the underwriters of the securitization or other parties, or we may incur other expenses and costs in connection with disputing these allegations or settling claims. Such liabilities, expenses, and/or losses could be significant.

We will typically be required to make representations and warranties in connection with our securitizations regarding, among other things, certain characteristics of the assets being securitized. If any of the representations and warranties that we have made concerning the assets are alleged or found to be inaccurate, we may incur expenses disputing the allegations, and we may be obligated to repurchase certain assets, which may result in losses. Even if we previously obtained representations and warranties from loan originators or other parties from whom we originally acquired the assets, such representations and warranties may not align with those that we have made for the benefit of the securitization, or may otherwise not protect us from losses (e.g., because of a deterioration in the financial condition of the party that provided representations and warranties to us).

Interest rate mismatches between our assets and our borrowings may reduce our income during periods of changing interest rates, and increases in interest rates could adversely affect the value of our assets.

Some of our assets are fixed rate or have a fixed rate component (such as RMBS backed by hybrid ARMs). This means that the interest we earn on these assets will not vary over time based upon changes in a short-term interest rate index. Although the interest we earn on our ARM loans and our RMBS backed by ARMs generally will adjust for changing interest rates, such interest rate adjustments may not occur as quickly as the interest rate adjustments to any related borrowings, and such interest rate adjustments will generally be subject to interest rate caps, which potentially could cause such RMBS to acquire many of the characteristics of fixed rate assets if interest rates were to rise above the cap levels. We generally fund our targeted assets with borrowings whose interest rates reset frequently, and as a result we generally have an interest rate mismatch between our assets and liabilities. While our interest rate hedges are intended to mitigate a portion of this mismatch, the use of interest rate hedges also introduces the risk of other interest rate mismatches and exposures, as will the use of other financing techniques. Additionally, to the extent cash flows from RMBS we hold are reinvested in new RMBS, the spread between the yields of the new RMBS and available borrowing rates may decline, which could reduce our net interest margin or result in losses.

Fixed income assets, including many RMBS, typically decline in value if interest rates increase. If long-term rates were to increase significantly, not only would the market value of these assets be expected to decline, but these assets could lengthen in duration because borrowers would be less likely to prepay their mortgages.

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. In addition, the U.S. Federal Reserve, or the "Federal Reserve," has been increasing the target range for the federal funds rate since December 2015, and further interest rate increases may occur in the near future.

While we opportunistically hedge our exposure to changes in interest rates, such hedging may be limited by our intention to qualify and remain qualified as a REIT, and we can provide no assurance that our hedges will be successful, or that we will be able to enter into or maintain such hedges. As a result, interest rate fluctuations can cause significant losses, reductions in income, and can limit the cash available to pay dividends to our stockholders.

Changes in banks' inter-bank lending rate reporting practices or the method pursuant to which LIBOR is determined may adversely affect the value of the financial obligations to be held or issued by us that are linked to LIBOR.

LIBOR and other indices which are deemed “benchmarks” are the subject of recent national, international, and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, or have other consequences which cannot be predicted. In particular, regulators and law enforcement agencies in the U.K. and elsewhere conducted criminal and civil investigations into whether the banks that contributed information to the British Bankers' Association (“BBA”) in connection with the daily calculation of LIBOR may have been under-reporting or otherwise manipulating or attempting to manipulate LIBOR. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to this alleged manipulation of LIBOR. LIBOR is calculated by reference to a market for interbank lending that continues to shrink, as it is based on increasingly fewer actual transactions. This increases the subjectivity of the LIBOR calculation process and increases the risk of manipulation. Actions by the regulators or law enforcement agencies, as well as ICE Benchmark Administration (the current administrator of LIBOR), may result in changes to the manner in which LIBOR is determined or the establishment of alternative reference rates. For example, on July 27, 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021.

It is likely that, over time, U.S. Dollar LIBOR will be replaced by the Secured Overnight Financing Rate (“SOFR”) published by the Federal Reserve Bank of New York. However, the manner and timing of this shift is currently unknown. SOFR is an overnight rate instead of a term rate, making SOFR an inexact replacement for LIBOR. There is currently no perfect way to create robust, forward-looking, SOFR term rates. Market participants are still considering how various types of financial instruments and securitization vehicles should react to a discontinuation of LIBOR. It is possible that not all of our assets and liabilities (including our derivatives) will transition away from LIBOR at the same time, and it is possible that not all of our assets and liabilities (including our derivatives) will transition to the same alternative reference rate, in each case increasing the difficulty of hedging. Switching existing financial instruments and hedging transactions from LIBOR to SOFR requires calculations of a spread. Industry organizations are attempting to structure the spread calculation in a manner that minimizes the possibility of value transfer between counterparties, borrowers, and lenders by virtue of the transition, but there is no assurance that the calculated spread will be fair and accurate or that all asset types and all types of securitization vehicles will use the same spread. We and other market participants have less experience understanding and modeling SOFR-based assets and liabilities (including derivatives) than LIBOR-based assets and liabilities (including derivatives), increasing the difficulty of investing, hedging, and risk management. The process of transition involves operational risks. It is also possible that no transition will occur for many financial instruments, meaning that those instruments would continue to be subject to the weaknesses of the LIBOR calculation process. At this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be implemented. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect (i) the market for, or value of, any securities on which the interest or dividend is determined by reference to LIBOR, loans, derivatives and other financial obligations, or (ii) our overall financial condition or results of operations. More generally, any of the above changes or any other consequential changes to LIBOR or any other “benchmark” as a result of international, national or other proposals for reform or other initiatives or investigations, or any further uncertainty in relation to the timing and manner of implementation of such changes, could have a material adverse effect on the value of and return on any securities based on or linked to a “benchmark.”

Our investments that are denominated in foreign currencies subject us to foreign currency risk, which may adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Our investments that are denominated in foreign currencies subject us to foreign currency risk arising from fluctuations in exchange rates between such foreign currencies and the U.S. dollar. While we currently attempt to hedge the vast majority of our foreign currency exposure, subject to qualifying and maintaining our qualification as a REIT, we may not always choose to hedge such exposure, or we may not be able to hedge such exposure. To the extent that we are exposed to foreign currency risk, changes in exchange rates of such foreign currencies to the U.S. dollar may adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Our lenders and derivative counterparties may require us to post additional collateral, which may force us to liquidate assets, and if we fail to post sufficient collateral our debts may be accelerated and/or our derivative contracts terminated on unfavorable terms.

Most of our reverse repo agreements and our derivative contracts allow, to varying degrees, our lenders and derivative counterparties (including clearinghouses) to determine an updated market value of our collateral and derivative contracts to reflect current market conditions. If the market value of our collateral or our derivative contracts with a particular lender or derivative counterparty declines in value, we generally will be required by the lender or derivative counterparty to provide additional collateral or repay a portion of the funds advanced on minimal notice, which is known as a margin call. Posting additional collateral will reduce our liquidity and limit our ability to leverage our assets. Additionally, in order to satisfy a margin call, we may be required to liquidate assets at a disadvantageous time, which could cause us to incur further losses and adversely affect our results of operations and financial condition, and may impair our ability to pay dividends to our stockholders. We receive margin calls from our lenders and derivative counterparties from time to time in the ordinary course of business similar to other entities in the specialty finance business. In the event we default on our obligation to satisfy these margin calls, our lenders or derivative counterparties can accelerate our indebtedness, terminate our derivative contracts (potentially on unfavorable terms requiring additional payments, including additional fees and costs), increase our borrowing rates, liquidate our collateral, and terminate our ability to borrow. In certain cases, a default on one reverse repo agreement or derivative contract (whether caused by a failure to satisfy margin calls or another event of default) can trigger "cross defaults" on other such agreements. A significant increase in margin calls could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders, and could increase our risk of insolvency.

Hedging against credit events, interest rate changes, foreign currency fluctuations, and other risks may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Subject to qualifying and maintaining our qualification as a REIT and maintaining our exclusion from registration as an investment company under the Investment Company Act, we opportunistically pursue various hedging strategies to seek to reduce our exposure to losses from adverse credit events, interest rate changes, foreign currency fluctuations, and other risks. Hedging against a decline in the values of our portfolio positions does not prevent losses if the values of such positions decline, nor does it eliminate the possibility of fluctuations in the value of our portfolio. Hedging transactions generally will limit the opportunity for gain should the values of our other portfolio positions increase. Further, certain hedging transactions could result in significant losses. Qualification as a REIT may require that we undertake certain hedging activities in a TRS. Our domestic TRSs will be fully subject to U.S. federal, state, and local income tax. Moreover, at any point in time we may choose not to hedge all or a portion of our risks, and we generally will 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. Even if we do choose to hedge certain risks, for a variety of reasons we generally will not seek to establish a perfect correlation between our hedging instruments and the risks being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. Our hedging activity will vary in scope based on the composition of our portfolio, our market views, and changing market conditions, including the level and volatility of interest rates. When we do choose to hedge, hedging may fail to protect or could materially adversely affect us because, among other things:

- our Manager may fail to correctly assess the degree of correlation between the hedging instruments and the assets being hedged;

- our Manager may fail to recalculate, re-adjust, and execute hedges in an efficient and timely manner;
- the hedging transactions may actually result in poorer overall performance for us than if we had not engaged in the hedging transactions;
- credit hedging can be expensive, particularly when the market is forecasting future credit deterioration and when markets are more illiquid;
- interest rate hedging can be expensive, particularly during periods of volatile interest rates;
- available hedges may not correspond directly with the risks for which protection is sought;
- the durations of the hedges may not match the durations of the related assets or liabilities being hedged;
- many hedges are structured as over-the-counter contracts with counterparties whose creditworthiness is not guaranteed, raising the possibility that the hedging counterparty may default on their payment obligations;
- to the extent that the creditworthiness of a hedging counterparty deteriorates, it may be difficult or impossible to terminate or assign any hedging transactions with such counterparty; and
- our hedging instruments are generally structured as derivative contracts and, as a result, are subject to additional risks such as those described above under "—Our lenders and derivative counterparties may require us to post additional collateral, which may force us to liquidate assets, and if we fail to post sufficient collateral our debts may be accelerated and/or our derivative contracts terminated on unfavorable terms" and below under"—Our use of derivatives may expose us to counterparty risk."

For these and other reasons, our hedging activity may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Hedging instruments and other derivatives, including some credit default swaps, may not, in many cases, be traded on exchanges, or may not be guaranteed or regulated by any U.S. or foreign governmental authority and involve risks and costs that could result in material losses.

Hedging instruments and other derivatives, including certain types of credit default swaps, involve risk because they may not, in many cases, be traded on exchanges and may not be guaranteed or regulated by any U.S. or foreign governmental authorities. Consequently, for these instruments, there may be less stringent requirements with respect to record keeping and compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. Our Manager is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Furthermore, our Manager has only a limited internal credit function to evaluate the creditworthiness of its counterparties, mainly relying on its experience with such counterparties and their general reputation as participants in these markets. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default under the agreement governing the hedging arrangement. Default by a party with whom we enter into a hedging transaction, such as occurred with Lehman Brothers in 2008, may result in losses and may force us to re-initiate similar hedges with other counterparties at the then-prevailing market levels. Generally we will seek to reserve the right to terminate our hedging transactions upon a counterparty's insolvency, but absent an actual insolvency, we may not be able to terminate a hedging transaction without the consent of the hedging counterparty, and we may not be able to assign or otherwise dispose of a hedging transaction to another counterparty without the consent of both the original hedging counterparty and the potential assignee. If we terminate a hedging transaction, we may not be able to enter into a replacement contract in order to cover our risk. There can be no assurance that a liquid secondary market will exist for hedging instruments purchased or sold, and therefore we may be required to maintain any hedging position until exercise or expiration, which could adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

In addition, some portion of our hedges are cleared through a central counterparty clearinghouse, or “CCP," which we access through a futures commission merchant, or “FCM.” If an FCM that holds our cleared derivatives account were to become insolvent, the CCP will make an effort to move our futures positions to an alternate FCM, though it is possible that such transfer would fail, which would result in a total cancellation of our positions in the account; in such a case, if we wished to reinstate such hedging positions, we would have to re-initiate such positions with an alternate FCM. In the event of the insolvency of an FCM that holds our cleared over-the-counter derivatives, the rules of the CCP require that its direct members submit bids to take over the portfolio of the FCM, and would further require the CCP to move our existing positions and related margin to an alternate FCM. If this were to occur, we believe that our risk of loss would be limited to the excess equity in the account at the insolvent FCM due to the “legal segregation/operationally commingled” treatment of client assets under the rules governing FCMs in respect of cleared over-the-counter derivatives. In addition, in the case of both futures and cleared over-the-counter derivatives, there could be knock-on effects of our FCM’s insolvency, such as the failure of co-customers of the FCM or other FCMs of the same CCP. In such cases, there could be a shortfall in the funds available to the CCP due to such additional insolvencies and/or exhaustion of the CCP's guaranty fund that could lead to total loss of our positions in the FCM account. Finally, we face a risk of loss (including total cancellation) of positions in the account in the event of fraud by our FCM or other FCMs of the CCP, where ordinary course remedies would not apply.

The U.S. Commodity Futures Trading Commission, or "CFTC," and certain commodity exchanges have established limits referred to as speculative position limits or position limits on the maximum net long or net short position which any person or group of persons may hold or control in particular futures and options. Limits on trading in options contracts also have been established by the various options exchanges. It is possible that trading decisions may have to be modified and that positions held may have to be liquidated in order to avoid exceeding such limits. Such modification or liquidation, if required, could adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Certain of our hedging instruments are regulated by the CFTC and such regulations may adversely impact our ability to enter into such hedging instruments and cause us to incur increased costs.

We enter into interest rate swaps and credit default swaps, or "CDS," on corporations or on corporate indices, or "CDX," to hedge risks associated with our portfolio. Entities entering into such swaps are exposed to credit losses in the event of non-performance by counterparties to these transactions. Effective October 12, 2012, the CFTC issued rules regarding such swaps under the authority granted to it pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the "Dodd-Frank Act."

The rules primarily impact our trading of these instruments in two ways. First, beginning on June 10, 2013, certain newly executed swaps, including many interest rate and credit default swaps, became subject to mandatory clearing through a CCP. It is the intent of the Dodd-Frank Act that, by mandating the clearing of swaps in this manner, swap counterparty risk would not become overly concentrated in any single entity, but rather would be spread and centralized among the CCP and its members. We are not a direct member of any CCP, so we must access the CCPs through a FCM, which acts as intermediary between us and the CCP with respect to all facets of the transaction, including the posting and receipt of required collateral. If we lost access to our FCMs or CCPs, we could potentially be unable to use interest rate swaps and credit default swaps to hedge our risks.

The second way that the rules impact our trading of these instruments is the Swap Execution Facility, or "SEF," mandate, which came into effect on October 2, 2013, and requires that we execute most interest rate swaps and CDX on an electronic platform, rather than over the phone or in some other manner. If we were to lose access to our selected SEFs or we were otherwise unable to communicate with them, this would prevent us from being able to trade these instruments. If we were unable to execute our hedging trades in a timely manner, particularly in a volatile market environment, we may not be able to execute our strategies in the most advantageous manner.

In addition to subjecting our swap transactions to greater initial margin requirements and additional transaction fees charged by CCPs, FCMs, and SEFs, our swap transactions are now subjected to greater regulation by both the CFTC and the SEC. These additional fees, costs, margin requirements, documentation, and regulation could adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Additionally, for all interest rate swaps and CDX entered into prior to June 10, 2013, we were not required to clear them through a CCP and as a result these swaps are still subject to the risks of nonperformance by any of the individual counterparties with whom we entered into these transactions described above in "—Hedging instruments and other derivatives, including some credit default swaps, may not, in many cases, be traded on regulated exchanges, or may not be guaranteed or regulated by any U.S. or foreign governmental authority and involve risks and costs that could result in material losses."

Our use of derivatives may expose us to counterparty risk.

We enter into interest rate swaps and other derivatives that have not been cleared by a CCP. If a derivative counterparty cannot perform under the terms of the derivative contract, we would not receive payments due under that agreement, we may lose any unrealized gain associated with the derivative, and the hedged liability would cease to be hedged by such instrument. If a derivative counterparty becomes insolvent or files for bankruptcy, we may also be at risk for any collateral we have pledged to such counterparty to secure our obligations under derivative contracts, and we may incur significant costs in attempting to recover such collateral.

Our rights under our reverse repos are subject to the effects of the bankruptcy laws in the event of the bankruptcy or insolvency of us or our lenders.

In the event of our insolvency or bankruptcy, certain reverse repos may qualify for special treatment under the U.S. Bankruptcy Code, the effect of which, among other things, would be to allow the lender to avoid the automatic stay provisions of the U.S. Bankruptcy Code and to foreclose on and/or liquidate the collateral pledged under such agreements without delay. In the event of the insolvency or bankruptcy of a lender during the term of a reverse repo, the lender may be permitted, under applicable insolvency laws, to repudiate the contract, and our claim against the lender for damages may be treated simply as an unsecured creditor. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our securities under a reverse repo or to be compensated for any damages resulting from the lenders' insolvency may be further limited by those statutes. These claims would be subject to significant delay and costs to us and, if and when received, may be substantially less than the damages we actually incur.

Certain actions by the Federal Reserve could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

In September 2012, the Federal Reserve announced a third round of quantitative easing, or "QE3," which was an open-ended program designed to expand the Federal Reserve's holdings of long-term securities by purchasing, at the time, an additional $40 billion of Agency RMBS per month until key economic indicators showed sufficient signs of improvement.

Since December 2013, the Federal Reserve announced and completed eight incremental reductions in its purchases of Agency RMBS and U.S. Treasury securities under its accommodative monetary policies, and concluded its QE3 asset buying program at the end of October 2014. The Federal Reserve continued to reinvest principal payments from its U.S. Treasury security and Agency RMBS holdings, but in October 2017 it initiated its balance sheet normalization program, whereby it began tapering asset purchases of both U.S. Treasury securities and Agency RMBS. The amount of tapering of reinvestments increased each quarter thereafter, according to a pre-determined schedule, and the tapering reached its scheduled cap in October 2018. At the January 2019 meeting of the Federal Open Market Committee ("January 2019 FOMC Meeting"), however, the committee indicated that it might alter the pace of the tapering going forward "if future economic conditions were to warrant" such a change. In addition, while the Federal Reserve left interest rates unchanged at the January 2019 FOMC Meeting, it had previously been increasing the target range for the federal funds rate since December 2015, and further interest rate increases may occur in the near future. See "—Increases in interest rates could negatively affect the value of our assets and increase the risk of default on our assets" above. Should the U.S. economy begin to deteriorate, the Federal Reserve could decide to reinstate its asset purchase program or institute other measures designed to reduce interest rates. These measures could impact the shape of the yield curve, lead to increased prepayment rates (resulting from lower long-term interest rates, including mortgage rates), and a narrowing of our net interest margin.

We may change our investment strategy, investment guidelines, hedging strategy, and asset allocation, operational, and management policies without notice or stockholder consent, which may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders. In addition, our Board of Directors may authorize us to revoke or otherwise terminate our REIT election, without the approval of our stockholders.

We may change our investment strategy, investment guidelines, hedging strategy, and asset allocation, operational, and management policies at any time without notice to or consent from our stockholders. As a result, the types or mix of assets, liabilities, or hedging transactions in our portfolio may be different from, and possibly riskier than, the types or mix of assets, liabilities, and hedging transactions that we have historically held, or that are otherwise described in this report. A change in our strategy may increase our exposure to real estate values, interest rates, and other factors. Our Board of Directors determines our investment guidelines and our operational policies, and may amend or revise our policies, including those with respect to our acquisitions, growth, operations, indebtedness, capitalization, and dividends or approve transactions that deviate from these policies without a vote of, or notice to, our stockholders. Policy changes could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Although we will elect and intend to qualify to be treated as a REIT for U.S. federal income tax purposes commencing with our taxable year ending December 31, 2019, our Board of Directors may authorize us to revoke or otherwise terminate our REIT election, without the approval of our stockholders, at any time. These changes could materially adversely affect our business, financial condition and results of operations and our ability to pay dividends to our stockholders.

We, Ellington, or its affiliates may be subject to adverse legislative or regulatory changes.

At any time, U.S. federal, state, local, or foreign laws or regulations that impact our business, or the administrative interpretations of those laws or regulations, may be enacted or amended. For example, on July 21, 2010 the Dodd-Frank Act was enacted, which significantly revised many financial regulations. Certain portions of the Dodd-Frank Act were effective immediately, while other portions have become or will become effective following rulemaking and transition periods, but many of these changes could materially impact the profitability of our business or the business of our Manager or Ellington, our access to financing or capital, the value of the assets that we hold, expose us to additional costs, require changes to business practices, or adversely affect our ability to pay dividends. For example, the Dodd-Frank Act alters the regulation of commodity interests, imposes regulation on the over-the-counter derivatives market, places restrictions on residential mortgage loan originations, and reforms the asset-backed securitization markets most notably by imposing credit requirements. While there continues to be uncertainty about the exact impact of all of these changes, we do know that we and our Manager are subject to a more complex regulatory framework, and are incurring and will in the future incur costs to comply with new requirements as well as to monitor compliance in the future.

In addition, certain U.S. and European regulations implementing credit risk retention requirements for debt securitizations may adversely affect us. The impact of these risk retention rules on the securitization market are uncertain, and such rules may prevent us from completing any future securitization transactions or from purchasing the B-pieces of CMBS securitizations. In October 2014, the U.S. risk retention rules, or the "U.S. Risk Retention Rules," were issued. The U.S. Risk Retention Rules require the sponsor of a debt securitization subject to such rules, in the absence of an exemption, to retain (directly or through a majority-owned affiliate) a 5% economic interest in the credit risk of the assets being securitized. The retained economic interest may take the form of an eligible horizontal residual interest (retention of the most subordinated tranches of the securitization), an eligible vertical interest (retention of 5% of every tranche of the securitization), or a combination thereof, in accordance with the requirements of the U.S. Risk Retention Rules. The U.S. Risk Retention Rules became effective December 24, 2016.

We cannot predict when or if any new law, regulation, or administrative interpretation, including those related to the Dodd-Frank Act, or any amendment to or repeal of any existing law, regulation, or administrative interpretation, will be adopted or promulgated or will become effective. Additionally, the adoption or implementation of any new law, regulation, or administrative interpretation, or any revisions in or repeals of these laws, regulations, or administrative interpretations, including those related to the Dodd-Frank Act, could cause us to change our portfolio, could constrain our strategy, or increase our costs. We could be adversely affected by any change in or any promulgation of new law, regulation, or administrative interpretation.

We or Ellington or its affiliates may be subject to regulatory inquiries or proceedings.

At any time, industry-wide or company-specific regulatory inquiries or proceedings can be initiated and we cannot predict when or if any such regulatory inquiries or proceedings will be initiated that involve us or Ellington or its affiliates, including our Manager. For example, over the years, 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, including those identified under the caption Item 3. Legal Proceedings.

We can give no assurances that regulatory inquiries will not result in investigations of us or Ellington or its affiliates, or in enforcement actions, fines or penalties, or the assertion of private litigation claims against us or, Ellington or its affiliates. We believe that the heightened scrutiny of the financial services industry increases the risk of additional inquiries and requests from regulatory or enforcement agencies. In the event regulatory inquiries were to result in investigations, enforcement actions, fines, penalties, or the assertion of private litigation claims against us or Ellington or its affiliates, we, or our Manager's ability to perform its obligations to us under the management agreement between us and our Manager, or Ellington's ability to perform its obligations to our Manager under the services agreement between Ellington and our Manager, could be adversely impacted, which could in turn have a material adverse effect on our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

We operate in a highly competitive market.

Our profitability depends, in large part, on our ability to acquire targeted assets at favorable prices. We compete with a number of entities when acquiring our targeted assets, including other mortgage REITs, financial companies, public and private funds, commercial and investment banks, and residential and commercial finance companies. We may also compete with (i) the Federal Reserve and the U.S. Treasury to the extent they purchase assets in our targeted asset classes and (ii) companies that partner with and/or receive financing from the U.S. Government. Many of our competitors are substantially larger and have considerably more favorable access to capital and other resources than we do. Furthermore, new companies with significant amounts of capital have been formed or have raised additional capital, and may continue to be formed and raise additional capital in the future, and these companies may have objectives that overlap with ours, which may create competition for assets we wish to acquire. Some competitors may have a lower cost of funds and access to funding sources that are not available to us, such as funding from the U.S. Government. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of assets to acquire, or pay higher prices than we can. We also may have different operating constraints from those of our competitors including, among others, (i) tax-driven constraints such as those arising from our qualification as a REIT and in some cases to avoid adverse tax consequences to our stockholders, (ii) restraints imposed on us by our attempt to comply with certain exclusions from the definition of an "investment company" or other exemptions under the Investment Company Act and (iii) restraints and additional costs arising from our status as a public company. Furthermore, competition for assets in our targeted asset classes may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

We are highly dependent on information systems and system failures could significantly disrupt our business, which may, in turn, materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Our business is highly dependent on communications and information systems. Any failure or interruption of our systems or cyber-attacks or security breaches of our networks or systems could cause delays or other problems in our securities trading activities, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third parties with which we do business or that facilitate our business activities, including clearing agents or other financial intermediaries we use to facilitate our securities transactions, if their respective systems experience failure, interruption, cyber-attacks, or security breaches.

Computer malware, viruses, and computer hacking and phishing attacks have become more prevalent in the financial services industry and may occur on our systems in the future. We rely heavily on our financial, accounting and other data processing systems. Although we have not detected a breach to date, financial services institutions have reported breaches of their systems, some of which have been significant. Even with all reasonable security efforts, not every breach can be prevented or even detected. It is possible that we have experienced an undetected breach, and it is likely that other financial institutions have experienced more breaches than have been detected and reported. There is no assurance that we, or the third parties that facilitate our business activities, have not or will not experience a breach. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or cyber-attacks or security breaches of our networks or systems (or the networks or systems of third parties that facilitate our business activities) or any failure to maintain performance, reliability and security of our technical infrastructure, but such computer malware, viruses, and computer hacking and phishing attacks may negatively affect our operations.

Lack of diversification in the number of assets we acquire would increase our dependence on relatively few individual assets.

Our management objectives and policies do not place a limit on the amount of capital used to support, or the exposure to (by any other measure), any individual asset or any group of assets with similar characteristics or risks. As a result, our portfolio may be concentrated in a small number of assets or may be otherwise undiversified, increasing the risk of loss and the magnitude of potential losses to us and our stockholders if one or more of these assets perform poorly.

For example, our portfolio of mortgage-related assets may at times be concentrated in certain property types that are subject to higher risk of foreclosure, or secured by properties concentrated in a limited number of geographic locations. To the extent that our portfolio is concentrated in any one region or type of security, downturns or other significant events or developments relating generally to such region or type of security may result in defaults on a number of our assets within a short time period, which may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

The lack of liquidity in our assets may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

We acquire assets and other instruments that are not publicly traded, including privately placed RMBS, residential and commercial mortgage loans, CLOs, consumer loans, ABS backed by consumer and commercial assets, distressed corporate debt, and other private investments. As such, these assets may be subject to legal and other restrictions on resale, transfer, pledge or other disposition, or will otherwise be less liquid than publicly traded securities. Other assets that we acquire, while publicly traded, have limited liquidity on account of their complexity, turbulent market conditions, or other factors. In addition, mortgage-related assets from time to time have experienced extended periods of illiquidity, including during times of financial stress (such as during the 2008 financial crisis), which is often the time that liquidity is most needed. Illiquid assets typically experience greater price volatility, because a ready market does not exist, and they can be more difficult to value or sell if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our assets. We may also face other restrictions on our ability to liquidate any assets for which we or our Manager has or could be attributed with material non-public information. Furthermore, assets that are illiquid are more difficult to finance, and to the extent that we finance assets that are or become illiquid, we may lose that financing or have it reduced. If we are unable to sell our assets at favorable prices or at all, it could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

We could be subject to liability for potential violations of predatory lending laws, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Loan originators and servicers are required to comply with various federal, state and local laws and regulations, including anti-predatory lending laws and laws and regulations imposing certain restrictions on requirements on high cost loans. Failure of loan originators or servicers to comply with these laws, to the extent any of their loans become part of our assets, could subject us, as an assignee or purchaser of the related loans, to monetary penalties and could result in the borrowers rescinding the affected loans. Lawsuits have been brought in various states making claims against assignees or purchasers of high cost loans for violations of state law. Named defendants in these cases have included assignees or purchasers of certain types of loans we invest in. If the loans are found to have been originated in violation of predatory or abusive lending laws, we could incur losses, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

We may be exposed to environmental liabilities with respect to properties in which we have an interest.

In the course of our business, we may take title to real estate, and, if we do take title, we could be subject to environmental liabilities with respect to these properties. In such a circumstance, we may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, the presence of hazardous substances may adversely affect an owner's ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of an underlying property becomes liable for removal costs, the ability of the owner to make debt payments may be reduced, which in turn may materially adversely affect the value of the relevant mortgage-related assets held by us.

Consumer loans are subject to delinquency and loss, which could have a negative impact on our financial results.

We are exposed to the performance of consumer loans both through the consumer loans that we own directly, and through those consumer loans to which we are exposed indirectly through our ownership of consumer-loan-backed ABS. 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. Pursuing any remaining deficiency following a default 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. Since we purchase some of our consumer loans and our consumer-loan-backed ABS at a premium to the remaining unpaid principal balance, we may incur a loss when such loans are voluntarily prepaid. There can be no guarantee that we will not suffer unexpected losses on our investments as a result of the factors set out above, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Increased regulatory attention and potential regulatory action on certain areas within the consumer credit business could have a negative impact on our reputation, or cause losses on our investments in consumer loans.

Certain consumer advocacy groups, media reports, and federal and state legislators have asserted that laws and regulations should be tightened to severely limit, if not eliminate, the availability of certain consumer loan products. The consumer advocacy groups and media reports generally focus on higher cost consumer loans, which are typically made to less creditworthy borrowers, and which bear interest rates that are higher than the interest rates typically charged by lending institutions to more creditworthy consumers. These consumer advocacy groups and media reports have characterized these consumer loans as predatory or abusive. If the negative characterization of these types of loans becomes increasingly accepted by consumers, legislators or regulators, our reputation, as a purchaser of such loans, could be negatively impacted.

Furthermore, if legislators or regulators take action against originators of consumer loans or provide for payment relief for borrowers, we could incur additional losses on the consumer loans we have purchased.

Our investments in distressed debt have significant risk of loss, and our efforts to protect our distressed debt investments may involve large costs and may not be successful.

Our investments in distressed debt have significant risk of loss, and our efforts to protect our distressed debt investments may involve large costs and may not be successful. We also will be subject to significant uncertainty as to when and in what manner and for what value the distressed debt in which we invest will eventually be satisfied (e.g., through liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed debt securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or plan of reorganization is adopted with respect to distressed debt we hold, there can be no assurance that the securities or other assets received by us in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by us upon completion of an exchange offer or plan of reorganization may be restricted as to resale. If we participate in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed debt, we may be restricted from disposing of such securities.

We may hold the debt securities and loans of companies that are more likely to enter into bankruptcy proceedings.

We may hold the debt securities and loans of 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. 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 a creditor's return on investment can be adversely affected by delays until a plan of reorganization or liquidation ultimately becomes effective. The administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the debtor's estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, our influence with respect to the class of securities or other obligations we own may be lost by increases in the number and amount of claims in the same class or by different classification and treatment. In the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial, eroding the value of any recovery by holders of other securities of the bankrupt entity.

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.

We may be subject to risks associated with syndicated loans.

Under the documentation for syndicated loans, a financial institution or other entity typically is designated as the administrative agent and/or collateral agent. This agent is granted a lien on any collateral on behalf of the other lenders and distributes payments on the indebtedness as they are received. The agent is the party responsible for administering and enforcing the loan and generally may take actions only in accordance with the instructions of a majority or two-thirds in commitments and/or principal amount of the associated indebtedness. In most cases for our syndicated loan investments, we do not expect to hold a sufficient amount of the indebtedness to be able to compel any actions by the agent. Consequently, we would only be able to direct such actions if instructions from us were made in conjunction with other holders of associated indebtedness that together with us compose the requisite percentage of the related indebtedness then entitled to take action. Conversely, if holders of the required amount of the associated indebtedness other than us desire to take certain actions, such actions may be taken even if we did not support such actions. Furthermore, if a syndicated loan is subordinated to one or more senior loans made to the applicable obligor, the ability of us to exercise such rights may be subordinated to the exercise of such rights by the senior lenders. Whenever we are unable to direct such actions, the parties taking such actions may not have interests that are aligned with us, and the actions taken may not be in our best interests.

If an investment is a syndicated revolving loan or delayed drawdown loan, other lenders may fail to satisfy their full contractual funding commitments for such loan, which could create a breach of contract, result in a lawsuit by the obligor against the lenders and adversely affect the fair market value of our investment.

There is a risk that a loan agent may become bankrupt or insolvent. Such an event would delay, and possibly impair, any enforcement actions undertaken by holders of the associated indebtedness, including attempts to realize upon the collateral securing the associated indebtedness and/or direct the agent to take actions against the related obligor or the collateral securing the associated indebtedness and actions to realize on proceeds of payments made by obligors that are in the possession or control of any other financial institution. In addition, we may be unable to remove the agent in circumstances in which removal would be in our best interests. Moreover, agented loans typically allow for the agent to resign with certain advance notice, and we may not find a replacement agent on a timely basis, or at all, in order to protect our investment.

We have made and may in the future make investments in companies that we do not control.

Some of our investments in loan originators and other operating entities include, or may include, debt instruments and/or equity securities of companies that we do not control. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of such company may take risks or otherwise act in a manner that does not serve our interests. The entities in which we invest could be thinly capitalized, highly leveraged, dependent on a small number of key individuals, subject to regulatory concerns, or face other obstacles that could adversely affect the business and results of operations of any such entity. If any of the foregoing were to occur, our investments in these operating entities could be lost in their entirety, and our financial condition, results of operations and cash flow could suffer as a result.

We have invested and may in the future invest in securities in the developing CRT sector that are subject to mortgage credit risk.

We have invested and may in the future invest in credit risk transfer securities, or "CRTs." CRTs are designed to transfer a portion of the mortgage credit risk on a pool of insured or guaranteed mortgage loans from the insurer or guarantor of such loans to CRT investors. In a CRT transaction, interest and/or principal of the CRT is written off following certain credit events, such as delinquencies, defaults, and/or realized losses, on the underlying mortgage pool. To date, the vast majority of CRTs consist of risk sharing transactions issued by the GSEs, namely Fannie Mae's Connecticut Avenue Securities program, or "CAS," and Freddie Mac's Structured Agency Credit Risk program, or "STACR." These securities have historically been structured as unsecured debt of the related GSE, but where the principal payments and principal write-offs are determined by the prepayments, delinquencies, and/or realized losses on a reference pool of mortgage loans guaranteed by such GSE. However, in 2018, Fannie Mae's CAS program began structuring some of its offerings as real estate mortgage investment conduit, or "REMIC," securities. It is anticipated that in the future Fannie Mae and Freddie Mac will issue CRTs with a variety of other structures.

Risks Related to our Relationship with our Manager and Ellington

We cannot assure you that our Manager's past experience will be sufficient to successfully manage our business as a REIT.

Our Manager has limited experience operating REITs. The REIT provisions of the Code are complex, and any failure to comply with those provisions in a timely manner could prevent us from maintaining our qualification as a REIT or force us to pay unexpected taxes and penalties. In such event, our net income would be reduced and we could incur a loss.

We are dependent on our Manager and certain key personnel of Ellington that are provided to us through our Manager and may not find a suitable replacement if our Manager terminates the management agreement or such key personnel are no longer available to us.

We do not have any employees of our own. Our officers are employees of Ellington or one or more of its affiliates. We have no separate facilities and are completely reliant on our Manager, which has significant discretion as to the implementation of our operating policies and execution of our business strategies and risk management practices. We also depend on our Manager's access to the professionals and principals of Ellington as well as information and deal flow generated by Ellington. The employees of Ellington identify, evaluate, negotiate, structure, close, and monitor our portfolio. The departure of any of the senior officers of our Manager, or of a significant number of investment professionals or principals of Ellington, could have a material adverse effect on our ability to achieve our objectives. We can offer no assurance that our Manager will remain our manager or that we will continue to have access to our Manager's senior management. We are subject to the risk that our Manager will terminate the management agreement or that we may deem it necessary to terminate the management agreement or prevent certain individuals from performing services for us and that no suitable replacement will be found to manage us.

The base management fee payable to our Manager is payable regardless of the performance of our portfolio, which may reduce our Manager's incentive to devote the time and effort to seeking profitable opportunities for our portfolio.

We pay our Manager substantial base management fees based on our equity capital (as defined in the management agreement) regardless of the performance of our portfolio. The base management fee takes into account the net issuance proceeds of both common and preferred stock offerings. Our Manager's entitlement to non-performance-based compensation might reduce its incentive to devote the time and effort of its professionals to seeking profitable opportunities for our portfolio, which could result in a lower performance of our portfolio and materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Our Manager's incentive fee may induce our Manager to acquire certain assets, including speculative or high risk assets, or to acquire assets with increased leverage, which could increase the risk to our portfolio.

In addition to its base management fee, our Manager is entitled to receive an incentive fee based, in large part, upon our achievement of targeted levels of net income. In evaluating asset acquisition and other management strategies, the opportunity to earn an incentive fee based on net income may lead our Manager to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, maintaining liquidity, and/or management of credit risk or market risk, in order to achieve a higher incentive fee. Assets with higher yield potential are generally riskier or more speculative. This could result in increased risk to our portfolio.

Our Board of Directors has approved very broad investment guidelines for our Manager and will not approve each decision made by our Manager to acquire, dispose of, or otherwise manage an asset.

Our Manager is authorized to follow very broad guidelines in pursuing our strategy. While our Board of Directors periodically reviews our guidelines and our portfolio and asset-management decisions, it generally does not review all of our proposed acquisitions, dispositions, and other management decisions. In addition, in conducting periodic reviews, our Board of Directors relies primarily on information provided to them by our Manager. Furthermore, our Manager may arrange for us to use complex strategies or to enter into complex transactions that may be difficult or impossible to unwind by the time they are reviewed by our Board of Directors. Our Manager has great latitude within the broad guidelines in determining the types of assets it may decide are proper for us to acquire and other decisions with respect to the management of those assets. Poor decisions could have a material adverse effect on our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

We compete with Ellington's other accounts for access to Ellington.

Ellington has sponsored and/or currently manages accounts with a focus that overlaps with our investment focus, and expects to continue to do so in the future. Ellington is not restricted in any way from sponsoring or accepting capital from new accounts, even for investing in asset classes or strategies that are similar to, or overlapping with, our asset classes or strategies. Therefore, we compete for access to the benefits that our relationship with our Manager and Ellington provides us. For the same reasons, the personnel of Ellington and our Manager may be unable to dedicate a substantial portion of their time to managing our assets.

We compete with other Ellington accounts for opportunities to acquire assets, which are allocated in accordance with Ellington's investment allocation policies.

Many, if not most, of our targeted assets are also targeted assets of other Ellington accounts, and Ellington has no duty to allocate such opportunities in a manner that preferentially favors us. Ellington makes available to us all opportunities to acquire assets that it determines, in its reasonable and good faith judgment, based on our objectives, policies and strategies, and other relevant factors, are appropriate for us in accordance with Ellington's written investment allocation policy, it being understood that we might not participate in each such opportunity, but will on an overall basis equitably participate with Ellington's other accounts in all such opportunities.

Since many of our targeted assets are typically available only in specified quantities, Ellington often is not able to buy as much of any asset or group of assets as would be required to satisfy the needs of all of Ellington's accounts. In these cases, Ellington's investment allocation procedures and policies typically allocate such assets to multiple accounts in proportion to their needs and available capital. As part of these policies, accounts that are in a "start-up" or "ramp-up" phase may get allocations above their proportion of available capital, which could work to our disadvantage, particularly because there are no limitations surrounding Ellington's ability to create new accounts. In addition, the policies permit departure from proportional allocations under certain circumstances, for example when such allocation would result in an inefficiently small amount of the security or assets being purchased for an account, which may also result in our not participating in certain allocations.

There are conflicts of interest in our relationships with our Manager and Ellington, which could result in decisions that are not in the best interests of our stockholders.

We are subject to conflicts of interest arising out of our relationship with Ellington and our Manager. Currently, all of our executive officers, and one of our directors, are employees of Ellington or one or more of its affiliates. As a result, our Manager and our officers may have conflicts between their duties to us and their duties to, and interests in, Ellington or our Manager. For example, Mr. Penn, our President and Chief Executive Officer and one of our directors, also serves as the President and Chief Executive Officer of, and as a member of the Board of Trustees of, Ellington Residential Mortgage REIT, and as Vice Chairman and Chief Operating Officer of Ellington. Mr. Herlihy, our Chief Financial Officer, also serves as the Chief Operating Officer of Ellington Residential Mortgage REIT, and a Director of Ellington, Mr. Smernoff, our Chief Accounting Officer, also serves as the Chief Financial Officer of Ellington Residential Mortgage REIT, Mr. Tecotzky, our Co-Chief Investment Officer, also serves as the Co-Chief Investment Officer of Ellington Residential Mortgage REIT, and as a Managing Director of Ellington, and Mr. Vranos, our Co-Chief Investment Officer, also serves as the Co-Chief Investment Officer of, and as a member of the Board of Trustees of, Ellington Residential Mortgage REIT, and as Chairman of Ellington.

We may acquire or sell assets in which Ellington or its affiliates have or may have an interest. Similarly, Ellington or its affiliates may acquire or sell assets in which we have or may have an interest. Although such acquisitions or dispositions may present conflicts of interest, we nonetheless may pursue and consummate such transactions. Additionally, we may engage in transactions directly with Ellington or its affiliates, including the purchase and sale of all or a portion of a portfolio asset. We may also, either directly or indirectly through an entity in which we invest, pay Ellington or an affiliate of Ellington to perform administrative services for us. Furthermore, if we securitize any of our assets, Ellington or an affiliate of Ellington may be required under the U.S. Risk Retention Rules to acquire and retain an economic interest in the credit risk of such assets. In connection with any of these transactions we may indemnify, alongside other Ellington affiliates, Ellington or its affiliates or third parties.

Acquisitions made for entities with similar objectives may be different from those made on our behalf. Ellington may have economic interests in, or other relationships with, others in whose obligations or securities we may acquire. In particular, such persons may make and/or hold an investment in securities that we acquire that may be pari passu, senior, or junior in ranking to our interest in the securities or in which partners, security holders, officers, directors, agents, or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities and otherwise create conflicts of interest. In such instances, Ellington may, in its sole discretion, make recommendations and decisions regarding such securities for other entities that may be the same as or different from those made with respect to such securities and may take actions (or omit to take actions) in the context of these other economic interests or relationships the consequences of which may be adverse to our interests.

In deciding whether to issue additional debt or equity securities, we will rely in part on recommendations made by our Manager. While such decisions are subject to the approval of our Board of Directors, one of our directors is also an Ellington employee. Because our Manager earns base management fees that are based on the total amount of our equity capital, and earns incentive fees that are based in part on the total net income that we are able to generate, our Manager may have an incentive to recommend that we issue additional debt or equity securities. See "—Future offerings of debt or equity securities may adversely affect the market price of our securities" below for further discussion of the adverse impact future debt or equity offerings could have on our securities.

The officers of our Manager and its affiliates devote as much time to us as our Manager deems appropriate; however, these officers may have conflicts in allocating their time and services among us and Ellington and its affiliates' accounts. During turbulent conditions in the mortgage industry, distress in the credit markets or other times when we will need focused support and assistance from our Manager and Ellington employees, other entities that Ellington advises or manages will likewise require greater focus and attention, placing our Manager and Ellington's resources in high demand. In such situations, we may not receive the necessary support and assistance we require or would otherwise receive if we were internally managed or if Ellington or its affiliates did not act as a manager for other entities.

We, directly or through Ellington, may obtain confidential information about the companies or securities in which we have invested or may invest. If we do possess confidential information about such companies or securities, there may be restrictions on our ability to dispose of, increase the amount of, or otherwise take action with respect to the securities of such companies. Our Manager's and Ellington's management of other accounts could create a conflict of interest to the extent our Manager or Ellington is aware of material non-public information concerning potential investment decisions. We have implemented compliance procedures and practices designed to ensure that investment decisions are not made while in possession of material non-public information. We cannot assure you, however, that these procedures and practices will be effective. In addition, this conflict and these procedures and practices may limit the freedom of our Manager to make potentially profitable investments, which could have an adverse effect on our operations. These limitations imposed by access to confidential information could therefore materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

As of December 31, 2018, the Manager Group owned approximately 12.5% of our outstanding common shares and other equity interests convertible into our common shares. In evaluating opportunities for us and other management strategies, this may lead our Manager to emphasize certain asset acquisition, disposition, or management objectives over others, such as balancing risk or capital preservation objectives against return objectives. This could increase the risks, or decrease the returns, of your investment.

The management agreement with our Manager was not negotiated on an arm's-length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party and may be costly and difficult to terminate.

Our management agreement with our Manager was negotiated between related parties, and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. Various potential and actual conflicts of interest may arise from the activities of Ellington and its affiliates by virtue of the fact that our Manager is controlled by Ellington.

Termination of our management agreement without cause, including termination for poor performance or non-renewal, is subject to several conditions which may make such a termination difficult and costly. The management agreement has a current term that expires on December 31, 2019, and will be automatically renewed for successive one-year terms thereafter unless notice of non-renewal is delivered by either party to the other party at least 180 days prior to the expiration of the then current term. The management agreement provides that it may be terminated by us based on performance upon the affirmative vote of at least two-thirds of our independent directors, or by a vote of the holders of at least a majority of our outstanding common stock, based either upon unsatisfactory performance by our Manager that is materially detrimental to us or upon a determination by the Board of Directors that the management fee payable to our Manager is not fair, subject to our Manager's right to prevent such a termination by accepting a mutually acceptable reduction of management fees. In the event we terminate the management agreement as discussed above or elect not to renew the management agreement, we will be required to pay our Manager a termination fee equal to the amount of three times the sum of the average annual base management fee and the average annual incentive fee earned by our Manager during the 24-month period immediately preceding the date of notice of termination or non-renewal, calculated as of the end of the most recently completed fiscal quarter prior to the date of notice of termination or non-renewal. These provisions will increase the effective cost to us of terminating the management agreement, thereby adversely affecting our ability to terminate our Manager without cause.

Pursuant to the management agreement, our Manager will not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our Board of Directors in following or declining to follow its advice or recommendations. Under the terms of the management agreement, our Manager, Ellington, and their affiliates and each of their officers, directors, members, shareholders, managers, investment and risk management committee members, employees, agents, successors and assigns, will not be liable to us for acts or omissions performed in accordance with and pursuant to the management agreement, except because of acts or omissions constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement. In addition, we will indemnify our Manager, Ellington, and their affiliates and each of their officers, directors, members, shareholders, managers, investment and risk management committee members, employees, agents, successors and assigns, with respect to all liabilities, judgments, costs, charges, losses, expenses, and claims arising from acts or omissions of our Manager not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties under the management agreement.

If our Manager ceases to be our Manager pursuant to the management agreement or one or more of our Manager's key personnel ceases to provide services to us, our lenders and our derivative counterparties may cease doing business with us.

If our Manager ceases to be our Manager, including upon non-renewal of our management agreement, or if one or more of our Manager's key personnel ceases to provide services to us, it could constitute an event of default or early termination event under many of our reverse repo or derivative transaction agreements, upon which our counterparties would have the right to terminate their agreements with us. If our Manager ceases to be our Manager for any reason, including upon the non-renewal of our management agreement and we are unable to obtain or renew financing or enter into or maintain derivative transactions, our business, financial condition and results of operations, and our ability to pay dividends to our stockholders may be materially adversely affected.

Our Manager's failure to identify and acquire assets that meet our asset criteria or perform its responsibilities under the management agreement could materially adversely affect our business, financial condition and results of operations, our ability to qualify and maintain our qualification as a REIT, and our ability to pay dividends to our stockholders.

Our ability to achieve our objectives depends on our Manager's ability to identify and acquire assets that meet our asset criteria. Accomplishing our objectives is largely a function of our Manager's structuring of our investment process, our access to financing on acceptable terms, and general market conditions. Our stockholders do not have input into our investment decisions. All of these factors increase the uncertainty, and thus the risk, of investing in our common stock. The senior management team of our Manager has substantial responsibilities under the management agreement. In order to implement certain strategies, our Manager may need to hire, train, supervise, and manage new employees successfully. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations, our ability to qualify and maintain our qualification as a REIT, and our ability to pay dividends to our stockholders.

We do not own the Ellington brand or trademark, but may use the brand and trademark as well as our logo pursuant to the terms of a license granted by Ellington.

Ellington has licensed the "Ellington" brand, trademark, and logo to us for so long as our Manager or another affiliate of Ellington continues to act as our manager. We do not own the brand, trademark, or logo that we will use in our business and may be unable to protect this intellectual property against infringement from third parties. Ellington retains the right to continue using the "Ellington" brand and trademark. We will further be unable to preclude Ellington from licensing or transferring the ownership of the "Ellington" brand and trademark to third parties, some of whom may compete against us. Consequently, we will be unable to prevent any damage to goodwill that may occur as a result of the activities of Ellington or others.

Furthermore, in the event our Manager or another affiliate of Ellington ceases to act as our manager, or in the event Ellington terminates the license, we will be required to change our name and trademark. Any of these events could disrupt our recognition in the marketplace, damage any goodwill we may have generated, and otherwise harm our business. Finally, the license is a domestic license in the United States only and does not give us any right to use the "Ellington" brand, trademark, and logo overseas even though we expect to use the brand, trademark, and logo overseas. Our use of the "Ellington" brand, trademark, and logo overseas will therefore be unlicensed and could expose us to a claim of infringement.

Risks Related to Our Common Stock

The market for our common stock may be limited, which may adversely affect the price at which our common stock trades and make it difficult to sell our common stock.

While our common stock is listed on the NYSE, such listing does not provide any assurance as to:

- whether the market price of our common stock will reflect our actual financial performance;
- the liquidity of our common stock;
- the ability of any holder to sell common stock; or
- the prices that may be obtained for our common stock.

The market price and trading volume of our common stock may be volatile.

The market price of our common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our stock price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or dividends;
- changes in our earnings estimates, failure to meet earnings or operating results expectations of public market analysts and investors, or publication of research reports about us or the real estate specialty finance industry;
- increases in market interest rates that lead purchasers of our common stock to demand a higher yield;
- repurchases and issuances by us of our common stock;
- passage of legislation, changes in applicable law, court rulings, enforcement actions, or regulatory developments that adversely affect us or our industry;
- changes in government policies or changes in timing of implementation of government policies, including with respect to Fannie Mae, Freddie Mac, and Ginnie Mae;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key management personnel;
- actions by stockholders;
- speculation in the press or investment community;
- general market and economic conditions;
- our inclusion in, or exclusion from, various stock indices;

- our operating performance and the performance of other similar companies; and
- changes in accounting principles.

Future offerings of debt or equity securities may adversely affect the market price of our securities.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes, convertible securities, and classes of preferred stock. If we decide to issue additional senior securities in the future, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Holders of senior securities may be granted specific rights, including the right to hold a perfected security interest in certain of our assets, the right to accelerate payments due under an indenture, rights to restrict dividend payments, and rights to require approval to sell assets. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences, and privileges more favorable than those of our then-outstanding securities and could dilute our existing stockholders. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Upon liquidation, holders of our debt securities and preferred stock, and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings, including offerings of our common stock or other securities convertible into our common stock, may dilute the holdings of our existing stockholders or reduce the market price of our existing equity securities, or both. We cannot predict the effect, if any, of future sales of our common stock or other securities convertible into our common stock, or the availability of such securities for future sales, on the market price of our common stock Sales of substantial amounts of our common stock or other securities convertible into our common stock, or the perception that such sales could occur, may adversely affect the prevailing market price for our common stock. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, or nature of our future offerings. Thus, holders of our securities bear the risk of our future offerings reducing the market price of our securities and, in the case of holders of our equity securities, diluting their holdings.

Our stockholders may not receive dividends or dividends may not grow over time.

We have not established a minimum distribution payment level and our ability to pay dividends may be adversely affected by a number of factors, including the risk factors described herein. All dividends will be declared at the discretion of our Board of Directors and will depend on our earnings, our financial condition, and other factors as our Board of Directors may deem relevant from time to time. Our Board of Directors is under no obligation or requirement to declare a dividend distribution. We cannot assure you that we will achieve results that will allow us to pay a specified level of dividends or to increase dividends from one year to the next. Among the factors that could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders are:

- our inability to realize positive or attractive returns on our portfolio, whether because of defaults in our portfolio, decreases in the value of our portfolio, or otherwise;
- margin calls or other expenditures that reduce our cash flow and impact our liquidity; and
- increases in actual or estimated operating expenses.

An increase in interest rates may have an adverse effect on the market price of our equity or debt securities and our ability to pay dividends to our stockholders.

One of the factors that investors may consider in deciding whether to buy or sell our common stock is our dividend rate (or expected future dividend rates) as a percentage of our common stock price, relative to prevailing market interest rates. Similarly, investors in our preferred equity securities or our debt securities may consider the dividend rate or yield on such securities relative to prevailing market interest rates. If market interest rates increase, prospective investors in our equity or debt securities may demand a higher dividend rate or yield on our securities or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and capital market conditions can affect the market price of our securities independent of the effects such conditions may have on our portfolio. For instance, if interest rates rise without an increase in our dividend rate, the market price of our common stock could decrease because potential investors may require a higher dividend yield on our common stock as market rates on interest-bearing instruments such as bonds rise. In addition, to the extent we have variable rate debt, such as our reverse repo financings, rising interest rates would result in increased interest expense on this variable rate debt, thereby potentially adversely affecting our cash flow and our ability to service our indebtedness and pay dividends to our stockholders.

Investing in our securities involves a high degree of risk.

The assets we purchase in accordance with our objectives may result in a higher amount of risk than other alternative asset acquisition options. The assets we acquire may be highly speculative and aggressive and may be subject to a variety of risks, including credit risk, prepayment risk, interest rate risk, and market risk. As a result, an investment in our securities may not be suitable for investors with lower risk tolerance.

Risks Related To Our Organization and Structure

Our certificate of incorporation, bylaws and management agreement contain provisions that may inhibit potential acquisition bids that stockholders may consider favorable, and the market price of our common stock may be lower as a result.

Our certificate of incorporation and bylaws contain provisions that may have an anti-takeover effect and inhibit a change in our Board of Directors. These provisions include:

- allowing only our Board of Directors to fill newly created directorships resulting from any increase in the authorized number of directors and any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause, even if the remaining directors do not constitute a quorum;
- requiring advance notice for our stockholders to nominate candidates for election to our Board of Directors or to propose business to be considered by our stockholders at a meeting of stockholders;
- the ability of our Board of Directors to cause us to issue additional authorized but unissued shares of common stock or preferred stock without the approval of our stockholders;
- the ability of the Board of Directors to amend, modify or repeal our bylaws without the approval of our stockholders;
- restrictions on the ability of stockholders to call a special meeting without a majority of all the votes entitled to be cast at such meeting; and
- limitations on the ability of stockholders to act by written consent.

Certain provisions of the management agreement also could make it more difficult for third parties to acquire control of us by various means, including limitations on our right to terminate the management agreement and a requirement that, under certain circumstances, we make a substantial payment to our Manager in the event of a termination.

There are ownership limits and restrictions on transferability in our certificate of incorporation.

Our certificate of incorporation provides that (subject to certain exceptions described below) no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8%, in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock.

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of our capital stock that will or may violate any of the foregoing restrictions on transferability and ownership will be required to give written notice immediately to us, or in the case of proposed or attempted transactions will be required to give at least 15 days written notice to us, and provide us with such other information as we may request in order to determine the effect of such transfer on our status as a REIT.

Our Board of Directors, in its sole discretion, may exempt any person from the foregoing restrictions. Any person seeking such an exemption must provide to our Board of Directors such representations, covenants, and undertakings as our Board of Directors may deem appropriate. Our Board of Directors may also condition any such exemption on the receipt of a ruling from the Internal Revenue Service, or "IRS," or an opinion of counsel as it deems appropriate. Our Board of Directors has granted an exemption from this limitation to Ellington and certain affiliated entities of Ellington, subject to certain conditions.

Our rights and the rights of our stockholders to take action against our directors and officers or against our Manager or Ellington are limited, which could limit your recourse in the event actions are taken that are not in your best interests.

Our certificate of incorporation provides that each person that is or was a director, officer, employee, or agent of ours shall not be liable to us or any of our stockholders for any acts or omissions by any such person arising from the performance of their duties and obligations in connection with us, except to the extent such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law.

In addition, our certificate of incorporation provides that we may indemnify, to the fullest extent permitted by law, each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in our right), by reason of the fact that the person is or was a director, officer, employee, or agent of ours, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding, if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to our best interests, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful. Our certificate of incorporation also provides that we may indemnify, to the fullest extent permitted by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in our right to procure a judgment in our favor by reason of the fact that the person is or was a director, officer, employee, or agent of ours, against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to our best interests, except that no indemnification may be made in respect of any claim, issue or matter as to which such person had been adjudged to be liable to us unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought determines that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses. We have entered into indemnification agreements with our directors and officers implementing these indemnification provisions that obligate us to indemnify them to the maximum extent permitted by Delaware law. Such indemnification includes defense costs and expenses incurred by such officers and directors.

Our management agreement with our Manager requires us to indemnify our Manager and its affiliates against any and all claims and demands arising out of claims by third parties caused by acts or omissions of our Manager and its affiliates not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of our Manager's duties under the management agreement.

In light of the liability limitations contained in our certificate of incorporation and our management agreement with our Manager, as well as our indemnification arrangements with our directors and officers and our Manager, our and our stockholders' rights to take action against our directors, officers, and Manager are limited, which could limit your recourse in the event actions are taken that are not in your best interests.

Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors or officers.

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for: any derivative action or proceeding brought on our behalf; any action asserting a claim of breach of fiduciary duty owed by any current or former director, officer or stockholder of ours to us or our stockholders; any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law or our certificate of incorporation or bylaws; or any action asserting a claim against us governed by the internal affairs doctrine. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors or officers, which may discourage lawsuits against us and our directors or officers. Alternatively, if a court were to find these provisions of our certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

Certain provisions of Delaware law may inhibit potential acquisition bids that stockholders may consider favorable, and the market price of our common stock may be lower as a result.

We are a Delaware corporation, and Section 203 of the Delaware General Corporation Law applies to us. In general, Section 203 prevents an "interested stockholder" (as defined below) from engaging in a "business combination" (as defined in the statute) with us for three years following the date that person becomes an interested stockholder unless one or more of the following occurs:

- before that person became an interested stockholder, our board of directors approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination;
- upon completion of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) stock held by directors who are also officers of our company and by employee stock plans that do not provide employees with the right to determine confidentially whether shares held under the plan will be tendered in a tender or exchange offer; and

- following the transaction in which that person became an interested stockholder, the business combination is approved by our board of directors and authorized at a meeting of stockholders by the affirmative vote of the holders of at least two-thirds of our outstanding voting stock not owned by the interested stockholder.

The statute defines “interested stockholder” as any person that is the owner of 15% or more of our outstanding voting stock or is an affiliate or associate of us and was the owner of 15% or more of our outstanding voting stock at any time within the three-year period immediately before the date of determination.

These provisions may delay, deter or prevent a change in control of our company, even if a proposed transaction is at a premium over the then current market price for our common stock. Further, these provisions may apply in instances where some stockholders consider a transaction beneficial to them. As a result, our stock price may be negatively affected by these provisions.

Maintenance of our exclusion from registration as an investment company under the Investment Company Act imposes significant limitations on our operations.

We have conducted and intend to continue to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act. Both we and our Operating Partnership are organized as holding companies and conduct our business primarily through wholly-owned subsidiaries of our Operating Partnership. Our Operating Partnership's investments in its 3(c)(7) subsidiaries and its other investment securities cannot exceed 40% of the value of our Operating Partnership's total assets (excluding U.S. government securities and cash) on an unconsolidated basis. In addition, the Holding Subsidiary's investment in its 3(c)(7) subsidiaries and its other investment securities cannot exceed 40% of the value of our Holding Subsidiary's total assets (excluding U.S. government securities and cash) on an unconsolidated basis. These requirements limit the types of businesses in which we may engage and the assets we may hold. Our 3(c)(5)(C) subsidiary relies on the exclusion provided by Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C) of the Investment Company Act is designed for entities "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exclusion generally requires that at least 55% of the entity's assets on an unconsolidated basis consist of qualifying real estate assets and at least 80% of the entity's assets on an unconsolidated basis consist of qualifying real estate assets or real estate-related assets. Both the 40% Test and the requirements of the Section 3(c)(5)(C) limit the types of businesses in which we may engage and the types of assets we may hold, as well as the timing of sales and purchases of those assets.

To classify the assets held by our subsidiaries as qualifying real estate assets or real estate-related assets, we rely on no-action letters and other guidance published by the SEC staff regarding those kinds of assets, as well as upon our analyses (in consultation with outside counsel) of guidance published with respect to other types of assets. There can be no assurance that the laws and regulations governing the Investment Company Act status of companies similar to ours, or the guidance from the SEC staff regarding the treatment of assets as qualifying real estate assets or real estate-related assets, will not change in a manner that adversely affects our operations. In fact, in August 2011, the SEC published a concept release in which it asked for comments on this exclusion from registration. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon our exclusion from the definition of an investment company under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could further inhibit our ability to pursue the strategies that we have chosen. Furthermore, although we monitor the assets of our subsidiaries regularly, there can be no assurance that our subsidiaries will be able to maintain their exclusion from registration. Any of the foregoing could require us to adjust our strategy, which could limit our ability to make certain investments or require us to sell assets in a manner, at a price or at a time that we otherwise would not have chosen. This could negatively affect the value of our common stock, the sustainability of our business model, and our ability to pay dividends to our stockholders.

If we were required to register as an investment company under the Investment Company Act, we would be subject to the restrictions imposed by the Investment Company Act, which would require us to make material changes to our strategy.

If we are deemed to be an investment company under the Investment Company Act, we would be required to materially restructure our activities or to register as an investment company under the Investment Company Act, which would have a material adverse effect on our business, financial condition, and results of operations. In connection with any such restructuring, we may be required to sell portfolio assets at a time we otherwise might not choose to do so, and we may incur losses in connection with such sales. Further, our Manager may unilaterally terminate the management agreement if we become regulated as an investment company under the Investment Company Act. Further, if it were established that we were an unregistered investment company, there would be a risk that we would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that we would be unable to enforce contracts with third parties and that third parties could seek to obtain rescission of transactions undertaken during the period it was established that we were an unregistered investment company.

U.S. Federal Income Tax Risks

Your investment has various U.S. federal, state, and local income tax risks.

We strongly urge you to consult your tax advisor concerning the effects of U.S. federal, state, and local income tax law on an investment in our common stock and on your individual tax situation.

If we failed in a prior year to satisfy the "qualifying income exception" under the rules for publicly traded partnerships, our income for such years could be subject to an entity-level tax, and the value of our shares could be adversely affected.

We believe, for our taxable years prior to January 1, 2019, we were organized and had operated so that we qualified to be treated as a partnership for U.S. federal income tax purposes based on the "qualifying income exception" within the meaning of Section 7704(d) of the Code. If we failed to satisfy the "qualifying income exception" for our prior taxable years, we would be treated as a corporation for such years for U.S. federal income tax purposes. In that event, we would be required to pay U.S. federal, state and local income tax at regular corporate rates for all of the affected years, together with interest and penalties, which would likely result in a material expense for us.

You will no longer be able to take our items of loss and deduction into account.

When we were taxed as a partnership for U.S. federal income tax purposes, our shareholders took into account their proportionate shares of our items of income, gain, loss, deduction, and credit each taxable year. As a REIT, our items of income, gain, loss, deduction, and credit will not pass-through to our stockholders. As a result, stockholders will not be able to deduct any losses that we may incur.

Our failure to qualify as a REIT would subject us to U.S. federal, state and local income taxes, which could adversely affect the value of our common stock and would substantially reduce the cash available for distribution to our stockholders.

We will elect and intend to qualify to be treated as a REIT for U.S. federal income tax purposes commencing with our taxable year ending December 31, 2019. While we intend to operate in a manner that will enable us to qualify as a REIT, we cannot assure you that we will qualify as a REIT.

The U.S. federal income tax laws governing REITs are complex, and interpretations of the U.S. federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets, our income and our earnings and profits, or "E&P" (calculated pursuant to Sections 316 and 857(d) of the Code and the regulations thereunder), the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis. Our ability to satisfy the asset tests depends upon the characterization and fair market values of our assets, some of which are not susceptible to a precise determination. Our compliance with the REIT income and asset tests and the accuracy of our tax reporting to stockholders also depend upon our ability to successfully manage the calculation and composition of our gross and net taxable income, our E&P and our assets on an ongoing basis. Although we intend to operate so as to qualify as a REIT, given the complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the potential tax treatment of the investments we make, and the possibility of future changes in our circumstances, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements.

We also own an entity that has elected to be taxed as a REIT under the U.S. federal income tax laws, or a "Subsidiary REIT." Our Subsidiary REIT is also subject to the same various REIT qualification requirements that are applicable to us. If our Subsidiary REIT were to fail to qualify as a REIT, then (i) that Subsidiary REIT would become subject to regular U.S. federal, state and local corporate income tax, (ii) our interest in such Subsidiary REIT would cease to be a qualifying asset for purposes of the REIT asset tests, and (iii) it is possible that we would fail certain of the REIT asset tests, in which event we also would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions. While we believe that the Subsidiary REIT has qualified as a REIT under the Code, we have joined the Subsidiary REIT in filing a "protective" TRS election under Section 856(l) of the Code for each taxable year in which we have owned an interest in the Subsidiary REIT. We cannot assure you that such "protective" TRS election would be effective to avoid adverse consequences to us. Moreover, even if the "protective" election were to be effective, the Subsidiary REIT would be subject to regular corporate income tax, and we cannot assure you that we would not fail to satisfy the requirement that not more than 20% of the value of our total assets may be represented by the securities of one or more TRSs.

If we fail to qualify as a REIT in any calendar year, and do not qualify for certain statutory relief provisions, we would be required to pay U.S. federal income tax (and any applicable state and local taxes) on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income (although such dividends received by certain non-corporate U.S. taxpayers generally would be subject to a preferential rate of taxation). Further, if we fail to qualify as a REIT, we might need to borrow money or sell assets in order to pay any resulting tax. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to maintain our qualification as a REIT, we no longer would be required under U.S. federal tax laws to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT was subject to relief under the U.S. federal tax laws, we could not re-elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify.

Complying with REIT requirements may cause us to forego or liquidate otherwise attractive investments.

To qualify as a REIT, we must continually satisfy various tests regarding the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our shares of beneficial interest. In order to meet these tests, we may be required to forego investments we might otherwise make and reduce or eliminate investments we made prior to the effective date of our qualification as a REIT. The tests applicable to REITs are different from the tests applicable to us in prior years when we were a partnership. Thus, we may choose not to make certain types of investments that we made in prior years or pursue certain strategies that we pursued in prior years, or we could make such investments or pursue such strategies in a TRS. Any domestic TRS will be subject to regular U.S. federal, state and local corporate income tax, which may reduce the cash available to be distributed to our stockholders as compared with prior years.

As a REIT, we may be required to pay dividends to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source of income or asset diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our investment performance.

In particular, we must ensure that at the end of each calendar quarter, we satisfy the REIT 75% asset test, which requires that at least 75% of the value of our total assets consist of cash, cash items, government securities and qualified REIT real estate assets, including RMBS. The remainder of our investment in securities (other than government securities and qualified REIT real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than government securities, TRS securities and qualified REIT real estate assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total assets can be represented by securities of one or more TRSs. Generally, if we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and becoming subject to U.S. federal income tax and any applicable state and local taxes on all of our income.

In addition, we must also ensure that each taxable year we satisfy the REIT 75% and 95% gross income tests, which require that, in general, 75% of our gross income come from certain real estate-related sources and 95% of our gross income consist of gross income that qualifies for the 75% gross income test or certain other passive income sources. As a result of the requirement that we satisfy both the REIT 75% asset test and the REIT 75% and 95% gross income tests, we may be required to liquidate from our portfolio otherwise attractive investments or contribute such investments to a TRS, in which event they will be subject to regular corporate U.S. federal, state and local taxes assuming that the TRS is organized in the United States. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our stockholders.

To qualify as a REIT, we must distribute to our stockholders each calendar year at least 90% of our REIT taxable income (including certain items of non-cash income), determined excluding any net capital gains and without regard to the deduction for dividends paid. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than the sum of:

- 85% of our REIT ordinary income for that year;
- 95% of our REIT capital gain net income for that year; and
- any undistributed taxable income from prior years.

We intend to distribute our taxable income to our stockholders in a manner intended to satisfy the 90% distribution requirement and to avoid the corporate income tax. However, there is no requirement that TRSs distribute their after-tax net income to their parent REIT.

Our taxable income may substantially exceed our net income as determined based on GAAP, because, for example, realized capital losses will be deducted in determining our GAAP net income, but may not be deductible in computing our taxable income. Our Operating Partnership has made an election under Section 475(f) of the Code to mark its securities to market, which may cause us to recognize taxable gains for a taxable year with respect to such securities without the receipt of any cash corresponding to such gains. In addition, we may invest in assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets, or we modify assets in a way that produces taxable income prior to or in excess of economic income. As a result of the foregoing, we may generate less cash flow than taxable income in a particular year. To the extent that we generate such non-cash taxable income in a taxable year, we may incur corporate income tax and the 4% nondeductible excise tax on that income if we do not distribute such income to stockholders in that year. In that event, we may be required to use cash reserves, incur debt, sell assets, make taxable distributions of our shares or debt securities or liquidate non-cash assets at rates or at times that we regard as unfavorable to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in that year.

Determination of our REIT taxable income involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. If the IRS disagrees with our determination, it could affect our satisfaction of the distribution requirement. Under certain circumstances, we may be able to correct a failure to meet the distribution requirement for a year by paying "deficiency dividends" to our stockholders in a later year. We may include such deficiency dividends in our deduction for dividends paid for the earlier year. Although we may be able to avoid income tax on amounts distributed as deficiency dividends, we will be required to pay interest and a penalty to the IRS based upon the amount of any deduction we take for deficiency dividends.

Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flows.

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, our domestic TRSs will be subject to regular corporate U.S. federal, state and local taxes. Any of these taxes would decrease cash available for distributions to stockholders.

The failure of MBS subject to a repurchase agreement to qualify as real estate assets would adversely affect our ability to qualify as a REIT.

We have entered into repurchase agreements under which we nominally sell certain of our MBS to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. We believe that, for U.S. federal income tax purposes, these transactions will be treated as secured debt and we will be treated as the tax owner of the MBS that are the subject of any such repurchase agreement, notwithstanding that such agreements may transfer record ownership of such assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could successfully assert that we do not own the MBS during the term of the repurchase agreement, in which case we could fail to qualify as a REIT.

Uncertainty exists with respect to the treatment of our TBAs for purposes of the REIT asset and income tests.

We purchase and sell Agency RMBS through TBAs and recognize income or gains from the disposition of those TBAs, through dollar roll transactions or otherwise, and may continue to do so in the future. While there is no direct authority with respect to the qualification of TBAs as real estate assets or U.S. Government securities for purposes of the REIT 75% asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property or other qualifying income for purposes of the REIT 75% gross income test, we treat the GAAP value of our TBAs under which we contract to purchase to-be-announced Agency RMBS (“long TBAs”) as qualifying assets for purposes of the REIT 75% asset test, and we treat income and gains from our long TBAs as qualifying income for purposes of the REIT 75% gross income test, based on an opinion of Hunton Andrews Kurth LLP substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a long TBA should be treated as ownership of real estate assets, and (ii) for purposes of the REIT 75% gross income test, any gain recognized by us in connection with the settlement of our long TBAs should be treated as gain from the sale or disposition of an interest in mortgages on real property. Opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not successfully challenge the conclusions set forth in such opinions. In addition, it must be emphasized that the opinion of counsel is based on various assumptions relating to our TBAs and is conditioned upon fact-based representations and covenants made by our management regarding our TBAs. No assurance can be given that the IRS would not assert that such assets or income are not qualifying assets or income. If the IRS were to successfully challenge the opinion of counsel, we could be subject to a penalty tax or we could fail to remain qualified as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Code substantially limit our ability to hedge. Under these provisions, any income that we generate from transactions intended to hedge our interest rate or foreign currency risks will be excluded from gross income for purposes of the REIT 75% and 95% gross income tests if the instrument hedges (i) interest rate risk on liabilities incurred to carry or acquire real estate or (ii) risk of foreign currency fluctuations with respect to any item of income or gain that would be qualifying income under the REIT 75% or 95% gross income tests, and such instrument is properly identified under applicable Treasury Regulations. Income from hedging transactions that are not properly identified or hedge different risks will generally constitute nonqualifying income for purposes of both the REIT 75% and 95% gross income tests. To the extent that we enter into other types of hedging transactions, our aggregate gross income from such non-qualifying hedges, fees, and certain other non-qualifying sources cannot exceed 5% of our annual gross income. As a result, we might have to limit our use of advantageous hedging techniques, and we expect to implement certain hedges through a TRS. Any hedging income earned by a domestic TRS would be subject to U.S. federal, state and local income tax at regular corporate rates. This could increase the cost of our hedging activities or expose us to greater risks associated with interest rate changes or other changes than we would otherwise want to bear. In addition, losses in our TRSs will generally not provide any tax benefit, except for being carried forward against future taxable income in the case of a domestic TRS. Even if the income from certain of our hedging transactions is excluded from gross income for purposes of the REIT 75% and 95% gross income tests, such income and any loss will be taken into account in determining our REIT taxable income and our distribution requirement. If the IRS disagrees with our calculation of the amount or timing of recognition of gain or loss with respect to our hedging transactions, including the impact of our Operating Partnership's election under Section 475(f) of the Code and the treatment of hedging expense and losses under Section 163(j) of the Code, our distribution requirement could increase, which could require that we correct any shortfall in distributions by paying deficiency dividends to our stockholders in a later year.

Our ownership of and relationship with our TRSs will be limited, and a failure to comply with the limits would jeopardize our REIT status and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income for purposes of the REIT 75% or 95% gross income tests if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation (other than a REIT) of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's total assets may consist of stock or securities of one or more TRSs. Many of the investments that we made and activities we undertook prior to our REIT election have been contributed to or will be made in one of our TRSs; thus, we hold a significant portion of our assets through, and derive a significant portion of our taxable income and gains in, TRSs. While we intend to manage our affairs so as to satisfy the requirement that no more than 20% of the value of our total assets consists of stock or securities of our TRSs, as well as the requirement that taxable income from our TRSs plus other non-qualifying gross income not exceed 25% of our total gross income, there can be no assurance that we will be able to do so in all market circumstances. Even if we are able to do so, compliance with these rules may reduce our flexibility in operating our business. In addition, the two rules may conflict with each other in that our ability to reduce the value of our TRSs below 20% of our assets by causing a TRS to distribute a dividend to us may be limited by our need to comply with the REIT 75% gross income test. There can be no assurance that we will be able to comply with either or both of these tests in all market conditions. Our inability to comply with both of these tests could have a material adverse effect on our business, financial condition, liquidity, results of operations, qualification as a REIT and ability to make distributions to our stockholders.

The TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis. Our domestic TRSs will pay U.S. federal, state and local income tax on their taxable income at regular corporate tax rates, and their after-tax net income will be available for distribution to us but is not required to be distributed to us. In certain circumstances, the ability to deduct interest expense by any TRS that we may form could be limited. In addition, losses in our TRSs generally will not provide any tax benefit prior to liquidation, except for being carried forward against future taxable income in the case of a domestic TRS.

We generally structure our foreign TRSs with the intent that their income and operations will not be subject to U.S. federal, state and local income tax. If the IRS successfully challenged that tax treatment, it would reduce the amount that those foreign TRSs would have available to distribute to us.

We intend to monitor the value of our respective investments in our domestic and foreign TRSs for the purpose of ensuring compliance with TRS ownership limitations. In addition, we will review all of our transactions with our TRSs to ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 20% limitation or to avoid application of the 100% excise tax discussed above.

Dividends payable by REITs do not qualify for the reduced tax rates available for "qualified dividend income."

The maximum U.S. federal income tax rate applicable to "qualified dividend income" paid to U.S. taxpayers taxed at individual rates is currently 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates on qualified dividend income. For taxable years beginning prior to January 1, 2026, non-corporate taxpayers may deduct up to 20% of certain pass-through business income, including "qualified REIT dividends" (generally, dividends received by a REIT stockholder that are not designated as capital gain dividends or qualified dividend income), subject to certain limitations, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such income. Although the reduced U.S. federal income tax rate applicable to qualified dividend income does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends and the reduction in the corporate tax rate under the TCJA could cause investors who are taxed at individual rates and regulated investment companies to perceive investments in the stocks of REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends treated as qualified dividend income, which could adversely affect the value of the stock of REITs, including our common stock.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.

At any time, the U.S. federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. The TCJA significantly changed the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders. Additional technical corrections or other amendments to the TCJA or administrative guidance interpreting the TCJA may be forthcoming at any time. We cannot predict the long-term effect of the TCJA or assure our stockholders that any such changes will not adversely affect the taxation of a stockholder. We and our stockholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation.

Our recognition of "phantom" income may reduce a stockholder's after-tax return on an investment in our common stock.

We may recognize phantom income, which is taxable income in excess of our economic income, in the earlier years that we hold certain investments in the year that we modify certain loan investments, and we may only experience an offsetting excess of economic income over our taxable income in later years, if at all. As a result, stockholders at times may be required to pay U.S. federal income tax on distributions taxable as dividends that economically represent a return of capital rather than a dividend. Taking into account the time value of money, this acceleration or increase of U.S. federal income tax liabilities may reduce a stockholder's after-tax return on his or her investment to an amount less than the after-tax return on an investment with an identical before-tax rate of return that did not generate phantom income.

Liquidation of our assets may jeopardize our REIT qualification.

To maintain our qualification as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our assets to repay obligations to our lenders or for other reasons, we may be unable to comply with these requirements, thereby jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as inventory or property held primarily for sale to customers in the ordinary course of business.

The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing MBS, that would be treated as sales of dealer property for U.S. federal income tax purposes.

A REIT’s net income from prohibited transactions is subject to a 100% tax with no offset for losses. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we dispose of or securitize mortgage loans or MBS in a manner that was treated as dealer activity for U.S. federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales or securitization structures, even though the transactions might otherwise be beneficial to us. Alternatively, in order to avoid the prohibited transactions tax, we may choose to implement certain transactions through a TRS.

Although we expect to avoid the prohibited transactions tax by conducting the sale of property that may be characterized as dealer property through a TRS, such TRS will be subject to federal, state and local corporate income tax and may incur a significant tax liability as a result of those sales conducted through the TRS. Moreover, no assurance can be given that the IRS will respect the transaction by which property that may be characterized as dealer property is contributed to the TRS; if such transaction is not respected, then we may be treated as having engaged in a prohibited transaction, and our net income therefrom would be subject to a 100% tax.

Our Operating Partnership has made a mark-to-market election under Section 475(f) of the Code.If the IRS challenges our application of that election, it may jeopardize our REIT qualification.

Our Operating Partnership has made an election under Section 475(f) of the Code to mark its securities to market. There are limited authorities under Section 475(f) of the Code as to what constitutes a trader for U.S. federal income tax purposes. Under other sections of the Code, the status of a trader in securities depends on all of the facts and circumstances, including the nature of the income derived from the taxpayer’s activities, the frequency, extent and regularity of the taxpayer’s securities transactions, and the taxpayer’s investment intent. There can be no assurance that our Operating Partnership will continue to qualify as a trader in securities eligible to make the mark-to-market election. We have not received, nor are we seeking, an opinion from counsel or a ruling from the IRS regarding our or our Operating Partnership’s qualification as a trader. If our Operating Partnership’s qualification for, or our application of, the mark-to-market election were successfully challenged by the IRS, in whole or in part, it could, depending on the circumstances, result in retroactive (or prospective) changes in the amount of gross and taxable income recognized by us and we could owe material federal income or penalty tax or, in some circumstances, even fail to qualify as a REIT. Furthermore, the law is unclear as to the treatment of mark-to-market gains and losses under the various REIT tax rules, including, among others, the prohibited transaction and qualified liability hedging rules. There are limited and, in some cases, no authorities on the interaction of a REIT engaged in the trade or business of trading in securities, the election under Section 475(f), and the REIT tax rules. If the IRS were to successfully treat our mark-to-market gains as subject to the prohibited transaction tax or to successfully challenge the treatment or timing of recognition of our mark-to-market gains with respect to our qualified liability hedges, we could owe material federal income or penalty tax or, in some circumstances, even fail to qualify as a REIT. Finally, mark-to-market gains and losses could cause volatility in the amount of our taxable income, which, in turn, could cause us to distribute more dividends to our stockholders than would otherwise be desirable from a business perspective.

The interest apportionment rules may affect our ability to comply with the REIT asset and gross income tests.

Most of the distressed mortgage loans that we have acquired were acquired by us at a discount from their outstanding principal amount, because our pricing was generally based on the value of the underlying real estate that secures those mortgage loans. Treasury Regulation Section 1.856-5(c) (the "interest apportionment regulation") provides that if a mortgage is secured by both real property and other property, a REIT is required to apportion its annual interest income to the real property security based on a fraction, the numerator of which is the value of the real property securing the loan, determined when the REIT commits to acquire the loan, and the denominator of which is the highest "principal amount" of the loan during the year. If a mortgage is secured by both real property and personal property and the value of the personal property does not exceed 15% of the aggregate value of the property securing the mortgage, the mortgage is treated as secured solely by real property for this purpose. Revenue Procedure 2014-51 interprets the "principal amount" of the loan to be the face amount of the loan, despite the Code requiring taxpayers to treat any market discount, that is the difference between the purchase price of the loan and its face amount, for all purposes (other than certain withholding and information reporting purposes) as interest rather than principal.

The interest apportionment regulation applies only if the debt in question is secured both by real property and personal property. We believe that most of the mortgage loans that we acquire at a discount under the circumstances contemplated by Revenue Procedure 2014-51 are secured only by real property (including mortgage loans secured by both real property and personal property where the value of the personal property does not exceed 15% of the aggregate value of the property securing the mortgage). Accordingly, we believe that the interest apportionment regulation generally does not apply to our loans.

Nevertheless, if the IRS were to assert successfully that such mortgage loans were secured by property other than real estate, that the interest apportionment regulation applied for purposes of our REIT testing, and that the position taken in Revenue Procedure 2014-51 should be applied to our portfolio, then depending upon the value of the real property securing our loans and their face amount, and the sources of our gross income generally, we might not be able to meet the REIT 75% gross income test, and possibly the asset tests applicable to REITs. If we did not meet these tests, we could potentially either lose our REIT status or be required to pay a tax penalty to the IRS. With respect to the REIT 75% asset test, Revenue Procedure 2014-51 provides a safe harbor under which the IRS will not challenge a REIT's treatment of a loan as being a real estate asset in an amount equal to the lesser of (1) the greater of (a) the current value of the real property securing the loan or (b) the fair market value of the real property securing the loan determined as of the date the REIT committed to acquire the loan or (2) the fair market value of the loan on the date of the relevant quarterly REIT asset testing date. This safe harbor, if it applied to us, would help us comply with the REIT asset tests following the acquisition of distressed debt if the value of the real property securing the loan were to subsequently decline. If we did not meet one or more of the REIT asset tests, then we could potentially either lose our REIT status or be required to pay a tax penalty to the IRS.

Our investments in residential transition loans, or "RTLs," will require us to make estimates about the fair value of land improvements that may be challenged by the IRS.

We invest in RTLs, which generally are short term loans secured by a mortgage on a residential property where the proceeds of the loan will be used, in part, to renovate the property. The interest from RTLs will be qualifying income for purposes of the REIT income tests, provided that the loan value of the real property securing the RTL is equal to or greater than the highest outstanding principal amount of the loan during any taxable year. Under the REIT provisions, where improvements will be constructed with the proceeds of the loan, the loan value of the real property is the fair value of the land plus the reasonably estimated cost of the improvements or developments (other than personal property) that will secure the loan and that are to be constructed from the proceeds of the loan. There can be no assurance that the IRS would not challenge our estimate of the loan value of the real property.

The failure of a mezzanine loan or similar debt to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.

We may invest in mezzanine loans or similar debt. The IRS has provided a safe harbor for mezzanine loans but not rules of substantive law. Pursuant to the safe harbor, if a mezzanine loan meets certain requirements, it will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying income for purposes of the REIT 75% gross income test. We may acquire mezzanine loans or similar debt that meet most but do not meet all of the requirements of this safe harbor, and we may treat such loans as real estate assets for purposes of the REIT asset and income tests. In the event we own a mezzanine loan or similar debt that does not meet the safe harbor, the IRS could challenge such loan's treatment as a real estate asset for purposes of the REIT asset and income tests and, if such a challenge were sustained, we could fail to qualify as a REIT.

Our qualification as a REIT and exemption from U.S. federal income tax with respect to certain assets may be dependent on the accuracy of legal opinions or advice rendered or given or statements by the issuers of assets that we acquire, and the inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax.

When purchasing securities, we may rely on opinions or advice of counsel for the issuer of such securities, or statements made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U.S. federal income tax purposes, the value of such securities, and also to what extent those securities constitute qualified real estate assets for purposes of the REIT asset tests and produce income which qualifies under the REIT 75% gross income test. The inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We do not own any properties. Our principal offices are located in leased space at 53 Forest Avenue, Old Greenwich, CT 06870. The offices of our Manager and Ellington are at the same location. As part of our management agreement, our Manager is responsible for providing offices necessary for all operations, and accordingly, all lease responsibilities belong to our Manager.

Item 3. 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 this Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common shares have been listed on the NYSE under the symbol "EFC" since October 8, 2010.

Holders of Our Common Stock

Based upon a review of a securities position listing as of March 8, 2019, we had an aggregate of 106 holders of record and holders of our common stock who are nominees for an undetermined number of beneficial owners.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2018 with respect to compensation plans under which our equity securities are authorized for issuance. We have no such plans that were not approved by security holders.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of our outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	521,371 (1)	N/A	1,874,223 (2)

(1) Represents OP LTIP Units, which are a separate non-voting class of limited liability company interests structured as profits interests. Subject to certain forfeiture provisions, the OP LTIP Units, may be converted, at the election of the holder or at any time at our election, into OP Units 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 our common stock or, at our election for the cash value of such shares of our common stock. Of the 521,371 OP LTIP Units outstanding as of December 31, 2018, 91,738 were originally issued as LTIP Units pursuant to our 2007 Incentive Plan for Individuals (the "2007 Individual Plan"), 375,000 were originally issued as LTIP Units pursuant to our 2007 Incentive Plan for Entities (the “2007 Entity Plan”), 37,250 were originally issued as LTIP Units pursuant to our 2017 Equity Incentive Plan (the "2017 Plan," together with the 2007 Individual Plan, and the 2007 Entity Plan, the “Incentive Plans”), and 17,383 were issued pursuant to the 2017 Plan. On December 31, 2018, we redeemed all 503,988 of our outstanding LTIP Units which we had originally issued under our Incentive Plans, with each LTIP unitholder receiving in exchange an equal number of OP LTIP Units (the "Redemption Transaction").

(2) As of December 31, 2018, a total of 1,874,223 shares of our common stock and OP LTIP Units remain available for issuance under our 2017 Plan. The 2007 Individual Plan and the 2007 Entity Plan terminated upon stockholder approval of the 2017 Plan in May 2017 and no further grants may be made under those plans. In the event that an award granted under the 2017 Plan (including OP LTIP Units) expires, is forfeited or is terminated without having been exercised or is paid in cash without a requirement for the delivery of shares of our common stock, then any shares of our common stock covered by such lapsed, canceled, expired, unexercised or cash-settled portion of such award and any forfeited, lapsed, canceled, or expired OP LTIP Units shall be available for the grant of other awards under the 2017 Plan. Shares of our common stock tendered or withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any award will not be available for future grants or awards.

Unregistered Sales of Equity Securities

Pursuant to our 2017 Plan, on December 11, 2018, we granted 17,383 OP LTIP Units to certain of our partially dedicated employees. The OP LTIP Units are subject to forfeiture restrictions that will lapse with respect to 8,692 of the OP LTIP Units on December 11, 2019 and 8,691 of the OP LTIP Units on December 11, 2020. Once vested, the OP LTIP Units may be converted at the election of the holder, or at any time at our election, into OP Units 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 our common stock or, at our election, for the cash value of such shares of our common stock. Such grants were exempt from the registration requirements of the Securities Act based on the exemption provided in Section 4(a)(2) of the Securities Act.

Purchases of Equity Securities

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1, 2018–October 31, 2018	105,734	$ 15.55	105,734	1,444,266
November 1, 2018–November 30, 2018	75,572	15.47	75,572	1,368,694
December 1, 2018–December 31, 2018	179,784	15.16	179,784	1,188,910
Total	361,090	$ 15.34	361,090	1,188,910

On June 13, 2018, our 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 our 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 10b5-1 plans. Repurchases are at the Company's discretion, subject to applicable law, share availability, price and financial performance, among other considerations. This program superseded the similar stock repurchase program that had previously been adopted on February 13, 2018.

Item 6. Selected Financial Data

We are a smaller reporting company as defined in Rule 12b-2 under the Exchange Act. As a result, pursuant to Item 301 (c) of Regulation S-K, we are not required to provide the information required by this Item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 December 31, 2018, we have an ownership interest of approximately 97.6% in the Operating Partnership. The remaining interest of approximately 2.4% interest 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 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 December 31, 2018, our credit portfolio, which includes all of our investments other than RMBS for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," has been the primary driver of our risk and return, and we expect that this will continue in the near- to medium-term. For more information on our targeted assets, see "—Our Targeted Asset Classes" below. We believe that Ellington's capabilities allow our Manager to identify attractive assets in these classes, value these assets, monitor and forecast the performance of these assets, and opportunistically hedge our risk with respect to these assets.

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

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

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.

We also use leverage in our credit strategy, albeit significantly less leverage than that used in our Agency RMBS strategy. Through December 31, 2018, we financed the vast majority of our Agency RMBS assets, and the majority of our credit assets, through reverse repurchase agreements, or "reverse repos," which we account for as collateralized borrowings. We expect to continue to finance the vast majority of our Agency RMBS through the use of reverse repos. In addition to financing assets through reverse repos, we also enter into other secured borrowing transactions, which are accounted for as collateralized borrowings, to finance certain of our loan assets. In addition, we have obtained term financing for certain of our non-qualified mortgage, or "non-QM," loans, certain of our consumer loans, and certain of our leveraged corporate loans through the securitization markets. We have also issued unsecured long-term debt.

As of December 31, 2018, outstanding borrowings under reverse repos and Total other secured borrowings (which include Other secured borrowings and Other secured borrowings, at fair value, as presented on our Consolidated Statement of

Assets, Liabilities, and Equity) were $1.9 billion. Of our total borrowings outstanding under reverse repos and Total other secured borrowings, approximately 48%, or $917.3 million, relates to our Agency RMBS holdings, as of December 31, 2018. The remaining outstanding borrowings relate to our credit portfolio and U.S. Treasury securities.

As of December 31, 2018, we also had $86.0 million outstanding of unsecured long-term debt, maturing in September of 2022, or the "Existing Senior Notes." The Existing Senior Notes bore interest at a rate of 5.25%, subject to adjustment based on changes, if any, in the ratings of the Existing Senior Notes. Inclusive of debt issuance costs, the effective interest rate on the Existing Senior Notes was 5.55%. On February 13, 2019, we exchanged all $86 million of the Existing Senior Notes for new unsecured long-term debt jointly and severally issued by two of our subsidiaries along with other subsidiaries that may be added as issuers, and fully guaranteed by the Company (the "New Senior Notes"). The New Senior Notes bear interest at a rate of 5.50%, subject to adjustment based on changes, if any, in the ratings of the New Senior Notes, and mature in September of 2022. The indenture governing the New Senior Notes contains a number of covenants, including several financial covenants. See Note 7 and Note 20 of the notes to our consolidated financial statements for further detail on the Existing Senior Notes and New Senior Notes.

Our debt-to-equity ratio was 3.36 to 1 as of December 31, 2018. Our debt-to-equity ratio does not account for liabilities other than debt financings and does not include debt associated with securitization transactions accounted for as sales.

During the year ended December 31, 2018 we repurchased 1,547,148 common shares at an average price per share of $14.95 and a total cost of $23.1 million. In addition to making discretionary repurchases, we from time to time use 10b5-1 plans to increase the number of trading days available to implement these repurchases.

We also measure our book value per share and our total return on a diluted basis, assuming all convertible units had been converted into common shares at their respective issuance dates. As of December 31, 2018, our diluted book value per share was $18.92, as compared to $18.85 as of December 31, 2017. On a diluted basis, the Company's net-asset-value-based total return for the year ended December 31, 2018 was 9.21%. Additionally our diluted net-asset-value-based total return was 198.37% from our inception (August 17, 2007) through December 31, 2018, and our annualized inception-to-date diluted net-asset-value-based total return was 10.09% as of December 31, 2018.

As of December 31, 2018, we believe we were organized and had operated so that we qualified to be treated for U.S. federal income tax purposes as a partnership and not as an association or a publicly traded partnership taxable as a corporation. In general, an entity that is treated as a partnership for U.S. federal income tax purposes is not subject to U.S. federal income tax at the entity level, except that, for taxable years beginning after December 31, 2017, a partnership will be required to pay the taxes attributable to an audit assessment, unless the partnership elects to pass through the tax to its partners. Consequently, through our taxable year ended December 31, 2018, holders of our common shares were required to take into account their allocable share of items of our income, gain, loss, deduction, and credit for our taxable year ending within or with their taxable year, regardless of whether we made cash distributions on a current basis with which to pay any resulting tax.

Commencing with our taxable year ending December 31, 2019, we will elect and intend to qualify to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or "the Code." Provided that we qualify and maintain our qualification as a REIT, we generally will not be subject to U.S. federal income tax on our REIT taxable income that is currently distributed to our stockholders. Any taxes paid by a domestic 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. In connection with the Conversion, our Board approved our Certificate of Incorporation and our Bylaws, both of which we also filed with the SEC as exhibits to a Current Report on Form 8-K on March 4, 2019.

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 maintaining our qualification as a REIT, we expect to continue to invest in these targeted asset classes, although the allocation of our capital among these targeted asset classes will likely vary from our historical allocations in light of our REIT status. 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. Finally, certain asset classes we have previously included in our list of targeted asset classes, such as corporate debt and equity and derivatives, are no longer included.

Asset Class	Principal Assets
Agency RMBS	• Whole pool pass-through certificates; • Partial pool pass-through certificates; • Agency collateralized mortgage obligations, or "CMOs," including interest only securities, or "IOs," principal only securities, or "POs," inverse interest only securities, or "IIOs"; and • To-Be-Announced mortgage pass-through certificates, or "TBAs."
CLOs	• 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 • Commercial mortgages and other commercial real estate debt.
Consumer Loans and ABS	• Consumer loans; • ABS backed by consumer loans; and • Retained tranches from securitizations to which we have contributed assets.
Mortgage-Related Derivatives	• Credit Default Swaps, or "CDS," on individual RMBS, on the ABX, CMBX and PrimeX indices and on other mortgage-related indices; and • Other mortgage-related derivatives.
Non-Agency RMBS	• RMBS backed by prime jumbo, Alt-A, manufactured housing, and subprime mortgages; • RMBS backed by fixed rate mortgages, Adjustable rate mortgages, or "ARMs," Option-ARMs, and Hybrid ARMs; • RMBS backed by first lien and second lien mortgages; • Investment grade and non-investment grade securities; • Senior and subordinated securities; • IOs, POs, IIOs, and inverse floaters; and • Collateralized debt obligations, or "CDOs."
Residential Mortgage Loans	• Residential non-performing mortgage loans, or "NPLs"; • Re-performing loans, or "RPLs," which generally are loans that were modified and/or formerly NPLs where the borrower has resumed making payments in some form or amount; • Residential transition loans; • Non-QM loans; and • Retained tranches from securitizations to which we have contributed assets.

Other	• Real estate, including commercial and residential real property; • Strategic debt and/or equity investments in loan originators and mortgage-related entities; • Mortgage servicing rights, or "MSRs"; • Credit risk transfer securities, or "CRTs"; and • Other non-mortgage-related derivatives.

Agency RMBS

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

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

TBAs

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

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

CLOs

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 retail, office, industrial, hotel, and multi-family properties. Loans may be fixed or floating rate and will generally range from two to ten years. We may acquire both first lien loans and subordinated loans. Commercial real estate debt typically limits the borrower's right to freely prepay for a period of time through provisions such as prepayment fees, lockout, yield maintenance, or defeasance provisions. 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 backed by U.S. consumer loans. Our U.S. consumer loan portfolio primarily consists of unsecured loans, but also includes secured auto loans. We are currently purchasing newly originated consumer loans under flow agreements with originators, and we continue to evaluate new opportunities. We seek to purchase newly originated consumer loans from originators that have demonstrated disciplined underwriting with a significant focus on regulatory compliance and sound lending practices. Our ABS backed by U.S. consumer loans consist of retained tranches of our consumer loan securitizations. Through securitization of our consumer loans, we are essentially able to achieve long-term financing for the securitized pool.

We also acquire non-dollar denominated ABS backed by European non-performing consumer loans.

Mortgage-Related Derivatives

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

Non-Agency 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.

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. We also opportunistically overlay our credit hedges with certain relative value long/short positions involving the same or similar instruments.

Currently, our credit hedges consist primarily of financial instruments tied to corporate credit, such as CDS on corporate bond indices, short positions in and CDS on corporate bonds; and positions involving exchange traded funds, or "ETFs," of corporate bonds. Our credit hedges also currently include CDS tied to individual MBS or an index of several MBS, such as CDS on CMBS indices, or "CMBX."

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

Interest Rate Hedging

We opportunistically hedge our interest rate risk by using various hedging strategies, 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.

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

Foreign Currency Hedging

To the extent we hold instruments denominated in currencies other than U.S. dollars, we may enter into transactions to offset the potential adverse effects of changes in currency exchange rates, 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

- The U.S. Federal Reserve, or "Federal Reserve," raised the target range for the federal funds rate four times in 2018, and ended the year with a target range of 2.25%- 2.50%. After the final raise of the year, in December, the Federal Reserve moderated its language about future rate increases, and indicated that future rate decisions will be highly data-dependent. At the January 2019 Federal Open Market Committee meeting ("January 2019 FOMC Meeting"), the Federal Reserve left the target range unchanged, while the minutes from that meeting noted that the committee will be “patient” as it determines future adjustments to the target range.
- LIBOR rates, which drive many of our financing costs, increased during 2018, with one-month LIBOR increasing 94 basis points over the course of the year, to 2.50%, and three-month LIBOR rising 111 basis points to 2.81%. The spread between one- and three-month LIBOR widened to 30 basis points at the end of 2018, as compared to 13 basis points at the end of 2017.
- Over the course of 2018, the 2-year U.S. Treasury yield increased 60 basis points and finished the year at 2.49%, while the 10-year U.S. Treasury yield increased 28 basis points to 2.68%. At year end, the spread between the 2-year U.S. Treasury yield and 10-year U.S. Treasury yield was just 20 basis points, compared to 52 basis points at the end of 2017, and 126 basis points at the end of 2016. The Treasury yield curve has now flattened for eight consecutive quarters, and has periodically been inverted recently in the two-to-five year sector.
- At the beginning of each quarter of 2018, the Federal Reserve increased the amount of the tapering of its reinvestments, in line with the tapering schedule it had laid out in September 2017, with the stated objective that its securities portfolio would run off until reaching a level no larger "than necessary to implement monetary policy efficiently and effectively." The tapering of reinvestments reached their previously scheduled caps in October 2018, at $20 billion per month for Agency RMBS and $30 billion per month for U.S. Treasuries. However, at the January 2019 FOMC Meeting, the Federal Reserve indicated that it might deviate from its previously announced tapering schedule going forward, "if future economic conditions were to warrant" a more accommodative monetary policy than can be achieved solely by reducing the federal funds rate.
- Mortgage rates steadily increased during the first eleven months of 2018, before reversing course in December. The Freddie Mac survey 30-year mortgage rate rose 82 basis points between year-end 2017 and the end of November, before declining 26 basis points to end the year at 4.55%. Overall, Agency RMBS prepayment rates were muted throughout the year. The Mortgage Bankers Association's Refinance Index, which measures refinancing application

volumes, declined steadily over the course of 2018; by year end it had dropped over 35%, reaching its lowest seasonally-adjusted level in over 18 years.

In contrast to the remarkable stability of the prior year, 2018 saw several periods of volatility in the equity and debt markets. Interest rates rose during most of the year, before reversing course in November and declining into year end.

After reaching new highs in January, equities sold off violently in February, driven in part by concerns over inflation and rising interest rates. By February 8th, just nine trading days after reaching its all-time high, the S&P 500 Index entered correction territory. At the same time, long-term interest rates rose steadily and broke out of their 2017 ranges, with the 10-year U.S. Treasury yield reaching 2.95% on February 21st, marking the highest daily close in more than four years and 91 basis points higher than the 2017 lows reached the previous September. The Chicago Board Options Exchange Volatility Index, known as the VIX, jumped 282% between January 1st and February 5th, with a 20-point surge occurring on February 5th, its largest one-day movement on record. On February 9th, the Merrill Lynch Option Volatility Estimate Index, or MOVE Index, closed 54% above its year-end level, reaching its highest level since April 2017. During this period, yield spreads across many credit and Agency products widened in sympathy with the interest rate and equity market volatility.

During the second and third quarters of 2018, market volatility subsided and the yield curve continued to flatten. Entering the fourth quarter, many domestic equity indices were again trading near their all-time highs and U.S. Treasury yields were near their highest levels of 2018.

During the fourth quarter, however, a confluence of factors weighed on markets, including fears of a looming trade war, recessionary and global growth concerns, and worries that the Federal Reserve and other central banks were ending their accommodative monetary policies. US equities declined sharply during the fourth quarter, with some indices reaching bear market territory, and many indices ending with a loss for the full year. The S&P 500 (down 14.0%), the Russell 2000 (down 20.5%), and the Dow Jones Industrial average (down 11.8%) all posted their worst quarterly performance since 2011. Many stock markets across Europe and Asia performed even worse.

During this period, yield spreads in virtually every fixed income sector widened relative to U.S. Treasuries, with many sectors finishing the year at or near their 2-year widest levels. Several measures of volatility spiked, including the VIX and MOVE indices. For the year, the Bloomberg Barclays U.S. MBS Agency Fixed Rate Index generated a positive absolute return, but a negative excess return relative to U.S. Treasuries, reflecting that RMBS underperformed their benchmark hedging instruments for the year. The Bloomberg Barclays U.S. Corporate Bond Investment Grade and High Yield Indices, meanwhile, both finished the year with negative returns.

Amidst the uncertainty, there was a flight to safety going into year end. The 10-year U.S. Treasury, which had risen 83 basis points year-to-date through November 8th, reversed course and declined by 55 basis points through December 31st. While the Federal Reserve did raise short-term interest rates again in December, it moderated its language about future rate increases. The yield curve flattened further, and the yield on the 2-year U.S. Treasury inverted with that of the 5-year U.S. Treasury for three weeks during December, stoking fears of a full yield curve inversion, and whether that might signal a looming recession.

Portfolio Overview and Outlook

As of December 31, 2018, our total long credit portfolio (excluding corporate credit relative value trading positions, hedges, and other derivatives) was $1.480 billion as compared to $1.025 billion as of December 31, 2017. Excluding non-retained tranches of our consolidated non-QM securitization trusts, our total long credit portfolio was $1.185 billion as of December 31, 2018, which was an increase of approximately 31.7% from $899.8 million as of December 31, 2017. As of December 31, 2018, our long Agency RMBS portfolio increased approximately 11.9% to $975.4 million, from $871.8 million as of December 31, 2017.

Credit Summary

($ in thousands)	As of December 31, 2018 Fair Value(1)	As of December 31, 2018 % of Total Long Credit Portfolio	As of December 31, 2017 Fair Value(1)	As of December 31, 2017 % of Total Long Credit Portfolio
Dollar Denominated:				
CLOs(2)	$ 123,893	8.4%	$ 184,569	18.0%
CMBS	18,426	1.2%	29,144	2.8%
Commercial Mortgage Loans and Real Estate Owned, or "REO"(3)	245,536	16.6%	133,987	13.1%
Consumer Loans and ABS Backed by Consumer Loans(2)	209,922	14.2%	138,202	13.5%
Corporate Debt and Equity	6,179	0.4%	8,206	0.8%
Debt and Equity Investments in Loan Origination Entities	37,067	2.5%	29,017	2.8%
Residential Mortgage Loans and REO	498,126	33.7%	183,063	17.9%
Non-Agency RMBS	153,214	10.4%	159,743	15.6%
Non-Dollar Denominated:				
CLO	—	—%	31,280	3.1%
CMBS	15,482	1.0%	11,601	1.1%
Consumer Loans and ABS Backed by Consumer Loans	884	0.1%	2,749	0.3%
Corporate Debt and Equity	10,810	0.7%	13,463	1.3%
RMBS(4)	160,342	10.8%	99,923	9.7%
Total Long Credit	$ 1,479,881	100.0%	$ 1,024,947	100.0%

(1) This information does not include U.S. Treasury securities, interest rate swaps, TBA positions, positions related to our corporate credit relative value strategy, or other hedge positions.
(2) Includes equity investment in a securitization-related vehicle.
(3) Includes equity investment in a limited liability company holding small balance commercial mortgage loans.
(4) Includes RMBS secured by non-performing loans and REO, and an investment in an entity holding a securitization call right.

In 2018 we increased our credit holdings by capitalizing on our proprietary pipelines of loans and opportunistically buying securities. The growth of our credit portfolio during the year primarily came from net purchases in the following strategies: residential mortgage loans and REO, commercial mortgage loans and REO, consumer loans and ABS backed by consumer loans, and European RMBS. In contrast, we had net sales during the year in the following strategies: CLOs, CMBS, corporate debt and equity, non-Agency RMBS, and European consumer loans and ABS backed by consumer loans. Throughout 2018 we continued to hold a portion of our credit portfolio in more liquid, lower-risk assets, such as certain U.S. non-Agency RMBS and CLO note investments. We believe that these more liquid, lower-risk assets can be sold in a relatively short time period, to redeploy into higher-yielding strategies, and in the meantime these assets provide the opportunity for solid positive carry.

Our credit portfolio generated strong returns in 2018 and continued to be the primary driver of earnings. We benefited from strong performance in several of our loan-related strategies, including small balance commercial mortgage loans, consumer loans, U.S. and European non-performing loans, and non-QM loans. In addition, our equity investments in loan originators appreciated in value as a result of increased loan origination volumes and operating income. Our best performing securities strategies included U.S. CMBS, U.S. CLOs, and non-Agency RMBS.

Our credit hedges helped to preserve profitability in many of our credit strategies during periods of market weakness, such as during February and December of 2018. Our credit hedges, which consist of certain high yield corporate and CMBX products that we hold short, were profitable during 2018. The interest rate hedges in our credit strategy, which currently consist primarily of interest rate swaps, modestly benefited our results as interest rates rose during the year. We had net losses on foreign currency-related transactions and translation, but these were more than offset by net gains on our foreign currency hedges.

Agency RMBS Summary

($ in thousands)	As of December 31, 2018 Fair Value	As of December 31, 2018 % of Long Agency Portfolio	As of December 31, 2017 Fair Value	As of December 31, 2017 % of Long Agency Portfolio
Long Agency RMBS:[1]				
Fixed Rate	$ 884,870	90.7%	$ 768,751	88.2%
Floating Rate	5,496	0.6%	8,067	0.9%
Reverse Mortgages	55,475	5.7%	60,866	7.0%
IOs	29,516	3.0%	34,150	3.9%
Total Long Agency RMBS[1]	975,357	100.0%	871,834	100.0%
Net Short TBAs[1]	(298,104)		(336,509)	
Net Agency Portfolio	$ 677,253		$ 535,325	

(1) Long TBA positions, with a fair value of $474.9 million and $123.7 million, as of December 31, 2018 and 2017, respectively, are included in Net Short TBAs, and are not included in Long Agency RMBS.

Agency RMBS prices declined during the year and our long portfolio had significant realized and unrealized losses. Partially offsetting these losses were significant gains on our interest rate hedges as interest rates rose. Portfolio turnover for our Agency strategy was approximately 32% for the year (as measured by sales and excluding paydowns). We continued to concentrate our long investments in specified pools and hold net short positions in TBAs as a significant component of our interest rate hedging strategy.

Average pay-ups on our specified pools were 0.64% as of December 31, 2018, down slightly from 0.74% as of December 31, 2017. Pay-ups are price premiums for specified pools relative to their TBA counterparts. As of December 31, 2018, the weighted average coupon on our fixed-rate specified pools was 4.2%, as compared to 4.0% as of December 31, 2017.

During 2018 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. For the year, we had total net gains from our interest rate hedges as interest rates generally increased over the course of the year. In our interest rate hedging portfolio, the relative proportion (based on 10-year equivalents[1]) of short positions in TBAs decreased year over year relative to other hedging instruments.

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 December 31, 2018, September 30, 2018, June, 30, 2018, March 31, 2018, and December 31, 2017.

	Three-Month Period Ended December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018[2]	December 31, 2017[2]
Three-Month Constant Prepayment Rates[1]	7.5%	8.4%	8.3%	7.7%	9.8%

(1) Excludes Agency fixed-rate RMBS without any prepayment history.
(2) Prior period calculation methodology has been conformed to current period calculation methodology.

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

The following table provides details about the composition of our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) as of December 31, 2018 and 2017:

		December 31, 2018			December 31, 2017		
	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	$ 13,242	$ 13,237	38	$ 25,702	$ 26,241	23
	3.50	50,938	51,630	41	63,241	65,684	30
	4.00	6,614	6,720	64	9,619	10,093	52
	4.50	2,177	2,265	93	2,794	2,973	81
Total 15-year fixed-rate mortgages		72,971	73,852	44	101,356	104,991	32
20-year fixed-rate mortgages:							
	4.00	1,478	1,526	62	1,633	1,728	81
	4.50	976	1,021	61	1,023	1,099	50
Total 20-year fixed-rate mortgages		2,454	2,547	62	2,656	2,827	69
30-year fixed-rate mortgages:							
	2.50	524	495	62	—	—	—
	3.00	6,087	5,973	56	9,889	9,938	48
	3.28	109	106	78	112	112	66
	3.50	146,664	147,204	28	142,819	147,579	17
	3.75	2,508	2,537	17	2,906	3,025	5
	4.00	310,389	318,520	29	293,113	308,760	24
	4.50	190,413	198,214	25	135,362	144,978	31
	5.00	95,089	100,092	24	37,959	41,078	59
	5.50	28,507	30,335	15	2,851	3,134	110
	6.00	4,647	4,995	32	2,071	2,329	94
Total 30-year fixed-rate mortgages		784,937	808,471	27	627,082	660,933	27
Total fixed-rate Agency RMBS		$ 860,362	$ 884,870	29	$ 731,094	$ 768,751	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 1.8% and 3.2% as of December 31, 2018 and December 31, 2017, 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 $460.1 million and a fair value of $470.7 million as of December 31, 2018, as compared to a notional value of $391.8 million and a fair value of $407.8 million as of December 31, 2017. Excluding these TBA hedging positions, our Agency premium as a percentage of fair value was approximately 2.9% and 5.1% as of December 31, 2018 and December 31, 2017, 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.

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Financing

The following table details our borrowings outstanding and debt-to-equity ratios as of December 31, 2018 and December 31, 2017.

	As of	
($ in thousands)	December 31, 2018	December 31, 2017
Recourse[1] Borrowings:		
Reverse Repurchase Agreements	$ 1,498,849	$ 1,209,315
Other Secured Borrowings	13,150	—
Existing Senior Notes, at par	86,000	86,000
Total Recourse Borrowings	$ 1,597,999	$ 1,295,315
Debt-to-Equity Ratio Based on Total Recourse Borrowings	2.68:1	2.09:1
Debt-to-Equity Ratio Based on Total Recourse Borrowings Excluding U.S. Treasury Securities	2.68:1	2.09:1
Non-Recourse[1] Borrowings:		
Other Secured Borrowings	$ 100,950	$ 57,909
Other Secured Borrowings, at fair value[2]	297,948	125,105
Total Recourse and Non-Recourse Borrowings	$ 1,996,897	$ 1,478,329
Debt-to-Equity Ratio Based on Total Recourse and Non-Recourse Borrowings	3.36:1	2.38:1
Debt-to-Equity Ratio Based on Total Recourse and Non-Recourse Borrowings Excluding U.S. Treasury Securities	3.35:1	2.38:1

(1) 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).
(2) 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 reverse repo transactions has become more onerous, thereby making it less attractive for banks to provide certain forms of reverse repo financing. While large banks still dominate the reverse repo market, many non-bank firms, not subject to the same regulations as large banks, are also active in providing reverse repo financing. The vast majority of our outstanding reverse repo financing is still provided by larger banks and dealers; however, in limited amounts, we have also entered into reverse repos with smaller non-bank dealers. In general, we continue to see strong appetite and competitive terms from both types of lenders.

Our debt-to-equity ratio including reverse repo, Total other secured borrowings, and our Existing Senior Notes, increased to 3.35:1, excluding U.S. Treasury securities, as of December 31, 2018, as compared to 2.38:1 as of December 31, 2017, driven primarily by the growth in our credit portfolio. Excluding the $297.9 million of debt related to our non-QM loan securitization that we consolidate for GAAP reporting purposes, and excluding U.S. Treasury securities, our debt-to-equity ratio was 2.85:1 as of December 31, 2018.

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

Our financing costs include interest expense related to our reverse repo borrowings, Total other secured borrowings, and Existing Senior Notes. For the year ended December 31, 2018 the weighted average cost of funds of our reverse repo borrowings and Total other secured borrowings increased 98 basis points to 2.81%, from 1.83% for the year ended December 31, 2017. The interest rates on our reverse repo borrowings and Total other secured borrowings are based on, or correlated with, LIBOR, and as a result our associated borrowing costs have increased as LIBOR has increased. Our overall borrowing costs also increased because the proportion of our borrowings related to credit investments, which typically have higher borrowing costs than Agency investments, increased.

Critical Accounting Policies

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

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

Certain of our critical accounting policies require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We believe that all of the decisions and assessments upon which our consolidated financial statements are based were reasonable at the time made based upon information available to us at that time. We rely on the experience of our Manager and Ellington and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. See Note 2 of the notes to our consolidated financial statements included in this Annual Report on Form 10-K for a complete discussion of our significant accounting policies. We have identified our most critical accounting policies to be the following:

Valuation: For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of our financial instruments are not traded in an active market. Therefore, management generally uses third-party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as the discounted cash flow methodology. Summary descriptions, for various categories of financial instruments, of the valuation methodologies management uses in determining fair value of our financial instruments are detailed in Note 2 of the notes to our consolidated financial statements. Management utilizes such methodologies to assign a good faith fair value (the estimated price that, in an orderly transaction at the valuation date, would be received to sell an asset, or paid to transfer a liability, as the case may be) to each such financial instrument.

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

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

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

Recent Accounting Pronouncements

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

Prospective Discontinuance of ASC 946

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.

Financial Condition

The following table summarizes our investment portfolio[1] as of December 31, 2018 and December 31, 2017.

	December 31, 2018		December 31, 2017	
(In thousands)	Fair Value	Cost	Fair Value	Cost
Long:				
Credit:				
Dollar Denominated:				
CLO[2]	$ 123,893	$ 139,424	$ 184,569	$ 189,234
CMBS	18,426	17,828	29,144	31,228
Commercial Mortgage Loans and REO[3]	245,536	244,193	133,987	133,498
Consumer Loans and ABS Backed by Consumer Loans[2]	209,922	218,895	138,202	148,657
Corporate Debt and Equity	15,316	17,526	59,452	59,974
Debt and Equity Investments in Loan Origination Entities	37,067	28,314	29,017	28,218
Non-Agency RMBS	153,214	141,130	159,743	146,606
Residential Mortgage Loans and REO	498,126	495,551	183,063	180,682
Non-Dollar Denominated:				
CLO	—	—	31,280	28,957
CMBS	15,482	16,510	11,601	10,846
Consumer Loans and ABS Backed by Consumer Loans	884	761	2,749	1,075
Corporate Debt and Equity	10,810	11,821	13,463	13,785
RMBS[4]	160,342	168,289	99,923	95,672
Agency:				
Fixed-Rate Specified Pools	884,870	904,048	768,751	774,696
Floating-Rate Specified Pools	5,496	5,627	8,067	8,135
IOs	29,516	30,399	34,150	35,157
Reverse Mortgage Pools	55,475	56,799	60,866	61,460
TBAs	474,860	473,115	123,680	123,874
Government:				
Dollar Denominated	76	76	—	—
Total Long	2,939,311	2,970,306	2,071,707	2,071,754
Repurchase Agreements				
Dollar Denominated	41,530	41,530	84,668	84,668
Non-Dollar Denominated	19,744	19,744	71,281	70,441
Total Repurchase Agreements	61,274	61,274	155,949	155,109
Short:				
Credit:				
Dollar Denominated:				
Corporate Debt and Equity	(23,462)	(23,872)	(91,902)	(91,778)
Agency:				
TBAs	(772,964)	(766,777)	(460,189)	(459,953)
Government:				
Dollar Denominated	(34,817)	(34,410)	(53,021)	(53,322)
Non-Dollar Denominated	(19,334)	(19,545)	(37,128)	(35,149)
Total Short	(850,577)	(844,604)	(642,240)	(640,202)
Net Total	$ 2,150,008	$ 2,186,976	$ 1,585,416	$ 1,586,661

(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 December 31, 2018 and December 31, 2017

	As of December 31, 2018				**As of December 31, 2017**			
	Notional			**Net**	**Notional**			**Net**
(In thousands)	**Long**	**Short**	**Net**	**Fair Value**	**Long**	**Short**	**Net**	**Fair Value**
Mortgage-Related Derivatives:								
CDS on MBS and MBS Indices	$ 15,527	$ (59,393)	$ (43,866)	$ 7,439	$ 7,712	$ (34,421)	$ (26,709)	$ 7,553
Total Net Mortgage-Related Derivatives	15,527	(59,393)	(43,866)	7,439	7,712	(34,421)	(26,709)	7,553
Corporate-Related Derivatives:								
CDS on Corporate Bonds and Corporate Bond Indices	83,060	(316,383)	(233,323)	(11,597)	169,876	(446,236)	(276,360)	(17,980)
Total Return Swaps on Corporate Equities[3]	—	(17,740)	(17,740)	1	235	(10,317)	(10,082)	—
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)	170,111	(456,553)	(286,442)	(17,980)
Interest Rate-Related Derivatives:								
Interest Rate Swaps	143,007	(425,413)	(282,406)	3,831	453,350	(925,644)	(472,294)	3,231
U.S. Treasury Futures[5]	—	(151,600)	(151,600)	—	—	(6,800)	(6,800)	45
Eurodollar Futures[6]	—	(98,000)	(98,000)	(53)	—	—	—	—
Total Interest Rate-Related Derivatives				3,778				3,276
Other Derivatives:								
Foreign Currency Forwards[7]	—	(17,299)	(17,299)	(114)	—	(42,306)	(42,306)	(473)
Foreign Currency Futures[8]	—	(47,931)	(47,931)	(302)	—	(27,000)	(27,000)	(508)
Other[9]	n/a	n/a	n/a	(4)	n/a	n/a	n/a	24
Total Net Other Derivatives				(420)				(957)
Net Total				$ (805)				$ (8,108)

(1) For more detailed information about the financial derivatives in our portfolio, please refer to the Consolidated Condensed Schedule of Investments as of these dates contained in our consolidated financial statements.
(2) In the table above, fair value of certain derivative transactions are shown on a net basis. The accompanying financial statements separate derivative transactions as either assets or liabilities. As of 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. As of December 31, 2017, derivative assets and derivative liabilities were $28.2 million and $(36.3) million, respectively, for a net fair value of $(8.1) million, as reflected in "Net Total" above.
(3) Notional value represents number of underlying shares multiplied by the closing price of the underlying security.
(4) Notional value represents the number of underlying index units multiplied by the reference price.
(5) Notional value represents the total face amount of U.S. Treasury securities underlying all contracts held. As of December 31, 2018 and 2017 a total of 1,516 and 68 short U.S. Treasury futures contracts were held, respectively.
(6) Every $1,000,000 in notional value represents one contract.
(7) Short notional value represents U.S. Dollars to be received by us at the maturity of the forward contract. Long notional value represents U.S. Dollars to be paid by us at the maturity of the forward contract.
(8) Notional value represents the total face amount of currency futures underlying all contracts held. As of December 31, 2018 and 2017 a total of 411 and 216 short foreign currency futures contracts were held, respectively.
(9) As of December 31, 2018 includes interest rate caps and interest rate "basis" swaps whereby the Company pays one floating rate and receives a different floating rate. As of December 31, 2017 includes interest rate caps, equity call options, and interest rate "basis" swaps.

As of December 31, 2018, our Consolidated Statement of Assets, Liabilities, and Equity reflects total assets of $4.0 billion as compared to $3.0 billion as of December 31, 2017. Total liabilities as of December 31, 2018 and 2017 were $3.4 billion and $2.4 billion, respectively. Our portfolios of investments, financial derivatives, and repurchase agreements included in total assets were $3.0 billion and $2.3 billion as of December 31, 2018 and 2017, respectively, while our investments sold short and financial derivatives included in total liabilities were $871.4 million and $678.5 million as of December 31, 2018 and

2017, respectively. Investments sold short consist principally of short positions in TBAs, which we primarily use to hedge the risk of rising interest rates on our investment portfolio. Typically, we hold a net short position in TBAs. The amounts of net short TBAs, as well as of other hedging instruments, may fluctuate according to the size of our investment portfolio as well as according to how we view market dynamics as favoring the use of one hedging instrument or another. As of December 31, 2018 and 2017, we had a net short TBA position of $298.1 million and $336.5 million, respectively.

TBA-related assets include TBAs and receivables for TBAs sold short, and TBA-related liabilities include TBAs sold short and payables for TBAs purchased. As of December 31, 2018, total assets included $474.9 million of TBAs as well as $766.6 million of receivables for securities sold relating to unsettled TBA sales. As of December 31, 2017, total assets included $123.7 million of TBAs as well as $460.7 million of receivables for securities sold relating to unsettled TBA sales. As of December 31, 2018, total liabilities included $773.0 million of TBAs sold short as well as $473.4 million of payables for securities purchased relating to unsettled TBA purchases. As of December 31, 2017, total liabilities included $460.2 million of TBAs sold short as well as $123.9 million of payables for securities purchased relating to unsettled TBA purchases. Open TBA purchases and sales involving the same counterparty, the same underlying deliverable Agency pass-throughs, and the same settlement date are reflected in our consolidated financial statements on a net basis.

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

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

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

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

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

We have entered into reverse repos to finance many of our assets. As of December 31, 2018 and 2017, indebtedness outstanding on our reverse repos was approximately $1.5 billion and $1.2 billion respectively. As of December 31, 2018, we had total Agency RMBS of $972.7 million financed with reverse repos as compared to $866.1 million as of December 31, 2017. As of December 31, 2018, we had total credit assets of $815.1 million financed with reverse repos as compared to $542.4 million as of December 31, 2017. As of December 31, 2018 and 2017 we also had total U.S. Treasury securities of $0.3 million financed with reverse repos. Outstanding indebtedness under reverse repos for Agency RMBS as of December 31, 2018 and 2017 was $917.3 million and $829.6 million, respectively, while outstanding indebtedness under reverse repos for our credit portfolio as of December 31, 2018 and 2017 was $581.3 million and $379.4 million, respectively. Outstanding indebtedness under reverse repos for U.S. Treasury securities as of December 31, 2018 and 2017 was $0.3 million. Our reverse repos bear interest at rates that have historically moved in close relationship to LIBOR. We account for our reverse repos as collateralized borrowings. In addition to our reverse repos, as of December 31, 2018 we had Total other secured borrowings of $412.0 million, used to finance $483.5 million of non-QM and consumer loans. This compares to Total other secured borrowings of $183.0 million as of December 31, 2017, used to finance $222.1 million of non-QM and consumer loans. In addition to our secured borrowings, we had $86.0 million of unsecured Existing Senior Notes outstanding as of both December 31, 2018 and 2017.

As of December 31, 2018 and 2017 our debt-to-equity ratio was 3.36 to one and 2.38 to one, respectively. Excluding U.S. Treasury securities our debt-to-equity ratio as of December 31, 2018 and 2017 was 3.35 to one and 2.38 to one, respectively. See the discussion in "—*Liquidity and Capital Resources*" below for further information on our reverse repos.

In connection with our derivative and TBA transactions, in certain circumstances we may require that counterparties post collateral with us. When we exit a derivative or TBA transaction for which a counterparty has posted collateral, we may be required to return some or all of the related collateral to the respective counterparty. As of December 31, 2018 and 2017, our derivative and TBA counterparties posted an aggregate value of approximately $4.3 million and $1.7 million of collateral with us, respectively. This collateral posted with us is included in Due to brokers on our Consolidated Statement of Assets, Liabilities, and Equity.

TBA Market

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

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

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

For the years ended December 31, 2018 and 2017, as disclosed on our Consolidated Statement of Cash Flows, the aggregate TBA activity, or volume of closed transactions based on the sum of the absolute value of buy and sell transactions, was $29.8 billion and $23.9 billion, respectively. Our TBA activity has principally consisted of: (a) sales (respectively purchases) of TBAs as hedges in connection with purchases (respectively sales) of certain other assets (especially fixed-rate Agency whole pools); (b) purchases or sales of TBAs for speculative purposes, as part of a relative value trade or otherwise; (c) TBA roll transactions (as described above) effected to maintain existing TBA positions; and (d) TBA "sector rotation" transactions whereby a position in one TBA security is replaced with a position in a different TBA security. Since we have actively turned over our portfolio of fixed-rate Agency whole pools, the volume of TBA hedging transactions has also been correspondingly high. Moreover, our fixed-rate Agency whole pool portfolio is typically larger in gross size than our equity capital base, and so we tend to hold large short TBA positions relative to our equity capital base at any time. Finally, the entire amount of short TBA positions held at each monthly TBA settlement date is typically rolled to the following month, and since the amount of short TBA positions tends to be large relative to our equity capital base, TBA roll transaction volume over multi-month periods can represent a multiple of our equity capital base.

Equity

As of December 31, 2018, our equity decreased by approximately $25.8 million to $595.2 million from $621.0 million as of December 31, 2017. This decrease principally consisted of dividends paid of $50.7 million, distributions to joint venture partners of approximately $23.9 million, and payments to repurchase common shares of $23.1 million. These decreases were partially offset by a net increase in equity resulting from operations for the year ended December 31, 2018 of $49.9 million and an increase related to contributions from our non-controlling interests of approximately $21.5 million. Shareholders' equity, which excludes the non-controlling interests related to the minority interest in the Operating Partnership as well the minority interests of our joint venture partners, was $563.8 million as of December 31, 2018.

Results of Operations for the Years Ended December 31, 2018 and 2017

The table below represents the net increase (decrease) in equity resulting from operations for the years ended December 31, 2018 and 2017.

	Year Ended December 31,	
(In thousands except per share amounts)	**2018**	**2017**
Interest income	$ 131,027	$ 89,629
Other income	4,014	4,331
Total investment income	135,041	93,960
Expenses:		
Base management fee to affiliate (Net of fee rebates of $1,380 and $332, respectively)	7,573	9,056
Incentive fee to affiliate	715	—
Interest expense	56,707	31,120
Other investment related expenses	16,954	9,754
Other operating expenses	9,967	8,862
Total expenses	91,916	58,792
Net investment income	43,125	35,168
Net realized and change in net unrealized gain (loss) on investments	(526)	11,298
Net realized and change in net unrealized gain (loss) on other secured borrowings	758	—
Net realized and change in net unrealized gain (loss) on financial derivatives, excluding currency hedges	4,454	(11,727)
Net realized and change in net unrealized gain (loss) on financial derivatives—currency hedges	5,040	(6,946)
Net foreign currency gain (loss)	(2,940)	8,171
Net increase (decrease) in equity resulting from operations	49,911	35,964
Less: Net increase (decrease) in equity resulting from operations attributable to non-controlling interests	3,235	1,983
Net increase (decrease) in shareholders' equity resulting from operations	$ 46,676	$ 33,981
Net increase (decrease) in shareholders' equity resulting from operations per share	$ 1.52	$ 1.04

Results of Operations for the Years Ended December 31, 2018 and 2017

Summary of Net Increase in Shareholders' Equity from Operations

For the years ended December 31, 2018 and 2017 we had a net increase in shareholders' equity resulting from operations of $46.7 million and $34.0 million, respectively. The year-over-year increase in our results of operations was primarily due to a reversal in our net realized and unrealized gains and (losses) on our financial derivatives and an increase in net investment income, partially offset by a decrease in net realized and unrealized gains on investments. For the year ended December 31, 2018 we had net realized and unrealized gains on our financial derivatives, excluding currency hedges, of $4.4 million, as compared to net realized and unrealized losses of $(11.7) million for the year ended December 31, 2017. We had a year-over-year increase of $0.8 million in unrealized gains on other secured borrowings, and a year-over-year increase of $8.0 million in net investment income. We had net realized and unrealized gains (losses) on investments of $(0.5) million for the year ended December 31, 2018 as compared to $11.3 million for the year ended December 31, 2017. Total return for our common shares was 7.38% for the year ended December 31, 2018, as compared to 6.14% for the year ended December 31, 2017. Total return for our common shares is calculated based on changes in net asset value per common share or "book value per common share" and assumes reinvestment of dividends. On December 31, 2018, we redeemed all 503,988 of our outstanding LTIP units which we had originally issued under our incentive plans, with each LTIP unitholder receiving in exchange an equal number of LTIP units of the Operating Partnership (the "Redemption Transaction"). While the Redemption Transaction did not affect fully diluted book value per common share, it did cause a 1.66% decline in book value per common share. Were we to calculate total return per common share based on changes in fully diluted book value per common share as opposed to book value per common share, the total return for our common shares for the year ended December 31, 2018 would have been 9.21%.

Net Investment Income

Net investment income was $43.1 million and $35.2 million for the years ended December 31, 2018 and 2017, respectively. Net investment income consists of interest and other income less total expenses. The year-over-year increase in net investment income was due to an increase in total investment income, principally interest income, which was partially offset by an increase in total expenses, mainly interest expense and other investment related expenses.

Interest Income

Interest income was $131.0 million for the year ended December 31, 2018 as compared to $89.6 million for the year ended December 31, 2017. Interest income includes coupon payments received and accrued on our holdings, the net accretion and amortization of purchase discounts and premiums on those holdings, and interest on our cash balances, including those balances held by our counterparties as collateral. The year-over-year increase in interest income was primarily due to an increase in the size of our credit portfolio for the year ended December 31, 2018, as compared to the year ended December 31, 2017.

For the year ended December 31, 2018, interest income from our credit portfolio was $91.6 million, as compared to $54.3 million for the year ended December 31, 2017. This year-over-year increase was primarily due to the larger size of the credit portfolio for the year ended December 31, 2018, partially offset by lower average asset yields on this portfolio. For the year ended December 31, 2018, interest income from our Agency RMBS was $31.1 million, as compared to $27.2 million for the year ended December 31, 2017. This year-over-year increase was primarily due to the larger size of the Agency portfolio for the year ended December 31, 2018, along with slightly higher asset yields, partially offset by a reversal of the Catch-up Premium Amortization Adjustment. For the year ended December 31, 2018, we had a negative Catch-up Premium Amortization Adjustment of $0.1 million, which decreased our interest income. Excluding this Catch-up Premium Amortization Adjustment, the weighted average yield on our overall portfolio for the year ended December 31, 2018 was 5.85%. By comparison, for the year ended December 31, 2017 the Catch-up Premium Amortization Adjustment increased interest income by approximately $1.1 million. Excluding this Catch-up Premium Amortization Adjustment, the weighted average yield on our overall portfolio for the year ended December 31, 2017 was 5.39%.

The following table details our interest income, average holdings of yield-bearing assets, and weighted average yield based on amortized cost for the years ended December 31, 2018 and 2017:

	Credit[(1)]			Agency[(1)]			Total[(1)]		
(In thousands)	**Interest Income**	**Average Holdings**	**Yield**	**Interest Income**	**Average Holdings**	**Yield**	**Interest Income**	**Average Holdings**	**Yield**
Year ended December 31, 2018	$ 91,624	$ 1,139,460	8.04%	$ 31,115	$ 960,090	3.24%	$ 122,739	$ 2,099,550	5.85%
Year ended December 31, 2017	$ 54,347	$ 647,507	8.39%	$ 27,190	$ 844,523	3.22%	$ 81,537	$ 1,492,030	5.46%

(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.

Base Management Fees

For the years ended December 31, 2018 and 2017, base management fee incurred, which is based on total equity at the end of each quarter, was $7.6 million and $9.1 million, respectively, net of fee rebates. During the years ended December 31, 2018 and 2017, our Manager credited us with rebates on our management fee, related to those of our CLO investments for which Ellington or one of its affiliates earned CLO management fees, of $1.4 million and $0.3 million, respectively. The year-over-year decrease in the base management fee was primarily due to the year-over-year increase in this fee rebate from our Manager as well as our smaller average capital base in the later period.

Interest Expense

Interest expense primarily includes interest on funds borrowed under reverse repos and Total other secured borrowings, interest on our Existing 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 $56.7 million for the year ended December 31, 2018, as compared to $31.1 million for the year ended December 31, 2017, largely reflecting the increase in borrowings related to the growth of both the credit and the Agency portfolios, as well as the additional expense associated with our Existing Senior Notes, which have a higher cost of funds than our other borrowings. Also contributing to the period-over-period increase in our total interest expense was a higher average rate on our secured borrowings, which rose as LIBOR increased.

The table below summarizes the components of interest expense for the years ended December 31, 2018 and 2017.

(In thousands)	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Reverse repos and Total other secured borrowings	$ 46,280	$ 21,502
Existing Senior Notes (1)	4,778	1,765
Securities sold short (2)	5,116	6,104
Other (3)	533	1,749
Total	$ 56,707	$ 31,120

(1) Amount includes the related amortization of debt issuance costs.
(2) Amount includes the related net accretion and amortization of purchase discounts and premiums.
(3) Primarily includes repurchase agreements with negative interest rates, which can occur when we borrow certain bonds that we have sold short.

The following table summarizes our aggregate secured borrowings, which carry interest rates that are based on, or correlated with, LIBOR, including reverse repos and Total other secured borrowings, for the years ended December 31, 2018 and 2017.

	For the Year Ended					
	December 31, 2018			December 31, 2017		
Collateral for Secured Borrowing	**Average Borrowings**	**Interest Expense**	**Average Cost of Funds**	**Average Borrowings**	**Interest Expense**	**Average Cost of Funds**
(In thousands)						
Credit(1)	$ 730,447	$ 26,938	3.69%	$ 304,280	$ 11,066	3.64%
Agency RMBS	882,388	18,593	2.11%	789,720	9,438	1.20%
Subtotal(1)	1,612,835	45,531	2.82%	1,094,000	20,504	1.87%
Corporate Credit Relative Value Trading Strategy	16,836	379	2.26%	52,437	786	1.50%
U.S. Treasury Securities	18,349	370	2.02%	26,307	212	0.81%
Total	$ 1,648,020	$ 46,280	2.81%	$ 1,172,744	$ 21,502	1.83%
Average One-Month LIBOR			2.02%			1.11%
Average Six-Month LIBOR			2.49%			1.48%

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

As shown in the table above, the secured borrowings in our corporate credit relative value trading strategy have much lower costs of funds than most of our other credit-related secured borrowings, because this strategy tends to involve more liquid assets, financed for shorter terms, as compared to our other credit strategies. In light of this large difference in borrowing costs, as well as the more short-term nature and varying overall size of our positions in this strategy, we have broken out in the above table the secured borrowings in that strategy from our other credit-related secured borrowings. Our average cost of funds on our total credit portfolio, including our corporate credit relative value trading strategy, was 3.66% and 3.32% for the years ended December 31, 2018 and 2017.

Among other instruments, we use interest rate swaps to hedge our portfolios against the risk of rising interest rates. If we were to include as a component of our cost of funds the amortization of upfront payments and the actual and accrued periodic payments on our interest rate swaps used to hedge our assets, our total average cost of funds would decrease to 2.73% for the year ended December 31, 2018 and remain flat at 1.83% for the year ended December 31, 2017. Our net interest margin, defined as the yield on our portfolio of yield-bearing targeted assets (See—Interest Income above), less our cost of funds (including amortization of upfront payments and actual and accrued periodic payments on interest rate swaps as described above), was 3.12% and 3.63% for the years ended December 31, 2018 and 2017, respectively. If we were to exclude the impact of the Catch-up Premium Amortization Adjustment, our net interest margin for the years ended December 31, 2018 and 2017 would be 3.12% and 3.56%, respectively. These metrics do not include costs associated with other instruments that we use to hedge interest rate risk, such as TBAs and futures.

Incentive Fees

In addition to the base management fee, our Manager is also entitled to a quarterly incentive fee if our performance (as measured by adjusted net income, as defined in the management agreement) over the relevant rolling four quarter calculation period exceeds a defined return hurdle for the period. Incentive fee incurred for the year ended December 31, 2018 was $0.7 million. No incentive fee was incurred for the year ended December 31, 2017, since on a rolling four quarter basis, our income did not exceed the prescribed hurdle amount. Because our operating results can vary materially from one period to another, incentive fee expense can also be highly variable.

Other Investment Related Expenses

Other investment related expenses consist of servicing fees on our mortgage and consumer loans, as well as various other expenses and fees directly related to our financial assets and certain financial liabilities carried at fair value. For the years ended December 31, 2018 and 2017 other investment related expenses were $17.0 million and $9.8 million, respectively. The increase in other investment related expenses was primarily due to an increase in servicing expenses on our loan portfolios, an increase in dividend expense on common stock sold short, and various other expenses related to our residential and commercial mortgage loan and REO portfolios.

Other Operating Expenses

Other operating expenses consist of professional fees, compensation expense related to our dedicated or partially dedicated personnel, administration fees, share-based compensation expense, insurance expense, and various other operating expenses necessary to run our business. Other operating expenses exclude management and incentive fees, interest expense, and other investment related expenses. Other operating expenses were $10.0 million for the year ended December 31, 2018 as compared to $8.9 million for the year ended December 31, 2017. The increase in other operating expenses for the year ended December 31, 2018 was primarily due to an increase in professional fees relating to our tax conversion.

Net Realized and Unrealized Gains (Losses) on Investments

During the year ended December 31, 2018, we had net realized and unrealized losses on investments of $(0.5) million, as compared to net realized and unrealized gains on investments of $11.3 million for the year ended December 31, 2017. Included in our investments are short positions in TBAs, U.S. Treasury securities, and sovereign securities, which are used primarily to hedge interest rate and/or prepayment risk with respect to our other investment holdings.

Net realized and unrealized losses on investments of $(0.5) million for the year ended December 31, 2018 resulted principally from net realized and unrealized losses on Agency RMBS, U.S. CLOs, and European RMBS, partially offset by net realized and unrealized gains on TBAs, CMBS, listed and non-listed equity investments, and European non-performing loans.

Net realized and unrealized gains on investments of $11.3 million for the year ended December 31, 2017 resulted principally from net realized and unrealized gains on European structured products (RMBS, CMBS, and CLOs), small balance commercial and residential mortgage loans (including non-QM loans), non-Agency RMBS, corporate debt, equity investments in mortgage originators, and European consumer ABS, partially offset by net realized and unrealized losses on Agency RMBS, TBAs, U.S. consumer loans, and common stock.

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

During the year ended December 31, 2018, we had net realized and unrealized gains on our financial derivatives of $9.5 million, as compared to net realized and unrealized losses of $(18.7) million for the year ended December 31, 2017. Our financial derivatives consist of interest rate derivatives, which we use primarily to hedge interest rate risk, and of credit derivatives and total return swaps, both of which we use primarily to hedge credit risk, but also for non-hedging purposes. Non-hedging credit derivatives and total return swaps include both long and short positions. Our derivatives also include foreign currency forwards and futures, which we use to hedge foreign currency risk. Our interest rate derivatives are primarily in the form of net short positions in interest rate swaps, Eurodollar futures, and U.S. Treasury Note futures. We also use certain non-derivative instruments, such as TBAs, corporate debt, U.S. Treasury securities and sovereign debt instruments, to hedge interest rate risk. During both the current and prior periods, our derivative credit hedges were primarily in the form of short positions in instruments tied to corporate credit, credit default swaps on asset-backed indices and individual MBS, and total return swaps.

Net realized and unrealized gains of $9.5 million on our financial derivatives for the year ended December 31, 2018 resulted primarily from net realized and unrealized gains on our total return swaps, interest rate swaps, CDS on corporate bond indices, partially offset by net realized and unrealized losses on credit default swaps on asset-backed indices. Net realized and unrealized gains on our foreign currency hedges more than offset the net foreign exchange transaction and translation losses. Translation and transaction net losses were incurred in connection with our non-dollar denominated European assets.

Net realized and unrealized losses on our financial derivatives of $(18.7) million for the year ended December 31, 2017 resulted primarily from net losses on our foreign exchange currency hedges, CDS on asset-backed and corporate bond indices, and total return swaps. Net foreign exchange transaction and translation gains more than offset the net realized and unrealized losses on our foreign currency hedges. Translation and transaction net gains were incurred in connection with our non-dollar denominated European assets.

Liquidity and Capital Resources

Liquidity refers to our ability to meet our cash needs, including repaying our borrowings, funding and maintaining positions in MBS and other assets, making distributions in the form of dividends, and other general business needs. Our short-term (one year or less) and long-term liquidity requirements include acquisition costs for assets we acquire, payment of our base management fee and incentive fee, compliance with margin requirements under our repurchase agreements, or "repos," reverse repos, TBAs, and financial derivative contracts, repayment of reverse repo borrowings and other secured borrowings to the extent we are unable or unwilling to extend such borrowings, payment of our general operating expenses, payment of interest payments on our Existing 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 reverse repos and other secured borrowings, and proceeds from equity and debt offerings. We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs.

The following summarizes our reverse repos:

	Reverse Repurchase Agreements			
(In thousands)	Average Borrowed Funds During the Period		Borrowed Funds Outstanding at End of the Period	
Year Ended December 31, 2018	$	1,427,632	$	1,498,849
Year Ended December 31, 2017	$	1,082,518	$	1,209,315

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

(In thousands)	December 31, 2018		
Remaining Days to Maturity	**Outstanding Borrowings**		**%**
30 Days or Less	$	276,655	18.5%
31 - 60 Days		605,316	40.4%
61 - 90 Days		348,623	23.3%
91 - 120 Days		506	—%
121 - 150 Days		26,222	1.7%
151 - 180 Days		9,491	0.6%
181 - 360 Days		91,730	6.1%
> 360 Days		140,306	9.4%
	$	1,498,849	100.0%

Reverse repos involving underlying investments that we sold prior to December 31, 2018, for settlement following December 31, 2018, are shown using their original maturity dates even though such reverse repos may be expected to be terminated early upon settlement of the sale of the underlying investment.

The amounts borrowed under our reverse repo agreements are generally subject to the application of "haircuts." A haircut is the percentage discount that a reverse repo lender applies to the market value of an asset serving as collateral for a reverse repo borrowing, for the purpose of determining whether such reverse repo borrowing is adequately collateralized. As of December 31, 2018, the weighted average contractual haircut applicable to the assets that serve as collateral for our outstanding reverse repo borrowings (excluding reverse repo borrowings related to U.S. Treasury securities) was 28.5% with respect to credit assets, 5.4% with respect to Agency RMBS assets, and 15.9% overall. As of December 31, 2017 these respective weighted average contractual haircuts were 30.4%, 5.6%, and 15.1%.

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

As of December 31, 2018 and 2017, we had $1.5 billion and $1.2 billion, respectively, of borrowings outstanding under our reverse repos. As of December 31, 2018, the remaining terms on our reverse repos ranged from 2 days to 871 days, with a weighted average remaining term of 121 days. As of December 31, 2017, the remaining terms on our reverse repos ranged from 2 days to 1094 days, with a weighted average remaining term of 99 days. Our reverse repo borrowings were with a total of 23 counterparties as of both December 31, 2018 and 2017. As of December 31, 2018 and 2017, our reverse repos, excluding those on U.S. Treasury securities, had a weighted average borrowing rate of 3.13% and 1.98%, respectively. As of December 31, 2018, our reverse repos had interest rates ranging from 0.23% to 6.07%. As of December 31, 2017, our reverse repos had interest rates ranging from (1.25)% to 4.94%. Investments transferred as collateral under reverse repos had an aggregate fair value of $1.8 billion and $1.4 billion as of December 31, 2018 and 2017, respectively. The interest rates of our reverse repos have historically moved in close relationship to short-term LIBOR rates, and in some cases are explicitly indexed to short-term LIBOR rates and reset accordingly. It is expected that amounts due upon maturity of our reverse repos will be funded primarily through the roll/re-initiation of reverse repos and, if we are unable or unwilling to roll/re-initiate our reverse repos, through free cash and proceeds from the sale of securities.

Although we typically finance the vast majority of our holdings of Agency RMBS, as of December 31, 2018 and 2017, we held unencumbered Agency pools, on a settlement date basis, in the amount of $0.4 million and $4.5 million, respectively.

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

Quarter Ended	Borrowings Outstanding at Quarter End	Average Borrowings Outstanding	Maximum Borrowings Outstanding at Any Month End
		(In thousands)	
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
June 30, 2016	1,070,105	1,124,885	1,160,096
March 31, 2016	1,149,064	1,178,552	1,205,385

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

In addition to our borrowings under reverse repurchase agreements, we have entered into various other types of transactions to finance certain of our non-QM and consumer loans, and commercial mortgage loans and REO; these transactions are accounted for as collateralized borrowings. As of December 31, 2018 and 2017 we had outstanding borrowings related to such transactions in the amount of $412.0 million and $183.0 million, respectively, which is reflected under the captions "Other secured borrowings" and "Other secured borrowings, at fair value" on the Consolidated Statement of Assets, Liabilities, and Equity. As of December 31, 2018, the fair value of non-QM and consumer loans collateralizing our Total other secured borrowings was $483.5 million. As of December 31, 2017, the fair value of non-QM and consumer loans collateralizing our Total other secured borrowings was $222.1 million. See Note 7 in the notes to our consolidated financial statements for further information on our other secured borrowings.

As of December 31, 2018 and 2017, we had $86.0 million outstanding of unsecured Existing Senior Notes, maturing in September 2022 and bearing interest at a rate of 5.25%, subject to adjustment based on changes, if any, in the ratings of the

Existing Senior Notes. See Note 7 of the notes to our consolidated financial statements for further detail on the Existing Senior Notes.

As of December 31, 2018, we had an aggregate amount at risk under our reverse repos with 23 counterparties of approximately $306.4 million, and as of December 31, 2017, we had an aggregate amount at risk under our reverse repos with 23 counterparties of approximately $219.3 million. Amounts at risk represent the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under reverse repos. If the amounts outstanding under reverse repos with a particular counterparty are greater than the collateral held by the counterparty, there is no amount at risk for the particular counterparty. Amount at risk as of December 31, 2018 and 2017 does not include approximately $2.6 million and $4.2 million, respectively, of net accrued interest receivable, which is defined as accrued interest on securities held as collateral less interest payable on cash borrowed.

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

As of December 31, 2018, we had an aggregate amount at risk under our derivative contracts with 12 counterparties of approximately $25.2 million. We also had $8.3 million of initial margin for cleared over-the-counter, or "OTC," derivatives posted to central clearinghouses as of that date. As of December 31, 2017, we had an aggregate amount at risk under our derivatives contracts with 12 counterparties of approximately $30.9 million. We also had $9.9 million of initial margin for cleared OTC derivatives posted to central clearinghouses as of that date. Amounts at risk under our derivatives contracts represent the excess, if any, for each counterparty of the fair value of our derivative contracts plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the financial derivatives plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We purchase and sell TBAs and Agency pass-through certificates on a when-issued or delayed delivery basis. The delayed delivery for these securities means that these transactions are more prone to market fluctuations between the trade date and the ultimate settlement date, and therefore are more vulnerable, especially in the absence of margining arrangements with respect to these transactions, to increasing amounts at risk with the applicable counterparties. As of December 31, 2018, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with 5 counterparties of approximately $1.7 million. As of December 31, 2017, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with seven counterparties of approximately $2.4 million. Amounts at risk in connection with our forward settling TBA and Agency pass-through certificates represent the excess, if any, for each counterparty of the net fair value of the forward settling transactions plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the forward settling transactions plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We held cash and cash equivalents of approximately $44.7 million and $47.2 million as of December 31, 2018 and 2017, respectively. Similar to 2017, throughout 2018 we continued to hold a portion of our credit portfolio in certain more liquid, lower-risk assets. We believe that these assets can be sold in a relatively short time period, to redeploy into higher-yielding strategies, and in the meantime these assets provide the opportunity for solid positive carry. As a result of these holdings, our cash and cash equivalents were lower as of both December 31, 2018, and December 31, 2017, as compared to previous years.

On February 6, 2018, our Board of Directors approved the adoption of a share repurchase program under which we were authorized to repurchase up to 1.55 million common shares. This program was superseded by the adoption of a subsequent, similar, share repurchase program, approved by our Board of Directors on June 13, 2018, under which we are authorized to repurchase up to 1.55 million common shares. The program, which is open-ended in duration, allows us to make repurchases from time to time on the open market or in negotiated transactions, including under 10b5-1 plans. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations. In addition to making discretionary repurchases, we from time to time use 10b5-1 plans to increase the number of trading days available to implement these repurchases.

During the year ended December 31, 2018 we repurchased 1,547,148 common shares at an average price per share of $14.95 and a total cost of $23.1 million. From inception of the current share repurchase program through March 8, 2019, we have repurchased 411,915 common shares at an average price per share of $15.34 and a total cost of $6.3 million.

Additionally we commenced an "at-the-market" offering program, or "ATM program," by entering into equity distribution agreements with third party sales agents under which we are authorized to offer and sell common shares from time to time with a maximum aggregate gross offering price of up to $150 million. As of December 31, 2018 we have not yet issued common shares under the ATM program.

We may declare dividends based on, among other things, our earnings, our financial condition, 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 units for the years ended December 31, 2017 and 2018:

(In thousands except per share amounts)

Record Date	Payment Date	Dividend Per Share	Dividend Amount	
March 1, 2017	March 15, 2017	$0.45	$	14,821
June 1, 2017	June 15, 2017	$0.45	$	14,757
September 1, 2017	September 15, 2017	$0.45	$	14,757
December 1, 2017	December 15, 2017	$0.41	$	13,300
March 1, 2018	March 15, 2018	$0.41	$	12,850
June 1, 2018	June 15, 2018	$0.41	$	12,650
August 31, 2018	September 17, 2018	$0.41	$	12,651
November 30, 2018	December 17, 2018	$0.41	$	12,584

On February 14, 2019, our 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 March 11, 2019, our 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.

For the year ended December 31, 2018, our operating activities used net cash in the amount of $494.2 million, and our reverse repo activity used to finance many of our investments (including repayments, in conjunction with the sales of investments, of amounts borrowed under our reverse repo agreements) provided net cash of $409.7 million. We received $201.9 million in proceeds from the issuance of Total other secured borrowings, net of certain expenses related to these issuances, and we used $43.8 million for principal payments on Other secured borrowings. Thus our operating activities, when combined with our reverse repo financings, Total other secured borrowings (net of repayments and certain expenses related to the issuance of debt), provided net cash of $73.6 million for the year ended December 31, 2018. In addition, contributions from non-controlling interests provided cash of $21.5 million. We used $50.7 million to pay dividends, $23.9 million for distributions to non-controlling interests (our joint venture partners), and $23.1 million to repurchase common shares. As a result there was a decrease in our cash holdings of $2.6 million, from $47.7 million as of December 31, 2017 to $45.1 million as of December 31, 2018.

For the year ended December 31, 2017, our operating activities used net cash in the amount of $462.9 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 $174.0 million. We received $217.0 million in proceeds from the issuance of Total other secured borrowings, net of certain expenses related to these issuances, and we used $28.8 million for principal payments on Other secured borrowings. We also received $84.7 million in proceeds from the issuance of Senior Notes, net of debt issuance costs paid. Thus our operating activities, when combined with our reverse repo financings, Total other secured borrowings (net of repayments and certain expenses related to the issuance of debt), and the net borrowings related to our Existing Senior Notes, used net cash of $16.1 million for the year ended December 31, 2017. In addition, contributions from non-controlling interests provided cash of $20.7 million. We used $57.6 million to pay dividends, $8.6 million for distributions to non-controlling interests (our joint venture partners), and $14.6 million to repurchase common shares. As a result there was a decrease in our cash holdings of $76.3 million, from $123.9 million as of December 31, 2016 to $47.7 million as of December 31, 2017.

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

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

Contractual Obligations and Commitments

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

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

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

Off-Balance Sheet Arrangements

As of December 31, 2018, we did not have any material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment to provide funding to any such entities that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or resources that would be material to an investor in our securities. As such, we are not materially exposed to any market, credit, liquidity, or financing risk that could arise if we had engaged in such relationships. See Note 6, Note 7, and Note 9 of the notes to our consolidated financial statements for further detail about a multi-seller consumer loan securitization transaction we entered into in August 2016.

At December 31, 2018 we have not entered into any reverse repurchase agreements for which delivery of the borrowed funds is not scheduled until after period end.

Inflation

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The primary components of our market risk at December 31, 2018 are related to credit risk, prepayment risk, and interest rate risk. We seek to actively manage these and other risks and to acquire and hold assets that we believe justify bearing those risks, and to maintain capital levels consistent with those risks.

Credit Risk

We are subject to credit risk in connection with many of our assets, especially non-Agency MBS, mortgage loans, distressed corporate debt, leveraged loans, CLOs, and consumer loans.

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

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

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

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

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

Default Risk

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

Severity Risk

Severity risk is the risk of loss upon a borrower default on a mortgage loan or other secured or unsecured debt obligation. Severity risk includes the risk of loss of value of the property or other asset, if any, securing the mortgage loan or debt obligation, as well as the risk of loss associated with taking over the property or other asset, if any, including foreclosure costs. We often rely on third-party servicers to mitigate our severity risk, but such third-party servicers may have little or no economic incentive to mitigate loan loss severities. In the case of mortgage loans, such mitigation efforts may include loan modification programs and prompt foreclosure and property liquidation following a default. Many of our consumer loans are unsecured, or are secured by collateral (such as an automobile) that depreciates rapidly; as a result, these loans may be at greater risk of loss than residential real estate loans. Pursuing any remaining deficiency following a default on a consumer loan is often difficult or impractical, especially when the borrower has a low credit score, making further substantial collection efforts unwarranted. In addition, repossessing personal property securing a consumer loan can present additional challenges, including locating and taking physical possession of the collateral. We rely on servicers who service these consumer loans, to, among other things, collect principal and interest payments on the loans and perform loss mitigation services, and these servicers may not perform in a manner that promotes our interests. In the case of corporate debt, if a company declares bankruptcy, the bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversarial proceedings and are beyond the control of the creditors. A bankruptcy filing by a company whose debt we have purchased may adversely and permanently affect such company. If the proceeding results in liquidation, the liquidation value of the company may have deteriorated significantly from what we believed to be the case at the time of our initial investment. The duration of a bankruptcy proceeding is also difficult to predict, and our return on investment can be adversely affected by delays until a plan of reorganization or liquidation ultimately becomes effective. A bankruptcy court may also re-characterize our debt investment as equity, and subordinate all or a portion of our claim to that of other creditors. This could occur even if our investment had initially been structured as senior debt.

Prepayment Risk

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

Interest Rate Risk

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

The following sensitivity analysis table shows the estimated impact on the value of our portfolio segregated by certain identified categories as of December 31, 2018, assuming a static portfolio and immediate and parallel shifts in interest rates from current levels as indicated below.

(In thousands)	Estimated Change for a Decrease in Interest Rates by				Estimated Change for an Increase in Interest Rates by			
	50 Basis Points		100 Basis Points		50 Basis Points		100 Basis Points	
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	$ 9,723	1.63 %	$ 15,541	2.61 %	$ (13,628)	(2.29)%	$ (31,160)	(5.24)%
Non-Agency RMBS, CMBS, Other ABS, and Mortgage Loans	3,604	0.61 %	7,283	1.22 %	(3,528)	(0.59)%	(6,980)	(1.17)%
U.S. Treasury Securities, and Interest Rate Swaps, Options, and Futures	(11,931)	(2.01)%	(24,312)	(4.08)%	11,481	1.93 %	22,510	3.78 %
Mortgage-Related Derivatives	10	— %	22	— %	(8)	— %	(14)	— %
Corporate Securities and Derivatives on Corporate Securities	(287)	(0.05)%	(573)	(0.09)%	289	0.05 %	580	0.09 %
Repurchase Agreements and Reverse Repurchase Agreements	(2,582)	(0.43)%	(5,162)	(0.87)%	2,578	0.43 %	5,152	0.87 %
Total	$ (1,463)	(0.25)%	$ (7,201)	(1.21)%	$ (2,816)	(0.47)%	$ (9,912)	(1.67)%

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 December 31, 2018 portfolio estimated above. Moreover, the impact of changing interest rates on fair value can change significantly when interest rates change by a greater amount than the hypothetical shifts assumed above. Furthermore, our portfolio is subject to many risks other than interest rate risks, and these additional risks may or may not be correlated with changes in interest rates. For all of the foregoing reasons and others, the table above is for illustrative purposes only and actual changes in interest rates would likely cause changes in the actual fair value of our portfolio that would differ from those presented above, and such differences might be significant and adverse. See "*Business—Special Note Regarding Forward-Looking Statements.*"

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Ellington Financial Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statement of assets, liabilities, and equity, including the consolidated condensed schedule of investments, of Ellington Financial LLC and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in equity and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
New York, New York
March 14, 2019

We have served as the Company's auditor since 2007.

ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND EQUITY

(In thousands except share amounts)	December 31, 2018	December 31, 2017
	Expressed in U.S. Dollars	
ASSETS		
Cash and cash equivalents	$ 44,656	$ 47,233
Restricted cash	425	425
Investments, financial derivatives, and repurchase agreements:		
Investments, at fair value (Cost – $2,970,306 and $2,071,754)	2,939,311	2,071,707
Financial derivatives–assets, at fair value (Net cost – $22,526 and $31,474)	20,001	28,165
Repurchase agreements, at fair value (Cost – $61,274 and $155,109)	61,274	155,949
Total investments, financial derivatives, and repurchase agreements	3,020,586	2,255,821
Due from brokers	71,794	140,404
Receivable for securities sold and financial derivatives	780,826	476,000
Interest and principal receivable	37,676	29,688
Other assets	15,536	43,770
Total Assets	$ 3,971,499	$ 2,993,341
LIABILITIES		
Investments and financial derivatives:		
Investments sold short, at fair value (Proceeds – $844,604 and $640,202)	$ 850,577	$ 642,240
Financial derivatives–liabilities, at fair value (Net proceeds – $19,019 and $27,463)	20,806	36,273
Total investments and financial derivatives	871,383	678,513
Reverse repurchase agreements	1,498,849	1,209,315
Due to brokers	5,553	1,721
Payable for securities purchased and financial derivatives	488,411	202,703
Other secured borrowings (Proceeds – $114,100 and $57,909)	114,100	57,909
Other secured borrowings, at fair value (Proceeds – $298,706 and $125,105)	297,948	125,105
Senior notes, net	85,035	84,771
Accounts payable and accrued expenses	5,723	3,885
Base management fee payable to affiliate	1,744	2,113
Interest and dividends payable	7,159	5,904
Other liabilities	424	441
Total Liabilities	3,376,329	2,372,380
EQUITY	595,170	620,961
TOTAL LIABILITIES AND EQUITY	$ 3,971,499	$ 2,993,341
Commitments and contingencies (Note 17)		
ANALYSIS OF EQUITY:		
Common shares, no par value, 100,000,000 shares authorized;		
(29,796,601 and 31,335,938 shares issued and outstanding)	$ 563,833	$ 589,722
Additional paid-in capital – Long term incentive plan units	—	10,377
Total Shareholders' Equity	563,833	600,099
Non-controlling interests	31,337	20,862
Total Equity	$ 595,170	$ 620,961
PER SHARE INFORMATION:		
Common shares	$ 18.92	$ 19.15

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2018

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)

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

See Notes to Consolidated Financial Statements

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

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)

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)

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

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

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)

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			

See Notes to Consolidated Financial Statements

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

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)

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

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)

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

(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)

	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 (CONCLUDED)

(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.

(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%

See Notes to Consolidated Financial Statements

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

Current Principal/Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
Cash Equivalents—Money Market Funds (4.27%) (a) (b)				
North America				
Funds				
$ 26,500	Various	1.17%		$ 26,500
Total Cash Equivalents—Money Market Funds (Cost $26,500)				$ 26,500
Long Investments (333.63%) (a) (b) (ad)				
Mortgage-Backed Securities (208.70%)				
Agency Securities (160.32%) (c)				
Fixed-rate Agency Securities (145.75%)				
Principal and Interest–Fixed-Rate Agency Securities (123.80%)				
North America				
Mortgage-related—Residential				
$ 130,885	Federal National Mortgage Association Pools (30 Year)	4.00%	9/39 - 11/47	$ 138,033
115,008	Federal Home Loan Mortgage Corporation Pools (30 Year)	4.00%	11/41 - 12/47	121,154
77,724	Federal National Mortgage Association Pools (30 Year)	3.50%	9/42 - 12/47	80,245
60,698	Federal National Mortgage Association Pools (30 Year)	4.50%	10/41 - 12/47	65,178
51,851	Federal National Mortgage Association Pools (15 Year)	3.50%	3/28 - 3/32	53,894
47,555	Federal Home Loan Mortgage Corporation Pools (30 Year)	4.50%	9/43 - 12/47	50,980
42,239	Government National Mortgage Association Pools (30 Year)	4.00%	7/45 - 12/47	44,414
33,982	Government National Mortgage Association Pools (30 Year)	3.50%	7/45 - 12/47	35,235
32,061	Federal National Mortgage Association Pools (30 Year)	5.00%	10/35 - 12/44	34,664
23,002	Federal Home Loan Mortgage Corporation Pools (30 Year)	3.50%	1/42 - 9/47	23,753
21,561	Government National Mortgage Association Pools (30 Year)	4.50%	9/46 - 12/47	22,924
20,544	Federal National Mortgage Association Pools (15 Year)	3.00%	4/30 - 9/32	20,986
9,405	Federal Home Loan Mortgage Corporation Pools (15 Year)	3.50%	9/28 - 12/32	9,764
8,960	Federal Home Loan Mortgage Corporation Pools (Other)	3.50%	2/30 - 9/46	9,221
8,156	Federal National Mortgage Association Pools (15 Year)	4.00%	6/26 - 5/31	8,562
5,410	Federal National Mortgage Association Pools (Other)	5.00%	9/43 - 1/44	5,888
4,981	Federal National Mortgage Association Pools (Other)	4.00%	6/37 - 12/47	5,159
3,833	Federal Home Loan Mortgage Corporation Pools (15 Year)	3.00%	4/30 - 9/32	3,912
3,579	Federal Home Loan Mortgage Corporation Pools (30 Year)	3.00%	7/43 - 10/45	3,587
3,519	Government National Mortgage Association Pools (30 Year)	3.00%	11/42 - 12/42	3,547
2,906	Government National Mortgage Association Pools (30 Year)	3.75%	7/47	3,025
2,877	Federal National Mortgage Association Pools (Other)	4.50%	5/41	3,021
2,794	Federal National Mortgage Association Pools (15 Year)	4.50%	4/26	2,973
2,671	Federal Home Loan Mortgage Corporation Pools (Other)	4.50%	5/44	2,875
2,791	Federal National Mortgage Association Pools (30 Year)	3.00%	1/42 - 6/45	2,804
2,335	Federal National Mortgage Association Pools (30 Year)	5.50%	10/39	2,569
1,633	Federal National Mortgage Association Pools (20 Year)	4.00%	12/33	1,728
1,463	Federal Home Loan Mortgage Corporation Pools (15 Year)	4.00%	2/29	1,531
1,207	Federal National Mortgage Association Pools (30 Year)	6.00%	9/39 - 2/40	1,360
1,175	Federal Home Loan Mortgage Corporation Pools (Other)	3.00%	6/28 - 3/30	1,193
1,023	Federal Home Loan Mortgage Corporation Pools (20 Year)	4.50%	12/33	1,099

See Notes to Consolidated Financial Statements

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

Current Principal/Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
(continued)				
$ 864	Federal Home Loan Mortgage Corporation Pools (30 Year)	6.00%	5/40	$ 969
644	Government National Mortgage Association Pools (Other)	3.50%	10/30 - 2/32	647
516	Federal Home Loan Mortgage Corporation Pools (30 Year)	5.50%	8/33 - 11/38	565
488	Federal Home Loan Mortgage Corporation Pools (30 Year)	5.00%	7/44	526
492	Federal National Mortgage Association Pools (Other)	3.50%	4/26	504
150	Government National Mortgage Association Pools (Other)	3.00%	6/30	150
112	Federal National Mortgage Association Pools (30 Year)	3.28%	6/42	112
				768,751
Interest Only–Fixed-Rate Agency Securities (2.03%)				
North America				
Mortgage-related—Residential				
21,942	Government National Mortgage Association	4.00%	2/45 - 6/45	3,686
5,867	Government National Mortgage Association	6.00%	6/38 - 8/39	1,173
6,286	Federal National Mortgage Association	4.50%	12/20 - 6/44	928
5,437	Government National Mortgage Association	4.50%	2/41 - 7/44	914
4,116	Federal National Mortgage Association	5.50%	10/39	907
4,660	Government National Mortgage Association	5.50%	11/43	801
4,350	Federal Home Loan Mortgage Corporation	3.50%	12/32	628
7,145	Federal Home Loan Mortgage Corporation	5.00%	11/38	598
4,185	Federal National Mortgage Association	4.00%	5/39 - 11/43	521
5,074	Federal Home Loan Mortgage Corporation	5.50%	1/39 - 9/39	494
4,100	Federal National Mortgage Association	5.00%	1/38 - 5/40	493
2,038	Federal National Mortgage Association	6.00%	1/40	371
74,967	Government National Mortgage Association	0.26%	6/40	352
1,699	Federal Home Loan Mortgage Corporation	4.50%	7/43	256
2,677	Federal National Mortgage Association	3.00%	9/41	247
1,000	Government National Mortgage Association	4.75%	7/40	178
1,168	Government National Mortgage Association	5.00%	5/37	47
				12,594
TBA–Fixed-Rate Agency Securities (19.92%)				
North America				
Mortgage-related—Residential				
42,884	Government National Mortgage Association (30 Year)	4.00%	1/18	44,738
35,719	Government National Mortgage Association (30 Year)	4.50%	1/18	37,504
27,340	Federal Home Loan Mortgage Corporation (30 Year)	3.50%	1/18	28,085
9,403	Federal National Mortgage Association (30 Year)	4.00%	1/18	9,835
2,100	Government National Mortgage Association (30 Year)	3.00%	1/18	2,119
890	Government National Mortgage Association (30 Year)	3.50%	1/18	920
470	Federal Home Loan Mortgage Corporation (15 Year)	3.00%	1/18	479
				123,680
Total Fixed-Rate Agency Securities (Cost $911,909)				905,025

See Notes to Consolidated Financial Statements

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

Current Principal /Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
Floating Rate Agency Securities (14.57%)				
Principal and Interest–Floating Rate Agency Securities (11.10%)				
North America				
Mortgage-related—Residential				
$ 56,137	Government National Mortgage Association Pools	3.59% - 4.68%	7/61 - 10/67	$ 60,866
4,806	Federal National Mortgage Association Pools	2.79% - 3.69%	9/35 - 5/45	4,999
2,963	Federal Home Loan Mortgage Corporation Pools	3.49% - 4.80%	6/37 - 5/44	3,068
				68,933
Interest Only–Floating Rate Agency Securities (3.47%)				
North America				
Mortgage-related—Residential				
313,840	Other Government National Mortgage Association	0.41% - 5.31%	3/37 - 10/66	16,248
30,729	Other Federal National Mortgage Association	4.30% - 6.00%	6/33 - 12/41	3,506
11,211	Other Federal Home Loan Mortgage Corporation	4.52% - 5.15%	3/36 - 4/40	1,436
10,619	Resecuritization of Government National Mortgage Association (d)	3.25%	8/60	366
				21,556
Total Floating Rate Agency Securities (Cost $91,413)				90,489
Total Agency Securities (Cost $1,003,322)				995,514
Private Label Securities (48.38%)				
Principal and Interest–Private Label Securities (47.12%)				
North America (29.16%)				
Mortgage-related—Residential				
232,771	Various	0.00% - 30.29%	5/19 - 9/46	154,887
Mortgage-related—Commercial				
80,114	Various	2.05% - 4.41%	8/35 - 9/58	26,155
Total North America (Cost $172,285)				181,042
Europe (17.96%)				
Mortgage-related—Residential				
127,469	Various	0.00% - 5.50%	6/25 - 1/61	99,923
Mortgage-related—Commercial				
23,752	Various	0.37% - 5.03%	10/20 - 2/41	11,601
Total Europe (Cost $106,518)				111,524
Total Principal and Interest–Private Label Securities (Cost $278,803)				292,566
Interest Only–Private Label Securities (1.26%)				
North America				
Mortgage-related—Residential				
36,008	Various	0.00% - 2.00%	12/30 - 9/47	4,856
Mortgage-related—Commercial				
39,871	Various	1.25% - 2.00%	3/49 - 12/49	2,989
Total Interest Only–Private Label Securities (Cost $5,334)				7,845

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

Current Principal /Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
Other Private Label Securities (0.00%)				
North America				
Mortgage-related—Residential				
$ 79,487	Various	—%	6/37	$ —
Mortgage-related—Commercial				
—	Various	—%	7/45 - 12/49	—
Total Other Private Label Securities (Cost $215)				—
Total Private Label Securities (Cost $284,352)				300,411
Total Mortgage-Backed Securities (Cost $1,287,674)				1,295,925
Collateralized Loan Obligations (33.95%)				
North America (27.40%) (e)				
278,601	Various	0.00% - 10.04%	1/18 - 11/57	170,123
Total North America (Cost $174,635)				170,123
Europe (6.55%)				
42,101	Various	0.00% - 7.95%	4/22 - 1/27	40,693
Total Europe (Cost $38,363)				40,693
Total Collateralized Loan Obligations (Cost $212,998)				210,816
Consumer Loans and Asset-backed Securities backed by Consumer Loans (21.78%) (f)				
North America (21.34%)				
Consumer (g) (h)				
151,753	Various	5.31% - 76.28%	1/18 - 9/22	132,509
Total North America (Cost $138,312)				132,509
Europe (0.44%)				
Consumer				
3,711	Various	—%	8/24 - 12/30	2,749
Total Europe (Cost $1,075)				2,749
Total Consumer Loans and Asset-backed Securities backed by Consumer Loans (Cost $139,387)				135,258

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

Current Principal/Number of Properties	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
Corporate Debt (12.11%)				
North America (9.76%)				
Basic Materials				
$ 6,025	Various	6.88% - 7.00%	8/25 - 3/27	$ 6,254
Communications				
8,490	Various	3.40% - 11.57%	4/20 - 8/27	8,523
Consumer				
21,993	Various	2.60% - 9.73%	1/19 - 12/34	23,043
Energy				
9,665	Various	4.50% - 9.63%	3/19 - 8/25	10,266
Financial				
560	Various	5.13%	9/24	606
Industrial				
2,250	Various	3.75%	12/21	2,286
Mortgage-related—Residential (n)				
5,429	Various	15.00%	10/19	5,429
Technology				
4,300	Various	3.63% - 7.50%	10/21 - 8/22	4,211
Total North America (Cost $60,640)				60,618
Europe (2.35%)				
Consumer				
20,070	Various	—%	3/18	50
Financial				
13,725	Various	0.00% - 15.67%	10/20 - 11/22	13,437
Industrial				
1,145	Various	1.59%	3/21	1,088
Total Europe (Cost $15,312)				14,575
Total Corporate Debt (Cost $75,952)				75,193
Mortgage Loans (46.83%) (f)				
North America				
Mortgage-related—Commercial (j)				
116,707	Various	3.14% - 12.87%	2/18 - 10/37	108,301
Mortgage-related—Residential (l) (m)				
181,553	Various	2.00% - 12.63%	4/22 - 4/57	182,472
Total Mortgage Loans (Cost $288,034)				290,773
Real Estate Owned (4.23%) (f) (k)				
North America				
Real estate-related				
3	Single-Family Houses			591
9	Commercial Properties			25,686
Total Real Estate Owned (Cost $26,146)				26,277

See Notes to Consolidated Financial Statements

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

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

See Notes to Consolidated Financial Statements

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

Current Principal	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
Repurchase Agreements (25.11%) (a) (b) (o)				
$ 30,310	Bank of America Securities	1.45%	1/18	$ 30,310
	Collateralized by Par Value $30,501			
	U.S. Treasury Note, Coupon 2.25%			
	Maturity Date 2/27			
16,578	Barclays Capital Inc	(0.57)%	1/18	16,578
	Collateralized by Par Value $16,516			
	Sovereign Government Bond, Coupon 0.25%			
	Maturity Date 4/18			
14,548	Barclays Capital Inc	(0.62)%	1/18	14,548
	Collateralized by Par Value $14,228			
	Sovereign Government Bond, Coupon 0.25%			
	Maturity Date 11/20			
13,965	Bank of America Securities	1.00%	1/18	13,965
	Collateralized by Par Value $14,000			
	U.S. Treasury Note, Coupon 1.88%			
	Maturity Date 12/20			
10,760	Barclays Capital Inc	(0.65)%	1/18	10,760
	Collateralized by Par Value $10,447			
	Sovereign Government Bond, Coupon 0.75%			
	Maturity Date 7/21			
10,043	Barclays Capital Inc	(0.57)%	1/18	10,043
	Collateralized by Par Value $9,474			
	Sovereign Government Bond, Coupon 2.75%			
	Maturity Date 4/19			
9,764	Barclays Capital Inc	(0.57)%	1/18	9,764
	Collateralized by Par Value $9,400			
	Sovereign Government Bond, Coupon 1.15%			
	Maturity Date 7/20			
9,588	Barclays Capital Inc	(0.58)%	1/18	9,588
	Collateralized by Par Value $9,400			
	Sovereign Government Bond, Coupon 0.65%			
	Maturity Date 11/20			
5,895	Bank of America Securities	1.45%	1/18	5,895
	Collateralized by Par Value $6,000			
	U.S. Treasury Note, Coupon 1.75%			
	Maturity Date 5/22			
5,707	CILO 2016-LD1 Holdings LLC (p)	3.34%	3/18	5,707
	Collateralized by Par Value $9,512			
	Exchange-Traded Debt, Coupon 5.50%,			
	Maturity Date 7/22			
4,921	Barclays Capital Inc	(2.00)%	1/18	4,921
	Collateralized by Par Value $4,720			
	Exchange-Traded Corporate Debt, Coupon 5.88%			
	Maturity Date 10/20			

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

Current Principal	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
(continued)				
$ 3,122	RBC Capital Markets LLC	1.05%	1/18	$ 3,122
	Collateralized by Par Value $3,860			
	Exchange-Traded Corporate Debt, Coupon 10.50%			
	Maturity Date 9/22			
2,790	CS First Boston	(1.00)%	1/18	2,790
	Collateralized by Par Value $2,794			
	Exchange-Traded Corporate Debt, Coupon 8.00%			
	Maturity Date 6/27			
2,192	Bank of America Securities	0.45%	1/18	2,192
	Collateralized by Par Value $2,223			
	U.S. Treasury Note, Coupon 2.25%			
	Maturity Date 11/27			
2,164	Societe Generale	1.10%	1/18	2,164
	Collateralized by Par Value $2,560			
	Exchange-Traded Corporate Debt, Coupon 10.50%			
	Maturity Date 9/22			
2,151	JP Morgan Securities LLC	(2.75)%	1/18	2,151
	Collateralized by Par Value $2,170			
	Exchange-Traded Corporate Debt, Coupon 4.88%			
	Maturity Date 4/22			
1,979	Barclays Capital Inc	(0.25)%	1/18	1,979
	Collateralized by Par Value $1,850			
	Exchange-Traded Corporate Debt, Coupon 7.50%			
	Maturity Date 4/24			
1,320	RBC Capital Markets LLC	0.65%	1/18	1,320
	Collateralized by Par Value $1,300			
	Exchange-Traded Corporate Debt, Coupon 8.25%			
	Maturity Date 6/23			
1,283	Barclays Capital Inc	(2.00)%	1/18	1,283
	Collateralized by Par Value $1,285			
	Exchange-Traded Corporate Debt, Coupon 6.75%			
	Maturity Date 6/23			
1,079	RBC Capital Markets LLC	(2.25)%	1/18	1,079
	Collateralized by Par Value $1,110			
	Exchange-Traded Corporate Debt, Coupon 6.75%			
	Maturity Date 6/23			
890	RBC Capital Markets LLC	(4.50)%	1/18	890
	Collateralized by Par Value $970			
	Exchange-Traded Corporate Debt, Coupon 5.50%			
	Maturity Date 10/24			
737	RBC Capital Markets LLC	(5.75)%	1/18	737
	Collateralized by Par Value $766			
	Exchange-Traded Corporate Debt, Coupon 6.25%			
	Maturity Date 10/22			

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

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

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

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

See Notes to Consolidated Financial Statements

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

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

See Notes to Consolidated Financial Statements

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

(In thousands)	Primary Risk Exposure		Notional Value	Range of Expiration Dates		Fair Value *Expressed in U.S. Dollars*
Financial Derivatives–Assets (4.54%) (a) (b)						
Swaps (4.53%)						
Long Swaps:						
Credit Default Swaps on Corporate Bond Indices (r)	Credit	$	25,338	12/18 - 12/22	$	1,429
Interest Rate Swaps (s)	Interest Rates		79,347	3/18 - 12/25		969
Credit Default Swaps on Asset-Backed Indices (r)	Credit		885	12/37		9
North America						
Credit Default Swaps on Corporate Bonds (r)						
Basic Materials	Credit		2,070	12/21 - 12/22		228
Communications	Credit		10,165	6/20 - 12/22		475
Consumer	Credit		41,725	3/19 - 12/22		2,525
Energy	Credit		8,250	6/19 - 6/22		99
Financial	Credit		1,180	12/21		194
Utilities	Credit		3,150	12/21 - 6/22		392
Total Credit Default Swaps on Corporate Bonds						3,913
Short Swaps:						
Credit Default Swaps on Asset-Backed Indices (t)	Credit		(28,733)	5/46 - 11/59		5,384
Interest Rate Swaps (u)	Interest Rates		(866,398)	2/18 - 11/30		8,277
Interest Rate Basis Swaps (ab)	Interest Rates		(26,600)	4/18 - 6/19		20
Total Return Swaps						
Financial (v)	Equity Market		(10,317)	7/19		—
Total Total Return Swaps						—
North America						
Credit Default Swaps on Asset-Backed Securities (t)						
Mortgage-related—residential	Credit		(5,688)	5/35 - 12/35		3,140
Total Credit Default Swaps on Asset-Backed Securities						3,140
Credit Default Swaps on Corporate Bonds (t)						
Basic Materials	Credit		(2,590)	6/21 - 6/22		77
Communications	Credit		(21,975)	12/18 - 6/22		3,386
Consumer	Credit		(11,385)	12/18 - 12/22		211
Energy	Credit		(28,392)	6/18 - 12/22		849
Technology	Credit		(4,025)	12/21 - 6/22		452
Total Credit Default Swaps on Corporate Bonds						4,975
Total Swaps (Net cost $31,392)						28,116
Options (0.00%)						
Purchased Options:						
Interest Rate Caps (x)	Interest Rates		113,453	3/18 - 5/19		1
North America						
Equity Call Options (aa)						
Consumer	Equity Market		16	1/18		3
Total Options (Cost $82)						4

See Notes to Consolidated Financial Statements

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

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

See Notes to Consolidated Financial Statements

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

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

See Notes to Consolidated Financial Statements

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

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

(b) Classification percentages are based on Total Equity.

(c) At December 31, 2017, the Company's long investments guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association, represented 72.39%, 42.86%, and 45.07% of Total Equity, respectively.

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

(e) Includes investment in collateralized loan obligation notes in the amount of $37.7 million that were issued and are managed by related parties of the Company. See Note 9 to the Notes to Consolidated Financial Statements.

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

(g) Includes investments in participation certificates related to loans titled in the name of a related party of Ellington Financial Management, LLC. Through its participation certificates, the Company has beneficial interests in the loan cash flows, net of servicing-related fees and expenses. At December 31, 2017 loans for which the Company has beneficial interests in the net cash flows, totaled $11.7 million. See Note 9 to the Notes to Consolidated Financial Statements.

(h) Includes investments in participation certificates related to loans held in a trust owned by a related party of Ellington Management Group, L.L.C. Through its participation certificates, the Company participates in the cash flows of the underlying loans held by the trust. At December 31, 2017 loans held in the related party trust for which the Company has participating interests in the cash flows, totaled $114.5 million. See Note 9 to the Notes to Consolidated Financial Statements.

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

(j) Includes non-performing commercial mortgage loans in the amount of $23.9 million whereby principal and/or interest is past due and a maturity date is not applicable.

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

(l) As of December 31, 2017, the Company had residential mortgage loans that were in the process of foreclosure with a fair value of $5.2 million.

(m) Includes $132.4 million of non-qualified mortgage loans that have been securitized and are held in a consolidated securitization trust. See Note 6 to the Notes to Consolidated Financial Statements.

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

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

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

(q) At December 31, 2017, the Company's short investments guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association, represented 44.61%, 19.27%, and 10.23% of Total Equity, respectively.

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

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

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

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

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

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

(x) Notional value represents the amount on which interest payments are calculated to the extent the market interest rate exceeds the rate cap on the contract.

(y) Notional value represents the total face amount of U.S. Treasury Notes underlying all contracts held; as of December 31, 2017, 68 contracts were held.

(z) Notional value represents the total face amount of foreign currency underlying all contracts held; as of December 31, 2017, 216 contracts were held.

(aa) Notional value represents the number of common shares we have the option to purchase multiplied by the strike price.

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

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

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

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

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31,	
(In thousands except per share amounts)	**2018**	**2017**
INVESTMENT INCOME		
Interest income(1)	$ 131,027	$ 89,629
Other income	4,014	4,331
Total investment income	135,041	93,960
EXPENSES		
Base management fee to affiliate (Net of fee rebates of $1,380 and $332, respectively)(2)	7,573	9,056
Incentive fee to affiliate	715	—
Interest expense(1)	56,707	31,120
Other investment related expenses		
Servicing expense	7,715	4,132
Debt issuance costs related to Other secured borrowings, at fair value	1,647	1,679
Other	7,592	3,943
Professional fees	3,902	2,915
Administration fees	734	720
Compensation expense	2,233	2,200
Insurance expense	487	498
Directors' fees and expenses	298	272
Share-based long term incentive plan unit expense	415	385
Other expenses	1,898	1,872
Total expenses	91,916	58,792
NET INVESTMENT INCOME	43,125	35,168
NET REALIZED AND CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY TRANSACTIONS/TRANSLATION		
Net realized gain (loss) on:		
Investments	25,421	3,924
Financial derivatives, excluding currency hedges	(2,639)	(12,153)
Financial derivatives—currency hedges	4,475	(6,420)
Foreign currency transactions	4,131	3,845
	31,388	(10,804)
Change in net unrealized gain (loss) on:		
Investments	(25,947)	7,374
Other secured borrowings	758	—
Financial derivatives, excluding currency hedges	7,093	426
Financial derivatives—currency hedges	565	(526)
Foreign currency translation	(7,071)	4,326
	(24,602)	11,600
NET REALIZED AND CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS, OTHER SECURED BORROWINGS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY TRANSACTIONS/TRANSLATION	6,786	796

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF OPERATIONS (CONTINUED)

	Year Ended December 31,	
	2018	**2017**
NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS	49,911	35,964
LESS: NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	3,235	1,983
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ 46,676	$ 33,981
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS PER SHARE:		
Basic and Diluted	$ 1.52	$ 1.04

(1) Includes interest income and interest expense of consolidated securitization trusts of $6.0 million and $3.6 million, respectively, for the year ended December 31, 2018. Includes interest income and interest expense of a consolidated securitization trust of $1.5 million and $0.6 million, respectively, for the year ended December 31, 2017. 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

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Shareholders' Equity	Non-controlling Interest	Total Equity	Shareholders' Equity	Non-controlling Interest	Total Equity
(In thousands)			*Expressed in U.S. Dollars*			
BEGINNING EQUITY (12/31/2017 and 12/31/2016, respectively)	$ 600,099	$ 20,862	$ 620,961	$ 637,661	$ 7,116	$ 644,777
CHANGE IN EQUITY RESULTING FROM OPERATIONS						
Net investment income			43,125			35,168
Net realized gain (loss) on investments, financial derivatives, and foreign currency transactions			31,388			(10,804)
Change in net unrealized gain (loss) on investments, other secured borrowings, financial derivatives, and foreign currency translation			(24,602)			11,600
Net increase (decrease) in equity resulting from operations	46,676	3,235	49,911	33,981	1,983	35,964
CHANGE IN EQUITY RESULTING FROM TRANSACTIONS						
Shares issued in connection with incentive fee payment	71		71	—		—
Contributions from non-controlling interests		21,532	21,532		20,707	20,707
Dividends(1)	(50,388)	(348)	(50,736)	(57,263)	(373)	(57,636)
Distributions to non-controlling interests		(23,853)	(23,853)		(8,594)	(8,594)
Adjustment to non-controlling interest	(369)	369	—	(21)	21	—
Share-based long term incentive plan unit redemption and distribution	(9,537)	9,537	—	—	—	—
Shares repurchased	(23,131)		(23,131)	(14,642)		(14,642)
Share-based long term incentive plan unit awards	412	3	415	383	2	385
Net increase (decrease) in equity from transactions	(82,942)	7,240	(75,702)	(71,543)	11,763	(59,780)
Net increase (decrease) in equity	(36,266)	10,475	(25,791)	(37,562)	13,746	(23,816)
ENDING EQUITY (12/31/2018 and 12/31/2017, respectively)	$ 563,833	$ 31,337	$ 595,170	$ 600,099	$ 20,862	$ 620,961

(1) For the years ended December 31, 2018 and 2017, dividends totaling \$1.64 and \$1.76, respectively, per common share and convertible unit outstanding, were declared.

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2018	2017
(In thousands)	*Expressed in U.S. Dollars*	
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH:		
NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS	$ 49,911	$ 35,964
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	(25,368)	17,860
Change in net unrealized (gain) loss on investments, other secured borrowings, financial derivatives, and foreign currency translation	26,318	(13,750)
Amortization of premiums and accretion of discounts (net)	45,895	32,764
Purchase of investments	(3,350,398)	(2,849,027)
Proceeds from disposition of investments	1,868,532	1,962,711
Proceeds from principal payments of investments	497,858	286,426
Proceeds from investments sold short	2,674,841	1,718,668
Repurchase of investments sold short	(2,457,148)	(1,674,760)
Payments on financial derivatives	(119,490)	(103,499)
Proceeds from financial derivatives	121,904	109,496
Amortization of deferred debt issuance costs	263	97
Shares issued in connection with incentive fee payment	71	—
Share-based long term incentive plan unit expense	415	385
Interest income related to consolidated securitization trust[1]	(4,697)	(1,175)
Interest expense related to consolidated securitization trust[1]	4,313	794
Debt issuance costs related to Other secured borrowings, at fair value[1]	1,647	1,679
Repurchase agreements	94,675	28,870
(Increase) decrease in assets[2]:		
Receivable for securities sold and financial derivatives	(304,826)	(30,888)
Due from brokers	68,610	(46,753)
Interest and principal receivable	(7,988)	(7,984)
Other assets	28,234	(40,411)
Increase (decrease) in liabilities:		
Due to brokers	3,832	(11,059)
Payable for securities purchased and financial derivatives	285,708	117,535
Accounts payable and accrued expenses	1,838	558
Incentive fee payable to affiliate	—	—
Other liabilities	(17)	424
Interest and dividends payable	1,255	2,444
Base management fee payable to affiliate	(369)	(303)
Net cash provided by (used in) operating activities[2]	(494,181)	(462,934)

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Year Ended December 31,	
	2018	2017
(In thousands)	*Expressed in U.S. Dollars*	
Cash flows provided by (used in) financing activities:		
Contributions from non-controlling interests	$ 21,532	$ 20,707
Shares repurchased	(23,131)	(14,642)
Dividends paid	(50,736)	(57,636)
Distributions to non-controlling interests	(23,853)	(8,594)
Proceeds from issuance of Other secured borrowings	100,010	111,338
Principal payments on Other secured borrowings	(43,819)	(28,839)
Proceeds from issuance of Other secured borrowings, at fair value	102,706	106,590
Debt issuance costs related to Other secured borrowings, at fair value	(775)	(947)
Proceeds from issuance of senior notes	—	86,000
Debt issuance costs paid	—	(1,326)
Borrowings under reverse repurchase agreements	8,078,468	9,919,449
Repayments of reverse repurchase agreements	(7,668,798)	(9,745,437)
Net cash provided by (used in) financing activities	491,604	386,663
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH(2)	(2,577)	(76,271)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD(2)	47,658	123,929
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD(2)	$ 45,081	$ 47,658
Supplemental disclosure of cash flow information:		
Interest paid	$ 55,649	$ 28,006
Shares issued in connection with incentive fee payment	71	—
Share-based long term incentive plan unit awards (non-cash)	415	385
Aggregate TBA trade activity (buys + sells) (non-cash)	29,752,907	23,917,506
Purchase of investments (non-cash)	(17,424)	(25,318)
Proceeds from principal payments of investments (non-cash)	49,731	27,307
Proceeds from the disposition of investments (non-cash)	17,424	26,800
Proceeds from issuance of Other secured borrowings (non-cash)	—	17,175
Principal payments on Other secured borrowings (non-cash)	—	(65,851)
Proceeds received from Other secured borrowings, at fair value (non-cash)	120,625	31,958
Principal payments on Other secured borrowings, at fair value (non-cash)	(49,731)	(13,442)
Borrowings under reverse repurchase agreements (non-cash)	—	33,329
Repayments of reverse repurchase agreements (non-cash)	(120,136)	(31,607)
Expenses from issuance of other secured borrowings at fair value (non-cash)	(872)	(732)
Share-based long term incentive plan unit redemption (non-cash)	(9,537)	—
Contribution from non-controlling interests (non-cash)	9,537	—

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

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

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 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.

(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 collectability of interest and principal, and designates a loan as impaired either when any payments have become 90 or more days past due, or when, in the opinion of management, it is probable that the Company will be unable to collect either interest or principal in full. Once a loan is designated as impaired, as long as principal is still expected to be collectable in full, interest payments are recorded as interest income only when received (i.e., under the cash basis method); accruals of interest income are only resumed when the loan becomes contractually current and performance is demonstrated to be resumed. However, if principal is not expected to be collectable in full, the cost recovery method is used (i.e., no interest income is recognized, and all payments received—whether contractually interest or principal—are applied to cost).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

Description	Level 1	Level 2	Level 3	Total
		(In thousands)		
Assets:				
Cash equivalents	$ 26,500	$ —	$ —	$ 26,500
Investments, at fair value-				
Agency residential mortgage-backed securities	$ —	$ 989,341	$ 6,173	$ 995,514
Private label residential mortgage-backed securities	—	158,369	101,297	259,666
Private label commercial mortgage-backed securities	—	28,398	12,347	40,745
Commercial mortgage loans	—	—	108,301	108,301
Residential mortgage loans	—	—	182,472	182,472
Collateralized loan obligations	—	185,905	24,911	210,816
Consumer loans and asset-backed securities backed by consumer loans	—	—	135,258	135,258
Corporate debt	—	51,246	23,947	75,193
Real estate owned	—	—	26,277	26,277
Corporate equity investments	—	—	37,465	37,465
Total investments, at fair value	—	1,413,259	658,448	2,071,707

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

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

Description	Fair Value	Valuation Technique	Unobservable Input	Range Min	Range Max	Weighted Average
	(In thousands)					
Private label residential mortgage-backed securities	$ 40,870	Market Quotes	Non Binding Third-Party Valuation	$ 45.00	$ 183.00	$ 81.63
Collateralized loan obligations	10,288	Market Quotes	Non Binding Third-Party Valuation	85.00	435.00	138.94
Corporate debt and non-exchange traded corporate equity	6,797	Market Quotes	Non Binding Third-Party Valuation	8.88	105.63	82.94
Private label commercial mortgage-backed securities	7,577	Market Quotes	Non Binding Third-Party Valuation	5.31	60.55	36.19
Agency interest only residential mortgage-backed securities	1,225	Market Quotes	Non Binding Third-Party Valuation	10.14	18.21	15.25
Private label residential mortgage-backed securities	60,427	Discounted Cash Flows	Yield	0.5%	26.5%	9.8%
			Projected Collateral Prepayments	2.1%	84.7%	38.3%
			Projected Collateral Losses	0.9%	18.2%	8.6%
			Projected Collateral Recoveries	0.3%	31.5%	11.3%
			Projected Collateral Scheduled Amortization	12.5%	90.2%	41.8%
						100.0%
Private label commercial mortgage-backed securities	4,770	Discounted Cash Flows	Yield	4.3%	42.5%	18.6%
			Projected Collateral Losses	1.1%	5.2%	2.5%
			Projected Collateral Recoveries	2.8%	17.1%	8.5%
			Projected Collateral Scheduled Amortization	80.1%	96.1%	89.0%
						100.0%
Corporate debt and non-exchange traded corporate equity	20,301	Discounted Cash Flows	Yield	3.0%	16.1%	10.6%
Collateralized loan obligations	14,623	Discounted Cash Flows	Yield	7.1%	62.2%	15.2%
			Projected Collateral Prepayments	22.5%	92.9%	77.9%
			Projected Collateral Losses	1.9%	40.2%	10.3%
			Projected Collateral Recoveries	3.4%	37.2%	9.5%
			Projected Collateral Scheduled Amortization	—%	4.1%	2.3%
						100.0%
Consumer loans and asset-backed securities backed by consumer loans	135,258	Discounted Cash Flows	Yield	7.0%	18.9%	9.5%
			Projected Collateral Prepayments	2.2%	50.1%	33.5%
			Projected Collateral Losses	0.4%	28.6%	8.2%
			Projected Collateral Scheduled Amortization	46.8%	95.2%	58.3%
						100.0%
Performing commercial mortgage loans	84,377	Discounted Cash Flows	Yield	8.0%	15.4%	10.7%
Non-performing commercial mortgage loans and commercial real estate owned	49,610	Discounted Cash Flows	Yield	11.4%	36.5%	17.7%
			Months to Resolution	4.0	17.0	9.5

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

(1) Securitized residential mortgage loans and Other secured borrowings, at fair value, represent financial assets and liabilities of the Company's CFE as discussed in Note 2.
(2) Excludes certain loans that are re-performing.
(3) Shown in basis points.
(4) Represent an estimation of where market participants might value an enterprise on a price-to-book basis.
(5) Represents the significant unobservable inputs used to fair value the financial instruments of the limited liability company. The fair value of such financial instruments is the largest component of the valuation of the limited liability company as a whole.

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

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

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 years ended December 31, 2018 and 2017 (including the change in fair value), for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

Level 3—Fair Value Measurement Using Significant Unobservable Inputs:

Year Ended December 31, 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 December 31, 2018
Assets:									
Investments, at fair value-									
Agency residential mortgage-backed securities	$ 6,173	$ (2,233)	$ (10)	$ 175	$ 2,753	$ (1,169)	$ 2,616	$ (1,012)	$ 7,293
Private label residential mortgage-backed securities	101,297	383	1,838	(2,135)	75,685	(78,487)	7,074	(14,364)	91,291
Private label commercial mortgage-backed securities	12,347	(243)	2,229	2,120	1,481	(16,896)	—	(235)	803
Commercial mortgage loans	108,301	790	1,146	1,944	149,053	(50,049)	—	—	211,185
Residential mortgage loans	182,472	(1,965)	1,011	(34)	402,235	(86,889)	—	—	496,830
Collateralized loan obligations	24,911	(351)	317	(2,268)	33,549	(33,115)	3,959	(12,087)	14,915
Consumer loans and asset-backed securities backed by consumer loans	135,258	(29,320)	8,415	(1,092)	228,354	(134,854)	—	—	206,761
Corporate debt	23,947	56	241	(964)	7,665	(17,688)	—	(6,939)	6,318
Secured notes	—	870	—	(1,221)	11,268	—	—	—	10,917
Real estate owned	26,277	—	(653)	(1,003)	12,793	(2,914)	—	—	34,500
Corporate equity investments	37,465	—	1,671	8,299	12,708	(16,350)	—	—	43,793
Total investments, at fair value	658,448	(32,013)	16,205	3,821	937,544	(438,411)	13,649	(34,637)	1,124,606
Financial derivatives–assets, at fair value-									
Credit default swaps on asset-backed securities	3,140	—	(687)	715	102	(1,798)	—	—	1,472
Total financial derivatives–assets, at fair value	3,140	—	(687)	715	102	(1,798)	—	—	1,472
Total investments and financial derivatives–assets, at fair value	$ 661,588	$ (32,013)	$ 15,518	$ 4,536	$ 937,646	$ (440,209)	$ 13,649	$ (34,637)	$ 1,126,078
Liabilities:									
Other secured borrowings, at fair value	$ (125,105)	$ —	$ —	$ 758	$ 49,731	$ (223,332)	$ —	$ —	$ (297,948)
Total other secured borrowings, at fair value	$ (125,105)	$ —	$ —	$ 758	$ 49,731	$ (223,332)	$ —	$ —	$ (297,948)

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 December 31, 2018, as well as Level 3 financial instruments disposed of by the Company during the year ended December 31, 2018. For Level 3 financial instruments held by the Company at December 31, 2018, change in net unrealized gain (loss) of $5.3 million, $(0.6) million, and $0.8 million, for the year ended December 31, 2018 relate to investments, financial derivatives–assets, and other secured borrowings, at fair value, respectively.

At December 31, 2018, the Company transferred $34.6 million of securities from Level 3 to Level 2 and $13.6 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.

Year Ended December 31, 2017

(In thousands)	**Ending Balance as of December 31, 2016**	**Accreted Discounts / (Amortized Premiums)**	**Net Realized Gain/ (Loss)**	**Change in Net Unrealized Gain/(Loss)**	**Purchases/ Payments**	**Sales/ Issuances**	**Transfers Into Level 3**	**Transfers Out of Level 3**	**Ending Balance as of December 31, 2017**
Assets:									
Investments, at fair value-									
Agency residential mortgage-backed securities	$ 29,622	$ (9,356)	$ (956)	$ (165)	$ 3,867	$ (153)	$ —	$ (16,686)	$ 6,173
Private label residential mortgage-backed securities	90,083	2,203	763	9,498	68,724	(54,690)	14,021	(29,305)	101,297
Private label commercial mortgage-backed securities	43,268	469	(3,596)	8,654	6,661	(37,665)	—	(5,444)	12,347
Commercial mortgage loans	61,129	921	419	1,957	78,333	(34,458)	—	—	108,301
Residential mortgage loans	84,290	(599)	1,602	3,536	140,535	(46,892)	—	—	182,472
Collateralized loan obligations	44,956	(6,833)	2,233	2,606	71,338	(76,775)	—	(12,614)	24,911
Consumer loans and asset-backed securities backed by consumer loans	107,157	(13,754)	855	(171)	129,525	(88,354)	—	—	135,258
Corporate debt	25,004	252	527	223	97,466	(99,525)	—	—	23,947
Real estate owned	3,349	—	411	322	25,516	(3,321)	—	—	26,277
Corporate equity investments	29,392	—	2,347	(512)	16,417	(10,179)	—	—	37,465
Total investments, at fair value	518,250	(26,697)	4,605	25,948	638,382	(452,012)	14,021	(64,049)	658,448
Financial derivatives–assets, at fair value-									
Credit default swaps on asset-backed securities	5,326	—	270	(1,202)	137	(1,391)	—	—	3,140
Total return swaps	155	—	224	(155)	1	(225)	—	—	—
Warrants	106	—	(100)	(6)	—	—	—	—	—
Total financial derivatives–assets, at fair value	5,587	—	394	(1,363)	138	(1,616)	—	—	3,140
Total investments and financial derivatives–assets, at fair value	$ 523,837	$ (26,697)	$ 4,999	$ 24,585	$ 638,520	$ (453,628)	$ 14,021	$ (64,049)	$ 661,588
Liabilities:									
Financial derivatives–liabilities, at fair value-									
Credit default swaps on asset-backed securities	$ (256)	$ —	$ (871)	$ 939	$ 736	$ (548)	$ —	$ —	$ —
Total return swaps	(249)	—	(554)	249	572	(18)	—	—	—
Total financial derivatives–liabilities, at fair value	(505)	—	(1,425)	1,188	1,308	(566)	—	—	—

(In thousands)	Ending Balance as of December 31, 2016	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/ Payments	Sales/ Issuances	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of December 31, 2017
Other secured borrowings, at fair value:									
Other secured borrowings, at fair value	$ —	$ —	$ —	$ —	$ —	$ (125,105)	$ —	$ —	$ (125,105)
Total other secured borrowings, at fair value	—	—	—	—	—	(125,105)	—	—	(125,105)
Total financial derivatives–liabilities and other secured borrowings at fair value	$ (505)	$ —	$ (1,425)	$ 1,188	$ 1,308	$ (125,671)	$ —	$ —	$ (125,105)

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 December 31, 2017, as well as Level 3 financial instruments disposed of by the Company during the year ended December 31, 2017. For Level 3 financial instruments held by the Company at December 31, 2017, change in net unrealized gain (loss) of $10.6 million and $(1.2) million, for the year ended December 31, 2017 relate to investments and financial derivatives–assets, respectively.

At December 31, 2017, the Company transferred $64.0 million of securities from Level 3 to Level 2 and $14.0 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

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 and $85.6 million as of December 31, 2018 and December 31, 2017, respectively. The Senior Notes are considered Level 3 liabilities given the relative unobservability of the most significant inputs to valuation estimation as well as the lack of trading activity of these instruments.

4. To Be Announced RMBS

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

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

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

(In thousands)	As of December 31, 2018	As of December 31, 2017
Assets:		
TBA securities, at fair value (Current principal: $460,037 and $118,806, respectively)	$ 474,860	$ 123,680
Receivable for securities sold relating to unsettled TBA sales	766,574	460,666
Liabilities:		
TBA securities sold short, at fair value (Current principal: -$753,697 and -$442,197, respectively)	$ (772,964)	$ (460,189)
Payable for securities purchased relating to unsettled TBA purchases	(473,386)	(123,918)
Net short TBA securities, at fair value	(298,104)	(336,509)

5. Financial Derivatives

Gains and losses on the Company's derivative contracts for the years ended December 31, 2018 and 2017 are summarized in the tables below:

Years Ended December 31, 2018:

Derivative Type	**Primary Risk Exposure**	**Year Ended December 31, 2018: Net Realized Gain/(Loss)[(1)]**	**Year Ended December 31, 2018: Change in Net Unrealized Gain/(Loss)[(2)]**
(In thousands)			
Credit default swaps on asset-backed securities	Credit	$ (687)	$ 715
Credit default swaps on asset-backed indices	Credit	(2,293)	2,013
Credit default swaps on corporate bond indices	Credit	(1,983)	3,540
Credit default swaps on corporate bonds	Credit	2,993	(2,648)
Total return swaps	Equity Market/Credit	3,844	(5)
Interest rate swaps	Interest Rate	(985)	3,648
Futures	Interest Rate/Currency	162	108
Forwards	Currency	923	359
Options	Interest Rate/ Equity Market	(63)	77
Total		$ 1,911	$ 7,807

(1) Includes gain/(loss) on foreign currency transactions on derivatives in the amount of $0.1 million for the year ended December 31, 2018, which is included on the Consolidated Statement of Operations in Realized gain (loss) on foreign currency transactions.
(2) Includes foreign currency translation on derivatives in the amount of $0.1 million for the year ended December 31, 2018, which is included on the Consolidated Statement of Operations in Change in net unrealized gain (loss) on foreign currency translation.

Year Ended December 31, 2017:

Derivative Type	Primary Risk Exposure	Year Ended December 31, 2017			
		Net Realized Gain/(Loss)(1)		Change in Net Unrealized Gain/(Loss)(2)	
(In thousands)					
Credit default swaps on asset-backed securities	Credit	$	(601)	$	(263)
Credit default swaps on asset-backed indices	Credit		(5,291)		(817)
Credit default swaps on corporate bond indices	Credit		(3,336)		(459)
Credit default swaps on corporate bonds	Credit		205		907
Total return swaps	Equity Market/Credit		(1,825)		149
Interest rate swaps	Interest Rates		(1,171)		571
Futures	Interest Rate/Currency		(195)		(423)
Forwards	Currency		(6,390)		(18)
Warrants	Equity Market		(100)		(5)
Mortgage loan purchase commitments	Interest Rates		—		31
Options	Credit/Interest Rate/Equity Market		—		10
Total		$	(18,704)	$	(317)

(1) Includes gain/(loss) on foreign currency transactions on derivatives in the amount of $(0.1) million for the year ended December 31, 2017, which is included on the Consolidated Statement of Operations in Realized gain (loss) on foreign currency transactions.
(2) Includes foreign currency translation on derivatives in the amount of $(0.2) million for the year ended December 31, 2017, which is included on the Consolidated Statement of Operations in Change in net unrealized gain (loss) on foreign currency translation.

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

Derivative Type	Year Ended December 31, 2018		Year Ended December 31, 2017	
	(In thousands)			
Interest rate swaps	$	1,059,756	$	1,306,853
Credit default swaps		566,805		531,008
Total return swaps		53,603		19,760
Futures		201,295		48,244
Options		99,891		94,415
Forwards		45,522		76,784
Warrants		—		378
Mortgage loan purchase commitments		—		1,585

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

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

Credit Derivatives	December 31, 2018	December 31, 2017
(In thousands)		
Fair Value of Written Credit Derivatives, Net	$ (4,339)	$ (4,770)
Fair Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties [(1)]	(284)	(3,582)
Notional Value of Written Credit Derivatives [(2)]	98,586	177,588
Notional Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties [(1)]	41,134	(88,400)

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

A credit default swap on a credit index or a corporate bond typically terminates at the stated maturity date in the case of corporate indices or bonds, or, in the case of ABX and CMBX indices, the date that all of the reference assets underlying the index are paid off in full, retired, or otherwise cease to exist. Implied credit spreads may be used to determine the market value of such contracts and are reflective of the cost of buying/selling credit protection. Higher spreads would indicate a greater likelihood that a seller will be obligated to perform (*i.e.*, make protection payments) under the contract. In situations where the credit quality of the underlying reference assets has deteriorated, the percentage of notional values that would be paid up front to enter into a new such contract ("points up front") is frequently used as an indication of credit risk. Credit protection sellers entering the market in such situations would expect to be paid points up front corresponding to the approximate fair value of the contract. For the Company's written credit derivatives that were outstanding at December 31, 2018, implied credit spreads on such contracts ranged between 42.6 and 815.1 basis points. For the Company's written credit derivatives that were outstanding at December 31, 2017, implied credit spreads on such contracts ranged between 15.4 and 1,945.7 basis points. Excluded from these spread ranges are contracts outstanding for which the individual spread is greater than 2,000 basis points. The Company believes that these contracts would be quoted based on estimated points up front. The total fair value of contracts with individual implied credit spreads in excess of 2,000 basis points was $(1.0) million and $(0.4) million as of December 31, 2018 and 2017, respectively. Estimated points up front on these contracts as of December 31, 2018 ranged between 36.9 and 75.2 points, and as of December 31, 2017 ranged between 51.4 and 71.6 points. Total net up-front payments (paid) or received relating to written credit derivatives outstanding at December 31, 2018 and 2017 were $(2.0) million and $(5.5) million, respectively.

6. Securitization Transactions

Participation in Multi-Seller Consumer Loan Securitization

In August 2016, the Company participated in a securitization transaction whereby the Company, together with another entity managed by Ellington (the "co-participant"), sold consumer loans with an aggregate unpaid principal balance of approximately $124 million to a newly formed securitization trust (the "Issuer"). Of the $124 million in loans sold to the Issuer, the Company's share was 51% while the co-participant's share was 49%. The transfer was accounted for as a sale in accordance with ASC 860-10. As a result of the sale the Company recognized a realized loss in the amount of $(0.1) million. Pursuant to the securitization, the Issuer issued senior and subordinated notes in the principal amount of $87 million and $18.7 million, respectively. Trust certificates representing beneficial ownership of the Issuer were also issued. In connection with the transaction, and through a jointly owned newly formed entity (the "Acquiror"), the Company and the co-participant acquired all of the subordinated notes as well as the trust certificates in the Issuer. The Company and the co-participant acquired 51% and 49%, respectively, of the interests in the Acquiror. During 2017, at the co-participant's direction, the Acquiror sold the portion of the subordinated notes beneficially owned by the co-participant, and as a result as of December 31, 2017, the Company's total interest in the Acquiror had increased to approximately 75%. Subsequently 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, 2017, in addition to the Company's remaining investments in these notes, the Company held an approximate 25% ownership interest in the CLO I Risk Retention Vehicle, with a fair value of $5.0 million, which is included on the Company's Consolidated Condensed Schedule of Investments in Corporate Equity Investments. 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	Notes Held(2) as of December 31, 2017
			(In thousands)	(In thousands)	(In thousands)	(In thousands)	(In thousands)
CLO I Issuer(3)(4)	5/17	6/17	$ 373,550	$ 36,606 (5)	$ 35,926	$ —	$ 24,299 (6)
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)	13,395 (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 and 2017:

	As of	
(In thousands)	December 31, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	$ —	$ 333
Investments, at fair value	314,202	132,424
Interest and dividends receivable	3,527	—
Liabilities:		
Interest and dividends payable	103	333
Other secured borrowings, at fair value	297,948	125,105

7. Borrowings

Secured Borrowings

The Company's secured borrowings consist of reverse repurchase agreements, Other secured borrowings, and Other secured borrowings, at fair value. As of December 31, 2018 and 2017, the Company's total secured borrowings were $1.911 billion and $1.392 billion, respectively.

Reverse Repurchase Agreements

The Company enters into reverse repurchase agreements. A reverse repurchase agreement involves the sale of an asset to a counterparty together with a simultaneous agreement to repurchase the transferred asset or similar asset from such counterparty at a future date. The Company accounts for its reverse repurchase agreements as collateralized borrowings, with the transferred assets effectively serving as collateral for the related borrowing. The Company's reverse repurchase agreements typically range in term from 30 to 180 days, although the Company also has reverse repurchase agreements that provide for longer or shorter terms. The principal economic terms of each reverse repurchase agreement—such as loan amount, interest rate, and maturity date—are typically negotiated on a transaction-by-transaction basis. Other terms and conditions, such as those relating to events of default, are typically governed under the Company's master repurchase agreements. Absent an event of default, the Company maintains beneficial ownership of the transferred securities during the term of the reverse repurchase agreement and receives the related principal and interest payments. Interest rates on these borrowings are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and for most reverse repurchase agreements, interest is generally paid at the termination of the reverse repurchase agreement, at which time the Company may enter into a new reverse repurchase agreement at prevailing market rates with the same counterparty, repay that counterparty and possibly negotiate financing terms with a different counterparty, or choose to no longer finance the related asset. Some reverse repurchase agreements provide for periodic payments of interest, such as monthly payments. In response to a decline in the fair value of the transferred securities, whether as a result of changes in market conditions, security paydowns, or other factors, reverse repurchase agreement counterparties will typically make a margin call, whereby the Company will be required to post additional securities and/or cash as collateral with the counterparty in order to re-establish the agreed-upon collateralization 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 and 2017.

At December 31, 2018, approximately 21% of open reverse repurchase agreements were with one counterparty. As of December 31, 2017, approximately 19% of open reverse repurchase agreements were with one counterparty. As of December 31, 2018 remaining days to maturity on the Company's open reverse repurchase agreements ranged from 2 days to 871 days and from 2 days to 1094 days as of December 31, 2017. Interest rates on the Company's open reverse repurchase agreements ranged from 0.23% to 6.07% as of December 31, 2018 and from (1.25)% to 4.94% as of December 31, 2017.

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

(In thousands)	December 31, 2018			December 31, 2017		
		Weighted Average			Weighted Average	
Remaining Maturity	**Outstanding Borrowings**	**Interest Rate**	**Remaining Days to Maturity**	**Outstanding Borrowings**	**Interest Rate**	**Remaining Days to Maturity**
Agency RMBS:						
30 Days or Less	$ 245,956	2.46%	17	$ 287,014	1.43%	15
31-60 Days	415,379	2.58%	46	264,058	1.47%	46
61-90 Days	255,421	2.74%	76	277,950	1.63%	74
91-120 Days	506	3.31%	91	—	—%	—
121-150 Days	—	—%	—	—	—%	—
151-180 Days	—	—%	—	602	2.56%	158
Total Agency RMBS	917,262	2.59%	47	829,624	1.51%	44
Credit:						
30 Days or Less	30,426	2.55%	22	37,433	2.61%	13
31-60 Days	189,937	3.32%	48	132,201	2.44%	49
61-90 Days	93,202	3.21%	74	130,875	2.75%	77
91-120 Days	—	—%	—	—	—%	—
121-150 Days	26,222	4.60%	123	8,551	3.79%	128
151-180 Days	9,491	4.64%	166	8,300	3.40%	164
181-360 Days	91,730	4.54%	316	5,090	3.59%	280
> 360 Days	140,306	5.15%	636	56,944	4.94%	1094
Total Credit Assets	581,314	3.98%	240	379,394	3.00%	219
U.S. Treasury Securities:						
30 Days or Less	273	3.10%	2	297	1.70%	2
Total U.S. Treasury Securities	273	3.10%	2	297	1.70%	2
Total	$ 1,498,849	3.13%	122	$ 1,209,315	1.98%	99

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

As of December 31, 2018 and 2017, the fair value of investments transferred as collateral under outstanding borrowings under reverse repurchase agreements was $1.79 billion and $1.41 billion, respectively. 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. Collateral transferred under outstanding borrowings as of December 31, 2017 include investments in the amount of $10.6 million that were sold prior to year end but for which such sale had not yet settled. In addition, the Company posted net cash collateral of $18.6 million and additional securities with a fair value of $1.3 million as of December 31, 2017 as a result of margin calls from various counterparties.

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

Other Secured Borrowings

In February 2018, the Company entered into agreements to finance a portfolio of unsecured loans through a recourse secured borrowing facility. The facility includes a one year revolving period (or earlier following an early amortization event or event of default), whereby the Company can vary its borrowings based on the size of its portfolio, subject to certain maximum limits. After the revolving period ends, the facility has a two-year term ending in February 2021. The facility accrues interest on a floating rate basis. As of 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 and 2017, the Company had outstanding borrowings under this facility in the amount of $101.0 million and $57.9 million, respectively, which is included under the caption Other secured borrowings, on the Company's Consolidated Statement of Assets, Liabilities, and Equity, and the effective interest rate on this facility, inclusive of related deferred financing costs, was 4.68% and 4.34% as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the fair value of unsecured loans collateralizing this borrowing was $149.0 million and $89.7 million, respectively.

The Company has completed securitization transactions, as discussed in Note 6, whereby it financed portfolios of non-QM loans. As of December 31, 2018 and 2017, the fair value of the Company's outstanding liabilities associated with these securitization transactions were $297.9 million and $125.1 million, respectively, representing the fair value of the securitization trust certificates held by third parties as of such date, and is included on Company's Consolidated Statement of Assets, Liabilities, and Equity in Other Secured Borrowings, at fair value. The weighted average coupon on the Certificates held by third parties was 3.72% and 2.89% as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the fair value of non-QM loans held in the securitization trusts were $314.2 million and $132.4 million, respectively.

Unsecured Borrowings

Senior Notes

On August 18, 2017, the Company issued $86.0 million in aggregate principal amount of Senior Notes. The total net proceeds to the Company from the issuance of the Senior Notes was approximately $84.7 million, after deducting debt issuance costs. The Senior Notes bear an interest rate of 5.25%, subject to adjustment based on changes in the ratings, if any, of the Senior Notes. Interest on the Senior notes is payable semi-annually in arrears on March 1 and September 1 of each year. The Senior Notes mature on September 1, 2022. The Company may redeem the Senior Notes, at its option, in whole or in part, prior to March 1, 2022 at a price equal to 100% of the principal amount thereof, plus the applicable "make-whole" premium as of the applicable date of redemption. At any time on or after March 1, 2022, the Company may redeem the Senior Notes, in whole or in part, at a redemption price equal to 100% of the aggregate principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest. The Senior Notes are carried at amortized cost. There are a number of covenants, including several financial covenants, associated with the Senior Notes. As of 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 income tax purposes. As of both December 31, 2018 and 2017, one such subsidiary had a deferred tax asset, resulting from a net operating loss carryforward, which was fully reserved through a valuation allowance. As of December 31, 2018, the deferred tax asset and the valuation allowance were valued at $5.9 million and $(5.9) million, respectively. As of December 31, 2017, the deferred tax asset and the valuation allowance were valued at 4.0 million and $(4.0) million, respectively.

9. Related Party Transactions

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

Base Management Fees

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

Pursuant to the Company's management agreement, if the Company invests at issuance in the equity of any collateralized debt obligation that is managed, structured, or originated by Ellington or one of its affiliates, or if the Company invests in any other investment fund or other investment for which Ellington or one of its affiliates receives management, origination, or structuring fees, then, unless agreed otherwise by 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 years ended December 31, 2018 and 2017, the total base management fee incurred, net of fee rebates, was $7.6 million and $9.1 million, respectively.

Incentive Fees

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

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

For purposes of calculating the incentive fee, the "Loss Carryforward" as of the end of any fiscal quarter is calculated by determining the excess, if any, of (1) the Loss Carryforward as of the end of the immediately preceding fiscal quarter over (2) the Company's net increase in equity from operations (expressed as a positive number) or net decrease in equity from operations (expressed as a negative number) of the Operating Partnership for such fiscal quarter. As of 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 year ended December 31, 2018 was $0.7 million. The Company did not accrue an incentive fee for the year ended December 31, 2017, since on a rolling four quarter basis, the Company's income did not exceed the prescribed hurdle amount.

Termination Fees

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

Expense Reimbursement

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

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

For the years ended December 31, 2018 and 2017, the Company reimbursed the Manager $6.5 million and $6.4 million, respectively, 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 and $11.7 million as of December 31, 2018 and 2017, respectively, and is included on the Company's Consolidated Condensed Schedule of Investments in Consumer Loans and Asset-backed Securities backed by Consumer Loans. 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 and $114.5 million as of December 31, 2018 and 2017, respectively, and is included on the Company's Consolidated Condensed Schedule of Investments in Consumer Loans and Asset-backed Securities backed by Consumer Loans.

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

The Company is a co-investor in certain small balance commercial mortgage loans with several other investors, including an unrelated third party and various affiliates of Ellington. These loans are 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. As of December 31, 2017, the aggregate fair value of these loans was $27.9 million and the non-controlling interests held by the unrelated third party and the Ellington affiliates were $1.8 million and $5.3 million, respectively.

The Company is also a co-investor in certain small balance commercial mortgage loans with other investors, including unrelated third parties and 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 and 2017, the Jointly Owned Entities have outstanding issued debt under the reverse repurchase agreements in the amount of $149.0 million and $106.6 million, respectively. The Company's portion of this debt as of December 31, 2018 and 2017 was $77.0 million and $56.9 million, respectively, and is included under the caption Reverse repurchase agreements on the Company's Consolidated Statement of Assets, Liabilities, and Equity. To the extent that there is a default under 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. In connection with this financing as of December 31, 2017 there was a receivable from one of the Jointly Owned Entities in the amount of $23.4 million, which is included in Other assets on the Company's Consolidated Statement of Assets, Liabilities, and Equity. There was no receivable from the Jointly Owned 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. As of December 31, 2017 the outstanding amounts under the Acquiror Repurchase Agreement and the Reverse Agreement were each $5.7 million and the fair value of the related collateral was $9.4 million. See Note 6 for details of the Company's participation in the multi-seller consumer loan securitization.

Participation in CLO Transactions

As discussed in Note 6, the Company participated in 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 years ended December 31, 2018 and 2017, the amount of such fee rebates was $1.4 million and $0.3 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 and 2017, the Company's loan receivable related to the warehouse facility in operation at such time was in the amount of $11.6 million and $16.9 million, respectively, and is included on the Consolidated Statement of Assets, Liabilities and Equity in Other assets. Each loan receivable from these warehouse facilities is considered a Level 3 asset and its carrying value approximates fair value due to its short term nature and the adequacy of the assets acquired into the warehouse.

In July 2018, the Company purchased two loans from the CLO I Securitization, at the fair market price. The loans purchased by the Company had a face amount of $2.9 million. 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 years ended December 31, 2018 and 2017 was $0.4 million.

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

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

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 years ended December 31, 2018 and 2017:

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Manager	Director/ Employee	Total	Manager	Director/ Employee	Total
LTIP Units and OP LTIP Units Outstanding (12/31/2017 and 12/31/2016, respectively)	375,000	116,159	491,159	375,000	94,539	469,539
Granted	—	33,546	33,546	—	24,421	24,421
Exercised	—	(3,334)	(3,334)	—	(2,801)	(2,801)
LTIP Units and OP LTIP Units Outstanding (12/31/2018 and 12/31/2017, respectively)	375,000	146,371	521,371	375,000	116,159	491,159
LTIP Units and OP LTIP Units Vested and Outstanding (12/31/2018 and 12/31/2017, respectively)	375,000	106,939	481,939	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 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, 2017, the Convertible Non-controlling Interests consisted of 212,000 outstanding OP Units, and represented an interest of approximately 0.7% in the Operating Partnership. As of December 31, 2018 and 2017 non-controlling interests related to the outstanding 521,371 OP LTIP Units and the outstanding 212,000 OP Units was $13.9 million and $4.0 million, respectively.

Joint Venture Interests

Non-controlling interests also include the interests of joint venture partners in various consolidated subsidiaries of the Company. The subsidiaries hold the Company's investments in certain commercial mortgage loans and REO. These joint venture partners participate in the income, expense, gains and losses of such subsidiaries as set forth in the related operating agreements of the subsidiaries. These joint venture partners make capital contributions to the subsidiaries as new approved investments are purchased by the subsidiaries, and are generally entitled to distributions when investments are sold or otherwise disposed of. As of December 31, 2018 and 2017 these joint venture partners' interests in subsidiaries of the Company were $17.3 million and $16.7 million, respectively.

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

12. Common Share Capitalization

During the years ended December 31, 2018 and 2017, the Board of Directors authorized dividends totaling $1.64 per share and $1.76 per share, respectively. Total dividends paid during the years ended December 31, 2018 and 2017 were $50.7 million and $57.6 million, respectively.

The following table summarizes issuance, repurchase, and other activity with respect to the Company's common shares for the years ended December 31, 2018 and 2017:

	Year Ended December 31,	
	2018	**2017**
Common Shares Outstanding (12/31/2017 and 12/31/2016, respectively)	31,335,938	32,294,703
Share Activity:		
Shares repurchased	(1,547,148)	(961,566)
Director LTIP Units exercised	3,334	2,801
Shares issued in connection with incentive fee payment	4,477	—
Common Shares Outstanding (12/31/2018 and 12/31/2017, respectively)	29,796,601	31,335,938

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 December 31, 2018 and 2017, the Company's issued and outstanding common shares would increase to 30,529,972 shares and 32,680,917 shares, respectively.

On June 13, 2018, the Company's Board of Directors approved the adoption of a share repurchase program under which the Company is authorized to repurchase up to 1.55 million common shares. The program, which is open-ended in duration, allows the Company to make repurchases from time to time on the open market or in negotiated transactions, including under Rule 10b5-1 plans. Repurchases are at the Company's discretion, subject to applicable law, share availability, price and its financial performance, among other considerations. This program superseded the program that was previously adopted on February 6, 2018. During the year ended December 31, 2018, the Company repurchased 1,547,148 common shares at an average price per share of $14.95 and a total cost of $23.1 million. As of December 31, 2018, the Company had repurchased 361,090 common shares at an average price per share of $15.34 and a total cost of $5.5 million under the current share repurchase program.

13. Earnings Per Share

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

	Year Ended December 31,	
	2018	2017
(In thousands except share amounts)		
Net increase (decrease) in shareholders' equity resulting from operations	$ 46,676	$ 33,981
Add: Net increase (decrease) in equity resulting from operations attributable to participating non-controlling interests(1)	319	221
Net increase (decrease) in equity resulting from operations related to common shares, LTIP Unit holders, and participating non-controlling interests	46,995	34,202
Net increase (decrease) in shareholders' equity resulting from operations available to common share and LTIP Unit holders:		
Net increase (decrease) in shareholders' equity resulting from operations– common shares	45,922	33,487
Net increase (decrease) in shareholders' equity resulting from operations– LTIP Units	753	494
Dividends Paid:		
Common shareholders	(49,576)	(56,434)
LTIP Unit holders	(812)	(829)
Non-controlling interests	(348)	(373)
Total dividends paid to common shareholders, LTIP Unit holders, and non-controlling interests	(50,736)	(57,636)
Undistributed (Distributed in excess of) earnings:		
Common shareholders	(3,653)	(22,947)
LTIP Unit holders	(59)	(335)
Non-controlling interests	(29)	(152)
Total undistributed (distributed in excess of) earnings attributable to common shareholders, LTIP Unit holders, and non-controlling interests	$ (3,741)	$ (23,434)
Weighted average shares outstanding (basic and diluted):		
Weighted average common shares outstanding	30,297,401	32,062,091
Weighted average participating LTIP Units	496,962	472,527
Weighted average non-controlling interest units	212,000	212,000
Basic earnings per common share:		
Distributed	$ 1.64	$ 1.76
Undistributed (Distributed in excess of)	(0.12)	(0.72)
	$ 1.52	$ 1.04
Diluted earnings per common share:		
Distributed	$ 1.64	$ 1.76
Undistributed (Distributed in excess of)	(0.12)	(0.72)
	$ 1.52	$ 1.04

(1) For the years ended December 31, 2018 and 2017, excludes net increase (decrease) in equity resulting from operations of $2.9 million and $1.8 million, respectively attributable to joint venture partners, which have non-participating interests as described in Note 11.

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

	As of	
Counterparty	**December 31, 2018**	**December 31, 2017**
Bank of New York Mellon Corporation	64%	37%
Deutsche Bank Securities	5%	5%
Bank of America Securities	2%	2%
Morgan Stanley Institutional Liquidity Fund—Government Portfolio	10%	—%
BlackRock Liquidity Funds FedFund Portfolio	9%	56%
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 and 2017.

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

16. Offsetting of Assets and Liabilities

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

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

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	—

December 31, 2017:

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

(1) In the Company's Consolidated Statement of Assets, Liabilities, and Equity, all balances associated with repurchase agreements, reverse repurchase agreements, and financial derivatives are presented on a gross basis.
(2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's reverse repurchase agreements and cash collateral pledged on the Company's financial derivative liabilities. Total financial instruments transferred or pledged as collateral on the Company's reverse repurchase agreements as of December 31, 2018 and 2017 were $1.79 billion and $1.41 billion, respectively. As of December 31, 2018 and 2017, total cash collateral on financial derivative assets excludes excess net cash collateral pledged of $0.1 million and $6.4 million, respectively. As of December 31, 2018 and 2017, total cash collateral on financial derivative liabilities excludes excess cash collateral pledged of $16.4 million and $16.6 million, respectively.
(3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a specific asset or liability. As a result, in preparing the above tables, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

17. Commitments and Contingencies

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

In the normal course of business the Company may also enter into contracts that contain a variety of representations, warranties, and general indemnifications. The Company's maximum exposure under these arrangements, including future claims that may be made against the Company that have not yet occurred, is unknown. The Company has not incurred any costs to defend lawsuits or settle claims related to these indemnification agreements. As of both December 31, 2018 and December 31, 2017, 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. As of December 31, 2017 the Company did not have any such unfunded commitments.

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 both December 31, 2018 and 2017 the estimated fair value of such guarantees was zero.

18. Financial Highlights

Results of Operations for a Share Outstanding Throughout the Periods:

	Year Ended December 31,	
	2018	2017
Beginning Shareholders' Equity Per Share (12/31/2017 and 12/31/2016, respectively)	$ 19.15	$ 19.75
Net Investment Income	1.42	1.10
Net Realized/Unrealized Gains (Losses)	0.23	0.02
Results of Operations Attributable to Equity	1.65	1.12
Less: Results of Operations Attributable to Non-controlling Interests	(0.11)	(0.06)
Results of Operations Attributable to Shareholders' Equity(1)	1.54	1.06
Dividends Paid to Common Shareholders	(1.64)	(1.76)
Weighted Average Share Impact on Dividends Paid (2)	(0.03)	(0.04)
Accretive (Dilutive) Effect of Share Issuances (Net of Offering Costs), Share Repurchases, and Adjustments to Non-controlling Interest	(0.10)	0.14
Ending Shareholders' Equity Per Share (12/31/2018 and 12/31/2017, respectively)(3)	$ 18.92	$ 19.15
Shares Outstanding, end of period	29,796,601	31,335,938

(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 December 31, 2018 and 2017, shareholders' equity per share would be $18.92 and $18.85, respectively.

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)

	Year Ended December 31,	
	2018 (2)	2017
Total Return	7.38%	6.14%

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

(2) The Company redeemed all 503,988 of its 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. While this activity did not affect fully diluted net asset value per common share, it did cause a 1.66% decline in net asset value per common share. The Company's total return for the year ended December 31, 2018 before the effect of this activity was 9.19%.

Market Based Total Return for a Shareholder:

For the years ended December 31, 2018 and 2017, the Company's market based total return based on the closing price as reported by the New York Stock Exchange was 17.30% and 4.35%, 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)

	Year Ended December 31,	
	2018	2017
Net Investment Income	7.04%	5.51%

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

Expense Ratios to Average Equity: (1)

	Year Ended December 31,	
	2018	2017
Operating expenses, before interest expense and other investment related expenses	(2.86)%	(2.81)%
Incentive fee	(0.12)%	—%
Interest expense and other investment related expenses	(12.03)%	(6.41)%
Total Expenses	(15.01)%	(9.22)%

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

19. Condensed Quarterly Financial Data (Unaudited)

Detailed below is unaudited quarterly financial data for the years ended December 31, 2018 and 2017.

	Three Month Period Ended			
(In thousands except per share amounts)	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
INVESTMENT INCOME				
Interest income(1)	$ 28,092	$ 31,941	$ 35,300	$ 35,694
Other income	716	1,094	1,046	1,157
Total investment income	28,808	33,035	36,346	36,851
EXPENSES				
Base management fee to affiliate(2)	1,978	2,021	1,830	1,744
Incentive fee to affiliate	—	291	424	—
Interest expense(1)	11,562	13,383	15,678	16,083
Other investment related expenses	2,952	3,771	4,384	4,201
Other operating expenses	2,074	2,578	2,352	4,609
Total expenses	18,566	22,044	24,668	26,637
NET INVESTMENT INCOME	10,242	10,991	11,678	10,214
NET REALIZED AND CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS, OTHER SECURED BORROWINGS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY TRANSACTIONS/TRANSLATION				
Net realized gain (loss) on investments, financial derivatives, and foreign currency transactions	13,051	(1,343)	10,102	9,578
Change in net unrealized gain (loss) on investments, other secured borrowings, financial derivatives, and foreign currency translation	(1,969)	12,536	(14,306)	(20,862)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OTHER SECURED BORROWINGS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY	11,082	11,193	(4,204)	(11,284)
NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS	21,324	22,184	7,474	(1,070)
LESS: NET INCREASE IN EQUITY RESULTING FROM OPERATIONS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	285	991	813	1,147
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ 21,039	$ 21,193	$ 6,661	$ (2,217)
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS PER SHARE:				
Basic and Diluted (3)	$ 0.67	$ 0.69	$ 0.22	$ (0.07)

(1) Includes interest income and interest expense of a consolidated securitization trust of $1.3 million and $0.9 million, respectively, for the three-month period ended March 31, 2018. 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 $1.3 million and $0.7 million, respectively, for the three-month period ended September 30, 2018. Includes interest income and interest expense of a consolidated securitization trust of $2.1 million and $1.2 million, respectively, for the three-month period ended December 31, 2018. See Note 6 for further details on the Company's consolidated securitization trusts.

(2) Net of management fee rebate of $0.3 million, $0.3 million, $0.4 million, and $0.4 million, for the each of the three-month periods ended March 31, 2018, June 30, 2018, September 30, 2018, and December 31, 2018, respectively. See Note 9 for further details on management fee rebates.

(3) For the year ended December 31, 2018 the sum of EPS for the four quarters of the year does not equal EPS as calculated for the entire year (see Note 13) as a result of changes in shares during the year due to repurchases of common shares, as EPS is calculated using average shares outstanding during the period.

	Three Month Period Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
(In thousands except per share amounts)				
INVESTMENT INCOME				
Interest income(1)	$ 22,886	$ 21,788	$ 21,145	$ 23,810
Other income	939	872	1,232	1,288
Total investment income	23,825	22,660	22,377	25,098
EXPENSES				
Base management fee to affiliate(2)	2,410	2,372	2,161	2,113
Interest expense(1)	6,003	7,625	8,166	9,326
Other investment related expenses	1,521	2,058	1,908	4,267
Other operating expenses	2,116	2,173	2,240	2,333
Total expenses	12,050	14,228	14,475	18,039
NET INVESTMENT INCOME	11,775	8,432	7,902	7,059
NET REALIZED AND CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY TRANSACTIONS/TRANSLATION				
Net realized gain (loss) on investments, financial derivatives, and foreign currency transactions	(831)	(5,347)	1,205	(5,831)
Change in net unrealized gain (loss) on investments, financial derivatives, and foreign currency translation	4,786	2,356	(2,512)	6,970
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY	3,955	(2,991)	(1,307)	1,139
NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS	15,730	5,441	6,595	8,198
LESS: NET INCREASE IN EQUITY RESULTING FROM OPERATIONS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	452	377	400	754
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ 15,278	$ 5,064	$ 6,195	$ 7,444
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS PER SHARE:				
Basic and Diluted(3)	$ 0.47	$ 0.16	$ 0.19	$ 0.23

(1) Includes interest income and interest expense of a consolidated securitization trust of $1.5 million and $0.6 million, respectively, for the thee-month period ended December 31, 2017. See Note 6 for further details on the Company's consolidated securitization trusts.
(2) Net of management fee rebate of $0.2 million for the each of the three-month periods ended September 30, 2017 and December 31, 2017, respectively. See Note 9 for further details on management fee rebates.
(3) For the year ended December 31, 2017 the sum of EPS for the four quarters of the year does not equal EPS as calculated for the entire year (see Note 13) as a result of changes in shares during the year due to repurchases of common shares, as EPS is calculated using average shares outstanding during the period.

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 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 December 31, 2018. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

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 December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting using the criteria set forth in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment and those criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

The Company's independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the Company's internal control over financial reporting as of December 31, 2018. Their report appears on page 83 of this Annual Report on Form 10-K.

Item 9B. Other Information

Our discussion of material U.S. federal income tax considerations in Exhibit 99.1 attached hereto, which is incorporated herein by reference, supersedes and replaces in its entirety, the disclosure under the heading "Material U.S. Federal Income Tax Considerations" in the base prospectus dated June 15, 2017, which is included in and forms part of our registration statement on Form S-3 (No. 333-218371) as well as the supplemental disclosure that was filed as Exhibit 99.1 to our Annual Report on Form 10-K, filed with the SEC on March 15, 2018 (File No. 001-34569).

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is incorporated by reference to information to be included in our definitive Proxy Statement for our 2019 annual stockholders' meeting.

Our Board of Directors has established a Code of Business Conduct and Ethics that applies to our officers and directors and to our Manager's and certain of its affiliates' officers, directors and employees when such individuals are acting for us or on our behalf which is available on our website at *www.ellingtonfinancial.com*. Any waiver of our Code of Business Conduct and Ethics of our executive officers or directors may be made only by our Board or one of its committees.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers from any provision of our Code of Business Conduct and Ethics applicable to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions and that relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K by posting such information on our website at *www.ellingtonfinancial.com* under the, "For Our Shareholders—Corporate Governance" section of the website.

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference to information to be included in our definitive Proxy Statement for our 2019 annual stockholders' meeting.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by Item 12 is incorporated by reference to information to be included in our definitive Proxy Statement for our 2019 annual stockholders' meeting.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated by reference to information to be included in our definitive Proxy Statement for our 2019 annual stockholders' meeting.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is incorporated by reference to information to be included in our definitive Proxy Statement for our 2019 annual stockholders' meeting.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

1. Financial Statements.

See Index to consolidated financial statements, included in Part II, Item 8 of this Annual Report on Form 10-K.

2. Schedules to Financial Statements:

All financial statement schedules not included have been omitted because they are either inapplicable or the information required is provided in our Financial Statements and Notes thereto, included in Part II, Item 8, of this Annual Report on Form 10-K.

Exhibit	Description
3.1	Second Amended and Restated Operating Agreement of Ellington Financial LLC (incorporated by reference to the registration statement on Form S-11 (No. 333-160562), filed on November 3, 2009, as amended) - terminated effective March 1, 2019
3.2	First Amendment to Second Amended and Restated Operating Agreement of Ellington Financial LLC (incorporated by reference to the quarterly report on Form 10-Q for the quarterly period ended June 30, 2011) - terminated effective March 1, 2019
3.3	Second Amendment to Second Amended and Restated Operating Agreement of Ellington Financial LLC (incorporated by reference to the quarterly report on Form 10-Q for the quarterly period ended June 30, 2017) - terminated effective March 1, 2019
3.4	Certificate of Incorporation of Ellington Financial Inc. (incorporated by reference to the current report on Form 8-K (No. 001-34569), filed on March 4, 2019)
3.5	Bylaws of Ellington Financial Inc. (incorporated by reference to the current report on Form 8-K (No. 001-34569), filed on March 4, 2019)
4.1	Indenture, dated as of August 18, 2017, between Ellington Financial LLC and Wilmington Trust, National Association, as trustee (incorporated by reference to the Current Report on Form 8-K filed on August 22, 2017)
4.2	Form of Ellington Financial LLC's 5.25% Senior Notes due 2022 (included in Exhibit 4.2 and incorporated by reference to the Current Report on Form 8-K filed on August 22, 2017)
4.3	Indenture, dated as of February 13, 2019, among EF Holdco Inc., EF Cayman Holdings Ltd., Ellington Financial LLC and Wilmington Trust, National Association, as trustee (incorporated by reference to the current report on Form 8-K (No. 001-34569), filed on February 13, 2019)
4.4	Form of EF Holdco Inc.'s and EF Cayman Holdings Ltd.'s 5.50% Senior Notes due 2022 (included in Exhibit 4.3)
10.1	Seventh Amended and Restated Management Agreement, by and between the Company, Ellington Financial Operating Partnership LLC and Ellington Financial Management LLC, dated as of March 13, 2018
10.2	Operating Agreement of Ellington Financial Operating Partnership LLC, by and between the Company, Ellington Financial Operating Partnership LLC and EMG Holdings, L.P., dated as of January 1, 2013 (incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 2012)
10.3†	2007 Incentive Plan for Individuals (incorporated by reference to the registration statement on Form S-11 (No. 333-160562), filed July 14, 2009, as amended)
10.4†	2007 Incentive Plan for Entities (incorporated by reference to the registration statement on Form S-11 (No. 333-160562), filed July 14, 2009, as amended)
10.5†	Ellington Financial LLC 2017 Equity Incentive Plan (incorporated by reference to the Current Report on Form 8-K filed on May 18, 2017)
10.6†	Form of LTIP Unit Award Agreement for Directors (incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 2011)
10.7†	Form of LTIP Unit Award Agreement for Individuals (incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 2011)
10.8†	Form of Individual LTIP Unit Award Agreement under 2017 Equity Incentive Plan (incorporated by reference to the Current Report on Form 8-K filed on May 18, 2017)
10.9†	Form of Non-Employee Director LTIP Unit Award Agreement under 2017 Equity Incentive Plan (incorporated by reference to the Current Report on Form 8-K filed on May 18, 2017)

Exhibit	Description
(continued)	
10.10†	Form of Indemnity Agreement (incorporated by reference to the registration statement on Form S-11 (No. 333-160562), filed on September 3, 2009, as amended)
10.11†	Retirement Agreement, dated March 30, 2018 by and between Lisa Mumford and Ellington Management Group, L.L.C. and its affiliates listed as parties thereto (incorporated by reference to the Current Report on 8-K filed on April 2, 2018)
21.1	List of Subsidiaries
23.1	Consent of the Independent Registered Public Accounting Firm
24.1	Power of Attorney (included on Signature Page)
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
99.1	Material U.S. Federal Income Tax Considerations
101	The following financial information from Ellington Financial LLC's Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Assets, Liabilities, and Equity, (ii) Consolidated Statement of Operations, (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.

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

Item 16. Form 10-K Summary

None.

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:	March 14, 2019	By:	/s/ LAURENCE PENN
			Laurence Penn Chief Executive Officer (Principal Executive Officer)

POWER OF ATTORNEY

We, the undersigned officers and directors of Ellington Financial Inc., hereby severally constitute Laurence Penn, Daniel Margolis, Jason Frank and JR Herlihy, and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K, and generally to do all such things in our names and in our capacities as officers and directors to enable Ellington Financial LLC to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the SEC, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Annual Report on Form 10-K and any and all amendments thereto.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and dates indicated.

Signature	Title	Date
/s/ LAURENCE PENN **LAURENCE PENN**	Chief Executive Officer, President and Director *(Principal Executive Officer)*	March 14, 2019
/s/ JR HERLIHY **JR HERLIHY**	Chief Financial Officer *(Principal Financial and Accounting Officer)*	March 14, 2019
/s/ LISA MUMFORD **LISA MUMFORD**	Director	March 14, 2019
/s/ THOMAS F. ROBARDS **THOMAS F. ROBARDS**	Chairman of the Board	March 14, 2019
/s/ RONALD I. SIMON PH.D **RONALD I. SIMON PH.D**	Director	March 14, 2019
/s/ EDWARD RESENDEZ **EDWARD RESENDEZ**	Director	March 14, 2019

Exhibit 21.1

List of Subsidiaries of Ellington Financial LLC

Name	State of Incorporation or Organization
EF Mortgage LLC	Delaware
EF Securities LLC	Delaware
EF CMO LLC	Delaware
Ellington Financial Operating Partnership LLC	Delaware
EF Corporate Holdings LLC	Delaware
EF MBS/ABS Holdings LLC	Delaware
EFQ LLC	Delaware
EF SBC 2013-1 LLC	Delaware
EF Holdco Inc.	Delaware
EF Cayman Holdings Ltd.	Cayman Islands
EF SBC 2013-1 REO Holdings LLC	Delaware
EF CH LLC	Delaware
Ellington Financial REIT	Maryland
EF Residential Loans LLC	Delaware
EF SBC 2015-2 LLC	Delaware
Ellington Financial REIT TRS LLC	Delaware
EF SBC 2015-1 LLC	Delaware
EF CH2 LLC	Delaware
EF CH3 LLC	Delaware
EF CH4 LLC	Delaware
EF NM 2015-1 LLC	Delaware
EF SBC 2016-1 LLC	Delaware
EF Holdco WRE Assets LLC	Delaware
EF Holdco RER Assets LLC	Delaware
EF Holdco AL Assets LLC	Delaware
EF Titan SBC 2016-1 LLC	Delaware
EF SBC FM Holdings LLC	Delaware
EF Edgewood SBC 2016-1 LLC	Delaware
EF Edgewood SBC 2018-1 LLC	Delaware
EF Mortgage Depositor LLC	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-218371) of Ellington Financial LLC of our report dated March 14, 2019 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
New York, New York
March 14, 2019

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 Annual Report on Form 10-K 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: March 14, 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 Annual Report on Form 10-K 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: March 14, 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 Annual Report of Ellington Financial Inc. (the "Company") on Form 10-K for the year ended December 31, 2018, 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: March 14, 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 Annual Report of Ellington Financial Inc. (the “Company”) on Form 10-K for the year ended December 31, 2018, 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: March 14, 2019

/s/ JR Herlihy

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

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

This discussion supersedes and replaces in its entirety, the disclosure under the heading "Material U.S. Federal Income Tax Considerations" in the base prospectus dated June 15, 2017, which is included in and forms part of our registration statement on Form S-3 (No. 333-218371) as well as the supplemental disclosure that was filed as Exhibit 99.1 to our Annual Report on Form 10-K, filed with the SEC on March 15, 2018 (File No. 001-34569).

This section summarizes the material U.S. federal income tax considerations that you, as a stockholder, may consider relevant. Because this section is a summary, it does not address all aspects of taxation that may be relevant to particular stockholders in light of their personal investment or tax circumstances, or to certain types of stockholders that are subject to special treatment under the U.S. federal income tax laws, such as:

- insurance companies;
- tax-exempt organizations (except to the extent discussed in “-Taxation of Tax-Exempt U.S. Holders” below);
- financial institutions or broker-dealers;
- non-U.S. individuals and non-U.S. corporations (except to the extent discussed in “-Taxation of Non-U.S. Holders” below);
- U.S. expatriates;
- persons who mark-to-market our securities;
- subchapter S corporations;
- U.S. holders (as defined below) whose functional currency is not the U.S. dollar;
- regulated investment companies and REITs, and their investors;
- trusts and estates (except to the extent discussed herein);
- persons who receive our securities through the exercise of employee stock options or otherwise as compensation;
- persons holding our securities as part of a “straddle,” “hedge,” “conversion transaction,” “synthetic security” or other integrated investment;
- persons subject to the alternative minimum tax provisions of the Code;
- persons holding our securities through a partnership or similar pass-through entity; and
- persons holding a 10% or more (by vote or value) beneficial interest in our stock.

This summary assumes that stockholders hold our securities as capital assets for U.S. federal income tax purposes, which generally means as property held for investment.

The statements in this section are not intended to be, and should not be construed as, tax advice. The statements in this section are based on the Internal Revenue Code, or the “Code,” current, temporary and proposed Treasury regulations, the legislative history of the Code, current administrative interpretations and practices of the Internal Revenue Service, or the “IRS,” and court decisions. The reference to IRS interpretations and practices includes the IRS practices and policies endorsed in private letter rulings, which are not binding on the IRS except with respect to the taxpayer that receives the ruling. In each case, these sources are relied upon as they exist on the date of this discussion. Future legislation, Treasury regulations, administrative interpretations and court decisions could change current law or adversely affect existing interpretations of current law on which the information in this section is based. Any such change could apply retroactively. We have not received any rulings from the IRS concerning our qualification as a REIT. Accordingly, even if there is no change in the applicable law, no assurance can be provided that the statements made in the following discussion, which do not bind the IRS or the courts, will not be challenged by the IRS or will be sustained by a court if so challenged.

WE URGE YOU TO CONSULT YOUR TAX ADVISER REGARDING THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE PURCHASE, OWNERSHIP AND SALE OF OUR SECURITIES AND OF OUR ELECTION

TO BE TAXED AS A REIT. SPECIFICALLY, YOU SHOULD CONSULT YOUR TAX ADVISER REGARDING THE FEDERAL, STATE, LOCAL, FOREIGN, AND OTHER TAX CONSEQUENCES OF SUCH PURCHASE, OWNERSHIP, SALE AND ELECTION, AND REGARDING POTENTIAL CHANGES IN APPLICABLE TAX LAWS.

Taxation of Our Company

We have elected to be treated as a corporation effective as of January 1, 2019, and we will elect to be taxed as a REIT under sections 856 through 860 of the Code commencing with our taxable year ending December 31, 2019. We believe that, commencing with such taxable year, we will be organized and intend to operate in such a manner as to qualify for taxation as a REIT under the U.S. federal income tax laws, but no assurances can be given that we will operate in a manner so as to qualify or remain qualified as a REIT.

This section discusses the laws governing the U.S. federal income tax treatment of a REIT and its stockholders. These laws are highly technical and complex. We believe that we have been organized in conformity with the requirements for qualification and taxation as a REIT under the U.S. federal income tax laws, and our organization and current and proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT for our taxable year ending December 31, 2019 and subsequent taxable years. Investors should be aware that existing U.S. federal income tax law governing qualification as a REIT is subject to change either prospectively or retroactively. Moreover, our qualification and taxation as a REIT depend upon our ability to meet on a continuing basis, through actual annual operating results, certain qualification tests set forth in the U.S. federal income tax laws. Those qualification tests involve the percentage of income that we earn from specified sources, the percentage of our assets that fall within specified categories, the diversity of our stock ownership, and the percentage of our earnings that we distribute. Accordingly, given the complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the potential tax treatment of the investments we make, and the possibility of future changes in our circumstances, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements. In addition, we will be required to make estimates of or otherwise determine the value of our assets and the collateral for our assets, and the values of some assets may not be susceptible to a precise determination. There can be no assurance that the IRS would not challenge our valuations or valuation estimates of our assets or collateral. We may have to use one or more of the REIT relief provisions discussed below, which could require us to pay an excise or penalty tax (which could be material) in order for us to maintain our REIT qualification. For a discussion of the tax consequences of our failure to qualify as a REIT, see "-Failure to Qualify."

If we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our REIT taxable income that we currently distribute to our stockholders, but taxable income generated by any domestic taxable REIT subsidiaries, or "TRSs," will be subject to regular corporate income tax. However, we will be subject to U.S. federal tax in the following circumstances:

- We will pay U.S. federal income tax on our taxable income, including net capital gain, that we do not distribute to stockholders during, or within a specified time period after, the calendar year in which the income is earned.
- We will pay U.S. federal income tax at the highest corporate rate on:
    - net income from the sale or other disposition of property acquired through foreclosure, or foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, and
    - other non-qualifying income from foreclosure property.
- We will pay a 100% tax on net income earned from sales or other dispositions of property, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business (as described below under "-Prohibited Transactions").

- If we fail to satisfy the 75% gross income test or the 95% gross income test, as described below under “-Gross Income Tests,” but nonetheless continue to qualify as a REIT because we meet other requirements, we will be subject to a 100% tax on:
    - the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, multiplied, in either case, by
    - a fraction intended to reflect our profitability.
- If we fail to satisfy the asset tests (other than a de minimis failure of the 5% asset test, the 10% vote test or the 10% value test, as described below under “-Asset Tests”), as long as the failure was due to reasonable cause and not to willful neglect, we dispose of the assets or otherwise comply with such asset tests within six months after the last day of the quarter in which we identify such failure and we file a schedule with the IRS describing the assets that caused such failure, we will pay a tax equal to the greater of $50,000 or the product of the highest U.S. federal corporate tax rate and the net income from the non-qualifying assets during the period in which we failed to satisfy such asset tests.
- If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, and the failure was due to reasonable cause and not to willful neglect, we will be required to pay a penalty of $50,000 for each such failure, as described below under "-Failure to Qualify."
- We may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet recordkeeping requirements intended to monitor our compliance with rules relating to the composition of a REIT’s stockholders, as described below in “-Requirements for Qualification.”
- If we fail to distribute during a calendar year at least the sum of: (i) 85% of our REIT ordinary income for the year, (ii) 95% of our REIT capital gain net income for the year and (iii) any undistributed taxable income from earlier periods, we will pay a 4% nondeductible excise tax on the excess of the required distribution over the amount we actually distributed, plus any retained amounts on which income tax has been paid at the corporate level.
- We may elect to retain and pay U.S. federal income tax on our net long-term capital gain. In that case, a U.S. holder would be taxed on its proportionate share of our undistributed long-term capital gain (to the extent that we make a timely designation of such gain to the stockholder) and would receive a credit or refund for its proportionate share of the tax we paid.
- We will be subject to a 100% excise tax on transactions between us and a TRS that are not conducted on an arm’s-length basis.
- The earnings of any domestic TRS will be subject to U.S. federal corporate income tax.
- If we acquire any asset from a C corporation, or a corporation that generally is subject to full corporate-level tax, in a merger or other transaction in which we acquire a basis in the asset that is determined by reference either to the C corporation’s basis in the asset or to another asset, we will pay tax at the highest regular corporate rate applicable if we recognize gain on the sale or disposition of the asset during the 5-year period after we acquire the asset. The amount of gain on which we will pay tax is the lesser of:
    - the amount of gain that we recognize at the time of the sale or disposition, and
    - the amount of gain that we would have recognized if we had sold the asset at the time we acquired it, assuming that the C corporation will not elect, in lieu of this treatment, to be subject to an immediate tax when the asset is acquired.
- If we own a residual interest in a real estate mortgage investment conduit, or “REMIC,” we will be taxable at the highest corporate rate on the portion of any excess inclusion income that we derive from the REMIC residual interests equal to the percentage of our stock that is held in record name by “disqualified organizations.” Although the law is unclear, IRS guidance indicates that similar rules may apply to a REIT that owns an equity interest in a taxable mortgage pool. To the extent that the excess inclusion income generated by a taxable mortgage pool or a residual interest in a REMIC is blocked by our TRS, we will not be subject to this tax. A “disqualified organization” includes (i) the United States; (ii) any state or political subdivision of the United States; (iii) any foreign government; (iv) any international organization; (v) any agency or instrumentality of any of the foregoing; (vi) any other tax-exempt organization (other than a farmer's cooperative described in Section 521 of the Code) that is exempt from income taxation and is not

subject to taxation under the unrelated business taxable income provisions of the Code; and (vii) any rural electrical or telephone cooperative. We do not currently intend to hold REMIC residual interests or engage in financing activities that may result in treatment of us or a portion of our assets as a taxable mortgage pool. For a discussion of "excess inclusion income," see "-Requirements for Qualification-Taxable Mortgage Pools and Excess Inclusion Income."

In addition, notwithstanding our qualification as a REIT, we may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner that they are treated for U.S. federal income tax purposes. Moreover, as further described below, any domestic TRS in which we own an interest will be subject to U.S. federal, state and local corporate income tax on its taxable income. In addition, we may be subject to a variety of taxes other than U.S. federal income tax, including state and local franchise, property and other taxes and foreign taxes. We could also be subject to tax in situations and on transactions not presently contemplated.

Requirements for Qualification

A REIT is a corporation, trust, or association that meets each of the following requirements:

1. It is managed by one or more trustees or directors.
2. Its beneficial ownership is evidenced by transferable shares or by transferable certificates of beneficial interest.
3. It would be taxable as a domestic corporation, but for the REIT provisions of the U.S. federal income tax laws.
4. It is neither a financial institution nor an insurance company subject to special provisions of the U.S. federal income tax laws.
5. At least 100 persons are beneficial owners (determined without reference to any rules of attribution) of its shares or ownership certificates.
6. Not more than 50% in value of its outstanding shares or ownership certificates is owned, directly or indirectly, by five or fewer individuals, which the U.S. federal income tax laws define to include certain entities, during the last half of any taxable year.
7. It elects to be taxed as a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements that must be met to elect and maintain REIT qualification.
8. It meets certain other qualification tests, described below, regarding the nature of its income and assets and the distribution of its income.
9. It uses the calendar year as its taxable year.
10. It has no earnings and profits from any non-REIT taxable year at the close of any taxable year.

We must meet requirements 1 through 4, 8 and 9 during our entire taxable year and must meet requirement 5 during at least 335 days of a taxable year of twelve months, or during a proportionate part of a taxable year of less than twelve months. Requirements 5 and 6 will apply to us beginning with our 2020 taxable year. If we comply with all the requirements for ascertaining the ownership of shares of our outstanding stock in a taxable year and have no reason to know that we violated requirement 6, we will be deemed to have satisfied requirement 6 for that taxable year. For purposes of determining stock ownership under requirement 6, an "individual" generally includes a supplemental unemployment compensation benefits plan, a private foundation, or a portion of a trust permanently set aside or used exclusively for charitable purposes. An "individual" generally does not include a trust that is a qualified employee pension or profit sharing trust under the U.S. federal income tax laws, however, and beneficiaries of such a trust will be treated as holding shares of our stock in proportion to their actuarial interests in the trust for purposes of requirement 6.

We believe that we have issued shares of common stock with sufficient diversity of ownership to satisfy requirements 5 and 6. In addition, our certificate of incorporation restricts the ownership and transfer of shares of our common stock so that we should continue to satisfy these requirements. These restrictions, however, may not ensure that we will, in all cases, be able to satisfy these share ownership requirements. If we fail to satisfy these share ownership requirements, our qualification as a REIT may terminate.

To monitor compliance with the share ownership requirements, we generally are required to maintain records regarding the actual ownership of shares of our stock. To do so, we must demand written statements each year from the record holders of significant percentages of our stock pursuant to which the record holders must disclose the actual owners of the shares of our common stock (i.e., the persons required to include our dividends in their gross income). We must maintain a list of those persons failing or refusing to comply with this demand as part of our records. We could be subject to monetary penalties if we fail to comply with these record-keeping requirements. If you fail or refuse to comply with the demands, you will be required by U.S. Treasury regulations to submit a statement with your tax return disclosing your actual ownership of our stock and other information. In addition, we must satisfy all relevant filing and other administrative requirements established by the IRS to elect and maintain REIT qualification and use a calendar year for U.S. federal income tax purposes, and comply with the record keeping requirements of the Code and regulations promulgated thereunder.

Qualified REIT Subsidiaries

A corporation that is a “qualified REIT subsidiary” is disregarded as a corporation separate from its parent REIT for U.S. federal income tax purposes. All assets, liabilities, and items of income, deduction, and credit of a qualified REIT subsidiary are treated as assets, liabilities, and items of income, deduction, and credit of the REIT. A qualified REIT subsidiary is a corporation, other than a TRS, all of the stock of which is owned, directly or through one or more qualified REIT subsidiaries or disregarded entities, by the REIT. Thus, in applying the requirements described herein, all assets, liabilities, and items of income, deduction, and credit of any qualified REIT subsidiary that we own will be treated as our assets, liabilities, and items of income, deduction, and credit.

Other Disregarded Entities and Partnerships

An unincorporated domestic entity, such as a limited liability company, that has a single owner for U.S. federal income tax purposes generally is not treated as an entity separate from its parent for U.S. federal income tax purposes, including for purposes of the REIT gross income and asset tests. An unincorporated domestic entity with two or more owners for U.S. federal income tax purposes generally is treated as a partnership for U.S. federal income tax purposes. In the case of a REIT that is a partner in a partnership that has other partners, the REIT is treated as owning its proportionate share of the assets of the partnership and as earning its allocable share of the gross income of the partnership for purposes of the applicable REIT qualification tests. Thus, our proportionate share of the assets, liabilities, and items of income of any partnership, joint venture, or limited liability company that is treated as a partnership for federal income tax purposes in which we own or acquire an equity interest, directly or indirectly, are treated as our assets and gross income for purposes of applying the various REIT qualification requirements. Our proportionate share for purposes of the 10% value test (see “-Asset Tests”) is based on our proportionate interest in the equity interests and certain debt securities issued by the partnership. For all of the other asset and income tests, our proportionate share is based on our proportionate interest in the capital interests in the partnership.

In the event that a disregarded subsidiary of ours ceases to be wholly-owned, for example, if any equity interest in the subsidiary is acquired by a person other than us or another disregarded subsidiary of ours, the subsidiary’s separate existence would no longer be disregarded for U.S. federal income tax purposes. Instead, the subsidiary would have multiple owners for U.S. federal income tax purposes and would be treated as either a partnership or a taxable corporation (if previously a qualified REIT subsidiary). Such an event could, depending on the circumstances, adversely affect our ability to satisfy the various asset and gross income requirements applicable to REITs, including the requirement that REITs generally may not own, directly or indirectly, more than 10% of the total value or total voting power of the outstanding securities of another corporation. See “-Asset Tests” and “-Gross Income Tests.”

We have control of our operating partnership, and we intend to operate it in a manner consistent with the requirements for our qualification as a REIT. We may from time to time be a limited partner or non-managing member in some of our partnerships and limited liability companies. If a partnership or limited liability company in which we own an interest takes or expects to take actions that could jeopardize our status as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity. In addition, it is possible that a partnership or limited liability company could take an action that could cause us to fail a gross income or asset test, and that we would not become aware of such action in time to dispose of our interest in the partnership or limited liability company or take other corrective action on a timely basis. In that case, we could fail to qualify as a REIT unless we were entitled to relief, as described below.

Taxable REIT Subsidiaries

A REIT is permitted to own up to 100% of the stock of one or more TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. The subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation with respect to which a TRS directly or indirectly owns more than 35% of the voting power or value of the outstanding securities will automatically be treated as a TRS. However, an entity will not qualify as a TRS if it directly or indirectly operates or manages a lodging or health care facility or, generally, provides to another person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated. We generally may not own more than 10%, as measured by voting power or value, of the securities of a corporation that is not a qualified REIT subsidiary or a REIT unless we and such corporation elect to treat such corporation as a TRS. Overall, no more than 20% of the value of a REIT’s assets may consist of stock or securities of one or more TRSs.

The separate existence of a TRS or other taxable corporation, unlike a disregarded subsidiary as discussed above, is not ignored for U.S. federal income tax purposes. Accordingly, a domestic TRS would generally be subject to corporate income tax on its earnings, which may reduce the cash flow generated by us and our subsidiaries in the aggregate and our ability to make distributions to our stockholders.

For purposes of the asset and gross income tests, a REIT is not treated as holding the assets of a TRS or other taxable subsidiary corporation or as receiving any income that the subsidiary earns. Rather, the stock issued by the subsidiary is an asset in the hands of the REIT, and the REIT generally recognizes as income the dividends, if any, that it receives from such TRS. This treatment can affect the gross income and asset test calculations that apply to the REIT, as described below. Because a parent REIT does not include the assets and income of such subsidiary corporations in determining the parent REIT’s compliance with the REIT requirements, such entities may be used by the parent REIT to undertake indirectly activities that the REIT rules might otherwise preclude it from doing directly or through pass-through subsidiaries or render commercially unfeasible (for example, activities that give rise to certain categories of income such as non-qualifying hedging income or inventory sales).

Certain restrictions imposed on TRSs are intended to ensure that such entities will be subject to appropriate levels of U.S. federal income taxation. If amounts are paid to a REIT or deducted by a TRS due to transactions between a REIT, its tenants and/or a TRS, that exceed the amount that would be paid to or deducted by a party in an arm’s-length transaction, the REIT generally will be subject to an excise tax equal to 100% of such excess. We intend that all of our transactions with any TRS will be conducted on an arm’s-length basis, but there can be no assurance that we will be successful in this regard. The ability of our TRSs to deduct interest expense may be limited under rules applicable to corporations generally.

We have elected to treat certain of our domestic and foreign subsidiaries as TRSs, and we may form or invest in other domestic or foreign TRSs in the future. We may hold a significant amount of our assets in our TRSs, subject to the limitation that securities of TRSs may not represent more than 20% of our assets. Our domestic TRSs are fully subject to corporate income tax on their taxable income. To the extent that our TRSs pay any taxes, they will have less cash available for distribution to us. If dividends are paid by domestic TRSs to us, then the dividends we designate and pay to our stockholders who are taxed at individual rates, up to the amount of dividends that we receive from such entities, generally will be eligible to be taxed at the reduced 20% maximum federal rate applicable to qualified dividend income. See “-Taxation of U.S. Holders-Taxation of Taxable U.S. Holders on Distributions on Our Common Stock.”

Our foreign TRSs intend to operate in a manner that will not cause them to be subject to federal income tax. The Code and Treasury regulations promulgated thereunder provide a specific exemption from federal income tax to non-U.S. corporations that restrict their activities in the United States to trading in stocks and securities (or any other activity closely related thereto) for their own account, whether such trading (or such other activity) is conducted by the corporation or its employees through a resident broker, commission agent, custodian or other agent. Our foreign TRSs intend to rely on such exemption and do not intend to operate so as to be subject to federal income tax on their net income. Therefore, despite their status as TRSs, our foreign TRSs generally would not be subject to federal corporate income tax on their earnings. No assurance can be given, however, that the IRS will not challenge this treatment. If the IRS were to succeed in such a challenge, then it could greatly reduce the amounts that our foreign TRSs would have available to distribute to us and to pay to its creditors. Further, notwithstanding these rules, any gain recognized by a foreign corporation with respect to U.S. real property is subject to U.S. tax as if the foreign corporation were a U.S. taxpayer. It is not anticipated that our foreign TRSs will hold U.S. real property. We generally are required to include in income, on a current basis, the earnings of our foreign TRSs, but we do not benefit from any losses incurred until such TRS is liquidated or disposed.

We have formed a TRS in order to protect (“block”) certain stockholders from certain types of taxable income that could be detrimental to them, including “excess inclusion income,” a form of taxable income which can be generated by REMIC residual interests and “taxable mortgage pools,” as discussed in greater detail below. Specifically, to the extent that we form, purchase or hold any REMIC residual interest or any equity interest in a taxable mortgage pool, any excess inclusion income generated by such interest will be blocked by our existing TRS or a future TRS. As a result, we will not generate excess inclusion income for our stockholders.

Ownership of Subsidiary REITs

Our operating partnership owns 100% of the common shares of a subsidiary REIT. Our subsidiary REIT is also subject to the same various REIT qualification requirements and other limitations described herein that are applicable to us. We believe that our subsidiary REIT is organized and has operated and will continue to operate in a manner to permit it to qualify for taxation as a REIT for federal income tax purposes from and after the effective date of its REIT election. However, if a subsidiary REIT of ours were to fail to qualify as a REIT, then (1) the subsidiary REIT would become subject to regular U.S. corporate income tax, as described herein, see “-Failure to Qualify” below, and (2) our ownership of shares in such subsidiary REIT would cease to be a qualifying real estate asset for purposes of the 75% asset test and would become subject to the 5% asset test, the 10% vote test, and the 10% value test generally applicable to our ownership in corporations other than REITs, qualified REIT subsidiaries and TRSs. See “-Asset Tests” below. If our subsidiary REIT were to fail to qualify as a REIT, it is possible that we would not meet the 10% vote test and the 10% value test with respect to our indirect interest in such entity, in which event we would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions. While we believe that our subsidiary REIT has qualified as a REIT under the Code, we have joined the subsidiary REIT in filing a “protective” TRS election with respect to the subsidiary REIT. We cannot assure you that such “protective” TRS election would be effective to avoid adverse consequences to us. Moreover, even if the “protective” election were to be effective, the subsidiary REIT would be subject to regular corporate income tax, and we cannot assure you that we would not fail to satisfy the requirement that not more than 20% of the value of our total assets may be represented by the securities of one or more TRSs.

Taxable Mortgage Pools and Excess Inclusion Income

An entity, or a portion of an entity, that does not elect to be treated as a REMIC may be classified as a taxable mortgage pool under the Code if:

- substantially all of its assets consist of debt obligations or interests in debt obligations;

- more than 50% of those debt obligations are real estate mortgage loans or interests in real estate mortgage loans as of specified testing dates;

- the entity has issued debt obligations that have two or more maturities; and

- the payments required to be made by the entity on its debt obligations "bear a relationship" to the payments to be received by the entity on the debt obligations that it holds as assets.

Under applicable Treasury regulations, if less than 80% of the assets of an entity (or a portion of an entity) consists of debt obligations, these debt obligations are not considered to comprise "substantially all" of its assets, and therefore the entity would not be treated as a taxable mortgage pool.

A taxable mortgage pool generally is treated as a corporation for U.S. federal income tax purposes and cannot be included in any consolidated U.S. federal corporate income tax return. However, if a REIT is a taxable mortgage pool, or if a REIT owns a qualified REIT subsidiary that is a taxable mortgage pool, then the REIT or the qualified REIT subsidiary will not be taxable as a corporation, but a portion of the REIT's income will be treated as "excess inclusion income" and a portion of the dividends the REIT pays to its stockholders will be considered to be excess inclusion income. Similarly, a portion of the income from a REMIC residual interest may be treated as excess inclusion income.

To the extent that we form, purchase or hold any REMIC residual interest or any equity interest in a taxable mortgage pool, any excess inclusion income generated by such interest will be blocked by our existing TRS or a future TRS. As a result, we will not generate excess inclusion income for our stockholders.

Gross Income Tests

We must satisfy two gross income tests annually to qualify and maintain our qualification as a REIT.

First, at least 75% of our gross income for each taxable year must consist of defined types of income that we derive, directly or indirectly, from investments relating to real property or mortgage loans on real property or qualified temporary investment income. Qualifying income for purposes of the 75% gross income test generally includes:

- rents from real property;
- interest on debt secured by a mortgage on real property or on interests in real property and interest on debt secured by a mortgage on real property and personal property if the fair market value of such personal property does not exceed 15% of the total fair market value of all such property;
- dividends or other distributions on, and gain from the sale of, shares in other REITs;
- gain from the sale of real estate assets;
- income and gain derived from foreclosure property (as described below);
- income derived from a REMIC in proportion to the real estate assets held by the REMIC, unless at least 95% of the REMIC's assets are real estate assets, in which case all of the income derived from the REMIC; and
- income derived from the temporary investment of new capital that is attributable to the issuance of shares of our stock or a public offering of our debt with a maturity date of at least five years and that we receive during the one-year period beginning on the date on which we received such new capital.

Although a debt instrument issued by a "publicly offered REIT" (i.e., a REIT that is required to file annual and periodic reports with the SEC under the Exchange Act) is treated as a "real estate asset" for the asset tests, the interest income and gain from the sale of such debt instruments is not treated as qualifying income for the 75% gross income test unless the debt instrument is secured by real property or an interest in real property.

Second, in general, at least 95% of our gross income for each taxable year must consist of income that is qualifying income for purposes of the 75% gross income test, other types of interest and dividends, gain from the sale or disposition of stock or securities or any combination of these.

Certain income items do not qualify for either gross income test. Other types of income are excluded from both the numerator and the denominator in one or both of the gross income tests. Gross income from the following sources is excluded from both the numerator and denominator in both gross income tests:

- gain from a sale of property that we hold primarily for sale to customers in the ordinary course of business;
- income and gain from "hedging transactions," as defined below in "-Hedging Transactions";
- certain foreign currency gains, see "-Foreign Currency Gain"; and
- cancellation of indebtedness, or "COD," income.

We will monitor the amount of our non-qualifying income and will seek to manage our investment portfolio to comply at all times with the gross income tests, but we cannot assure you that we will be successful in this effort. The following paragraphs discuss the specific application of the gross income tests to us.

Interest and Income from Mortgage Loans and Mortgage-Backed Securities

The term "interest," as defined for purposes of both gross income tests, generally excludes any amount that is based in whole or in part on the income or profits of any person. However, interest generally includes the following:

- an amount that is based on a fixed percentage or percentages of receipts or sales; and
- an amount that is based on the income or profits of a debtor, as long as the debtor derives substantially all of its income from the real property securing the debt from leasing substantially all of its interest in the property, and only to the extent that the amounts received by the debtor would be qualifying "rents from real property" if received directly by a REIT.

If a loan contains a provision that entitles a REIT to a percentage of the borrower's gain upon the sale of the real property securing the loan or a percentage of the appreciation in the property's value as of a specific date, income attributable to that loan provision will be treated as gain from the sale of the property securing the loan, which generally is qualifying income for purposes of both gross income tests, provided that the property is not inventory or dealer property in the hands of the borrower or the REIT.

Interest on debt secured by a mortgage on real property or on interests in real property, including, for this purpose, market discount, original issue discount, discount points, prepayment penalties, loan assumption fees and late payment charges that are not compensation for services, generally is qualifying income for purposes of the 75% gross income test. Treasury Regulation Section 1.856-5(c) (the "interest apportionment regulation") provides that if a mortgage is secured by both real property and other property, a REIT is required to apportion its annual interest income to the real property security based on a fraction, the numerator of which is the value of the real property securing the loan, determined when the REIT commits to acquire the loan (or, in some circumstances, upon a "significant modification"), and the denominator of which is the highest "principal amount" of the loan during the year. If a mortgage is secured by both real property and personal property and the value of the personal property does not exceed 15% of the aggregate value of the property securing the mortgage, the mortgage is treated as secured solely by real property for this purpose. The portion of the interest income that will not be qualifying income for purposes of the 75% gross income test will be equal to the portion of the principal amount of the loan that is not secured by real property-that is, the amount by which the loan balance exceeds the applicable value of the real property that secures the loan. IRS guidance provides that we do not need to redetermine the fair market value of the real property securing a loan in connection with a loan modification that is occasioned by a borrower default or made at a time when we reasonably believe that the modification to the loan will substantially reduce a significant risk of default on the original loan.

We invest in residential mortgage-backed securities, or "RMBS," including both non-Agency RMBS and Agency RMBS. We also invest in commercial mortgage-backed securities, or "CMBS," residential and commercial mortgage loans, including non-performing and reperforming loans, and residential transition loans, or "RTLs." We refer to RMBS and CMBS collectively as "MBS." Other than income from derivative instruments, as described below, we expect that all of the income of our non-Agency RMBS, Agency RMBS, CMBS, and mortgage loans will be qualifying income for purposes of the 95% gross income test. In the case of MBS treated as interests in a grantor trust for U.S. federal income tax purposes, we would be treated as owning an undivided beneficial ownership interest in the mortgage loans held by the grantor trust. The interest on such mortgage loans (and any mortgage loans that we own directly) would be qualifying income for purposes of the 75% gross income test to the extent that the obligation is adequately secured (or solely secured) by real property, as discussed above. In the case of MBS treated as regular interests in a REMIC for U.S. federal income tax purposes, income derived from REMIC interests will generally be treated as qualifying income for purposes of the 75% gross income test. If less than 95% of the assets of the REMIC are real estate assets, however, then only a proportionate part of our interest in the REMIC and income derived from the interest will qualify for purposes of the 75% gross income test. We believe that all of the income that we derive from interests in Agency REMICs will be qualifying income for purposes of the 75% gross income test. In addition, some REMIC securitizations include imbedded interest rate swap or cap contracts or other derivative instruments that potentially could produce non-qualifying income for the holders of the related REMIC securities. We expect that any interest income from an MBS that is not treated as an interest in a grantor trust or an interest in a REMIC will not be qualifying income for purposes of the 75% gross income test. Accordingly, we may choose to purchase or hold such assets in a TRS.

We purchase and sell Agency MBS through to-be-announced forward contracts, or "TBAs," and recognize income or gains from the disposition of those TBAs, through dollar roll transactions or otherwise. While there is no direct authority with respect to the qualification of income or gains from dispositions of TBAs as gains from the sale of real property (including interests in real property and interests in mortgages on real property) or other qualifying income for purposes of the 75% gross income test, we treat income and gains from our TBAs under which we contract to purchase a to-be-announced Agency MBS ("long TBAs") as qualifying income for purposes of the 75% gross income test, based on an opinion of Hunton Andrews Kurth LLP substantially to the effect that, for purposes of the 75% REIT gross income test, any gain recognized by us in connection with the settlement of our long TBAs should be treated as gain from the sale or disposition of an interest in mortgages on real property. The opinion of Hunton Andrews Kurth LLP is based on various assumptions related to our long TBAs and is conditioned on fact-based representations and covenants made by our management regarding our long TBAs. No assurance can be given that the IRS would not assert that our income and gain from TBAs is not qualifying income. If the IRS were to successfully challenge the opinion of Hunton Andrews Kurth LLP, we could be subject to a penalty tax or we could fail to remain qualified as a REIT if a sufficient portion of our income consists of income or gains from the disposition of TBAs.

Our operating partnership has made an election under Section 475(f) of the Code to mark its securities to market. There are limited authorities under Section 475(f) of the Code as to what constitutes a trader for U.S. federal income tax purposes. Under other sections of the Code, the status of a trader in securities depends on all of the facts and circumstances, including the nature of the income derived from the taxpayer's activities, the frequency, extent and regularity of the taxpayer's securities transactions, and the taxpayer's investment intent. There can be no assurance that our operating partnership will continue to qualify as a trader in securities eligible to make the mark-to-market election. We have not received, nor are we seeking, an opinion from counsel or a ruling from the IRS regarding our or our operating partnership's qualification as a trader. If our operating partnership's qualification for, or our application of, the mark-to-market election were successfully challenged by the IRS, in whole or in part, it could, depending on the circumstances, result in retroactive (or prospective) changes in the amount or timing of gross income we recognize. As a result of its election under Section 475(f) of the Code, our operating partnership will be required each year to mark-to-market certain securities that it holds, and thereby recognize gain or loss as if it had sold those securities for their fair market value. The mark-to-market election also requires our operating partnership to recognize any accrued market discount on our debt securities held at the end of each year. Although there is limited analogous authority, we have been advised that any mark-to-market gains should be qualifying income for purposes of the 75% gross income test to the extent that the gain is recognized with respect to a qualifying real estate asset and that the mark-to-market gains should not be excluded from the gross income tests as income from a prohibited transaction. If the IRS were to successfully treat our mark-to-market gains as subject to the prohibited transaction tax or to successfully challenge the treatment or timing of recognition of our mark-to-market gains or losses with respect to our qualified liability hedges, we could owe material federal income or penalty tax or, in some circumstances, even fail to qualify as a REIT.

We may invest in mezzanine loans, which are loans secured by equity interests in an entity that directly or indirectly owns real property, rather than by a direct mortgage of the real property. In Revenue Procedure 2003-65, the IRS established a safe harbor under which loans secured by a first priority security interest in the ownership interests in a partnership or limited liability company owning real property will be treated as real estate assets for purposes of the REIT asset tests described below, and interest derived from those loans will be treated as qualifying income for both the 75% and 95% gross income tests, provided several requirements are satisfied. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. Moreover, our mezzanine loans may not meet all of the requirements for reliance on the safe harbor. To the extent any mezzanine loans that we acquire meet most but do not meet all the requirements for the safe harbor described above, the interest income from the loans will be qualifying income for purposes of the 95% gross income test, but there is a risk that such interest income will not be qualifying income for purposes of the 75% gross income test. We intend to invest in mezzanine loans in a manner that will enable us to satisfy the REIT gross income and asset tests.

We own and may acquire distressed mortgage loans. Revenue Procedure 2014-51 indicates that interest income on a distressed mortgage loan secured by real property and other property will be treated as qualifying income based on the ratio of: (i) the fair market value of the real property securing the debt determined as of the date the REIT committed to acquire the loan; and (ii) the face amount of the loan (and not the purchase price or current value of the loan). The face amount of a distressed mortgage loan will typically exceed the fair market value of the real property securing the mortgage loan on the date the REIT commits to acquire the loan. As noted above, if a mortgage is secured by both real property and personal property and the value of the personal property does not exceed 15% of the aggregate value of the property securing the mortgage, the mortgage is treated as secured solely by real property for this purpose. We believe that most of the mortgage loans that we acquire at a discount under the circumstances contemplated by Revenue Procedure 2014-51 are secured only by real property (including mortgage loans secured by both real property and personal property where the value of the personal property does not exceed 15% of the aggregate value of the property securing the mortgage). Accordingly, we believe that the interest apportionment regulation generally does not apply to our loans. Nevertheless, if the IRS were to assert successfully that our mortgage loans were secured by other property and, thus, that the interest apportionment rules and Revenue Procedure 2014-51 applied, our ability to satisfy the various asset and gross income requirements applicable to REITs could be adversely affected. To the extent we invest in distressed mortgage loans, we intend to do so in a manner consistent with qualifying as a REIT.

We invest in RTLs, which generally are short term loans secured by a mortgage on a residential property where the proceeds of the loan will be used, in part, to renovate the property. The interest from RTLs will be qualifying income for purposes of the REIT gross income tests, provided that the loan value of the real property securing the RTL is equal to or greater than the highest outstanding principal amount of the loan during any taxable year, and other requirements are met. Under the REIT provisions, where improvements will be constructed with the proceeds of the loan, the loan value of the real property is the fair market value of the land plus the reasonably estimated cost of the improvements or developments (other than personal property) that will secure the loan and that are to be constructed from the proceeds of the loan.

We may invest opportunistically in other types of mortgage and real estate-related assets. To the extent we invest in such assets, we intend to do so in a manner that will enable us to satisfy the 75% and 95% gross income tests described above.

Hedging Transactions

From time to time, we will enter into "hedging transactions" with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps, and floors, options to purchase these items, short U.S. treasury positions, futures and forward contracts, TBAs, and currency forward contracts. Except to the extent provided by Treasury Regulations, income and gain from hedging transactions will be excluded from gross income for purposes of both the 75% and 95% gross income tests provided we satisfy the identification requirements and other requirements discussed below. A hedging transaction includes (i) any transaction entered into in the normal course of our trade or business primarily to manage the risk of interest rate changes, price changes, or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets, or a "liability hedge," (ii) any transaction entered into primarily to manage risk of currency fluctuations with respect to any item of income or gain that is qualifying income for purposes of the 75% or 95% gross income test (or any property which generates such income or gain) or (iii) any transaction entered into to "offset" a transaction described in (i) or (ii) if a portion of the hedged indebtedness is extinguished or the related property is disposed. We are required to clearly identify any such hedging transaction before the close of the day on which it was acquired, originated, or entered into and satisfy other identification requirements. We are required to match the tax character and timing of income, deduction, gain or loss from hedging transactions as closely as possible with the tax character and timing of income, deduction, gain or loss from the item or items being hedged, but there is limited authority on the interaction of these rules with an election under Section 475(f) of the Code. To the extent that we hedge for other purposes, or to the extent that a portion of the hedged assets are not treated as "real estate assets" (as described below under "-Asset Tests"), or we fail to satisfy the identification requirements with respect to a hedging transaction, the income from the related transactions will likely be treated as non-qualifying income for purposes of both gross income tests.

We intend to structure any hedging transactions so that they are excluded from gross income for purposes of both the 75% and 95% gross income tests, including the satisfaction of the identification, tax character matching and other requirements described above, but these requirements involve the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist, and we cannot assure you that that the IRS will not successfully assert a contrary position. We may conduct some or all of our hedging activities through a TRS or other corporate entity, the income from which may be subject to U.S. federal income tax, rather than by participating in the arrangements directly or through pass-through subsidiaries. No assurance can be given, however, that our hedging activities will not give rise to income that does not qualify for purposes of either or both of the REIT gross income tests, or that our hedging activities will not adversely affect our ability to satisfy the REIT qualification requirements.

Even if the income from our hedging transactions is excluded from gross income for purposes of the 75% and 95% gross income tests, such income and any loss will be taken into account in determining our REIT taxable income and our distribution requirement. If the IRS disagrees with our calculation of the amount or timing of recognition of gain or loss with respect to our hedging transactions, including the impact of our operating partnership's election under Section 475(f) of the Code and the treatment of hedging expense and losses under Section 163(f) of the Code, our distribution requirement could increase, which could require that we correct any shortfall in distributions by paying deficiency dividends to our stockholders in a later year.

Dividends

Our share of any dividends received from any corporation (including dividends from any TRS, but excluding any REIT) in which we own an equity interest will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. Our share of any dividends received from our subsidiary REIT and any other REIT in which we own an equity interest will be qualifying income for purposes of both gross income tests. Income inclusions received with respect to equity investments in our foreign TRSs are qualifying income for purposes of the 95% gross income test but not the 75% gross income test.

Fee Income

We may earn income from fees in certain circumstances. Fee income generally will be qualifying income for purposes of both the 75% and 95% gross income tests if it is received in consideration for entering into an agreement to make a loan secured by real property, the fees are not determined by income and profits and the fees are not compensation for services. Other fees, including certain amounts received in connection with mortgage servicing rights, generally are not qualifying income for purposes of either gross income test. We may conduct some or all of our fee-generating activities through a TRS or other corporate entity, the income from which may be subject to U.S. federal income tax. Any fees earned by a TRS, like other income earned by a TRS, will not be included in our gross income for purposes of the gross income tests.

Foreign Currency Gain

Certain foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests. “Real estate foreign exchange gain” will be excluded from gross income for purposes of the 75% and 95% gross income tests. Real estate foreign exchange gain generally includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 75% gross income test, foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations secured by mortgages on real property or an interest in real property and certain foreign currency gain attributable to certain “qualified business units” of a REIT. “Passive foreign exchange gain” will be excluded from gross income for purposes of the 95% gross income test. Passive foreign exchange gain generally includes real estate foreign exchange gain as described above, and also includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 95% gross income test and foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations. These exclusions for real estate foreign exchange gain and passive foreign exchange gain do not apply to foreign currency gain derived from dealing, or engaging in substantial and regular trading, in securities. Such gain is treated as non-qualifying income for purposes of both the 75% and 95% gross income tests.

Rents from Real Property

Rents we receive from our real property will qualify as “rents from real property” in satisfying the gross income requirements for a REIT described above only if the following conditions are met:

- First, the amount of rent must not be based in whole or in part on the income or profits of any person. An amount received or accrued generally will not be excluded, however, from rents from real property solely by reason of being based on fixed percentages of receipts or sales.
- Second, rents we receive from a “related party tenant” will not qualify as rents from real property in satisfying the gross income tests unless the tenant is a TRS, at least 90% of the property is leased to unrelated tenants, the rent paid by the TRS is substantially comparable to the rent paid by the unrelated tenants for comparable space and the rent is not attributable to an increase in rent due to a modification of a lease with a “controlled TRS” (i.e., a TRS in which we own directly or indirectly more than 50% of the voting power or value of the stock). A tenant is a related party tenant if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns 10% or more of the tenant.
- Third, if rent attributable to personal property, leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.
- Fourth, we generally must not operate or manage our real property or furnish or render services to our tenants, other than through an “independent contractor” who is adequately compensated and from whom we do not derive revenue. We may, however, provide services directly to tenants if the services are “usually or customarily rendered” in connection with the rental of space for occupancy only and are not considered to be provided for the tenants’ convenience. In addition, we may provide a minimal amount of “non-customary” services to the tenants of a property, other than through an independent contractor, as long as our income from the services does not exceed 1% of our income from the related property. Furthermore, we may own up to 100% of the stock of a TRS, which may provide customary and non-customary services to tenants without tainting our rental income from the related properties.

We intend that any rent we receive in respect of our REO or other real property will be treated as qualifying “rents from real property.”

Prohibited Transactions

A REIT will incur a 100% tax on the net income (including foreign currency gain) derived from any sale or other disposition of property, other than foreclosure property, that the REIT holds "primarily for sale to customers in the ordinary course of a trade or business." Any such income will be excluded from the application of the 75% and 95% gross income tests. Whether a REIT holds an asset primarily for sale to customers in the ordinary course of a trade or business depends on the facts and circumstances in effect from time to time, including those related to a particular asset. We believe that none of our assets will be held primarily for sale to customers and that a sale of any of our assets will not be in the ordinary course of our business. Our Operating Partnership has made an election under Section 475(f) of the Code to mark its securities to market. We have been advised that any mark-to-market gains that we recognize pursuant to Section 475(f) of the Code should not be treated as gains from the sale of property to customers in the ordinary course of business. No assurance, however, can be given that the IRS will not successfully assert a contrary position, in which case we would be subject to the prohibited transaction tax on the sale of those assets. To the extent we intend to dispose of an asset that may be treated as held primarily for sale to customers in the ordinary course of a trade or business, we may contribute the asset to a TRS prior to the disposition. However, no assurance can be given that the IRS will respect the transaction by which property that may be characterized as held primarily for sale to customers in the ordinary course of a trade or business is contributed to a TRS; if such transaction is not respected, then we may be treated as having engaged in a prohibited transaction, and our net income therefrom would be subject to a 100% tax.

Foreclosure Property

We will be subject to tax at the maximum corporate rate on any income (including foreign currency gain) from foreclosure property, other than income that otherwise would be qualifying income for purposes of the 75% gross income test, less expenses directly connected with the production of that income. Gross income from foreclosure property will qualify, however, under the 75% and 95% gross income tests. Foreclosure property is any real property, including interests in real property, and any personal property incident to such real property:

- that is acquired by a REIT as the result of the REIT having bid on such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or default was imminent on a lease of such property or on indebtedness that such property secured;
- for which the related loan or lease was acquired by the REIT at a time when the default was not imminent or anticipated; and
- for which the REIT makes a proper election to treat the property as foreclosure property.

A REIT will not be considered, however, to have foreclosed on a property where the REIT takes control of the property as a mortgagee-in-possession and cannot receive any profit or sustain any loss except as a creditor of the mortgagor. Property generally ceases to be foreclosure property at the end of the third taxable year following the taxable year in which the REIT acquired the property, or longer if an extension is granted by the Secretary of the U.S. Treasury. This grace period terminates and foreclosure property ceases to be foreclosure property on the first day:

- on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for purposes of the 75% gross income test (disregarding income from foreclosure property), or any amount is received or accrued, directly or indirectly, pursuant to a lease entered into on or after such day that will give rise to income that does not qualify for purposes of the 75% gross income test (disregarding income from foreclosure property);
- on which any construction takes place on the property, other than completion of a building or any other improvement, where more than 10% of the construction was completed before default became imminent; or
- which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business that is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income or a TRS.

Failure to Satisfy Gross Income Tests

If we fail to satisfy one or both of the gross income tests for any taxable year, we nevertheless may qualify as a REIT for that year if we are entitled to qualify for relief under certain provisions of the U.S. federal income tax laws. Those relief provisions generally will be available if:

- our failure to meet those tests is due to reasonable cause and not to willful neglect; and
- following such failure for any taxable year, a schedule of the sources of our income is filed with the IRS in accordance with regulations prescribed by the Secretary of the U.S. Treasury.

We cannot with certainty predict whether any failure to meet these tests will qualify for the relief provisions. If these relief provisions are inapplicable to a particular set of circumstances involving us, we will not qualify as a REIT. As discussed above in "-Taxation of Our Company," even if the relief provisions apply, we would incur a 100% tax on the gross income attributable to the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, multiplied, in either case, by a fraction intended to reflect our profitability.

Asset Tests

To qualify as a REIT, we also must satisfy the following asset tests at the end of each quarter of each taxable year.

First, at least 75% of the value of our total assets must consist of:

- cash or cash items, including certain receivables and investments in money market funds;
- U.S. government securities;
- interests in real property, including leaseholds and options to acquire real property and leaseholds, and personal property to the extent such personal property is leased in connection with real property and rents attributable to such personal property are treated as "rents from real property";
- interests in mortgage loans secured by real property and interests in mortgage loans secured by real property and personal property if the fair market value of the personal property does not exceed 15% of the total fair market value of all such property;
- stock in other REITs and debt instruments issued by "publicly offered REITs" (however, see the *Sixth* asset test below);
- investments in stock or debt instruments during the one-year period following our receipt of new capital that we raise through equity offerings or public offerings of debt with at least a five-year term; and
- regular or residual interests in a REMIC. However, if less than 95% of the assets of a REMIC consist of assets that are qualifying real estate-related assets under the U.S. federal income tax laws, determined as if we held such assets, we will be treated as holding directly our proportionate share of the assets of such REMIC.

Second, of our investments not included in the 75% asset class, the value of our interest in any one issuer's securities (other than any TRS we may own) may not exceed 5% of the value of our total assets (the "5% asset test").

Third, of our investments not included in the 75% asset class, we may not own more than 10% of the total voting power or 10% of the total value of any one issuer's outstanding securities (the "10% vote test" and the "10% value test," respectively).

Fourth, no more than 20% of the value of our total assets may consist of the securities of one or more TRSs.

Fifth, no more than 25% of the value of our total assets may consist of the securities of TRSs and other non-TRS taxable subsidiaries and other assets that are not qualifying assets for purposes of the 75% asset test (the "25% securities test").

Sixth, no more than 25% of the value of our total assets may consist of debt instruments issued by "publicly offered REITs" to the extent such debt instruments are not secured by real property or interests in real property.

For purposes of these asset tests, we are treated as holding our proportionate share of the assets of any partnership and disregarded entity that we own, including our operating partnership. For purposes of the 5% asset test, the 10% vote test and the 10% value test, the term "securities" does not include stock in another REIT, debt of "publicly offered REITs," equity or debt securities of a qualified REIT subsidiary or TRS, mortgage loans or mortgage-backed securities that constitute real estate assets, or equity interests in a partnership. The term securities, however, generally includes debt securities issued by a partnership or another REIT (other than a "publicly offered REIT"), except that, for purposes of the 10% value test, the term "securities" does not include:

- "straight debt" securities, which is defined as a written unconditional promise to pay on demand or on a specified date a sum certain in money if (i) the debt is not convertible, directly or indirectly, into stock, and (ii) the interest rate and interest payment dates are not contingent on profits, the borrower's discretion, or similar factors. "Straight debt" securities do not include any securities issued by a partnership or a corporation in which we or any "controlled TRS" hold non-"straight" debt securities that have an aggregate value of more than 1% of the issuer's outstanding securities. However, "straight debt" securities include debt subject to the following contingencies:
    - a contingency relating to the time of payment of interest or principal, as long as either (i) there is no change to the effective yield of the debt obligation, other than a change to the annual yield that does not exceed the greater of 0.25% or 5% of the annual yield, or (ii) neither the aggregate issue price nor the aggregate face amount of the issuer's debt obligations held by us exceeds $1 million and no more than twelve months of unaccrued interest on the debt obligations can be required to be prepaid; and
    - a contingency relating to the time or amount of payment upon a default or prepayment of a debt obligation, as long as the contingency is consistent with customary commercial practice;
- any loan to an individual or an estate;
- any "section 467 rental agreement," other than an agreement with a related party tenant;
- any obligation to pay "rents from real property";
- certain securities issued by governmental entities that are not dependent in whole or in part on the profits of (or payments made by) a non-governmental entity;
- any security (including debt securities) issued by another REIT;
- any debt instrument of an entity treated as a partnership for U.S. federal income tax purposes in which we are a partner to the extent of our proportionate interest in the equity and certain debt securities issued by that partnership; or
- any debt instrument of an entity treated as a partnership for U.S. federal income tax purposes not described in the preceding bullet points if at least 75% of the partnership's gross income, excluding income from prohibited transactions, is qualifying income for purposes of the 75% gross income test described above in "-Gross Income Tests."

For purposes of the 10% value test, our proportionate share of the assets of a partnership is our proportionate interest in any securities issued by the partnership, without regard to the securities described in the last two bullet points above.

We invest in non-Agency RMBS, Agency RMBS, CMBS, residential and commercial mortgage loans, including non-performing and reperforming loans, and RTLs, among other things. In the case of MBS treated as interests in a grantor trust for U.S. federal income tax purposes, we will be treated as owning an undivided beneficial ownership interest in the mortgage loans held by the grantor trust. Such mortgage loans (and any mortgage loans that we own directly) generally will qualify as real estate assets for purposes of the 75% asset test to the extent that they are secured by real property as described in the following paragraph. In the case of MBS treated as regular interests in a REMIC for U.S. federal income tax purposes, such interests generally will qualify as real estate assets for purposes of the 75% asset test. If less than 95% of the assets of a REMIC are real estate assets, however, then only a proportionate part of our interest in the REMIC qualifies as a real estate asset for purposes of the REIT asset test. To the extent any of our investments in Agency RMBS are not treated as real estate assets, we expect such Agency RMBS will be treated as Government securities (and, therefore, as qualifying assets for purposes of the 75% asset test) because they are issued or guaranteed as to principal or interest by the United States or by a person controlled or supervised by and acting as an instrumentality of the government of the United States pursuant to authority granted by the Congress of the United States. Our investments in non-Agency RMBS and CMBS that are not interests in a grantor trust or REMIC or Government securities will not be treated as qualifying assets for purposes of the 75% asset test and will be subject to the 5% asset test, the 10% value test, the 10% vote test and the 25% securities test described above.

We also invest in distressed loans. As discussed above under "-Gross Income Tests," under the applicable Treasury regulations, if a mortgage is secured by both real property and other property, a REIT is required to apportion its annual interest income to the real property security based on a fraction, the numerator of which is the value of the real property securing the loan, determined when the REIT commits to acquire the loan (or, in some circumstances, upon a "significant modification"), and the denominator of which is the highest "principal amount" of the loan during the year. If a mortgage is secured by both real property and personal property and the value of the personal property does not exceed 15% of the aggregate value of the property securing the mortgage, the mortgage is treated as secured solely by real property for this purpose. Although the law is not entirely clear, if apportionment of interest is required, a portion of the loan will also likely be a non-qualifying asset for purposes of the 75% asset test. As noted above, we believe that most of the mortgage loans that we acquire at a discount under the circumstances contemplated by Revenue Procedure 2014-51 are secured only by real property (including mortgage loans secured by both real property and personal property where the value of the personal property does not exceed 15% of the aggregate value of the property securing the mortgage). Accordingly, we believe that the interest apportionment rules and Revenue Procedure 2014-51 generally do not apply to our loans. Nevertheless, if the IRS were to assert successfully that our mortgage loans were secured by other property and, thus, that the interest apportionment rules and Revenue Procedure 2014-51 applied, our ability to satisfy the various asset and gross income requirements applicable to REITs could be adversely affected. For loans secured by real property and other property, Revenue Procedure 2014-51 provides a safe harbor under which the IRS has stated that it will not challenge a REIT's treatment of a loan as being, in part, a qualifying real estate asset in an amount equal to the lesser of (i) the fair market value of the loan on the relevant quarterly REIT asset testing date or (ii) the greater of (a) the fair market value of the real property securing the loan on the relevant quarterly REIT asset testing date or (b) the fair market value of the real property securing the loan on the date the REIT committed to originate or acquire the loan. We intend to invest in mortgage loans, including distressed loans, in a manner consistent with qualifying and maintaining our qualification as a REIT.

We may invest in mezzanine loans. As described above, Revenue Procedure 2003-65 provides a safe harbor pursuant to which certain mezzanine loans secured by a first priority security interest in ownership interests in a partnership or limited liability company will be treated as qualifying assets for purposes of the 75% asset test (and therefore, are not subject to the 5% asset test and the 10% vote test or value test). See "-Gross Income Tests." Although the mezzanine loans we acquire may not meet all of the requirements for that safe harbor, we expect any mezzanine loans we acquire generally will be treated as qualifying assets for the 75% asset test or should be excluded from the definition of securities for purposes of the 10% value test. We intend to invest in mezzanine loans in a manner that will enable us to continue to satisfy the REIT asset tests.

We enter into repurchase agreements under which we nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets in exchange for a purchase price that reflects a financing charge. Based on positions the IRS has taken in analogous situations, we believe that these transactions would be treated as secured debt, and that we would be treated for REIT asset and income test purposes as the owner of the assets that would be the subject of such agreements, notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own our assets subject to sale and repurchase agreements during the term of such agreements, in which case we could fail to qualify as a REIT.

We purchase Agency MBS through TBAs. While there is no direct authority with respect to the qualification of TBAs as real estate assets or U.S. government securities for purposes of the 75% asset test, we treat our long TBAs as qualifying assets for purposes of the REIT asset tests, based on an opinion of Hunton Andrews Kurth LLP substantially to the effect that for purposes of the REIT asset tests, our ownership of a long TBA should be treated as ownership of real estate assets. The opinion of Hunton Andrews Kurth LLP is based on various assumptions related to our long TBAs and is conditioned on fact-based representations and covenants made by our management regarding our long TBAs. No assurance can be given that the IRS would not assert that our long TBAs are not qualifying assets. If the IRS were to successfully challenge the opinion of Hunton Andrews Kurth LLP, we could be subject to a penalty tax or we could fail to remain qualified as a REIT if a sufficient portion of our assets consists of TBAs.

Derivative instruments, other than long TBAs as discussed in the prior paragraph, generally are not qualifying assets for purposes of the 75% asset test. Thus, derivative instruments such as interest rate swaps, futures contracts, and other similar instruments, even if used in and identified as “hedging transactions” as described in “-Hedging Transactions,” are non-qualifying assets for purposes of the 75% asset test. Therefore, we will limit our investment in such derivative instruments and any other non-qualifying assets to no more than 25% of our total assets at the end of any calendar quarter.

As discussed above, we may invest opportunistically in other types of mortgage-related assets. To the extent we invest in such assets, we intend to do so in a manner that will enable us to satisfy each of the asset tests described above. However, we cannot assure you that we will be able to satisfy the asset tests described above. We will monitor the status of our assets for purposes of the various asset tests and seek to manage our portfolio to comply at all times with such tests. No assurance, however, can be given that we will continue to be successful in this effort. In this regard, to determine our compliance with these requirements, we will have to value our investment in our assets to ensure compliance with the asset tests. Although we seek to be prudent in making these estimates, no assurances can be given that the IRS might not disagree with these determinations and assert that a different value is applicable, in which case we might not satisfy the 75% asset test and the other asset tests and, thus, would fail to qualify as a REIT.

If we fail to satisfy the asset tests at the end of a calendar quarter, we will not lose our REIT qualification so long as:

- we satisfied the asset tests at the end of the preceding calendar quarter; and
- the discrepancy between the value of our assets and the asset test requirements arose from changes in the market values of our assets and was not wholly or partly caused by the acquisition of one or more non-qualifying assets.

If we did not satisfy the condition described in the second item, above, we still could avoid disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which it arose.

If we violate the 5% asset test, the 10% vote test or the 10% value test described above at the end of any calendar quarter, we will not lose our REIT qualification if (i) the failure is de minimis (up to the lesser of 1% of the total value of our assets or $10 million) and (ii) we dispose of assets causing the failure or otherwise comply with the asset tests within six months after the last day of the quarter in which we identified such failure. In the event of a more than de minimis failure of any of the asset tests, as long as the failure was due to reasonable cause and not to willful neglect, we will not lose our REIT qualification if we (i) dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identified such failure, (ii) file a schedule with the IRS describing the assets that caused such failure in accordance with regulations promulgated by the Secretary of the U.S. Treasury and (iii) pay a tax equal to the greater of $50,000 or the product of the highest U.S. federal corporate tax rate and the net income from the non-qualifying assets during the period in which we failed to satisfy the asset tests. If these relief provisions are inapplicable to a particular set of circumstances involving us, we will fail to qualify as a REIT.

We intend to monitor the status of our assets and our future acquisition of assets to ensure that we comply with those requirements, but we cannot assure you that we will be successful in this effort. No independent appraisals will be obtained to support our estimates of and conclusions as to the value of our assets and securities, or in many cases, the real estate collateral for the mortgage loans that support our MBS. Moreover, the values of some assets may not be susceptible to a precise determination, and values are subject to change in the future. Furthermore, the proper classification of an instrument as debt or equity for U.S. federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT asset requirements. As a result, no assurance can be given that the IRS will not contend that our ownership of securities and other assets violates one or more of the asset tests applicable to REITs.

Distribution Requirements

Each taxable year, we must distribute dividends, other than capital gain dividends and deemed distributions of retained capital gain, to our stockholders in an aggregate amount at least equal to:

- the sum of
    - 90% of our “REIT taxable income,” computed without regard to the dividends paid deduction and our net capital gain, and
    - 90% of our after-tax net income, if any, from foreclosure property, minus
- the sum of certain items of non-cash income.

We must make such distributions in the taxable year to which they relate, or in the following taxable year if either (i) we declare the distribution before we timely file our U.S. federal income tax return for the year and pay the distribution on or before the first regular dividend payment date after such declaration or (ii) we declare the distribution in October, November or December of the taxable year, payable to stockholders of record on a specified day in any such month, and we actually pay the dividend before the end of January of the following year. The distributions under clause (i) are taxable to the stockholders in the year in which paid, and the distributions in clause (ii) are treated as paid on December 31 of the prior taxable year to the extent of undistributed earnings and profits as of December 31 of the prior taxable year. In both instances, these distributions relate to our prior taxable year for purposes of the 90% distribution requirement.

If we cease to be a “publicly offered REIT,” then in order for distributions to be counted as satisfying the annual distribution requirements for REITs, and to provide us with a REIT-level tax deduction, our distributions must not be considered to be “preferential dividends.” A dividend is not a preferential dividend if the distribution is (i) pro-rata among all outstanding shares of stock within a particular class and (ii) in accordance with the preferences among different classes of stock as set forth in our organizational documents.

We will pay U.S. federal income tax on taxable income, including net capital gain, that we do not distribute to stockholders. Furthermore, if we fail to distribute during a calendar year, or by the end of January following the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of:

- 85% of our REIT ordinary income for such year,
- 95% of our REIT capital gain income for such year, and
- any undistributed taxable income from prior periods,

we will incur a 4% nondeductible excise tax on the excess of such required distribution over the amounts we actually distribute.

We may elect to retain and pay income tax on the net long term capital gain we recognize in a taxable year. See “-Taxation of U.S. Holders-Taxation of Taxable U.S. Holders on Distributions on Our Common Stock.” If we so elect, we will be treated as having distributed any such retained amount for purposes of the REIT distribution requirements and the 4% nondeductible excise tax described above. We intend to make timely distributions sufficient to satisfy the annual distribution requirements and to avoid corporate income tax and the 4% nondeductible excise tax.

It is possible that, from time to time, we may experience timing differences between the actual receipt of cash, including distributions from our subsidiaries, and actual payment of deductible expenses and the inclusion of that income and deduction of such expenses in arriving at our REIT taxable income. Possible examples of those timing differences include the following:

- Because we may deduct capital losses only to the extent of our capital gains, we may have taxable income that exceeds our economic income.
- We will recognize taxable income in advance of the related cash flow with respect to our investments that are deemed to have original issue discount, such as many of our CMBS. We generally must accrue original issue discount based on a constant yield method that takes into account projected prepayments but that defers taking into account credit losses until they are actually incurred. We may be required to recognize such income when it is accrued in our financial statements, if earlier.
- Our operating partnership has elected to mark its securities to market under Section 475(f) of the Code. As a result, we will recognize income each year without any corresponding cash (unless the asset is actually sold during the year).
- If we acquire distressed loans at a discount and then significantly modify those loans, we would recognize gain, without the receipt of any cash, on the resulting deemed exchange equal to the difference between the adjusted issue price of the modified loan (which will generally be the face amount of the modified loan) and our adjusted tax basis in the original loan.
- We may acquire investments that are treated as having “market discount” for U.S. federal income tax purposes, because the investments are debt instruments that we acquire for an amount less than their principal amount. As a result of our operating partnership’s election under Section 475(f) of the Code, we will be required to include market discount in income currently, even if no cash is received. The recognition of market discount results in an acceleration of the recognition of taxable income to periods prior to the receipt of the related economic income. Further, to the extent that such an investment does not fully amortize according to its terms, we may never receive the economic income attributable to previously recognized market discount.
- We may engage in foreclosures or other transactions that result in the conversion of our non-performing residential or commercial mortgage loans to real property. Such transactions could also give rise to taxable income without a corresponding receipt of cash.

Although several types of non-cash income are excluded in determining the annual distribution requirement, we will incur corporate income tax and the 4% nondeductible excise tax with respect to those non-cash income items if we do not distribute those items on a current basis. As a result of the foregoing, we may have less cash than is necessary to distribute all of our taxable income and thereby avoid corporate income tax and the excise tax imposed on certain undistributed income. In such a situation, we may need to borrow funds, sell assets or make taxable distributions of our stock or debt securities.

We may satisfy the 90% distribution test with taxable distributions of our stock or debt securities. The IRS has issued a revenue procedure authorizing "publicly offered REITs" to treat certain distributions that are paid partly in cash and partly in stock as dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for federal income tax purposes. We have no current intention to make a taxable dividend payable partly in cash and partly in our stock.

Determination of our REIT taxable income involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. If the IRS disagrees with our determination, it could affect our satisfaction of the distribution requirements. Under certain circumstances, we may be able to correct a failure to meet the distribution requirement for a year by paying “deficiency dividends” to our stockholders in a later year. We may include such deficiency dividends in our deduction for dividends paid for the earlier year. Although we may be able to avoid income tax on amounts distributed as deficiency dividends, we will be required to pay interest and may be required to pay a penalty to the IRS based upon the amount of any deduction we take for deficiency dividends.

Recordkeeping Requirements

We must maintain certain records in order to maintain our qualification as a REIT. In addition, to avoid a monetary penalty, we must request on an annual basis information from our stockholders designed to disclose the actual ownership of our outstanding stock. We intend to comply with these requirements.

Failure to Qualify

If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, we could avoid disqualification if our failure is due to reasonable cause and not to willful neglect, and we pay a penalty of $50,000 for each such failure. In addition, there are relief provisions for a failure of the gross income tests and asset tests, as described in “-Gross Income Tests” and “-Asset Tests.”

If we fail to qualify as a REIT in any taxable year, and no relief provision applies, we would be subject to U.S. federal income tax and any applicable alternative minimum tax on our taxable income at regular corporate rates. Further, if we fail to qualify as a REIT, we might need to borrow money or sell assets in order to pay any resulting tax. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. In calculating our taxable income in a year in which we fail to qualify as a REIT, we would not be able to deduct amounts paid out to stockholders. In fact, we would not be required to distribute any amounts to stockholders in that year. In such event, to the extent of our current or accumulated earnings and profits, all distributions to stockholders would be taxable as ordinary income. Subject to certain limitations of the U.S. federal income tax laws, corporate stockholders might be eligible for the dividends received deduction and stockholders taxed at individual rates might be eligible for the reduced U.S. federal income tax rate of 20% on such dividends. Our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and it would adversely affect the value of our capital stock. Unless we qualified for relief under specific statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. We cannot predict whether in all circumstances we would qualify for such statutory relief.

Taxation of the Operating Partnership

We hold substantially all of our assets through our operating partnership. Under the Code, a partnership generally is not subject to U.S. federal income tax, but is required to file a partnership tax information return each year. In general, the character of each partner’s share of each item of income, gain, loss, deduction, credit, and tax preference is determined at the partnership level. Each partner is then allocated a distributive share of such items in accordance with the partnership agreement and is required to take such items into account in determining such partner’s income. Each partner includes such amount in income for any taxable year of the partnership ending within or with the taxable year of the partner, without regard to whether the partner has received or will receive any cash distributions from the partnership. Cash distributions, if any, from a partnership to a partner generally are not taxable unless and to the extent they exceed the partner’s basis in its partnership interest immediately before the distribution. Any amounts in excess of such tax basis will generally be treated as a sale or exchange of such partner’s interest in the partnership.

As noted above, for purposes of the REIT income and asset tests, we are treated as receiving or holding our proportionate share of our operating partnership’s income and assets, respectively. We control, and intend to continue to control, our operating partnership and intend to operate it consistently with the requirements for our qualification as a REIT.

We may issue equity compensation to employees in the form of interests in our operating partnership that provide for capital gain treatment to the employees but do not generate a corresponding deduction for our operating partnership.

The discussion above assumes that our operating partnership will be treated as a "partnership" for U.S. federal income tax purposes. Generally, a domestic unincorporated entity with two or more partners is treated as a partnership for U.S. federal income tax purposes unless it affirmatively elects to be treated as a corporation. However, certain "publicly traded partnerships" are treated as corporations for U.S. federal income tax purposes. We intend to comply with one or more exceptions to treatment of our operating partnership as a corporation under the publicly traded partnership rules. Failure to qualify for such an exception would prevent us from qualifying as a REIT.

Taxation of U.S. Holders

The term "U.S. holder" means a beneficial owner of our common stock that, for U.S. federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any of its States or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- any trust if (i) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) it has a valid election in place to be treated as a U.S. person.

If a partnership, entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our common stock, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership and certain determinations made at the partner level. If you are a partner in a partnership holding our common stock, you should consult your tax advisor regarding the consequences of the purchase, ownership and disposition of shares of our common stock by the partnership.

Taxation of Taxable U.S. Holders on Distributions on Our Common Stock

As long as we qualify as a REIT, a taxable U.S. holder must generally take into account as ordinary income distributions made out of our current or accumulated earnings and profits that we do not designate as capital gain dividends or retained long-term capital gain. For purposes of determining whether a distribution is made out of our current or accumulated earnings and profits, our earnings and profits will be allocated first to our preferred stock dividends, if any, and then to our common stock dividends. A U.S. holder will not qualify for the dividends received deduction generally available to corporations.

For taxable years beginning before January 1, 2026, individuals, trusts and estates may deduct up to 20% of certain pass-through income, including ordinary REIT dividends that are not "capital gain dividends" or "qualified dividend income," subject to certain limitations (the "pass-through deduction"). For taxable years beginning before January 1, 2026, the maximum tax rate for U.S. holders taxed at individual rates is 37%. For taxpayers qualifying for the full pass-through deduction, the effective maximum tax rate on ordinary REIT dividends for taxable years beginning before January 1, 2026 would be 29.6% (exclusive of the 3.8% Medicare tax).

The maximum tax rate for "qualified dividend income" received by taxpayers taxed at individual rates is 20%. Qualified dividend income generally includes dividends paid to U.S. holders taxed at individual rates by domestic taxable C corporations and certain qualified foreign corporations. Because we are not generally subject to U.S. federal income tax on the portion of our REIT taxable income distributed to our stockholders (see "-Taxation of Our Company" above), our dividends paid to a U.S. holder generally will not be eligible for the 20% rate on qualified dividend income. As a result, our ordinary REIT dividends will be taxed at a higher rate than those of domestic taxable C corporations. However, the 20% tax rate for qualified dividend income will apply to our ordinary REIT dividends (i) attributable to dividends received by us from certain non-REIT corporations (e.g., dividends from any domestic TRSs), (ii) to the extent attributable to income upon which we have paid corporate income tax (e.g., to the extent that we distribute less than 100% of our taxable income) and (iii) attributable to income in the prior taxable year from the sales of "built-in gain" property acquired by us from C corporations in carryover basis transactions (less the amount of corporate tax on such income). In general, to qualify for the reduced tax rate on qualified dividend income, a U.S. holder must hold shares of our stock for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which our common stock become ex-dividend.

Individuals, trusts and estates whose income exceeds certain thresholds are also subject to a 3.8% Medicare tax on dividends received from us.

A U.S. holder generally will take into account distributions that we properly designate as capital gain dividends as long-term capital gain, to the extent that they do not exceed our actual net capital gain for the taxable year, without regard to the period for which the U.S. holder has held shares of our common stock. A corporate U.S. holder may, however, be required to treat up to 20% of certain capital gain dividends as ordinary income.

We may elect to retain and pay income tax on the net long-term capital gain that we recognize in a taxable year. In that case, to the extent we designate such amount on a timely notice to such stockholder, a U.S. holder would be taxed on its proportionate share of our undistributed long-term capital gain. The U.S. holder would receive a credit or refund for its proportionate share of the tax we paid. The U.S. holder would increase the basis in its common stock by the amount of its proportionate share of our undistributed long-term capital gain, minus its share of the tax we paid.

A U.S. holder will not incur tax on a distribution in excess of our current and accumulated earnings and profits if the distribution does not exceed the adjusted basis of the U.S. holder's common stock. Instead, the distribution will reduce the adjusted basis of each such share of common stock. A U.S. holder will recognize a distribution in excess of both our current and accumulated earnings and profits and the U.S. holder's adjusted basis in his or her common stock as long-term capital gain, or short-term capital gain if the shares of common stock have been held for one year or less, assuming the shares are a capital asset in the hands of the U.S. holder. In addition, if we declare a distribution in October, November or December of any year that is payable to a U.S. holder of record on a specified date in any such month, such distribution, to the extent of undistributed earnings and profits as of December 31 of such year, shall be treated as both paid by us and received by the U.S. holder on December 31 of such year, provided that we actually pay the distribution during January of the following calendar year, as described in "-Distribution Requirements."

Stockholders may not include in their individual income tax returns any of our net operating losses or capital losses. Instead, these losses are generally carried over by us for potential offset against our future income or capital gains.

Taxable distributions from us and gain from the disposition of shares of our common stock will not be treated as passive activity income and, therefore, a U.S. holder generally will not be able to apply any "passive activity losses," such as losses from certain types of limited partnerships in which such U.S. holder is a limited partner, against such income. In addition, taxable distributions from us and gain from the disposition of our shares of common stock generally will be treated as investment income for purposes of the investment interest limitations. We will notify stockholders after the close of our taxable year as to the portions of the distributions attributable to that year that constitute ordinary income, return of capital and capital gain.

We may recognize phantom income, which is taxable income in excess of our economic income, in various situations, including the earlier years that we hold certain investments or in the year that we modify certain loan investments, and we may only experience an offsetting excess of economic income over our taxable income in later years, if at all. As a result, U.S. holders at times may be required to pay U.S. federal income tax on distributions taxable as dividends that economically represent a return of capital rather than a dividend. Taking into account the time value of money, this acceleration or increase of U.S. federal income tax liabilities may reduce a U.S. holder's after-tax return on his or her investment to an amount less than the after-tax return on an investment with an identical before-tax rate of return that did not generate phantom income. For example, if an investor with a 30% tax rate purchases a taxable bond with an annual interest rate of 10% on its face value, the investor's before-tax return on the investment would be 10% and the investor's after-tax return would be 7%. However, if the same investor purchased shares of our common stock at a time when the before-tax rate of return was 10%, the investor's after-tax rate of return on such common stock might be somewhat less than 7% as a result of our phantom income. In general, as the ratio of our phantom income to our total income increases, the after-tax rate of return received by a taxable U.S. holder will decrease.

To the extent that we have available net operating losses and capital losses carried forward from prior tax years, such losses may reduce the amount of distributions that must be made in order to comply with the REIT distribution requirements. See "-Taxation of Our Company" and "-Distribution Requirements." Such losses, however, are not passed through to U.S. holders and do not offset income of U.S. holders from other sources, nor do they affect the character of any distributions that are actually made by us, which are generally subject to tax in the hands of U.S. holders to the extent that we have current or accumulated earnings and profits.

Taxation of Taxable U.S. Holders on the Disposition of Our Common Stock

In general, a U.S. holder who is not a dealer in securities must treat any gain or loss realized upon a taxable disposition of shares of our common stock as long-term capital gain or loss if the U.S. holder has held such common stock for more than one year and otherwise as short-term capital gain or loss. In general, a U.S. holder will realize gain or loss in an amount equal to the difference between the sum of the fair market value of any property and the amount of cash received in such disposition and the U.S. holder's adjusted tax basis. A holder's adjusted tax basis generally will equal the U.S. holder's acquisition cost, increased by the excess of net capital gains deemed distributed to the U.S. holder (discussed above) less tax deemed paid by such U.S. holder on such gains and reduced by any returns of capital. However, a U.S. holder must treat any loss upon a sale or exchange of common stock held by such holder for six months or less as a long-term capital loss to the extent of capital gain dividends and any other actual or deemed distributions from us that such U.S. holder treats as long term capital gain. All or a portion of any loss that a U.S. holder realizes upon a taxable disposition of our common stock may be disallowed if the U.S. holder purchases shares of our common stock (or substantially similar common stock) within 30 days before or after the disposition.

Capital Gains and Losses

A taxpayer generally must hold a capital asset for more than one year for gain or loss derived from its sale or exchange to be treated as long-term capital gain or loss. The maximum tax rate on long-term capital gain applicable to U.S. holders taxed at individual rates is 20% for sales and exchanges of assets held for more than one year. The maximum tax rate on long-term capital gain from the sale or exchange of "Section 1250 property," or depreciable real property, is 25%, which applies to the lesser of the total amount of the gains or the accumulated depreciation on the Section 1250 property. Individuals, trusts and estates whose income exceeds certain thresholds are also subject to a 3.8% Medicare tax on gain from the sale of our common stock.

With respect to distributions that we designate as capital gain dividends and any retained capital gain that we are deemed to distribute, we will designate whether such a distribution is taxable to U.S. holders taxed at individual rates at a 20% or 25% rate. The highest marginal individual income tax rate currently is 37%. Thus, the tax rate differential between capital gain and ordinary income for those taxpayers may be significant. In addition, the characterization of income as capital gain or ordinary income may affect the deductibility of capital losses, including capital losses recognized upon the disposition of our stock. A non-corporate taxpayer may deduct capital losses not offset by capital gains against its ordinary income only up to a maximum annual amount of $3,000. A non-corporate taxpayer may carry forward unused capital losses indefinitely. A corporate taxpayer must pay tax on its net capital gain at ordinary corporate rates. A corporate taxpayer may deduct capital losses only to the extent of capital gains, with unused losses being carried back three years and forward five years.

Information Reporting Requirements and Withholding

We or the applicable withholding agent will report to U.S. holders and to the IRS the amount and the tax character of distributions we pay during each calendar year, and the amount of tax we withhold, if any. Under the backup withholding rules, a U.S. holder may be subject to backup withholding with respect to distributions unless such holder:

- is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact; or
- provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with the applicable requirements of the backup withholding rules.

A U.S. holder who does not provide the applicable withholding agent with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the U.S. holder's income tax liability. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the U.S. holder's U.S. federal income tax liability if certain required information is timely furnished to the IRS. U.S. holders are urged to consult their own tax advisors regarding application of backup withholding to them and the availability of, and procedure for obtaining an exemption from, backup withholding. In addition, the applicable withholding agent may be required to withhold a portion of distributions to any U.S. holders who fail to certify their U.S. status. Under the Foreign Account Tax Compliance Act, or "FATCA," a U.S. withholding tax at a 30% rate will be imposed on dividends received by U.S. holders who own our common stock through foreign accounts or foreign intermediaries if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. We will not pay any additional amounts in respect of amounts withheld.

Taxation of Tax-Exempt Holders of Our Stock

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, are generally exempt from U.S. federal income taxation. However, they are subject to taxation on their unrelated business taxable income, or "UBTI." While many investments in real estate generate UBTI, the IRS has issued a ruling that dividend distributions from a REIT to an exempt employee pension trust do not constitute UBTI. Based on that ruling, amounts that we distribute to tax-exempt stockholders generally should not constitute UBTI so long as shares of our stock are not otherwise used in an unrelated trade or business. However, if a tax-exempt stockholder were to finance its investment in our stock with debt, a portion of the income that it receives from us would constitute UBTI pursuant to the "debt-financed property" rules.

We previously were taxed as a partnership. A tax-exempt partner in a partnership (or an entity or arrangement treated as partnership for U.S. federal income tax purposes) that regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner must include, in computing its UBTI, its pro rata share (whether or not distributed) of such partnership's gross income derived from such unrelated trade or business. Moreover, such tax- exempt partner could be treated as earning UBTI to the extent that such entity derives income from "debt-financed property," or if the partnership interest itself is debt financed. When we were taxed as a partnership, we incurred "acquisition indebtedness" with respect to certain of our assets. However, as a result of our conversion to a corporation, our tax-exempt stockholders will no longer be allocated UBTI as a result of any debt that we incur.

Although REIT dividends that are attributable to excess inclusion income would constitute UBTI in the hands of most tax-exempt stockholders, we will not generate excess inclusion income for our stockholders. Specifically, to the extent that we form, purchase or hold any equity interest in taxable mortgage pools or REMIC residual interests, any excess inclusion income generated by such interest will be blocked by our existing TRS or a future TRS.

Tax-exempt stockholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans, exempt from taxation under special provisions of the U.S. federal income tax laws, are subject to different UBTI rules, which generally will require them to characterize distributions that they receive from us as UBTI.

In certain circumstances, a qualified employee pension trust or profit sharing trust that owns more than 10% of our stock could be required to treat a percentage of the dividends that it receives from us as UBTI if we are a "pension-held REIT." We will not be a pension-held REIT unless either (a) one pension trust owns more than 25% of the value of our common stock or (b) a group of pension trusts individually holding more than 10% of our common stock collectively own more than 50% of the value of our common stock. However, the restrictions on ownership and transfer of our common stock are designed to, among other things, prevent a tax-exempt entity from owning more than 10% of the value of our common stock, thus making it unlikely that we will become a pension-held REIT.

Taxation of Non-U.S. Holders

The term "non-U.S. holder" means a beneficial owner of our common stock that is not a U.S. holder or a partnership (or an entity or arrangement treated as a partnership for U.S. federal income tax purposes). The rules governing U.S. federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships and other foreign holders are complex. This section is only a summary of such rules. We urge non-U.S. holders to consult their tax advisors to determine the impact of U.S. federal, state and local income tax laws on ownership of our common stock, including any reporting requirements.

The portion of distributions received by non-U.S. holders payable out of our earnings and profits that are not attributable to gains from sales or exchanges of "United States real property interests" (as defined below) and which are not effectively connected with a U.S. trade or business of the non-U.S. holder will generally be subject to U.S. federal withholding tax at the rate of 30%, unless reduced or eliminated by an applicable income tax treaty. Under some treaties, however, lower rates generally applicable to dividends do not apply to dividends from REITs. If a distribution is treated as effectively connected with the non-U.S. holder's conduct of a U.S. trade or business, the distribution will not incur the 30% withholding tax, but the non-U.S. holder generally will be subject to U.S. federal income tax on the distribution at graduated rates, in the same manner as U.S. holders are taxed on distributions and also may be subject to the 30% branch profits tax in the case of a corporate non-U.S. holder. In general, non-U.S. holders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of our common stock. It is expected that the applicable withholding agent will withhold U.S. income tax at the rate of 30% on the gross amount of any distribution that we do not designate as a capital gain distribution or retained capital gain and is paid to a non-U.S. holder unless either:

- a lower treaty rate applies and the non-U.S. holder files with the applicable withholding agent an IRS Form W-8BEN or W-8BEN-E evidencing eligibility for that reduced rate, or
- the non-U.S. holder files with the applicable withholding agent an IRS Form W-8ECI claiming that the distribution is effectively connected income.

Capital gain dividends received or deemed received by a non-U.S. holder from us that are not attributable to gain from our sale or exchange of "United States real property interests," as defined below, are generally not subject to U.S. federal income or withholding tax, unless either (1) the non-U.S. holder's investment in our common stock is effectively connected with a U.S. trade or business conducted by such non-U.S. holder (in which case the non-U.S. holder will be subject to the same treatment as U.S. holders with respect to such gain) or (2) the non-U.S. holder is a nonresident alien individual who was present in the U.S. for 183 days or more during the taxable year and has a "tax home" in the U.S. (in which case the non-U.S. holder will be subject to a 30% tax on the individual's net capital gain for the year).

A non-U.S. holder will not incur tax on a distribution on shares of our common stock in excess of our current and accumulated earnings and profits if the excess portion of the distribution does not exceed the adjusted tax basis of its common stock. Instead, the excess portion of the distribution will reduce such non-U.S. holder's adjusted tax basis of its common stock. A non-U.S. holder will be subject to tax on a distribution that exceeds both our current and accumulated earnings and profits and the adjusted basis of its common stock, if the non-U.S. holder otherwise would be subject to tax on gain from the sale or disposition of its shares of our common stock, as described below. Because we generally cannot determine at the time we make a distribution whether the distribution will exceed our current and accumulated earnings and profits, it is expected that the applicable withholding agent normally will withhold tax on the entire amount of any distribution at the same rate applicable to withholding on a dividend. However, a non-U.S. holder may obtain a refund of amounts that the applicable withholding agent withheld if we later determine that a distribution in fact exceeded our current and accumulated earnings and profits.

Under FATCA, U.S. withholding tax at a 30% rate will be imposed on dividends paid on our common stock received by non-U.S. holders or U.S. holders who own our common stock through foreign accounts or foreign intermediaries if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. In addition, we may be required to withhold a portion of capital gain distributions to any U.S. holders who fail to certify their non-foreign status to us. If payment of withholding taxes is required, non-U.S. holders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding taxes with respect of such dividends and proceeds will be required to seek a refund from the IRS to obtain the benefit of such exemption or reduction. We will not pay any additional amounts in respect of amounts withheld.

For any year in which we qualify as a REIT, a non-U.S. holder may incur tax on distributions that are attributable to gain from our sale or exchange of "United States real property interests" under special provisions of the U.S. federal income tax laws known as the "Foreign Investment in Real Property Tax Act of 1980," or FIRPTA. The term "United States real property interests" includes interests in real property and shares in corporations at least 50% of whose assets consist of interests in real property. The term "United States real property interests" generally does not include mortgage loans or mortgage-backed securities. As a result, we do not anticipate that we will generate material amounts of gain that would be subject to FIRPTA. Under the FIRPTA rules, subject to exceptions discussed below, a non-U.S. holder is taxed on distributions attributable to gain from sales of United States real property interests as if the gain were effectively connected with a U.S. business of the non-U.S. holder. A non-U.S. holder thus would be taxed on such a distribution at the normal capital gain rates applicable to U.S. holders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual. A non-U.S. corporate holder not entitled to treaty relief or exemption also may be subject to the 30% branch profits tax on such a distribution. Unless a non-U.S. holder qualifies for the exception described in the next paragraph, the applicable withholding agent must withhold 21% of any such distribution that we could designate as a capital gain dividend. A non-U.S. holder may receive a credit against such holder's tax liability for the amount withheld.

Capital gain distributions on shares of our common stock that are attributable to our sale of real property will be treated as ordinary dividends, rather than as gain from the sale of a United States real property interest, as long as (i) (a) our common stock is "regularly traded" on an established securities market in the United States and (b) the non-U.S. holder does not own more than 10% of our common stock during the one-year period preceding the distribution date or (ii) the non-U.S. holder was treated as a "qualified shareholder" or "qualified foreign pension fund," each as defined below.

As a result, non-U.S. holders generally would be subject to withholding tax on such capital gain distributions in the same manner as they are subject to withholding tax on ordinary dividends. We believe our common stock currently is treated as being regularly traded on an established securities market in the United States. If our common stock is not regularly traded on an established securities market in the United States or the non-U.S. holder owned more than 10% of our common stock at any time during the one-year period prior to the distribution, capital gain distributions that are attributable to our sale of real property generally would be subject to tax under FIRPTA. Moreover, if a non-U.S. holder disposes of our common stock during the 30-day period preceding a dividend payment, and such non-U.S. holder (or a person related to such non-U.S. holder) acquires or enters into a contract or option to acquire shares of our common stock within 61 days of the 1st day of the 30 day period described above, and any portion of such dividend payment would, but for the disposition, be treated as a United States real property interest capital gain to such non-U.S. holder, then such non-U.S. holder will be treated as having United States real property interest capital gain in an amount that, but for the disposition, would have been treated as United States real property interest capital gain.

A non-U.S. holder generally will not incur tax under FIRPTA with respect to gain realized upon a disposition of shares of our common stock as long as we are not a United States real property holding corporation during a specified testing period. If at least 50% of a REIT's assets are United States real property interests, then the REIT will be a United States real property holding corporation. We do not anticipate that we will be a United States real property holding corporation based on our investment strategy. In the unlikely event that at least 50% of the assets we hold were determined to be United States real property interests, gains from the sale of shares of our common stock by a non-U.S. holder could be subject to a FIRPTA tax. However, even if that event were to occur, a non-U.S. holder generally would not incur tax under FIRPTA on gain from the sale of shares of our common stock if we were a "domestically controlled qualified investment entity." A domestically controlled qualified investment entity includes a REIT in which, at all times during a specified testing period, less than 50% in value of its stock are held directly or indirectly by non-U.S. persons. We believe that we likely are a domestically controlled qualified investment entity, and that a sale of shares of our common stock would not be subject to taxation under FIRPTA. However, we do not intend to maintain records to determine whether we are a domestically controlled qualified investment entity for this purpose and no assurance can be given that we are or will remain a domestically controlled qualified investment entity.

If our common stock is regularly traded on an established securities market in the United States, an additional exception to the tax under FIRPTA on gain from stock sales will be available, even if we do not qualify as a domestically controlled qualified investment entity at the time the non-U.S. holder sells shares of our common stock. Under that exception, the gain from such a sale by such a non-U.S. holder will not be subject to tax under FIRPTA if:

- our common stock is considered regularly traded under applicable U.S. Treasury regulations on an established securities market, such as the NYSE; and
- the non-U.S. holder owned, actually or constructively, 10% or less of our common stock at all times during a specified testing period.

As noted above, we believe our common stock is currently treated as being regularly traded on an established securities market. If the gain on the sale of shares of our common stock were taxed under FIRPTA, a non-U.S. holder would be taxed on that gain in the same manner as U.S. holders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals.

Backup withholding will generally not apply to payments of dividends made by us or our paying agents, in their capacities as such, to a non-U.S. holder provided that the non-U.S. holder furnishes to the applicable withholding agent the required certification as to its non-U.S. status, such as providing a valid IRS Form W-8BEN, W-8BEN-E or W-8ECI, or certain other requirements are met. Notwithstanding the foregoing, backup withholding may apply if the applicable withholding agent has actual knowledge, or reason to know, that the holder is a U.S. person that is not an exempt recipient. Payments of the net proceeds from a disposition or a redemption effected outside the United States by a non-U.S. holder made by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) generally will apply to such a payment if the broker has certain connections with the U.S. unless the broker has documentary evidence in its records that the beneficial owner is a non-U.S. holder and specified conditions are met or an exemption is otherwise established. Payment of the net proceeds from a disposition by a non-U.S. holder of common stock made by or through the U.S. office of a broker is generally subject to information reporting and backup withholding unless the non-U.S. holder certifies under penalties of perjury that it is not a U.S. person and satisfies certain other requirements, or otherwise establishes an exemption from information reporting and backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the non-U.S. holder's U.S. federal income tax liability if certain required information is timely furnished to the IRS. Non-U.S. holders are urged to consult their own tax advisors regarding application of backup withholding to them and the availability of, and procedure for obtaining an exemption from, backup withholding.

Subject to the exception discussed below, any distribution to a "qualified shareholder" (as defined below) who holds REIT stock directly or indirectly (through one or more partnerships) will not be subject to U.S. federal income taxation under FIRPTA and thus will not be subject to special withholding rules under FIRPTA. While a "qualified shareholder" will not be subject to FIRPTA withholding on REIT distributions, the portion of REIT distributions attributable to certain investors in a "qualified shareholder" (i.e., non-U.S. persons who hold interests in the "qualified shareholder" (other than interests solely as a creditor), and directly or indirectly hold more than 10% of the stock of such REIT (whether or not by reason of the investor's ownership in the "qualified shareholder")) may be subject to FIRPTA withholding. REIT distributions received by a "qualified shareholder" that are exempt from FIRPTA withholding may still be subject to regular U.S. withholding tax.

In addition, a sale of shares of our common stock by a "qualified shareholder" who holds such common stock directly or indirectly (through one or more partnerships) generally will not be subject to U.S. federal income taxation under FIRPTA. As with distributions, the portion of amounts realized attributable to certain investors in a "qualified shareholder" (i.e., non-U.S. persons who hold interests in the "qualified shareholder" (other than interests solely as a creditor), and directly or indirectly hold more than 10% of the stock of such REIT (whether or not by reason of the investor's ownership in the "qualified shareholder")) may be subject to U.S. federal income taxation and FIRPTA withholding on a sale of shares of our common stock.

A "qualified shareholder" is a foreign person that (i) either is eligible for the benefits of a comprehensive income tax treaty which includes an exchange of information program and whose principal class of interests is listed and regularly traded on one or more recognized stock exchanges (as defined in such comprehensive income tax treaty), or is a foreign partnership that is created or organized under foreign law as a limited partnership in a jurisdiction that has an agreement for the exchange of information with respect to taxes with the United States and has a class of limited partnership units representing greater than 50% of the value of all the partnership units that is regularly traded on the NYSE or Nasdaq markets, (ii) is a qualified collective investment vehicle (defined below), and (iii) maintains records on the identity of each person who, at any time during the foreign person's taxable year, is the direct owner of 5% or more of the class of interests or units (as applicable) described in (i), above.

A qualified collective investment vehicle is a foreign person that (i) would be eligible for a reduced rate of withholding under the comprehensive income tax treaty described above, even if such entity holds more than 10% of the stock of such REIT, (ii) is publicly traded, is treated as a partnership under the Code, is a withholding foreign partnership, and would be treated as a "United States real property holding corporation" if it were a domestic corporation, or (iii) is designated as such by the Secretary of the U.S. Treasury and is either (a) fiscally transparent within the meaning of section 894 of the Code, or (b) required to include dividends in its gross income, but is entitled to a deduction for distributions to its investors.

Any distribution to a "qualified foreign pension fund" (or an entity all of the interests of which are held by a "qualified foreign pension fund") who holds REIT stock directly or indirectly (through one or more partnerships) will not be subject to U.S. federal income taxation under FIRPTA and thus will not be subject to special withholding rules under FIRPTA. REIT distributions received by a "qualified foreign pension fund" that are exempt from FIRPTA withholding may still be subject to regular U.S. withholding tax. In addition, a sale of shares of our common stock by a "qualified foreign pension fund" that holds such common stock directly or indirectly (through one or more partnerships) will not be subject to U.S. federal income taxation under FIRPTA.

A qualified foreign pension fund is any trust, corporation, or other organization or arrangement (i) which is created or organized under the law of a country other than the United States, (ii) which is established by such country or an employer to provide retirement or pension benefits to participants or beneficiaries that are current or former employees (or persons designated by such employees) of one or more employers in consideration for services rendered, (iii) which does not have a single participant or beneficiary with a right to more than 5% of its assets or income, (iv) which is subject to government regulation and with respect to which annual information reporting about its beneficiaries is provided or otherwise available to the relevant tax authorities in the country in which it is established or operates, and (v) with respect to which, under the laws of the country in which it is established or operates, (a) contributions to such organization or arrangement that would otherwise be subject to tax under such laws are deductible or excluded from the gross income of such entity or taxed at a reduced rate, or (b) taxation of any investment income of such organization or arrangement is deferred or such income is taxed at a reduced rate.

Legislative or Other Actions Affecting REITs

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial, or administrative action at any time. The REIT rules are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury which may result in statutory changes as well as revisions to regulations and interpretations. The law informally known as the Tax Cuts and Jobs Act, or the "TCJA," significantly changed the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders. Additional technical corrections or other amendments to the TCJA or administrative guidance interpreting the TCJA may be forthcoming at any time. We cannot predict the long-term effect of the TCJA or any future tax law changes on REITs and their stockholders. Prospective investors are urged to consult with their tax advisors regarding the effect of potential changes to the federal tax laws on an investment in our common stock.

State, Local and Foreign Taxes

We and/or our subsidiaries and stockholders may be subject to taxation by various states, localities or foreign jurisdictions, including those in which we, our subsidiaries, or our stockholders transact business, own property or reside. We or our subsidiaries may own properties located in numerous jurisdictions and may be required to file tax returns in some or all of those jurisdictions. The state, local and foreign tax treatment of us and our stockholders may differ from the U.S. federal income tax treatment of us and our stockholders described above. Consequently, stockholders should consult their tax advisors regarding the application and effect of state, local and foreign income and other tax laws upon an investment in our securities.