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 year ended December 31, 2017
OR

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

For the transition period from to
Commission file number 001-34569

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

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

53 Forest Avenue, Old Greenwich, Connecticut 06870
(Address of Principal Executive Office) (Zip Code)
(203) 698-1200
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common shares representing limited liability company interests, no par value	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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ☐
Indicate by check mark 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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☐	Accelerated Filer	x
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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 30, 2017, 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 $470,555,243 based on the closing price as reported by the New York Stock Exchange on that date.

Number of the registrant's common shares outstanding as of March 9, 2018: 30,545,290

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement with respect to its 2018 Annual Meeting of Shareholders 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.

The financial statements contained in Part II of this Form 10-K constitute the annual report with respect to the registrant for purposes of CFTC rule 4.22(C) (the "CFTC Annual Report").

ELLINGTON FINANCIAL LLC

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PART I

Item 1. Business

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

Special Note Regarding Forward-Looking Statements

When used in this 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"; 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

Ellington Financial LLC is a specialty finance company that was formed as a Delaware limited liability company in July 2007 and commenced operations in August 2007. 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 shareholders 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 assets currently include investments in the U.S. and Europe (as applicable) in the following categories:

- 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";
- 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," and non-performing and re-performing

residential mortgage loans, or "residential NPLs," including "legacy" (i.e. issued before the 2008 financial crisis) NPLs;

- consumer loans and asset-backed securities, or "ABS," backed by consumer loans;
- collateralized loan obligations, or "CLOs";
- corporate debt and equity securities, including distressed debt and equity;
- 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.

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 mortgage-related businesses, such as mortgage originators and other mortgage-related entities. In connection with investments in mortgage originators, we may also enter into flow agreements that will allow us to purchase new loans from the mortgage 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, such as corporate credit. 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 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 maintain a core amount of Agency RMBS. For more information on our targeted assets, see "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Our Targeted Asset Classes."

We believe that we have been organized and have operated so that we have qualified to be treated for U.S. federal income tax purposes as a partnership and not as an association or a publicly traded partnership taxable as a corporation.

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 23-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 and a member of our Board of Directors; 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; Lisa Mumford, who serves as our Chief Financial Officer; Daniel Margolis, General Counsel of Ellington, who serves as our General Counsel; JR Herlihy, a Director of Ellington, who serves as our Treasurer; Chris Smernoff, who serves as our Controller; and Jason Frank, Associate General Counsel of Ellington, who serves as our Secretary. Mr. Herlihy is expected to become our Chief Financial Officer upon Ms. Mumford's retirement from her position with our company on or about March 30, 2018, at which time Mr. Smernoff is expected to become our Chief Accounting Officer. 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 23-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, 2017, Ellington employed over 160 employees and had assets under management of approximately $6.6 billion, of which approximately $5.1 billion consisted of our company, as well as Ellington Residential Mortgage REIT, a real estate investment trust for U.S. federal income tax purposes, or "REIT," listed on the New York Stock Exchange, or the "NYSE," under the ticker "EARN," and various hedge funds and other alternative investment vehicles that employ financial leverage, and approximately $1.5 billion consisted of accounts that do not employ financial leverage.

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 compliance with the income and other tests that will allow us to continue to be treated as a partnership for U.S. federal income tax purposes and to maintain 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 "—Our Company" above, 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 may change our strategy and policies without a vote of our shareholders. 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 barriers 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, 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 maintain our qualification as a partnership 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

We enter into credit-hedging positions in order to protect against adverse credit events with respect to our non-Agency holdings. 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. 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. 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, 2017, 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 non-Agency assets, which from time to time may also include reverse repos on 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 entered into securitization transactions to finance other of our assets, and we have also entered into a secured borrowing facility to finance a portfolio of unsecured loans. For those secured financings, other than reverse repurchase agreements, 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 shares, 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 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 the average number of common shares, long term incentive plan units, or "LTIP Units," and OP Units outstanding for each day during such fiscal quarter. For purposes of determining the Hurdle Amount, issuances of common shares and OP Units (a) as equity incentive awards, (b) to the Manager as part of its base management fee or incentive fee and (c) to the Manager or any of its affiliates in privately negotiated transactions, are excluded from the calculation. The payment of the incentive fee will be in a combination of common shares and cash, provided that at least 10% of any quarterly payment will be made in common shares.

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, 2018, 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 a 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. As of December 31, 2017, 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 $5.7 billion, excluding our assets but including $1.5 billion of accounts that do not employ financial leverage. 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 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 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 shares. 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 shares. 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

We believe that we have been organized and have operated so that we have qualified, and will continue to qualify, 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, holders of our common shares will be 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 make cash distributions on a current basis with which to pay any resulting tax.

We believe that we are treated, and will continue to be treated, as a publicly traded partnership. Publicly traded partnerships are generally treated as partnerships for U.S. federal income tax purposes as long as they satisfy certain income and other tests on an ongoing basis. We believe that we have satisfied and will continue to satisfy these requirements and that we have been and will continue to be treated as a partnership for U.S. federal income tax purposes, and not taxable as a corporation.

We currently own several domestic and foreign subsidiaries that are treated as corporations for U.S. federal income tax purposes. Our domestic taxable corporate subsidiaries will be subject to U.S. federal, state, and local income tax on their taxable income. We anticipate that our foreign corporate subsidiaries will generally conduct their activities in such a way as not to be deemed to be engaged in a U.S. trade or business and not to be subject to U.S. federal income tax on their net income.

We also have one subsidiary that elected to be treated as a REIT under the Internal Revenue Code of 1986, as amended, or the "Code," beginning with its 2015 taxable year. 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, determined excluding any net capital gains without regard to the deduction for dividends paid. Failure to qualify as a REIT in any taxable year would cause this subsidiary to be subject to U.S. federal income tax on its taxable income at regular corporate rates (and any applicable state and local taxes). Even if this subsidiary qualifies for taxation as a REIT, it may be subject to certain federal, state, local, and non-U.S. taxes on its income. For example, the income generated by its taxable REIT subsidiary, or "TRS," is subject to U.S. federal income tax (at a 35% rate through 2017 and a 21% rate in 2018), as well as state and local taxes.

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 shareholders. 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 shares, 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, Treasurer, controllers, accounting staff, in-house legal counsel, investor relations professional, 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 shareholder 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.

All reports filed with the SEC may also be read and copied at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Further information regarding the operation of the public reference room may be obtained by calling 1-800-SEC-0330. 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 and such conditions may persist for the foreseeable future.

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 shareholders.

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 shareholders.

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. To date, no definitive legislation has been enacted with respect to a possible unwinding of the GSEs or a material reduction in their roles 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," commenced implementation of programs designed to provide homeowners with assistance in avoiding mortgage loan foreclosures, including the Home Affordable Refinance Program, or "HARP," which allows borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments at loan-to-value ratios up to 125% without new mortgage insurance. 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 are considering, and in the future may consider, 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 shareholders, 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 shareholders.

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 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. The recently enacted law informally known as the Tax Cuts and Jobs Act, or "TCJA," reduced the mortgage interest deduction and the state and local income and property tax deduction. These changes could adversely impact housing prices in markets to which we have exposure.

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 shareholders, 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 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). 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 shareholders.

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 shareholders 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 shareholders 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 shareholders 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 shareholders. In addition, our ability to accomplish such loss mitigation may be limited by the tax rules governing publicly traded partnerships.

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 market 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 shareholders.

Sellers of the mortgage loans that we acquire, or that underlie the non-Agency 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 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 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, 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 shareholders.

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 shareholders 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 shareholders 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 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 shareholders.

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

We acquire and manage residential mortgage loans. Residential mortgage loans, including residential NPLs and non-QM 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 shareholders.

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 shareholders.

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, our ability to accomplish such restructuring may be limited by the tax rules governing publicly traded partnerships.

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:

- continued declines in the value of real estate;
- acts of God, including earthquakes, floods, 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 shareholders.

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 shareholders, 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 a debt-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 operating agreement does 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 shareholders.

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 shareholders, 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 shareholders, 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 shareholders.

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 (defined below). 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 memorandums, 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 has indicated that further interest rate increases may occur in the near future.

While we opportunistically hedge our exposure to changes in interest rates, there can be 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 shareholders.

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 shareholders.

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, 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 shareholders.

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, financial condition, and may impair our ability to pay dividends to our shareholders. 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 shareholders, 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 shareholders.

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, or 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 our experiencing significant losses. 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 shareholders.

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 shareholders.

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 shareholders.

In addition, changes to regulations promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the "Dodd-Frank Act," pursuant to which swaps are viewed as commodities for purposes of determining whether an entity is a "commodity pool" for purposes of the Commodity Exchange Act, as amended, have required our Manager to decide whether to limit our swap activity in order to meet certain exemptions from registration with the CFTC or to register as a "commodity pool operator" with the CFTC. Our Manager is currently registered as a "commodity pool operator" operating pursuant to an exemption under CFTC Regulation 4.12. If, in the future, we do not meet the conditions set forth in CFTC Regulation 4.12, such exemption becomes unavailable for any other reason, or our Manager pursues our derivative activities in another manner, we may need to seek another exemption from registration or we and our Manager may become subject to additional disclosure, recordkeeping, and reporting requirements, which may increase our expenses.

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 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 central counterparty clearinghouse, or "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 futures commission merchant, or "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 shareholders.

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 shareholders.

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. While the Federal Reserve continues to reinvest principal payments from its U.S. Treasury security and Agency RMBS holdings, in October 2017, the Federal Reserve initiated its balance sheet normalization program, whereby it began tapering asset purchases of both U.S. Treasury securities and Agency RMBS. In addition, the Federal Reserve has been increasing the target range for the federal funds rate since December 2015, and has indicated that 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 lead to a flattening in the yield curve, 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 shareholder consent, which may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our shareholders.

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 shareholders. 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 shareholders. Policy changes could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our shareholders.

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 shareholders.

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 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 maintenance of our publicly traded partnership status and the status of our REIT subsidiary as a REIT for tax purposes and in some cases to avoid adverse tax consequences to our shareholders, (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 shareholders.

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 shareholders.

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 shareholders. 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 shareholders 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 shareholders.

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 shareholders.

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 shareholders.

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 shareholders.

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 shareholders.

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 shareholders.

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. In addition, our ability to participate in such negotiations may be limited by the tax rules governing publicly traded partnerships.

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. In addition, our ability to direct such actions may be limited by the tax rules governing publicly traded partnerships.

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 mortgage originators and other mortgage-related entities 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 may invest in securities in the developing CRT sector that are subject to mortgage credit risk.

We may 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, 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 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 share 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 shareholders.

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 shareholders.

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 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 shareholders.

We are subject to conflicts of interest arising out of our relationship with Ellington and our Manager. Currently, all of our executive officers, and two 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. Ms. Mumford, our Chief Financial 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 and one of our directors, 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, two of our directors are also Ellington employees. 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 common shares" below for further discussion of the adverse impact future debt or equity offerings could have on our common shares.

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 shareholders.

As of December 31, 2017 the Manager Group owned approximately 11.2% 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, 2018, 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 shares, 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 shareholders 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, and our ability to pay dividends to our shareholders.

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 shareholders do not have input into our investment decisions. All of these factors increase the uncertainty, and thus the risk, of investing in our common shares. 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, and our ability to pay dividends to our shareholders.

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 Shares

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

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

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

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

The market price of our common shares may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common shares may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common shares will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common shares 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 shares to demand a higher yield;
- repurchases and issuances by us of our common shares;
- 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 shareholders;
- speculation in the press or investment community;
- general market and economic conditions;
- 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 shares. 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 shareholders. We and, indirectly, our shareholders, will bear the cost of issuing and servicing such securities. Upon liquidation, holders of our debt securities and preferred shares, and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common shares. Additional equity offerings, including offerings of our common shares or other securities convertible into our common shares, may dilute the holdings of our existing shareholders 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 shares or other securities convertible into our common shares, or the availability of such securities for future sales, on the market price of our common shares. Sales of substantial amounts of our common shares or other securities convertible into our common shares, or the perception that such sales could occur, may adversely affect the prevailing market price for our common shares. Our preferred shares, 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 shares. 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 shareholders 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 shareholders 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 shareholders.

One of the factors that investors may consider in deciding whether to buy or sell our common shares is our dividend rate (or expected future dividend rates) as a percentage of our common share 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 shares could decrease because potential investors may require a higher dividend yield on our common shares 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 shareholders.

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 operating agreement and management agreement contain provisions that may inhibit potential acquisition bids that shareholders may consider favorable, and the market price of our common shares may be lower as a result.

Our operating agreement contains provisions that have an anti-takeover effect and inhibit a change in our Board of Directors. These provisions include the following:

- allowing only our Board of Directors to fill newly created directorships;
- requiring advance notice for our shareholders to nominate candidates for election to our Board of Directors or to propose business to be considered by our shareholders at a meeting of shareholders;
- our ability to issue additional securities, including, but not limited to, preferred shares, without approval by shareholders;
- the ability of our Board of Directors to amend the operating agreement without the approval of our shareholders except under certain specified circumstances; and
- limitations on the ability of shareholders to call special meetings of shareholders or 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 and ownership in our operating agreement.

Our operating agreement, subject to certain exceptions, contains restrictions on the amount of our shares that a person may own and may prohibit certain entities from owning our shares. We have one subsidiary that elected to be treated as a REIT beginning with its 2015 taxable year, and we may acquire or form other entities that will elect to be REITs. Accordingly, in order to ensure that we or our REIT subsidiaries are able to satisfy the REIT ownership requirements, our operating agreement 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% of the aggregate value or number (whichever is more restrictive) of our outstanding shares.

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of our shares that will or may violate any of the foregoing restrictions on transferability and ownership, or who is the intended transferee of our common shares which are transferred to the trust (as described below), 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, including, without limitation, the effect on the qualification as a REIT of our REIT subsidiary and any potential REIT subsidiary we acquire or form in the future.

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 shareholders 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 operating agreement limits the liability of our directors and officers to us and our shareholders for money damages, except (i) for any breach of such person's duty of loyalty to us or our shareholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law; or (iii) for any transaction from which such person derived an improper benefit.

In addition, our operating agreement authorizes us to obligate our company to indemnify our present and former directors and officers (except in certain limited circumstances) for actions taken by them in those capacities to the maximum extent permitted by Delaware law if such 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. 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 operating agreements and our management agreement with our Manager, as well as our indemnification arrangements with our directors and officers and our Manager, our and our shareholders' 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.

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 shares, the sustainability of our business model, and our ability to pay dividends to our shareholders.

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 shares and on your individual tax situation.

If we fail to satisfy the "qualifying income exception" under the tax rules for publicly traded partnerships, all of our income will be subject to an entity-level tax, and the value of our shares could be adversely affected.

We believe that we have been and will 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, if a partnership is "publicly traded" (as defined in the Code), it will be treated as a corporation for U.S. federal income tax purposes. A publicly traded partnership will, however, be treated as a partnership, and not as a corporation, for U.S. federal income tax purposes, so long as at least 90% of its gross income for each taxable year constitutes "qualifying income" within the meaning of Section 7704(d) of the Code and it would not be included in the definition of a regulated investment company, or "RIC," under Section 851(a) of the Code if it were a domestic corporation (which generally applies to entities required to register under the Investment Company Act). We refer to this exception as the "qualifying income exception." Qualifying income generally includes rents, dividends, interest, and gains from the sale or other disposition of stocks, bonds, and real property. Qualifying income also includes other income derived from the business of investing in, among other things, stocks and securities. Interest is not qualifying income if it is derived in the "conduct of a financial or insurance business" or is based, directly or indirectly, on the income or profits of any person. Our income currently consists primarily of interest income, income and gains from interest rate derivatives, credit derivatives, and other derivatives, and gains from the sale of securities (including income from the short sale of securities), all of which is generally qualifying income for purposes of the qualifying income exception. However, no assurance can be given as to the types of income we will earn in the future.

If we fail to satisfy the "qualifying income exception" described above, we would be treated as a corporation for U.S. federal income tax purposes. In that event, items of income, gain, loss, deduction, and credit would not pass through to holders of our common shares and such holders would be treated for U.S. federal (and certain state and local) income tax purposes as shareholders in a corporation. We would be required to pay income tax at regular corporate rates (35% through 2017 and 21% for 2018) on all of our income. In addition, we could be liable for state and local income and/or franchise taxes on some or all of our income. Distributions to holders of our common shares would constitute ordinary dividend income taxable to such holders to the extent of our earnings and profits, and these distributions would not be deductible by us. Additionally, distributions paid to non-U.S. holders of our common shares would be subject to U.S. federal withholding taxes at the rate of 30% (or such lower rate provided by an applicable tax treaty). Thus, if we were treated as a corporation, such treatment would likely result in a material reduction in cash flow and potentially a corresponding reduction in after-tax returns for holders of our common shares.

Because of the TCJA, we could reconsider maintaining our status as a publicly traded partnership and/or we could substantially change our investment strategies, which could result in a reduction in cash flow to our common shareholders and potentially a reduction in the value of our common shares.

In consideration of the changes to the Code passed under the TCJA, in particular the reduction of the regular corporate federal tax rate beginning in 2018, we could decide to change our tax structure. A change in our tax structure might cause us to forego investments we might otherwise make or divest of certain investments we currently own. For example, we could elect to be taxed as a corporation, in which case, we would be required to pay income tax at regular corporate rates on our taxable income. In addition, we could be liable for state and local income and/or franchise taxes on some or all of our taxable income. Our distributions to holders of our common shares would likely be lower as a result of these corporate tax liabilities. Distributions to holders of our common shares would constitute ordinary dividend income taxable to such holders to the extent of our earnings and profits, and these distributions would not be deductible by us. Additionally, distributions paid to non-U.S. holders of our common shares would be subject to U.S. federal withholding taxes at the rate of 30% (or such lower rate provided by an applicable tax treaty). Thus, if we elected to be taxed as a corporation, such treatment would likely result in a material reduction in cash flow and potentially a corresponding reduction in the returns of certain holders of our common shares.

Holders of our common shares will be subject to U.S. federal income tax on their share of our taxable income, regardless of whether or when they receive any cash distributions from us, and may recognize income in excess of our cash distributions.

We believe that we have been and will 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. Holders of our common shares are subject to U.S. federal income taxation and, in some cases, state, local, and foreign income taxation, on their allocable share of our items of income, gain, loss, deduction, and credit, regardless of whether or when they receive cash distributions. Individuals, trusts, and estates that are U.S. holders and whose income exceeds certain thresholds are also subject to a Medicare tax on their share of our taxable income. In addition, certain of our assets may produce taxable income without corresponding distributions of cash to us or produce taxable income prior to or following the receipt of cash relating to such income or produce losses that are not currently deductible against our other income, and holders of our common shares will be required to take our taxable income from such assets into account in determining their taxable income. Regardless of how much taxable income we generate, we are not required to make distributions to our shareholders. Consequently, it is possible that the U.S. federal income tax liability of shareholders with respect to their respective allocable shares of our earnings in a particular taxable year could exceed the cash distributions we make to shareholders with respect to that taxable year, thus requiring out-of-pocket tax payments by shareholders. Furthermore, if we did not make cash distributions with respect to a taxable year, holders of our common shares could still have a tax liability attributable to their allocation of our taxable income for that taxable year.

The ability of holders of our common shares to deduct certain expenses or losses incurred by us may be limited.

We believe that, based on the scope of our current activities, most of the expenses incurred by us and our Operating Partnership, including base management fees and incentive fees paid to our Manager, will not be treated as "miscellaneous itemized deductions" and will be deductible as ordinary trade or business expenses. However, there can be no assurance that the IRS will not successfully challenge that treatment. We have made certain investments, however, including certain investments in partnerships, whose related expenses will be treated as miscellaneous itemized deductions. At present, we do not believe that our share of such expenses will be significant, but no assurance can be provided that we will not in the future incur significant amounts of expenses that will be treated as miscellaneous itemized deductions. While the ability to deduct miscellaneous itemized deductions is currently limited for holders of our common shares who are individuals, estates, or trusts, for taxable years beginning after December 31, 2017 and before January 1, 2026, under TCJA, miscellaneous itemized deductions will no longer be deductible at all by those shareholders. A shareholder's inability to deduct all or a portion of such expenses could result in an amount of taxable income to such shareholder with respect to us that exceeds the amount of cash actually distributed to such shareholder for the year.

The TCJA also imposes new limitations on the deductibility of business interest expense and excess business losses. The new business interest expense limitation applies to net interest expense (i.e., interest expense in excess of interest income). Any disallowed partnership interest expense may generally be carried forward to future taxable years, subject to additional requirements and limitations. Because our activities generate substantial amounts of interest income, it is anticipated that the deductibility of our interest expense generally will not be impacted by the new limitation. However, there can be no complete assurance that our activities will not produce net interest expense, the deductibility of which is limited by the new rules. To the extent that we generate a business loss for any taxable year, that loss will flow through to our shareholders. However, our shareholders’ ability to deduct that loss against income from other sources may be limited by the new excess business loss rules applicable to non-corporate taxpayers. Any disallowed loss may be carried forward (but not backward) by the shareholder as a net operating loss ("NOL") to future taxable years, subject to certain limitations, including a provision limiting NOL deductions to 80% of taxable income in the carryforward year.

Any taxes paid by our corporate subsidiaries will reduce the cash available for distribution to our shareholders.

We currently own several domestic and foreign subsidiaries that are treated as corporations for U.S. tax purposes. In the future, we may acquire ownership of other domestic and foreign corporate subsidiaries. Our domestic taxable corporate subsidiaries will be subject to U.S. federal, state, and local income tax on their taxable income. We anticipate that our foreign corporate subsidiaries will generally conduct their activities in such a way as not to be deemed to be engaged in a U.S. trade or business and not to be subject to U.S. federal income tax on their net income. There can be no assurance, however, that our foreign corporate subsidiaries will not engage in, or be deemed by the IRS to be engaged in, activities that may cause them to be engaged in a U.S. trade or business. Moreover, there can be no assurance that as a result of any change in applicable law, treaty, rule or regulation or interpretation thereof, the activities of any of our foreign corporate subsidiaries would not become subject to U.S. federal income tax. While our foreign corporate subsidiaries are generally not expected to be subject to U.S. federal income tax on their net income, such subsidiaries may receive income that is subject to withholding taxes imposed by the United States or other countries. Even if the intended U.S. federal income tax treatment of our foreign corporate subsidiaries is respected, those entities may be subject to income, franchise or other taxes in the jurisdictions and/or the states in which they are organized or operate. Any taxes paid by our corporate subsidiaries will reduce the cash available for distribution to our shareholders.

If our REIT subsidiary fails to comply with the REIT requirements, it could be subject to tax.

We have a subsidiary that elected to be treated as a REIT under the Code beginning with its 2015 taxable year, and we may acquire ownership of other REIT subsidiaries in the future. 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 our REIT subsidiary will be able to comply with such requirements. Failure to qualify as a REIT in any taxable year would cause this subsidiary to be subject to U.S. federal income tax (and any applicable state and local taxes) on its taxable income at regular corporate rates (35% through 2017 and 21% for 2018). Even if our REIT subsidiary qualifies as a REIT for U.S. federal income tax purposes, it will be subject to a tax equal to 100% of the net income derived from any "prohibited transactions" (i.e., gains from the sale of property held primarily for sale to customers in the ordinary course of business, or "dealer property") and may be subject to income, franchise or other taxes in the jurisdictions and/or the states in which it is organized or operates. Our REIT subsidiary may try to avoid the imposition of any prohibited transactions tax by transferring any asset it holds for sale to its TRS subsidiary. If any such transfer from our REIT subsidiary to its TRS subsidiary is not respected by the IRS, the sale of the asset could be subject to the prohibited transactions tax. In addition, the income generated by our REIT's TRS subsidiary is subject to U.S. federal, state, and local income tax. Any taxes paid by our REIT subsidiary or the TRS will reduce the cash available for distribution to our shareholders.

Tax-exempt holders of our common shares will likely recognize significant amounts of "unrelated business taxable income," which might have adverse consequences.

An organization or account (such as an individual retirement account) that is otherwise exempt from U.S. federal income tax is nonetheless subject to taxation with respect to its "unrelated business taxable income," or "UBTI." Because we have incurred and will incur "acquisition indebtedness" with respect to many of our investments, a proportionate share of a holder's income from us with respect to such investments will be treated as UBTI. Accordingly, tax-exempt holders of our common shares will likely recognize significant amounts of UBTI. Under the TCJA, tax-exempt holders that recognize UBTI from us will not be able to offset it with losses from other unrelated trade or businesses they may be engaged in, effective for taxable years beginning after December 31, 2017. For certain types of tax-exempt entities, the receipt of any UBTI might have adverse consequences. Tax-exempt holders of our common shares are strongly urged to consult their tax advisors regarding the tax consequences of owning our common shares.

There can be no assurance that the IRS will not assert successfully that some portion of our income is properly treated as effectively connected income with respect to non-U.S. holders of our common shares.

While it is expected that our method of operation will not result in the generation of significant amounts of income treated as effectively connected with the conduct of a U.S. trade or business with respect to non-U.S. holders of our common shares, there can be no assurance that the IRS will not assert successfully that some portion of our income is properly treated as effectively connected income with respect to such non-U.S. holders. Moreover, in the case of dividends paid to us by our REIT subsidiary or by other REITs in which we invest, to the extent that such dividends are attributable to gains from the sale of U.S. real property interests, such dividends will generally be treated as effectively connected income with respect to non-U.S. holders of our common shares, as will gain from our sale of stock of a REIT that has significant investments in U.S. real property. To the extent that our income is treated as effectively connected income, non-U.S. holders generally would be required to (i) file a U.S. federal income tax return for such year reporting their allocable portion, if any, of our income or loss effectively connected with such trade or business and (ii) pay U.S. federal income tax at regular U.S. tax rates on any such income. Additionally, we would be required to withhold tax at the highest applicable tax rate on a non-U.S. holder's allocable share of our effectively connected income. Non-U.S. holders that are corporations also would be required to pay branch profits tax at a 30% rate (or such lower rate provided by an applicable treaty). To the extent our income is treated as effectively connected income, it may also be treated as non-qualifying income for purposes of the qualifying income exception.

If the IRS challenges certain aspects of our Operating Partnership structure, the taxable income allocated to the holders of our common shares could be adjusted (possibly retroactively) and our ability to provide tax information on a timely basis could be negatively affected.

Since January 1, 2013, we have held all of our assets and conducted all of our operations through our Operating Partnership. Although we have made an election to adjust the basis in our assets upon a transfer of our shares under Section 754 of the Code, or a "Section 754 election," our Operating Partnership did not make and does not intend to make a Section 754 election. As a result of our Section 754 election, each holder that purchases our shares will have an initial tax basis in our assets (i.e., the membership interests in our Operating Partnership, or "OP Units") that reflects such holder's purchase price. Because our Operating Partnership did not make and will not make a Section 754 election, we believe that our Operating Partnership will not be required to make corresponding tax basis adjustments with respect to its assets. It is possible that the IRS might challenge this position, and if such challenge were upheld, any holder who purchased our shares when our diluted book value per share exceeded the holder's per share purchase price would be allocated additional income (and/or a lesser amount of loss) in an amount per share approximately equal to such excess, ignoring any offsetting allocations of operating loss and assuming that our diluted book value per share at the end of the taxable year was equal to or greater than the diluted book value per share at the time of purchase. No assurance can be provided that the IRS will not successfully assert that the tax basis of the assets held by our Operating Partnership must be adjusted upon a purchase of our shares.

On its initial tax return, our Operating Partnership attached the election it made under Section 475(f) of the Code to mark to market for U.S. federal income tax purposes the securities it holds as a trader. We attached such an election to our initial tax return as well. Because an interest in a non-publicly traded partnership, such as our Operating Partnership, is not considered a "security" subject to the mark-to-market rules of Section 475(f) of the Code, we do not anticipate that the assets we hold directly (i.e., our OP Units) will be required to be marked to market. As noted above, we caused our Operating Partnership to attach its election to be a trader under Section 475(f) of the Code to its initial tax return. 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. We believe that our Operating Partnership qualified and continues to qualify as a trader, and that we qualified as a trader prior to January 1, 2013. There can be no assurance that we or our Operating Partnership have qualified or will continue to qualify as a trader in securities eligible for 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 or 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 taxable income and the tax character of taxable income recognized by us and allocated to the holders of our shares. An inability to utilize the mark-to-market election might also have an adverse effect on our ability to provide tax information to holders of our shares on a timely basis. The IRS could also challenge any conventions that we use in computing, or in allocating among holders of our shares, any gain or loss resulting from the mark-to-market election.

Our Operating Partnership is required to identify any securities that are not held in connection with the trade or business of trading securities on the day such positions are acquired. If our Operating Partnership fails to properly identify a security that is not held in connection with such trade or business, the IRS may require the Operating Partnership to recognize "mark-to-market" gains on such securities as ordinary income at the end of each taxable year, but defer recognition of any "mark-to-market" losses, to the extent they exceed gains previously recognized with respect to such security, until the security is sold. In addition, we have taken the position that our Operating Partnership's mark-to-market gain or loss in its securities held as a trader, and any gain or loss on the actual disposition of such securities, should be treated as ordinary income or loss. However, because the law is unclear as to the treatment of assets that are held for investment, and the determination of which assets are held for investment, the IRS could take the position that the mark-to-market gain or loss attributable to certain of our Operating Partnership's assets should be treated as capital gain or loss and not as ordinary gain or loss. Additionally, the IRS could take the position that the gain on securities our Operating Partnership identified as not held in connection with the trade or business of trading securities should be treated as ordinary gain rather than capital gain. In either case, we might not be able to use some or all of our losses to offset our income, which could increase the amount of taxable income allocated to the holders of our shares, without any corresponding increase in our economic income or in the distributions we make to the holders of our shares. The tax on our taxable income allocated to you may be in excess of our cash distributions to you.

The IRS may challenge our allocations of income, gain, loss, deduction and credit.

Our operating agreement provides for the allocation of income, gain, loss, deduction and credit among the holders of our common shares. The rules regarding partnership allocations are complex. If the allocations provided by our operating agreement were successfully challenged by the IRS, the redetermination of the allocations to a particular holder for U.S. federal income tax purposes could be less favorable than the allocations set forth in our operating agreement.

Complying with certain tax-related requirements may cause us to forego otherwise attractive business opportunities.

To be treated as a partnership for U.S. federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation, we must satisfy the qualifying income exception, which requires that at least 90% of our gross income each taxable year consist of interest, dividends, capital gains and other types of "qualifying income." Interest income will not be qualifying income for the qualifying income exception if it is derived from "the conduct of a financial or insurance business." This requirement limits our ability to invest directly in mortgage originators, originate loans directly, acquire loans originated by our Manager and its affiliates, or acquire loans originated by any corporate or REIT subsidiary. These rules will also limit our ability to modify distressed debt instruments. We also intend to operate so as to avoid generating a significant amount of income that is treated as effectively connected with the conduct of a U.S. trade or business with respect to non-U.S. holders. In order to comply with these requirements, we (or our subsidiaries) may be required to invest through our foreign or taxable domestic corporate subsidiaries or forego attractive business opportunities, and we have made certain investments through our taxable domestic, REIT and foreign corporate subsidiaries in order to comply with these requirements. Our domestic corporate subsidiaries will be subject to U.S. federal, state, and local income tax on their taxable income. Thus, compliance with these requirements may materially adversely affect our business, financial condition and results of our operations and our ability to make distributions to our shareholders.

The IRS Schedules K-1 we provide are significantly more complicated than the IRS Forms 1099 provided by REITs and regular corporations, and holders of our common shares may be required to request an extension of time to file their tax returns.

Holders of our common shares are 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. We have agreed to use reasonable efforts to furnish holders of our common shares with tax information (including IRS Schedule K-1, which describes their allocable share of such items for our preceding taxable year) as promptly as practicable after the end of each taxable year. However, we may not be able to provide holders of our common shares with tax information on a timely basis. Because holders of our common shares will be required to report their allocable share of each item of our income, gain, loss, deduction, and credit on their tax returns, tax reporting for holders of our common shares will be significantly more complicated than for shareholders in a REIT or a regular corporation. In addition, delivery of this information to holders of our common shares will be subject to delay in the event of, among other reasons, the late receipt of any necessary tax information from an investment in which we hold an interest. It is therefore possible that, in any taxable year, holders of our common shares will need to apply for extensions of time to file their tax returns.

New IRS audit procedures could subject holders of our common shares to bear the costs of audit adjustments relating to previous tax years.

For taxable years beginning after December 31, 2017, new IRS audit procedures will apply to partnerships. These new partnership audit procedures will require partnerships to pay tax (including interest and penalties) on any adjustments to taxable income made as a result of an IRS audit. The amount of tax paid by the partnership will be determined without the benefit of partner level tax items that could otherwise reduce tax due on any adjustment. Because the audit adjustment tax is paid by the partnership, the economic burden of any such tax on us would fall on the holders of our common shares at the time that the audit adjustment tax is paid. However, a partnership may instead elect to pass through any audit adjustments to those who were partners of the partnership in the year that was audited. If we were to make this election with respect to an audit adjustment, the tax burden associated with such adjustment would fall on those who were holders of our common shares in the year that was audited. Several changes and clarifications have been proposed to these rules. For example, under recently proposed rules, to the extent we elect to pass through an audit adjustment to our partners who are passthrough entities for tax purposes, such partners also may elect to pass through the adjustment to their partners, shareholders, or beneficiaries, and the process of passing through the adjustment may continue at each passthrough-entity tier until the adjustment reaches the ultimate taxpaying owners. No assurance can be given that any proposed rules will be finalized or that the law will not be further modified. As a result of these new audit procedures, our shareholders could bear the cost of an audit adjustment relating to a previous tax year, including a tax year prior to when such shareholder acquired our common shares.

Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available, and which is subject to potential change, possibly on a retroactive basis. Any such change could result in adverse consequences to the holders of our common shares.

The U.S. federal income tax treatment of holders of our common shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. Also, the IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in our common shares may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments we have previously made. We and holders of our common shares could be adversely affected by any such change in tax law, regulation or interpretation. Our operating agreement permits our Board of Directors to modify (subject to certain exceptions) the operating agreement from time to time, without the consent of the holders of our common shares. These modifications may address, among other things, certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have an adverse impact on some or all of the holders of our common shares. Moreover, we intend to apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders of our common shares in a manner that reflects their distributive share of our items, but these assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions we use do not satisfy the technical requirements of the Code and/or Treasury Regulations and could require that items of income, gain, deduction, loss or credit be adjusted or reallocated in a manner that adversely affects holders of our common shares.

The TCJA significantly changes the U.S. federal income tax laws applicable to businesses and their owners, including publicly traded partnerships and their shareholders. 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 shareholders that any such changes will not adversely affect the taxation of a shareholder. We and our shareholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation.

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 1A of this Annual Report on Form 10-K for the year ended December 31, 2017.

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 New York Stock Exchange ("NYSE") under the symbol "EFC" since October 8, 2010. The following table sets forth, for the periods indicated, the high and low sales prices for our common stock:

	Common Stock Sales Price	
	High	Low
2017:		
First Quarter	$ 16.69	$ 15.48
Second Quarter	17.00	15.60
Third Quarter	16.36	15.31
Fourth Quarter	15.82	14.47
2016:		
First Quarter	$ 17.86	$ 14.18
Second Quarter	18.20	16.53
Third Quarter	18.04	16.65
Fourth Quarter	16.78	15.31

The closing price for our common shares on March 9, 2018, was $14.79.

Holders of Our Common Shares

Based upon a review of a securities position listing as of March 9, 2018, we had an aggregate of 104 holders of record and holders of our common shares who are nominees for an undetermined number of beneficial owners.

Dividends

While we have historically paid dividends to holders of our common shares on a quarterly basis, the declaration of dividends to our shareholders and the amount of such dividends are at the discretion of our Board of Directors. In setting our dividends, our Board of Directors takes into account, among other things, our earnings, our financial condition, our working capital needs, and new investment opportunities. In particular, we may lower or suspend dividends when we believe it is prudent to do so for liquidity management purposes, during financial crises or extreme market dislocations, or in order to take advantage of what we deem to be extraordinary investment opportunities. Furthermore, it is possible that some of our future financing arrangements could contain provisions restricting our ability to pay dividends. In addition, our ability to pay dividends is subject to certain restrictions under the Delaware Limited Liability Company Act, or the "Delaware LLC Act." Under the Delaware LLC Act, a limited liability company generally is not permitted to pay a dividend if, after giving effect to the dividend, the liabilities of the company will exceed the value of the company's assets. Shareholders generally will be subject to U.S. federal income tax (and any applicable state and local taxes) on their respective allocable shares of our net taxable income regardless of the timing or amount of dividend we pay to our shareholders.

The following table sets forth the dividends per share we have paid, or will pay with respect to the dividend declared for the fourth quarter of 2017, to our shareholders with respect to the periods indicated.

	Dividend Per Share	Record Date	Payment Date
For the year ended December 31, 2017:			
First Quarter	$0.45	June 1, 2017	June 15, 2017
Second Quarter	0.45	September 1, 2017	September 15, 2017
Third Quarter	0.41	December 1, 2017	December 15, 2017
Fourth Quarter	0.41	March 1, 2018	March 15, 2018
For the year ended December 31, 2016:			
First Quarter	$0.50	June 1, 2016	June 15, 2016
Second Quarter	0.50	September 1, 2016	September 15, 2016
Third Quarter	0.45	December 1, 2016	December 15, 2016
Fourth Quarter	0.45	March 1, 2017	March 15, 2017

We cannot assure you that we will pay any future dividends to our shareholders and the dividends set forth in the table above are not intended to be indicative of the amount and timing of future dividends, if any.

We generally refer to payments made to our shareholders with respect to our common shares as "dividends" for purposes of this Annual Report on Form 10-K. For U.S. federal income tax purposes, those payments will be treated as distributions from a partnership.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2017 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	491,159 (1)	N/A	1,907,769 (2)

(1) Represents outstanding LTIP Units, which are a separate non-voting class of limited liability company interests structured as profits interests. The LTIP Units, subject to certain forfeiture provisions, may be converted, at the election of the holder, into our common shares on a one-for-one basis. Of the 491,159 LTIP Units outstanding as of December 31, 2017, 91,738 were issued pursuant to our 2007 Incentive Plan for Individuals, 375,000 were issued pursuant to our 2007 Incentive Plan for Entities, and 24,421 were issue pursuant to our 2017 Equity Incentive Plan (the "2017 Plan").

(2) As of December 31, 2017, a total of 1,907,769 common shares and LTIP Units remain available for issuance under our 2017 Plan. The 2007 Incentive Plan for Individuals and the 2007 Incentive Plan for Entities terminated upon shareholder 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 LTIP Units) expires, is forfeited or is terminated without having been exercised or is paid in cash without a requirement for the delivery of common shares, then any common shares covered by such lapsed, canceled, expired, unexercised or cash-settled portion of such award and any forfeited, lapsed, canceled, or expired LTIP Units shall be available for the grant of other awards under the 2017 Plan. Common shares 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 12, 2017, we granted 14,419 LTIP Units to our partially dedicated employees. The LTIP Units are subject to forfeiture restrictions that will lapse with respect to 8,533 of the LTIP Units on December 12, 2018 and 5,886 of the LTIP Units on December 12, 2019. Once vested, the LTIP Units may be converted at the election of the holder into common shares representing limited liability interests of our company on a one-for-one basis. 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

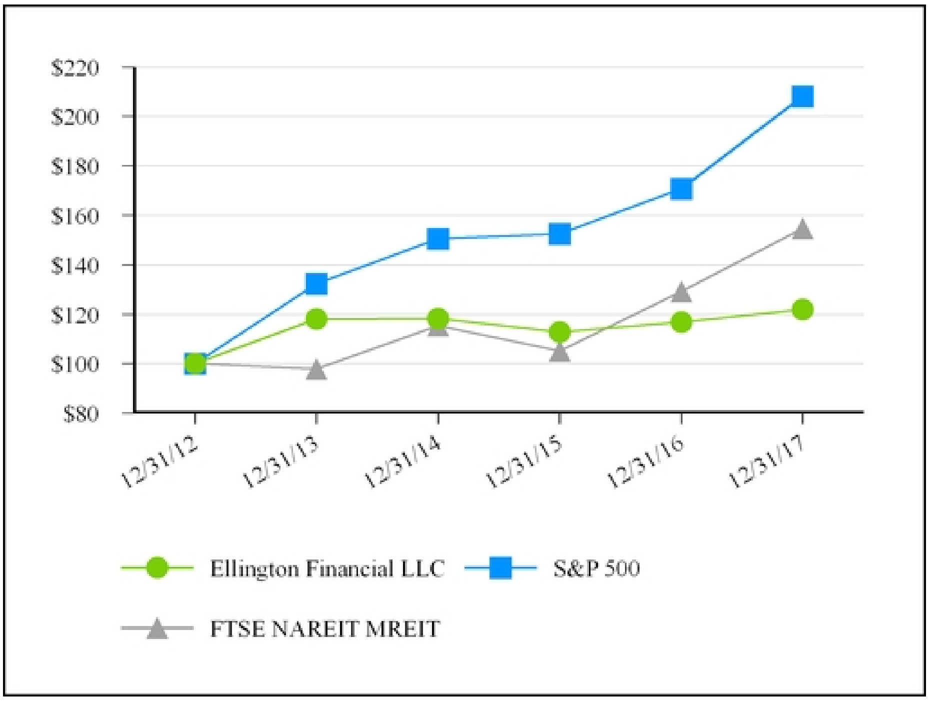
	Total Number of Shares Purchased	Average Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1, 2017–October 31, 2017	59,099	$ 15.56	59,099	1,389,313
November 1, 2017–November 30, 2017	168,145	15.34	168,145	1,221,168
December 1, 2017–December 31, 2017	428,995	14.81	428,995	792,173
Total	656,239	$ 15.01	656,239	792,173

On February 6, 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 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 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 share repurchase program that had previously been adopted on March 6, 2017, which had authorized the repurchase of 1.7 million common shares.

Performance

This performance graph is furnished and shall not be deemed filed with the SEC or subject to Section 18 of the Exchange Act, nor shall it be deemed incorporated by reference in any of our filings under the Securities Act.

The following graph provides a comparison of the cumulative total return on our common shares to the cumulative total return on the Standard & Poor's 500 Composite Stock Price Index, or the "S&P 500," and the FTSE National Association of Real Estate Investment Trusts Mortgage REIT Index, or the "FTSE NAREIT MREIT." The comparison is for the period from December 31, 2012 to December 31, 2017, and assumes in each case, a $100 investment on December 31, 2012 and the reinvestment of dividends.



The actual cumulative total returns shown on the graph above are as follows:

	December 31,					
	2012	2013	2014	2015	2016	2017
Ellington Financial LLC	$ 100.00	$ 118.11	$ 118.29	$ 112.90	$ 116.85	$ 121.93
S&P 500	100.00	132.37	150.48	152.55	170.78	208.05
FTSE NAREIT MREIT	100.00	97.89	115.36	105.22	129.24	154.77

The performance information above has been obtained from sources believed to be reliable, but neither its accuracy nor its completeness can be guaranteed. The historical information set forth above is not necessarily indicative of future performance. Accordingly, we do not make or endorse any predictions as to future share performance.

Item 6. Selected Financial Data

The following table presents selected consolidated financial information as of December 31, 2017, 2016, 2015, 2014, and 2013, and for the years ended December 31, 2017, 2016, 2015, 2014, and 2013. The consolidated financial information presented below as of December 31, 2017 and 2016, and for the years ended December 31, 2017, 2016, and 2015, has been derived from our audited financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated financial information as of December 31, 2015, 2014, and 2013, and for the years ended December 31, 2014 and 2013, was derived from our historical audited consolidated financial statements not included in this Annual Report on Form 10-K.

Since the information presented below is only selected financial data and does not provide all of the information contained in our historical consolidated financial statements included elsewhere in this Annual Report on Form 10-K, including the related notes, you should read it in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and our historical consolidated financial statements, including the related notes to our consolidated financial statements, included in this Annual Report on Form 10-K.

Condensed Statement of Operations

	Year Ended December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
(In thousands except per share amounts)					
Investment Income:					
Interest income	$ 89,629	$ 74,344	$ 101,783	$ 93,533	$ 85,740
Other income	4,331	5,841	2,813	318	—
Total investment income	93,960	80,185	104,596	93,851	85,740
Expenses:					
Base management fee	9,056	10,065	11,493	10,751	9,115
Incentive fee	—	—	—	1,400	8,366
Interest expense	31,120	16,306	12,112	9,927	11,025
Other investment related expenses	9,754	8,070	5,612	4,689	496
Other operating expense	8,862	9,979	9,203	8,333	7,083
Total expenses	58,792	44,420	38,420	35,100	36,085
Net Investment Income	35,168	35,765	66,176	58,751	49,655
Net Realized and Unrealized Gain (Loss) on Investments, Financial Derivatives, and Foreign Currency Transactions/Translation:					
Net realized and change in net unrealized gain (loss) on investments	11,298	(5,304)	(22,485)	23,117	37,666
Net realized and change in net unrealized gain (loss) on financial derivatives, excluding currency hedges	(11,727)	(46,722)	(5,598)	(21,899)	(7,959)
Net realized and change in net unrealized gain (loss) on financial derivatives—currency hedges	(6,946)	2,513	5,115	2,416	(38)
Net foreign currency gain (loss)	8,171	(1,954)	(4,779)	(2,436)	38
Net Realized and Change in Net Unrealized Gain (Loss) on Investments, Financial Derivatives, and Foreign Currency Transactions/Translation	796	(51,467)	(27,747)	1,198	29,707
Net Increase (Decrease) in Equity Resulting from Operations	35,964	(15,702)	38,429	59,949	79,362
Less: Net Increase in Equity Resulting From Operations Attributable to Non-controlling Interests	1,983	305	340	782	838
Net Increase (Decrease) in Shareholders' Equity Resulting from Operations	$ 33,981	$ (16,007)	$ 38,089	$ 59,167	$ 78,524
Net Increase (Decrease) in Shareholders' Equity Resulting from Operations per share	$ 1.04	$ (0.48)	$ 1.13	$ 2.09	$ 3.28
Dividends per common share(1)	1.72	1.90	2.30	2.96	3.08
Dividends(1)	55,664	63,097	78,173	88,538	80,198

(1) Dividends are declared and paid on a quarterly basis in arrears. For example, dividends for the fiscal year ended December 31, 2017 include the dividend declared on February 6, 2018 for the fourth quarter of 2017.

Condensed Consolidated Statement of Assets, Liabilities, and Equity

	As of December 31,				
	2017	2016	2015	2014	2013
(In thousands except per share amounts)					
Cash and cash equivalents	$ 47,233	$ 123,274	$ 183,909	$ 114,140	$ 183,489
Restricted cash	425	655	4,857	—	—
Investments at fair value	2,071,707	1,505,026	1,661,118	2,172,082	1,730,130
Financial derivatives–assets, at fair value	28,165	35,595	162,905	80,029	59,664
Repurchase agreements	155,949	184,819	105,700	172,001	27,962
Receivable for securities sold	476,000	445,112	705,748	1,237,592	883,005
Due from brokers	140,404	93,651	141,605	146,965	82,571
Other assets	73,458	25,063	25,713	22,546	8,377
Total assets	2,993,341	2,413,195	2,991,555	3,945,355	2,975,198
Investments sold short at fair value	642,240	584,896	728,747	1,291,370	845,614
Financial derivatives–liabilities, at fair value	36,273	18,687	60,472	66,116	44,791
Reverse repurchase agreements	1,209,315	1,033,581	1,174,189	1,669,433	1,236,166
Payable for securities purchased	202,703	85,168	165,365	98,747	193,047
Other secured borrowings	57,909	24,086	—	774	983
Other secured borrowings, at fair value	125,105	—	—	—	—
Senior notes, net	84,771	—	—	—	—
Due to brokers	1,721	12,780	114,797	22,224	19,762
Other liabilities	12,343	9,220	9,033	8,147	8,786
Total liabilities	2,372,380	1,768,418	2,252,603	3,156,811	2,349,149
Equity	620,961	644,777	738,952	788,544	626,049
Less: Non-controlling interests	20,862	7,116	6,903	6,389	5,648
Shareholders' Equity	$ 600,099	$ 637,661	$ 732,049	$ 782,155	$ 620,401
Shareholders' equity per common share	$ 19.15	$ 19.75	$ 22.10	$ 23.38	$ 24.40
Shareholders' equity per common share, diluted	18.85	19.46	21.80	23.09	23.99

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

Executive Summary

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

We conduct all of our operations and business activities through Ellington Financial Operating Partnership LLC, or the "Operating Partnership." As of December 31, 2017, we have an ownership interest of approximately 99.3% in the Operating Partnership. The interest of approximately 0.7% not owned by us represents the interest in the Operating Partnership that is owned by an affiliate of our Manager and certain related parties, and is reflected in our financial statements as a non-controlling interest.

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

Through December 31, 2017, our Credit portfolio, which includes all of our investments 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. 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 of 1940, as amended, or the "Investment Company Act." Unless we acquire very substantial amounts of whole mortgage loans or there are changes to the rules and regulations applicable to us under the Investment Company Act, we expect that we will always maintain some core amount of Agency RMBS.

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

We also use leverage in our Credit strategy, albeit significantly less leverage than that used in our Agency RMBS strategy. Through December 31, 2017, 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, 2017, 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 $1.4 billion. Of our total borrowings outstanding under reverse repos and Total other secured borrowings, approximately 60%, or $829.6 million, relates to our Agency RMBS holdings, as of December 31, 2017. The remaining outstanding borrowings relate to our Credit portfolio and U.S. Treasury securities.

In August 2017, we issued $86.0 million of unsecured long-term debt, or the "Senior Notes," at par that mature in September of 2022. The Senior Notes bear interest at a rate of 5.25%, subject to adjustment based on changes, if any, in the ratings of the Senior Notes. Inclusive of debt issuance costs, the effective interest rate on the Senior Notes is 5.55%. See Note 7 of the notes to our consolidated financial statements for further detail on the Senior Notes.

Our debt-to-equity ratio was 2.38 to 1 as of December 31, 2017. 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, 2017 we repurchased 961,566 common shares at an average price per share of $15.23 and a total cost of $14.6 million. In addition to making discretionary repurchases, we from time to time use 10b5-1 plans to increase the number of trading days available to implement these repurchases. In 2018, through March 9, 2018, we have repurchased 790,648 shares for an aggregate cost of $12.0 million.

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

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

We also measure our book value per share and our total return on a diluted basis, assuming all convertible units were converted into common shares at their respective issuance dates. As of December 31, 2017, our diluted book value per share was $18.85, as compared to $19.46 as of December 31, 2016. On a diluted basis, the Company's total return for the year ended December 31, 2017 was 6.16%. Additionally our diluted net-asset-value-based total return was 173.22% from our inception (August 17, 2007) through December 31, 2017, and our annualized inception-to-date diluted net-asset-value-based total return was 10.17% as of December 31, 2017.

Our Targeted Asset Classes

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

Asset Class	Principal Assets
Agency RMBS	• Whole pool pass-through certificates; • Partial pool pass-through certificates; • Agency collateralized mortgage obligations, or "CMOs," including interest only securities, or "IOs," principal only securities, or "POs," inverse interest only securities, or "IIOs; and • To-Be-Announced mortgage pass-through certificates, or "TBAs."
CLOs	• Equity and mezzanine tranches of CLOs; and • Retained tranches from securitizations to which we have contributed assets.
CMBS and Commercial Mortgage Loans	• CMBS; and • Commercial mortgages and other commercial real estate debt.
Consumer Loans and ABS	• Consumer loans; • ABS backed by consumer loans; and • Retained tranches from securitizations to which we have contributed assets.
Corporate Debt and Equity and Derivatives	• Corporate debt or equity, including distressed debt and equity; • Credit default swaps, or "CDS," on corporations or on corporate indices, or "CDX"; • Options or total return swaps on corporate equity or debt or on corporate equity indices; and • Corporate credit relative value strategies.
Mortgage-Related Derivatives	• CDS on individual RMBS, on the ABX, CMBX and PrimeX indices and on other mortgage-related indices; and • Other mortgage-related derivatives.
Non-Agency 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"; • Non-QM loans; and • Retained tranches from securitizations to which we have contributed assets.

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

Agency RMBS

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

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

TBAs

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

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

CLOs

We acquire CLOs, a form of asset-backed security collateralized by syndicated corporate loans. Our current CLO holdings include mezzanine and equity interests, and are concentrated in securitizations that have exited the reinvestment period. We have also contributed, and may contribute in the future, assets to new CLO securitizations in order to retain certain tranches from such securitizations. In addition, in anticipation of a securitization transaction, we may provide capital to a vehicle accumulating assets for such securitization, and such vehicle may enter into a warehouse financing facility in order to facilitate such accumulation. Securitizations can effectively provide us with long-term, locked-in financing on the related collateral pool, with an effective cost of funds well below the expected yield on the collateral pool.

CMBS

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

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

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

Consumer Loans and ABS

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

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

Corporate Debt and Equity and Derivatives

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

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

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

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 non-QM loans and residential NPLs. A non-QM loan is not necessarily high-risk, nor 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 a 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 we have purchased all of our non-QM loans from this originator.

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

Other Investment Assets

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

Hedging Instruments

Credit Risk Hedging

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

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

Interest Rate Hedging

We opportunistically hedge our interest rate risk by using various hedging strategies to mitigate such risks. 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. In particular, we may use currency forward contracts and other currency-related derivatives to mitigate this risk.

Trends and Recent Market Developments

- The U.S. Federal Reserve, or "Federal Reserve," raised the target range for the federal funds rate three times in 2017, and ended the year with a target range of 1.25%–1.50%. The market is currently expecting several additional interest rate hikes in 2018.
- During each quarter of 2017, the yield curve flattened. Over the course of the year, the 2-year U.S. Treasury yield increased 70 basis points and finished the year at 1.88%, while the 10-year U.S. Treasury yield decreased 4 basis points to 2.41%. At year end, the spread between the 2-year U.S. Treasury yield and 10-year U.S. Treasury yield was just 52 basis points, compared to 126 basis points at the end of 2016.
- In October 2017, the Federal Reserve initiated its balance sheet normalization program, pursuant to which it began tapering asset purchases of both U.S. Treasury securities and Agency RMBS, with the objective that its securities portfolio will run off according to a well-defined schedule until reaching a level no larger "than necessary to implement monetary policy efficiently and effectively." For Agency RMBS, the pace of balance sheet reduction began at $4 billion per month during the fourth quarter of 2017, for an aggregate Agency RMBS balance sheet reduction amount of $12 billion in 2017. Beginning in January 2018, the monthly balance sheet reduction amount increased to $8 billion and is set to increase an additional $4 billion at the beginning of each subsequent quarter of 2018, resulting in cumulative scheduled Agency RMBS balance sheet reductions of $168 billion for 2018.
- Mortgage rates decreased during the first nine months of 2017 before reversing course in the fourth quarter. The Freddie Mac survey 30-year mortgage rate fell 49 basis points between year-end 2016 and September 30, 2017, and then rose 16 basis points to end 2017 at 3.99%. Overall, Agency RMBS prepayment rates were relatively stable during the year. The Mortgage Bankers Association's Refinance Index, which measures refinancing application volumes, finished 2017 almost exactly where it began the year, and substantially below the multi-year high reached in mid-2016.

- Data released by S&P Dow Jones Indices for its S&P CoreLogic Case-Shiller Indices for December 2017 showed, on average, a continuation of mid-single-digit home price appreciation nationally, with home prices posting a 6.3% year-over-year increase for its 20-City Composite and a 6.0% year-over-year increase for its 10-City Composite, after seasonal adjustments.
- Data from the Federal Reserve Bank of New York's Quarterly Report on Household Debt and Credit indicated that aggregate household debt balances increased 4.5% year over year to $13.15 trillion in 2017, which is $473 billion higher than the previous peak of $12.68 trillion reached in the third quarter of 2008. The University of Michigan's Index of Consumer Sentiment increased 5.3% in 2017, indicating consumers hold a favorable assessment of the economy and their current financial condition.
- The TCJA was enacted in December, resulting in significant changes to the U.S. tax code.

The year ended December 31, 2017 proved to be one of the least volatile years for interest rates on record, despite three interest rate hikes from the Federal Reserve, a new administration in Washington, significant geopolitical uncertainties, and the first pullback in quantitative easing in a decade. Over the course of the year, the 10-year U.S. Treasury yield traded within a 59-basis point range, which was the tightest annual range in over 50 years, and ended the year only 4 basis points lower than where it began. As long-term interest rates remained range-bound, short-term rates rose, and the yield curve consistently flattened each quarter in 2017.

Both the Merrill Lynch Option Volatility Estimate Index, or MOVE Index, and Chicago Board Options Exchange Volatility Index, known as the VIX, declined over the course of 2017 and reached all-time lows in the fourth quarter. Meanwhile, U.S. equities trended steadily upward in 2017, finishing the year near all-time highs after receiving a boost from the passage of the TCJA in December, and in particular from anticipation of the lowering of corporate income tax rates starting in 2018.

Credit spreads in most sectors declined over the course of 2017, and ended the year at or near the tightest points of their trailing three-year ranges. Demand remained strong throughout 2017 for floating-rate debt instruments, including CLOs and leveraged loans, as rising LIBOR rates throughout the year—including a particularly steep rise in LIBOR towards the end of the year—boosted coupons. CMBS yield spreads ended 2017 tighter than the prior year. Over the course of 2017, the CMBS market appeared to have successfully navigated—without much adverse impact—both the new risk retention regulations and the large volume of commercial mortgages that matured from pre-crisis CMBS. Legacy non-Agency RMBS also performed well throughout the year, although a large number of these bonds received reduced National Association of Insurance Commissioners, or "NAIC," ratings in December that caused price declines. The reduced NAIC ratings removed a strong technical factor that had been supporting the market for these bonds.

For the first eight months of the year, Agency RMBS yield spreads failed to tighten in sympathy with credit spreads. However, after the Federal Reserve's announcement in September of the initiation of its tapering program, Agency RMBS yield spreads tightened significantly, suggesting that many investors had been waiting for policy clarity before adding Agency RMBS exposure. On a year-over-year basis, Agency RMBS option adjusted spreads finished tighter as the market seemingly absorbed the initiation of the Federal Reserve's balance sheet runoff without issue.

Mortgage real estate investment trust, or "REIT," buying of Agency RMBS also increased substantially following a number of equity raises, suggesting that private capital might be able to replace the Federal Reserve's footprint in this market. In 2017, residential mortgage REITs raised approximately $8.3 billion of capital, representing over $40 billion of Agency RMBS buying power. At the same time, low interest rate volatility and a muted prepayment environment provided a significant tailwind to the sector. As measured by the Bloomberg Barclays U.S. MBS Agency Fixed Rate Index, Agency RMBS generated an excess return over the Bloomberg Barclays U.S. Treasury Index of 52 basis points in 2017.

Portfolio Overview and Outlook

As of December 31, 2017, our long Credit portfolio (excluding corporate credit relative value trading positions, hedges, and other derivatives) increased 85.7% to $1.025 billion, from $552.0 million as of December 31, 2016; and our long Agency RMBS portfolio increased 5.4% to $871.8 million, from $827.4 million as of December 31, 2016.

Credit Summary

	As of December 31, 2017		As of December 31, 2016	
($ in thousands)	**Fair Value(1)**	**% of Total Long Credit Portfolio**	**Fair Value(1)**	**% of Total Long Credit Portfolio**
Dollar Denominated:				
CLOs(2)	$ 184,569	18.0%	$ 22,519	4.1%
CMBS	29,144	2.8%	34,588	6.3%
Commercial Mortgage Loans and Real Estate Owned, or "REO"	133,987	13.1%	62,779	11.4%
Consumer Loans and ABS(2)	138,202	13.5%	111,423	20.2%
Corporate Debt and Equity	8,206	0.8%	28,700	5.2%
Debt and Equity Investment in Mortgage-Related Entities	29,017	2.8%	28,065	5.1%
Residential Mortgage Loans and REO	183,063	17.9%	85,989	15.6%
Non-Agency RMBS	159,743	15.6%	102,710	18.6%
Non-Dollar Denominated:				
CLO	31,280	3.1%	22,437	4.0%
CMBS	11,601	1.1%	8,680	1.6%
Consumer Loans and ABS	2,749	0.3%	3,049	0.5%
Corporate Debt and Equity	13,463	1.3%	185	—%
RMBS	99,923	9.7%	40,898	7.4%
Total Long Credit	$ 1,024,947	100.0%	$ 552,022	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 limited liability company related to securitizations.

Despite a competitive environment that at times slowed our acquisition pace, we were able to increase our Credit holdings each quarter during the year, while at the same time striving to maintain our investment discipline. To achieve this growth, we both capitalized on our proprietary pipelines of loans and opportunistically bought securities. During the year, we had net increases in the size of our holdings in the following strategies: CLOs of $170.9 million, residential mortgage loans and REO of $97.1 million, commercial mortgage loans and REO of $71.2 million, U.K. non-conforming RMBS of $59.0 million, non-Agency RMBS of $57.0 million, and consumer loans and ABS of $26.5 million.

Later in the year, we also acquired a substantial amount of more liquid, lower risk assets in the U.S. non-Agency RMBS and CLO markets. We believe that these investments can be sold in a relatively short time period, to redeploy into higher-yielding strategies, and in the meantime provide the opportunity for solid positive carry. During the year, we also added several new borrowing facilities, including multiple securitization transactions and our first unsecured debt financing, while expanding and improving other borrowings, all of which should assist us in continuing to grow our Credit portfolio. Of note with respect to our CLO securitization strategy, subsequent to year end the United States Court of Appeals for the District of Columbia Circuit overturned the credit risk retention requirement for CLO transactions. If not successfully challenged, we believe that this ruling will increase the liquidity of certain of our CLO investments.

Our Credit portfolio performed well over the course of 2017 and continued to be the primary driver of our earnings. Our best-performing strategies for the year included non-performing residential mortgage loans, small-balance commercial mortgage loans, CMBS, and secondary CLOs. Net interest income, as opposed to trading gains or net unrealized gains, represented the majority of the income from our Credit portfolio during 2017. We believe that increasing the net interest income from our Credit portfolio, especially our loan assets, will be the key to generating a steady and predictable earnings stream.

During 2017, our credit hedges consisted 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 ETFs of corporate bonds. Our credit hedges also included CDS tied to individual MBS or an index of several MBS, such as CMBX. We also opportunistically overlay our high-yield corporate credit hedges and mortgage-related derivatives with certain relative value long/short positions involving the same or similar instruments. For 2017, credit hedges reduced profitability in our Credit strategy, as spreads in most credit sectors continued to tighten, including the corporate and CMBS sectors in which most of our credit hedges continue to be concentrated.

In addition to using credit hedges, we also use interest rate hedges in our Credit strategy in order to protect our portfolio against the risk of rising interest rates. The interest rate hedges in our Credit strategy, which in 2017 consisted primarily of interest rate swaps, had a modest loss for the year. We also use foreign currency hedges in our Credit strategy, in order to protect our assets denominated in euros and British pounds against the risk of declines in those currencies against the U.S. dollar. We had net losses on our foreign currency hedges for the year, but these were more than offset by net gains on foreign currency-related transactions and translation.

Agency RMBS Summary

	As of December 31, 2017		As of December 31, 2016	
($ in thousands)	**Fair Value**	**% of Long Agency Portfolio**	**Fair Value**	**% of Long Agency Portfolio**
Long Agency RMBS:(1)				
Fixed Rate	$ 768,751	88.2%	$ 726,142	87.7%
Floating Rate	8,067	0.9%	11,457	1.4%
Reverse Mortgages	60,866	7.0%	60,221	7.3%
IOs	34,150	3.9%	29,622	3.6%
Total Long Agency RMBS(1)	871,834	100.0%	827,442	100.0%
Net Short TBAs(1)	(336,509)		(334,203)	
Net Agency Portfolio	$ 535,325		$ 493,239	

(1) Long TBA positions, with a fair value of $123.7 million and $70.5 million, as of December 31, 2017 and 2016 respectively, are included in Net Short TBAs, and are not included in Long Agency RMBS.

Our Agency strategy was profitable for the first nine months of 2017. During the fourth quarter, however, although Agency RMBS spreads generally held firm, many shorter-duration RMBS (including higher-coupon pools and 15-year pools) underperformed longer-duration RMBS, which led to net unrealized losses on our portfolio.

During 2017, strong net interest income on our Agency RMBS assets more than offset net realized and unrealized losses on these assets and their associated interest rate hedges, and so the strategy was profitable for the year. Portfolio turnover for our Agency strategy was only 40% for the year (as measured by sales and excluding paydowns), as compared to 69% during 2016.

As of December 31, 2017, the weighted average coupon on our fixed-rate specified pools was 4.0%. Average pay-ups on our specified pools were virtually unchanged year over year, decreasing only 2 basis points to 0.74% as of December 31, 2017, from 0.76% as of December 31, 2016. Pay-ups are price premiums for specified pools relative to their TBA counterparts. Specified pools generally outperformed TBAs over the course of the year, which marginally benefited our portfolio as 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. Looking forward, we expect that the scheduled acceleration of the Federal Reserve's tapering will put downward pressure on TBA prices, and thereby benefit our TBA short positions, because the Federal Reserve acquires its Agency pools through purchases of TBA contracts.

During the year we continued to hedge interest rate risk in our Agency strategy, primarily through the use of interest rate swaps and short positions in TBAs, and to a lesser extent, short positions in U.S. Treasury securities and U.S. Treasury futures contracts. For the year, we had total net losses of $(4.8) million, or $(0.15) per share, on our interest rate hedging portfolio. In our hedging portfolio, the relative proportion (based on 10-year equivalents[1]) of TBA short positions decreased slightly year over year relative to interest rate swaps. We believe that it is important to be able to hedge our Agency RMBS portfolio using a variety of instruments, including TBAs.

We believe that using TBA short positions has several advantages, including (i) reducing our risk and book value volatility, (ii) enabling us to take advantage of dislocations in specified pool pay-ups without increasing our overall net exposure to Agency yield spreads, and (iii) during times of increased volatility, allowing us to avoid the high rebalancing costs associated with interest rate swap hedges.

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

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

The following table summarizes prepayment rates for our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) for the three month periods ended December 31, 2017, September 30, 2017, June 30, 2017, March 31, 2017, and December 31, 2016.

	Three Month Period Ended				
	December 31, 2017	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**	**December 31, 2016**
Three Month Constant Prepayment Rates(1)	11.2%	13.4%	11.9%	10.5%	15.1%

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

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, 2017 and 2016:

		December 31, 2017			December 31, 2016		
	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	$ 25,702	$ 26,241	23	$ 29,821	$ 30,652	14
	3.50	63,241	65,684	30	61,814	64,949	22
	4.00	9,619	10,093	52	11,702	12,439	41
	4.50	2,794	2,973	81	3,619	3,905	69
Total 15-year fixed-rate mortgages		101,356	104,991	32	106,956	111,945	24
20-year fixed-rate mortgages:							
	4.00	1,633	1,728	81	2,043	2,172	38
	4.50	1,023	1,099	50	1,156	1,254	37
Total 20-year fixed-rate mortgages		2,656	2,827	69	3,199	3,426	38
30-year fixed-rate mortgages:							
	2.50	—	—	—	3,513	3,414	2
	3.00	9,889	9,938	48	4,993	4,970	34
	3.28	112	112	66	—	—	—
	3.50	142,819	147,579	17	99,249	102,259	15
	3.75	2,906	3,025	5	—	—	—
	4.00	293,113	308,760	24	291,166	308,365	20
	4.50	135,362	144,978	31	117,697	127,382	29
	5.00	37,959	41,078	59	52,008	57,013	46
	5.50	2,851	3,134	110	3,392	3,766	97
	6.00	2,071	2,329	94	3,161	3,602	84
Total 30-year fixed-rate mortgages		627,082	660,933	27	575,179	610,771	24
Total fixed-rate Agency RMBS		$ 731,094	$ 768,751	28	$ 685,334	$ 726,142	24

Our net Agency premium as a percentage of the fair value of our specified pool holdings is one metric that we use to measure the overall prepayment risk of our specified pool portfolio. Net Agency premium represents the total premium (excess of market value over outstanding principal balance) on our specified pool holdings less the total premium on related net short TBA positions. The lower our net Agency premium, the less we believe that our specified pool portfolio is exposed to market-wide increases in Agency RMBS prepayments. Our net Agency premium as a percentage of fair value of our specified pool holdings was approximately 3.2% as of both December 31, 2017 and 2016. 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 $391.8 million and a fair value of $407.8 million as of December 31, 2017, as compared to a notional value of $370.6 million and a fair value of $390.3 million as of December 31, 2016. Excluding these TBA hedging positions, our Agency premium as a percentage of fair value was approximately 5.1% and 5.7% as of December 31, 2017 and 2016, respectively. Our Agency premium percentage and net Agency premium percentage may fluctuate from period to period based on a variety of factors, including market factors such as interest rates and mortgage rates, and, in the case of our net Agency premium percentage, based on the degree to which we hedge prepayment risk with short TBA positions. We believe that our focus on purchasing pools with specific prepayment characteristics provides a measure of protection against prepayments.

Financing

The following table details our borrowings outstanding and debt-to-equity ratios as of December 31, 2017 and 2016.

	As of December 31, 2017	As of December 31, 2016
	($ in thousands)	
Recourse[1] Borrowings:		
Reverse Repurchase Agreements	$ 1,209,315	$ 1,033,581
Senior Notes, at par	86,000	—
Total Recourse Borrowings	1,295,315	1,033,581
Debt-to-Equity Ratio Based on Total Recourse Borrowings	2.09:1	1.60:1
Debt-to-Equity Ratio Based on Total Recourse Borrowings Excluding U.S. Treasury Securities	2.09:1	1.59:1
Non-Recourse[1] Borrowings:		
Other Secured Borrowings	57,909	24,086
Other Secured Borrowings, at fair value[2]	125,105	—
Total Recourse and Non-Recourse Borrowings	1,478,329	1,057,667
Debt-to-Equity Ratio Based on Total Recourse and Non-Recourse Borrowings	2.38:1	1.64:1
Debt-to-Equity Ratio Based on Total Recourse and Non-Recourse Borrowings Excluding U.S. Treasury Securities	2.38:1	1.63:1

(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 securitization, where we have elected the fair value option on the related debt.

Our financing costs include interest expense related to our reverse repo borrowings, Total other secured borrowings, and Senior Notes. For the year ended December 31, 2017 the weighted average cost of funds of our reverse repo borrowings and Total other secured borrowings increased 60 basis points to 1.83%, from 1.23% for the year ended December 31, 2016. 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 over the last several quarters. Our average cost of funds also increased because our Credit-related secured borrowings constituted a larger share of our total borrowings relative to our Agency-related borrowings for the year ended December 31, 2017. Our Credit portfolio carries higher funding costs relative to our Agency RMBS portfolio.

On August 18, 2017, we issued $86.0 million in aggregate principal amount of unsecured Senior Notes, at par and maturing on September 1, 2022. The total net proceeds from the issuance of the Senior Notes were approximately $84.7 million, after deducting debt issuance costs. The Senior Notes bear an interest rate of 5.25%, and interest is payable semi-annually in arrears on March 1 and September 1 of each year, with the first interest payment date on March 1, 2018. Inclusive of debt issuance costs, the effective interest rate on the Senior Notes is 5.55%.

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

Our debt-to-equity ratio including reverse repo, Total other secured borrowings, and our Senior Notes, increased to 2.38:1, excluding U.S. Treasury securities, as of December 31, 2017, as compared to 1.63:1 as of December 31, 2016. The increased size of our Credit and Agency portfolios, coupled with our lower capital base primarily resulting from share repurchases and dividends, led to an increase in our debt-to-equity ratio as of December 31, 2017. Our debt-to-equity ratio excluding the $125.1 million of debt related to non-QM loan securitization would have been 2.18:1 as of December 31, 2017.

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

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 consolidated financial statements for a complete discussion of our significant accounting policies. We have identified our most critical accounting policies to be the following:

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

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

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

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

Recent Accounting Pronouncements

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

Financial Condition

The following table summarizes our investment portfolio(1) as of December 31, 2017 and 2016.

	December 31, 2017		December 31, 2016	
(In thousands)	Fair Value	Cost	Fair Value	Cost
Long:				
Credit:				
Dollar Denominated:				
CLO	$ 184,569	$ 189,234	$ 22,519	$ 25,860
CMBS	29,144	31,228	34,588	41,770
Commercial Mortgage Loans and REO	133,987	133,498	62,779	64,706
Consumer Loans and ABS	138,202	148,657	111,423	120,405
Corporate Debt and Equity	59,452	59,974	78,318	78,757
Debt and Equity Investment in Mortgage-Related Entities	29,017	28,218	28,065	27,686
Non-Agency RMBS	159,743	146,606	102,710	88,544
Residential Mortgage Loans and REO	183,063	180,682	85,989	87,006
Non-Dollar Denominated:				
CLO	31,280	28,957	22,437	23,227
CMBS	11,601	10,846	8,680	12,279
Consumer Loans and ABS	2,749	1,075	3,049	2,133
Corporate Debt and Equity	13,463	13,785	185	530
RMBS	99,923	95,672	40,898	47,032
Agency:				
Fixed-Rate Specified Pools	768,751	774,696	726,142	727,069
Floating-Rate Specified Pools	8,067	8,135	11,457	11,468
IOs	34,150	35,157	29,622	30,096
Reverse Mortgage Pools	60,866	61,460	60,221	61,173
TBAs	123,680	123,874	70,525	70,334
Government:				
Dollar Denominated	—	—	5,419	5,635
Total Long	2,071,707	2,071,754	1,505,026	1,525,710
Repurchase Agreements				
Dollar Denominated	84,668	84,668	121,176	121,175
Non-Dollar Denominated	71,281	70,441	63,643	64,030
Total Repurchase Agreements	155,949	155,109	184,819	185,205
Short:				
Credit:				
Dollar Denominated:				
Corporate Debt and Equity	(91,902)	(91,778)	(47,726)	(47,716)
Agency:				
TBAs	(460,189)	(459,953)	(404,728)	(404,967)
Government:				
Dollar Denominated	(53,021)	(53,322)	(69,762)	(69,946)
Non-Dollar Denominated	(37,128)	(35,149)	(62,680)	(66,800)
Total Short	(642,240)	(640,202)	(584,896)	(589,429)
Net Total	$ 1,585,416	$ 1,586,661	$ 1,104,949	$ 1,121,486

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

The following table summarizes our financial derivatives portfolio[1][2] as of December 31, 2017 and 2016.

	As of December 31, 2017				As of December 31, 2016			
	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	$ 7,712	$ (34,421)	$ (26,709)	$ 7,553	$ 17,228	$ (123,133)	$ (105,905)	$ 18,884
Total Net Mortgage-Related Derivatives				7,553				18,884
Corporate-Related Derivatives:								
CDS on Corporate Bonds and Corporate Bond Indices	169,876	(446,236)	(276,360)	(17,980)	100,248	(132,414)	(32,166)	(4,390)
Total Return Swaps on Corporate Equities[3]	235	(10,317)	(10,082)	—	—	(42,093)	(42,093)	(55)
Total Return Swaps on Corporate Debt[4]	—	—	—	—	5,438	—	5,438	(94)
Options on CDS on Corporate Bond Indices[5]	—	—	—	—	10,000	—	10,000	—
Total Net Corporate-Related Derivatives				(17,980)				(4,539)
Interest Rate-Related Derivatives:								
Interest Rate Swaps	453,350	(925,644)	(472,294)	3,231	376,074	(762,335)	(386,261)	2,964
Eurodollar Futures[6]	—	—	—	—	11,000	(62,000)	(51,000)	(59)
U.S. Treasury Futures[7]	—	(6,800)	(6,800)	45	—	(7,000)	(7,000)	19
Total Interest Rate-Related Derivatives				3,276				2,924
Other Derivatives:								
Foreign Currency Forwards[8]	—	(42,306)	(42,306)	(473)	—	(54,787)	(54,787)	(456)
Foreign Currency Futures[9]	—	(27,000)	(27,000)	(508)	—	—	—	—
Other[10]	n/a	n/a	n/a	24	n/a	n/a	n/a	95
Total Net Other Derivatives				(957)				(361)
Net Total				$ (8,108)				$ 16,908

(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, 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. As of December 31, 2016, derivative assets and derivative liabilities were $35.6 million and $(18.7) million, respectively, for a net fair value of $16.9 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 outstanding principal on underlying corporate debt.
(5) Represents the option on our part to enter into a CDS on a corporate bond index whereby we would pay a fixed rate and receive credit protection payments.
(6) Every $1,000,000 in notional value represents one Eurodollar future contract.
(7) Notional value represents the total face amount of U.S. Treasury securities underlying all contracts held. As of December 31, 2017 and December 31, 2016 a total of 68 and 70 short U.S. Treasury futures contracts were held, respectively.
(8) 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.
(9) Notional value represents the total face amount of currency futures underlying all contracts held. As of December 31, 2017 a total of 216 short foreign currency futures contracts were held.
(10) As of December 31, 2017 includes interest rate caps, equity call options, and interest rate "basis" swaps whereby the Company pays one floating rate and receives a different floating rate. As of December 31, 2016 includes interest rate caps, equity call options, warrants, mortgage loan purchase commitments, and interest rate "basis" swaps.

As of December 31, 2017, our Consolidated Statement of Assets, Liabilities, and Equity reflects total assets of $3.0 billion as compared to $2.4 billion as of December 31, 2016. Total liabilities as of December 31, 2017 and 2016 were $2.4 billion and $1.8 billion, respectively. Our portfolios of investments, financial derivatives, and repurchase agreements included in total assets were $2.3 billion and $1.7 billion as of December 31, 2017 and 2016, respectively, while our investments sold short and financial derivatives included in total liabilities were $678.5 million and $603.6 million as of December 31, 2017 and 2016, 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 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, 2017 and 2016, we had a net short TBA position of $336.5 million and $334.2 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, 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, 2016, total assets included $70.5 million of TBAs as well as $406.7 million of receivables for securities sold relating to unsettled TBA sales. 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. As of December 31, 2016, total liabilities included $404.7 million of TBAs sold short as well as $70.3 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 our non-Agency MBS portfolio, although we also take net long positions in certain CDS on RMBS and CMBS indices. Our CDS on individual RMBS represent "single-name" positions whereby we have synthetically purchased credit protection on specific non-Agency RMBS bonds. As there is no longer an active market for CDS on individual RMBS, our portfolio continues to run off. We also use CDS on corporate bond indices, options thereon, and various other instruments as a means to hedge credit risk, or for relative value trading purposes. As market conditions change, especially as the pricing of various credit hedging instruments changes in relation to our outlook on future credit performance, we continuously re-evaluate both the extent to which we hedge credit risk and the particular mix of instruments that we use to hedge credit risk.

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

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

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

We have entered into reverse repos to finance some of our assets. As of December 31, 2017 and 2016, indebtedness outstanding on our reverse repos was approximately $1.2 billion and $1.0 billion respectively. As of December 31, 2017, we had total Agency RMBS of $866.1 million financed with reverse repos as compared to $809.2 million as of December 31, 2016. As of December 31, 2017, we had total Credit assets of $542.4 million financed with reverse repos as compared to $338.2 million as of December 31, 2016. As of December 31, 2017 and 2016 we also had total U.S. Treasury securities of $0.3 million and $5.4 million, respectively, financed with reverse repos. Outstanding indebtedness under reverse repos for Agency RMBS as of December 31, 2017 and 2016 was $829.6 million and $790.3 million, respectively, while outstanding indebtedness under reverse repos for our Credit portfolio as of December 31, 2017 and 2016 was $379.4 million and $237.8 million, respectively. Outstanding indebtedness under reverse repos for U.S. Treasury securities as of December 31, 2017 and 2016 was $0.3 million and $5.4 million, respectively. Our reverse repos bear interest at rates that have historically moved in close relationship to LIBOR. We account for our reverse repos as collateralized borrowings. In addition to our reverse repos, as of December 31, 2017 we had Total other secured borrowings of $183.0 million, used to finance $222.1 million of non-QM and consumer loans. This compares to Total other secured borrowings of $24.1 million as of December 31, 2016, used to finance $42.0 million of commercial mortgage loans and REO. In addition to our secured borrowings, we had $86.0 million of unsecured Senior Notes outstanding as of December 31, 2017.

As of December 31, 2017 and 2016 our debt-to-equity ratio was 2.38 to one and 1.64 to one, respectively. Excluding U.S. Treasury securities our debt-to-equity ratio as of December 31, 2017 and 2016 was 2.38 to one and 1.63 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, 2017 and 2016, our derivative and TBA counterparties posted an aggregate value of approximately $1.7 million and $12.8 million of collateral with us, respectively. This collateral posted with us is included in Due to brokers on our Consolidated Statement of Assets, Liabilities, and Equity.

TBA Market

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

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

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

For the year ended December 31, 2017 and 2016, 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 $23.9 billion and $22.9 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) TBA roll transactions (as described above) effected to maintain existing TBA short positions; and (c) TBA "sector rotation" transactions whereby a short position in one TBA security is replaced with a short position in a different TBA security. Since we have actively turned over our portfolio of fixed-rate Agency whole pools, the volume of TBA hedging transactions has also been correspondingly high. Moreover, our fixed-rate Agency whole pool portfolio is typically larger in gross size than our equity capital base, and so we tend to hold large short TBA positions relative to our equity capital base at any time. Finally, the entire amount of short TBA positions held at each monthly TBA settlement date is typically rolled to the following month, and since the amount of short TBA positions tends to be large relative to our equity capital base, TBA roll transaction volume over multi-month periods can represent a multiple of our equity capital base.

Equity

As of December 31, 2017, our equity decreased by approximately $23.8 million to $621.0 million from $644.8 million as of December 31, 2016. This decrease principally consisted of dividends paid of $57.6 million, distributions to joint venture partners of approximately $8.6 million, and payments to repurchase common shares of $14.6 million. These decreases were partially offset by a net increase in equity resulting from operations for the year ended December 31, 2017 of $36.0 million and an increase related to contributions from our non-controlling interests of approximately $20.7 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 $600.1 million as of December 31, 2017.

Results of Operations for the Years Ended December 31, 2017, 2016, and 2015

The table below represents the net increase (decrease) in equity resulting from operations for the years ended December 31, 2017, 2016, and 2015.

	Year Ended December 31,		
(In thousands except per share amounts)	2017	2016	2015
Interest income	$ 89,629	$ 74,344	$ 101,783
Other income	4,331	5,841	2,813
Total investment income	93,960	80,185	104,596
Expenses:			
Base management fee to affiliate (Net of fee rebates of $332, $0, and $0, respectively)	9,056	10,065	11,493
Interest expense	31,120	16,306	12,112
Other investment related expenses	9,754	8,070	5,612
Other operating expenses	8,862	9,979	9,203
Total expenses	58,792	44,420	38,420
Net investment income	35,168	35,765	66,176
Net realized and change in net unrealized gain (loss) on investments	11,298	(5,304)	(22,485)
Net realized and change in net unrealized gain (loss) on financial derivatives, excluding currency forwards	(11,727)	(46,722)	(5,598)
Net realized and change in net unrealized gain (loss) on financial derivatives—currency forwards	(6,946)	2,513	5,115
Net foreign currency gain (loss)	8,171	(1,954)	(4,779)
Net increase (decrease) in equity resulting from operations	35,964	(15,702)	38,429
Less: Net increase in equity resulting from operations attributable to non-controlling interests	1,983	305	340
Net increase (decrease) in shareholders' equity resulting from operations	$ 33,981	$ (16,007)	$ 38,089
Net increase (decrease) in shareholders' equity resulting from operations per share	$ 1.04	$ (0.48)	$ 1.13

Results of Operations for the Years Ended December 31, 2017 and 2016

Summary of Net Increase (Decrease) in Shareholders' Equity from Operations

For the year ended December 31, 2017 we had a net increase in shareholders' equity resulting from operations of $34.0 million, and for the year ended December 31, 2016 we had a net decrease in shareholders' equity resulting from operations of $(16.0) million. The year-over-year reversal in our results of operations was primarily due to a significant decrease in our net realized and unrealized losses on our financial derivatives as well as an increase in our net realized and unrealized gains on investments. Because our credit hedges during the year ended December 31, 2016 were primarily in the form of short positions in financial instruments tied to high-yield corporate credit, we incurred significant losses in the year ended December 31, 2016 as high-yield corporate credit rallied meaningfully during the period. For the year ended December 31, 2017, high-yield corporate credit also rallied, but we had significantly less exposure to these credit hedges during the period, and as a result we had much lower credit hedging losses as compared to the prior period. Total return based on changes in "net asset value" or "book value" for our common shares was 6.14% for the year ended December 31, 2017 as compared to (1.83)% for the year ended December 31, 2016. Total return on our common shares is calculated based on changes in net asset value per share or book value per share and assumes reinvestment of dividends.

Net Investment Income

Net investment income was $35.2 million and $35.8 million for the years ended December 31, 2017 and 2016, respectively. Net investment income consists of interest and other income less total expenses. The slight year-over-year decrease in net investment income was due to an increase in total expenses, mainly interest expense, which was partially offset by an increase in total investment income, principally interest income.

Interest Income

Interest income was $89.6 million for the year ended December 31, 2017 as compared to $74.3 million for the year ended December 31, 2016. 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 as well as a large positive "Catch-up Premium Amortization Adjustment," as described below, for the year ended December 31, 2017 as compared to a large negative "Catch-up Premium Amortization Adjustment" for the year ended December 31, 2016.

For the year ended December 31, 2017, interest income from our Credit portfolio was $54.3 million, as compared to $48.6 million for the year ended December 31, 2016. The year-over-year increase in interest income in this portfolio was primarily due to the larger size of the portfolio for the year ended December 31, 2017. For the year ended December 31, 2017, interest income from our Agency RMBS was $27.2 million, while for the year ended December 31, 2016, interest income was $24.0 million. The year-over-year increase in interest income in this portfolio was primarily due to a positive "Catch-up Premium Amortization Adjustment" for the year ended December 31, 2017 as compared to a negative "Catch-up Premium Amortization Adjustment" for the year ended December 31, 2016.

Some of the variability in our interest income and portfolio yields is due to quarterly adjustments to premium amortization triggered by changes in actual and projected prepayments on our Agency RMBS (accompanied by a corresponding offsetting adjustment to realized and unrealized gains and losses). We refer to this quarterly adjustment as a "Catch-up Premium Amortization Adjustment." The adjustment is calculated as of the beginning of each quarter based on our then assumptions about cashflows and prepayments, and can vary significantly from quarter to quarter. For the year ended December 31, 2017, we had a positive Catch-up Premium Amortization Adjustment of approximately $1.1 million, which increased our interest income. Excluding the Catch-up Premium Amortization Adjustment, the weighted average yield of our overall portfolio was 5.39% for the year ended December 31, 2017. By comparison, for the year ended December 31, 2016 the Catch-up Premium Amortization Adjustment decreased interest income by approximately $1.9 million. Excluding this Catch-up Premium Amortization Adjustment, the weighted average yield on our overall portfolio for the year ended December 31, 2016 would have been 5.18%.

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, 2017 and 2016:

	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, 2017	$ 54,347	$ 647,507	8.39%	$ 27,190	$ 844,523	3.22%	$ 81,537	$ 1,492,030	5.46%
Year ended December 31, 2016	$ 48,607	$ 569,933	8.53%	$ 24,022	$ 869,055	2.76%	$ 72,629	$ 1,438,988	5.05%

(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, 2017 and 2016, base management fee incurred, which is based on total equity at the end of each quarter, was $9.1 million and $10.1 million, respectively. The decrease in the base management fee was primarily due to our smaller capital base year over year.

Interest Expense

Interest expense primarily includes interest on funds borrowed under reverse repos and Total other secured borrowings, interest on our Senior Notes, coupon interest on securities sold short, the related net accretion and amortization of purchase discounts and premiums on those short holdings, and interest on our counterparties' cash collateral held by us. Our total interest expense increased to $31.1 million for the year ended December 31, 2017, as compared to $16.3 million for the year ended December 31, 2016, largely reflecting the increase in borrowings related to the growth of the Credit portfolio. Several other factors contributed to the year-over-year increase in our interest expense on reverse repos and Total other secured borrowings, including the following: the cost of our reverse repo borrowings rose as LIBOR increased; we had higher interest expense related to a larger average position in corporate bonds sold short; and we incurred interest expense associated with our Senior Notes, which have a higher cost of funds than our other borrowings. Additionally, the borrowings related to our loan portfolios constituted a larger share of our total borrowings relative to our securities portfolios. Our loan portfolios are generally more expensive to finance than our securities portfolios.

The table below summarizes the components of interest expense for the years ended December 31, 2017 and 2016.

	For the Year Ended	
	December 31, 2017	December 31, 2016
Reverse repos and Total other secured borrowings	21,502	$ 13,358
Unsecured senior notes (1)	1,765	—
Securities sold short (2)	6,104	1,803
Other (3)	1,749	1,145
Total	31,120	$ 16,306

(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 year ended December 31, 2017 and 2016.

	For the Year Ended					
	December 31, 2017			December 31, 2016		
Collateral for Borrowing	Average Borrowings	Interest Expense	Average Cost of Funds	Average Borrowings	Interest Expense	Average Cost of Funds
(In thousands)						
Credit(1)	$ 304,280	$ 11,066	3.64%	$ 234,097	$ 7,241	3.09%
Agency RMBS	789,720	9,438	1.20%	824,020	5,936	0.72%
Subtotal(1)	1,094,000	20,504	1.87%	1,058,117	13,177	1.25%
Corporate Credit Relative Value Trading Strategy	52,437	786	1.50%	13,445	139	1.03%
U.S. Treasury Securities	26,307	212	0.81%	13,480	42	0.31%
Total	$ 1,172,744	$ 21,502	1.83%	$ 1,085,042	$ 13,358	1.23%
Average One-Month LIBOR			1.11%			0.50%
Average Six-Month LIBOR			1.48%			1.06%

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

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 actual and accrued periodic payments on our interest rate swaps used to hedge our assets, our total average cost of funds would increase to 1.90% and 1.46% for the years ended December 31, 2017 and 2016, respectively. Our net interest margin, defined as the yield on our portfolio of yield-bearing targeted assets (See—Interest Income above), less our cost of funds (including actual and accrued periodic payments on interest rate swaps as described above), was 3.56% and 3.59% for the years ended December 31, 2017 and 2016, respectively. These metrics do not include amortization of upfront payments associated with certain of our interest rate swaps or the 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. No incentive fee was incurred for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 other investment related expenses were $9.8 million and $8.1 million, respectively. The increase in other investment related expenses was primarily due to debt issuance costs incurred related to Other secured borrowings, at fair value, associated with a non-QM loan securitization transaction that we completed in the fourth quarter of 2017.

Other Operating Expenses

Other operating expenses consist of professional fees, compensation expense related to our dedicated or partially dedicated personnel, administration fees, share-based long term incentive plan unit, or "LTIP Unit," expense, insurance expense, and various other operating expenses necessary to run our business. Other operating expenses exclude management and incentive fees, interest expense, and other investment related expenses. Other operating expenses for the year ended December 31, 2017 were $8.9 million as compared to $10.0 million for the year ended December 31, 2016. The decrease in our other operating expenses was primarily related to decreased professional fees and administration fees.

Net Realized and Unrealized Gains (Losses) on Investments

During the year ended December 31, 2017, we had net realized and unrealized gains on investments of $11.3 million as compared to net realized and unrealized losses on investments of $(5.3) million for the year ended December 31, 2016. Included in our investments are short positions in TBAs, U.S. Treasury securities, and sovereign securities, which are used primarily to hedge interest rate and/or prepayment risk with respect to our other investment holdings.

Net realized and unrealized gains on investments of $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 losses on investments of $(5.3) million for the year ended December 31, 2016 resulted principally from net realized and unrealized losses on consumer loans, U.S. and European CMBS, European RMBS, TBAs, Agency RMBS, U.S. Treasury and other sovereign securities, and non-listed equity, partially offset by U.S. non-Agency RMBS, U.S. and European CLOs, residential and commercial mortgage loans and REO, and corporate debt.

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

During the year ended December 31, 2017, we had net realized and unrealized losses on our financial derivatives of $(18.7) million as compared to net realized and unrealized losses of $(44.2) million for the year ended December 31, 2016. 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 losses of $(18.7) million on our financial derivatives 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 forwards. Translation and transaction net gains were incurred in connection with our non-dollar denominated European assets.

Net realized and unrealized losses on our financial derivatives of $(44.2) million for the year ended December 31, 2016 resulted primarily from net losses related to our credit hedges in the form of CDS on high yield corporate bond indices, our total return swaps, and our interest rate swaps, partially offset by net gains on our options on CDS on high yield corporate bond indices and our CDS on corporate bonds. Net foreign exchange transaction and translation losses were largely offset by net realized and unrealized gains on our foreign currency forwards. Translation and transaction losses were incurred in connection with our non-dollar denominated European assets.

Results of Operations for the Years Ended December 31, 2016 and 2015

Summary of Net Increase (Decrease) in Shareholders' Equity from Operations

For the year ended December 31, 2016 we had a net decrease in shareholders' equity resulting from operations of $(16.0) million and for the year ended December 31, 2015 we had a net increase in shareholders' equity resulting from operations of $38.1 million. The year-over-year reversal in our results of operations was due to an increase in our net realized and unrealized losses on our financial derivatives and a decrease in our net investment income. Lower interest income was the main component of the year-over-year change in net investment income. The decrease in interest income was primarily the result of a decrease in the size of our investment portfolio. We also employed less leverage in our Agency RMBS portfolio in 2016 as compared to the same period in 2015. During the year ended December 31, 2016, we had significant net realized and unrealized losses on our credit hedges. Because our credit hedges were primarily in the form of short positions in financial instruments tied to high-yield corporate debt, we incurred losses as high-yield corporate credit rallied meaningfully during the year. These losses were partially offset by positive results from our securities portfolios, including non-Agency RMBS, CMBS and Agency RMBS, and from our loan portfolios, including consumer loans, small balance commercial mortgage loans and residential mortgage loans. Total return based on changes in "net asset value" or "book value" for our common shares was (1.83)% for the year ended December 31, 2016 as compared to 5.14% for the year ended December 31, 2015. Total return on our common shares is calculated based on changes in net asset value per share or book value per share and assumes reinvestment of dividends.

Net Investment Income

Net investment income was $35.8 million for the year ended December 31, 2016 as compared to $66.2 million for the year ended December 31, 2015. Net investment income consists of interest and other income less total expenses. The year-over-year decrease in net investment income was due to lower interest income for the year ended December 31, 2016 as compared to the year ended December 31, 2015.

Interest Income

Interest income was $74.3 million for the year ended December 31, 2016 as compared to $101.8 million for the year ended December 31, 2015. 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. For the year ended December 31, 2016, interest income from our Agency RMBS was $24.0 million, while for the year ended December 31, 2015, interest income was $35.3 million. For the year ended December 31, 2016, interest income from our Credit portfolio was $48.6 million, while for the year ended December 31, 2015, interest income was $66.0 million. The decrease in interest income was primarily due to a decline in our average portfolio holdings, as well as a decrease in the average yield of our Credit and Agency portfolios. The decrease in the average yield of our Credit portfolio was generally based on the decrease in the relative contribution from certain higher-yielding asset classes in which our positions decreased in size.

The following table details our interest income, average holdings of interest-earning assets, and weighted average yield based on amortized cost for the years ended December 31, 2016 and 2015:

	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, 2016	$ 48,607	$ 569,933	8.53%	$ 24,022	$ 869,055	2.76%	$ 72,629	$ 1,438,988	5.05%
Year ended December 31, 2015	$ 65,967	$ 670,474	9.84%	$ 35,270	$ 1,158,832	3.04%	$ 101,237	$ 1,829,306	5.53%

(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, 2016 and 2015, base management fee incurred, which is based on total equity at the end of each quarter, was $10.1 million and $11.5 million, respectively. The decrease in the base management fee was due to our smaller capital base year over year.

Interest Expense

Interest expense primarily includes interest on funds borrowed under reverse repos and Total other secured borrowings, 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 $16.3 million for the year ended December 31, 2016, as compared to $12.1 million for the year ended December 31, 2015. This increase in our interest expense was in part due to the increase in the cost of repo in 2016 relative to the prior year. The cost of repo has typically moved in sympathy with movements in LIBOR rates. LIBOR rates rose as the Federal Reserve increased the target range for the federal funds in December 2015 and again in December 2016; LIBOR rates also rose with the approach of the SEC money market fund reform rules that took effect in October 2016, although in this case there was a roughly offsetting effect on the cost of some of our repo borrowings, as these rules caused an increase in demand from government money market funds to provide Agency RMBS repo. The increase in our interest expense was also the result of a shift in the mix of our borrowings, as more of our Credit-related borrowings related to our loan portfolios, and as loans generally carry higher borrowing rates and debt issuance costs as compared to securities.

The table below summarizes the components of interest expense for the years ended December 31, 2016 and 2015.

	For the Year Ended	
	December 31, 2016	December 31, 2015
Reverse repos and Total other secured borrowings	13,358	$ 11,011
Securities sold short [(1)]	1,803	1,029
Other [(2)]	1,145	72
Total	16,306	$ 12,112

(1) Amount includes the related net accretion and amortization of purchase discounts and premiums.
(2) 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, 2016 and 2015.

	For the Year Ended					
	December 31, 2016			December 31, 2015		
Collateral for Borrowing	Average Borrowings	Interest Expense	Average Cost of Funds	Average Borrowings	Interest Expense	Average Cost of Funds
(In thousands)						
Credit[(1)]	$ 234,097	$ 7,241	3.09%	$ 282,949	$ 6,262	2.21%
Agency RMBS	824,020	5,936	0.72%	1,104,607	4,745	0.43%
Subtotal[(1)]	1,058,117	13,177	1.25%	1,387,556	11,007	0.79%
Corporate Credit Relative Value Trading Strategy	13,445	139	1.03%	—	—	—%
U.S. Treasury Securities	13,480	42	0.31%	23,382	4	0.01%
Total	$ 1,085,042	$ 13,358	1.23%	$ 1,410,938	$ 11,011	0.78%
Average One-Month LIBOR			0.50%			0.20%
Average Six-Month LIBOR			1.06%			0.49%

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

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 actual and accrued periodic payments on our interest rate swaps used to hedge our assets, our total average cost of funds would increase to 1.46% and 1.14% for the years ended December 31, 2016 and 2015, respectively. Our net interest margin, defined as the yield on our portfolio of yield-bearing targeted assets (See—Interest Income above), less our cost of funds (including actual and accrued periodic payments on interest rate swaps as described above) was 3.59% and 4.39% for the years ended December 31, 2016 and 2015, respectively. These metrics do not include amortization of upfront payments associated with certain of our interest rate swaps or the 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. No incentive fee was incurred for the years ended December 31, 2016 and 2015, 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. For the years ended December 31, 2016 and 2015 other investment related expenses were $8.1 million and $5.6 million, respectively. The increase was primarily due to increased servicing fees and other expenses relating to our loan portfolios, which increased in size year over year.

Other Operating Expenses

Other operating expenses consist of professional fees, compensation expense related to our dedicated or partially dedicated personnel, administration fees, share-based LTIP expense, insurance expense, and various other operating expenses necessary to run our business. Other operating expenses exclude management and incentive fees, interest expense, and other investment related expenses. Other operating expenses for the year ended December 31, 2016 were $10.0 million as compared to $9.2 million for the year ended December 31, 2015. The increase in our other operating expenses was primarily related to increased professional fees.

Net Realized and Unrealized Gains (Losses) on Investments

During the year ended December 31, 2016, we had net realized and unrealized losses on investments of $(5.3) million as compared to net realized and unrealized losses of $(22.5) million for the year ended December 31, 2015. Included in our investments are short positions in TBAs, U.S. Treasury 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 $(5.3) million for the year ended December 31, 2016 resulted principally from net realized and unrealized losses on consumer loans, U.S. and European CMBS, European RMBS, TBAs, Agency RMBS, U.S. Treasury and other sovereign securities, and non-listed equity, partially offset by U.S. non-Agency RMBS, U.S. and European CLOs, residential and commercial mortgage loans and REO and corporate debt. During the year ended December 31, 2016, the fixed income markets experienced periods of significant volatility. Over the course of the year, yields spreads on some asset classes widened while others tightened. With regard to our consumer loans, we had write-downs with respect to loans purchased under one flow agreement where we had seen a greater persistence of default rates than anticipated. We concluded purchasing loans under this agreement. We recognized gains on the successful resolutions of our non-performing residential and commercial mortgage loans and REO.

Net realized and unrealized losses on investments of $(22.5) million for the year ended December 31, 2015 resulted principally from net realized and unrealized losses on distressed corporate debt, net short TBAs, Agency RMBS, CLOs, U.S. Treasury positions and CMBS, partially offset by net realized and unrealized gains on non-Agency RMBS, residential loans, REO, small balance commercial mortgage loans, and short equity positions.

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

During the year ended December 31, 2016, we had net realized and unrealized losses on our financial derivatives of $(44.2) million as compared to net realized and unrealized losses of $(0.5) million for the year ended December 31, 2015. 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, 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, short and/or long positions in Eurodollar futures and U.S. Treasury Note futures, as well as purchased and written swaptions. We also use certain non-derivative instruments, such as TBAs, U.S. Treasury securities and sovereign debt instruments, to hedge interest rate risk. Our derivative credit hedges were primarily in the form of short positions in instruments tied to high-yield corporate credit, and credit default swaps where we have purchased credit protection on non-Agency MBS indices and individual MBS. We have also used total return swaps to take synthetic long or short positions in the equity of certain publicly traded mortgage-related or corporate entities. We have acquired certain of our distressed corporate loans synthetically, in the form of total return swaps.

Net realized and unrealized losses of $(44.2) million on our financial derivatives for the year ended December 31, 2016 resulted primarily from net losses on our credit hedges in the form of CDS on high yield corporate bond indices, our total return swaps, and our interest rate swaps, partially offset by net gains on our options on CDS on high yield corporate bond indices and our CDS on corporate bonds. Net foreign exchange transaction and translation losses were largely offset by net realized and unrealized gains on our foreign currency forwards. Translation and transaction losses were incurred in connection with our non-dollar denominated European assets.

Net realized and unrealized losses on our financial derivatives of $(0.5) million for the year ended December 31, 2015 resulted primarily from net losses related to our interest rate swaps, total return swaps, CDS on asset-backed indices, and CDS on individual RMBS, partially offset by net realized and unrealized gains on our options on CDS indices and currency forwards. Net gains on our currency forwards were largely offset by translation and transaction losses related to 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 Senior Notes, and payment of our quarterly dividend. Our capital resources primarily include cash on hand, cash flow from our investments (including principal and interest payments received on our investments and proceeds from the sale of investments), borrowings under reverse repos and other secured borrowings, and proceeds from equity and debt offerings. We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs.

The following summarizes our reverse repos:

	Reverse Repurchase Agreements	
(In thousands)	**Average Borrowed Funds During the Period**	**Borrowed Funds Outstanding at End of the Period**
Year Ended December 31, 2017	$ 1,082,518	$ 1,209,315
Year Ended December 31, 2016	$ 1,067,216	$ 1,033,581

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

(In thousands)	December 31, 2017	
Remaining Days to Maturity	**Outstanding Borrowings**	**%**
30 Days or Less	$ 324,744	26.9%
31 - 60 Days	396,259	32.8%
61 - 90 Days	408,825	33.8%
121 - 150 Days	8,551	0.7%
151 - 180 Days	8,902	0.7%
181 - 360 Days	5,090	0.4%
> 360 Days	56,944	4.7%
	$ 1,209,315	100.0%

Reverse repos involving underlying investments that we sold prior to December 31, 2017, for settlement following December 31, 2017, 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, 2017, 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 30.4% with respect to

Credit assets, 5.6% with respect to Agency RMBS assets, and 15.1% overall. As of December 31, 2016 these respective weighted average contractual haircuts were 29.6%, 5.3%, and 12.5%.

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, 2017 and 2016, we had $1.2 billion and $1.0 billion, respectively, of borrowings outstanding under our reverse repos. 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. As of December 31, 2016, the remaining terms on our reverse repos ranged from 3 days to 320 days, with a weighted average remaining term of 56 days. Our reverse repo borrowings were with a total of twenty-three and twenty-one counterparties as of December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, our reverse repos, excluding those on U.S. Treasury securities, had a weighted average borrowing rate of 1.98% and 1.32%, respectively. As of December 31, 2017, our reverse repos had interest rates ranging from (1.25)% to 4.94%. As of December 31, 2016, our reverse repos had interest rates ranging from 0.60% to 3.76%. Investments transferred as collateral under reverse repos had an aggregate fair value of $1.4 billion and $1.2 billion as of December 31, 2017 and 2016, 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, 2017 and 2016, we held unencumbered Agency pools, on a settlement date basis, in the amount of $4.5 million and $40.0 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, 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
December 31, 2015[(2)]	1,174,189	1,335,360	1,401,378
September 30, 2015	1,372,794	1,378,821	1,386,610
June 30, 2015	1,360,408	1,427,369	1,497,281
March 31, 2015	1,396,112	1,505,226	1,554,589

(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 more liquid lower risk securities which we subsequently financed through reverse repurchase agreements.

(2) Our outstanding reverse repo borrowings as of December 31, 2015 declined relative to our average reverse repo borrowings outstanding for the quarter ended December 31, 2015. In light of continued and anticipated significant market volatility, during the quarter ended December 31, 2015, we net sold Agency RMBS, thereby reducing our outstanding reverse repo borrowings and increasing our cash holdings in order to be more defensively positioned.

In addition to our borrowings under reverse repurchase agreements, we have entered into various other types of transactions to finance certain of our non-QM and consumer loans, and commercial mortgage loans and REO; these transactions are accounted for as collateralized borrowings. As of December 31, 2017 and 2016 we had outstanding borrowings related to such transactions in the amount of $183.0 million and $24.1 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, 2017, the fair value of non-QM and consumer loans collateralizing our Total other secured borrowings was $222.1 million. As of December 31, 2016, the fair value of commercial mortgage loans and REO collateralizing our Total other secured borrowings was $42.0 million. See Note 7 in the notes to our consolidated financial statements for further information on the Company's other secured borrowings.

In August 2017, we issued $86.0 million of unsecured Senior Notes, at par, that mature in September 2022. The Senior Notes bear an interest rate of 5.25%, subject to adjustment based on changes, if any, in the ratings of the Senior Notes. The Senior Notes have an effective interest rate, including debt issuance costs, of 5.55%. 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. See Note 7 of the notes to our consolidated financial statements for further detail on the Senior Notes.

As of December 31, 2017, we had an aggregate amount at risk under our reverse repos with twenty-three counterparties of approximately $219.3 million, and as of December 31, 2016, we had an aggregate amount at risk under our reverse repos with twenty-one counterparties of approximately $161.1 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, 2017 and 2016 does not include approximately $4.2 million and $3.1 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, 2017, we had an aggregate amount at risk under our derivative contracts with seventeen counterparties of approximately $30.9 million. We also had $9.9 million of initial margin for cleared over-the-counter, or "OTC," derivatives posted to central clearinghouses as of that date. As of December 31, 2016, we had an aggregate amount at risk under our derivatives contracts with eighteen counterparties of approximately $42.5 million. We also had $7.6 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 thereby 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, 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. As of December 31, 2016, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with five counterparties of approximately $1.7 million. Amounts at risk in connection with our forward settling TBA and Agency pass-through certificates represent the excess, if any, for each counterparty of the net fair value of the forward settling securities 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 securities 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 $47.2 million and $123.3 million as of December 31, 2017 and 2016, respectively. During the fourth quarter of 2017, we purchased a substantial amount of more liquid, lower risk assets. We believe that these assets can be sold in a relatively short time period, to redeploy into higher-yielding strategies, and in the meantime these assets provide the opportunity for solid positive carry. As a result of these purchases, our cash and cash equivalents were significantly lower as of December 31, 2017, compared to December 31, 2016.

On March 6, 2017, our Board of Directors approved the adoption of a share repurchase program under which we were authorized to repurchase up to 1.7 million common shares. This program was superseded by the adoption of a subsequent, similar, share repurchase program, approved by our Board of Directors on February 6, 2018, under which we are 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 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, 2017 we repurchased 961,566 common shares at an average price per share of $15.23 and a total cost of $14.6 million. In 2018, through March 9, 2018, we have repurchased 790,648 shares for an aggregate cost of $12.0 million. Of these 790,648 common shares, 371,705 common shares were repurchased under the current repurchase program adopted on February 6, 2018.

We may declare dividends based on, among other things, our earnings, our financial condition, our working capital needs, and new investment opportunities. Dividends are declared and paid on a quarterly basis in arrears. The declaration of dividends to our shareholders and the amount of such dividends are at the discretion of our Board of Directors. During the year ended December 31, 2017, we paid total dividends in the amount of $57.6 million related to the three month periods ended December 31, 2016, March 31, 2017, June 30, 2017, and September 30, 2017. In February 2018, our Board of Directors approved a dividend related to the fourth quarter of 2017 in the amount of $0.41 per share, or approximately $12.9 million, payable on March 15, 2018 to shareholders of record as of March 1, 2018. During the year ended December 31, 2016, we paid total dividends in the amount of $65.1 million related to the three month periods ended December 31, 2015, March 31, 2016, June 30, 2016, and September 30, 2016.

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

Year Ended December 31, 2017

(In thousands except per share amounts)	**Dividend Per Share**	**Dividend Amount**	**Record Date**	**Payment Date**
First Quarter	$0.45	$ 14,757	June 1, 2017	June 15, 2017
Second Quarter	$0.45	$ 14,757	September 1, 2017	September 15, 2017
Third Quarter	$0.41	$ 13,300	December 1, 2017	December 15, 2017
Fourth Quarter	$0.41	$ 12,850	March 1, 2018	March 15, 2018

Year Ended December 31, 2016

(In thousands except per share amounts)	**Dividend Per Share**	**Dividend Amount**	**Record Date**	**Payment Date**
First Quarter	$0.50	$ 16,744	June 1, 2016	June 15, 2016
Second Quarter	$0.50	$ 16,640	September 1, 2016	September 15, 2016
Third Quarter	$0.45	$ 14,892	December 1, 2016	December 15, 2016
Fourth Quarter	$0.45	$ 14,821	March 1, 2017	March 15, 2017

For the year ended December 31, 2017, our operating activities used net cash in the amount of $462.7 million, and our reverse repo activity used to finance many of our investments (including repayments, in conjunction with the sales of investments, of amounts borrowed under our reverse repo agreements) provided net cash of $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 Senior Notes, used net cash of $15.9 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 $76.0 million, from $123.3 million as of December 31, 2016 to $47.2 million as of December 31, 2017.

For the year ended December 31, 2016, our operating activities provided net cash in the amount of $69.7 million, and our reverse repo activity used to finance many of our investments (including repayments, in conjunction with the sales of investments, of amounts borrowed under our reverse repo agreements) used net cash of $92.1 million. In addition we received proceeds from the issuance of Total other secured borrowings of $40.9 million less repayments of $0.3 million. Thus our operating activities, when combined with our reverse repo and Total other secured borrowings, provided net cash of $18.2 million for the year ended December 31, 2016. We used $65.1 million to pay dividends, $5.2 million for distributions to a non-controlling interest (our joint venture partners), and $14.0 million to repurchase common shares. In addition, contributions from a non-controlling interest member provided cash of $5.6 million. As a result there was a decrease in our cash holdings of $60.6 million, from $183.9 million as of December 31, 2015 to $123.3 million as of December 31, 2016.

For the year ended December 31, 2015, our operating activities provided net cash of $654.2 million, and our reverse repo activity used to finance many of our investments (including repayments, in conjunction with the sales of investments, of amounts borrowed under our reverse repo agreements) used net cash of $495.2 million. Thus our operating activities, when combined with our reverse repo financings, provided net cash of $159.0 million for the year ended December 31, 2015. In addition, contributions from a non-controlling interest member provided cash of $2.2 million. We used $83.5 million to pay dividends, $1.5 million for distributions to a non-controlling interest (our joint venture partner), $5.6 million to repurchase common shares, and $0.8 million for other financing activities. As a result there was an increase in our cash holdings of $69.8 million, from $114.1 million as of December 31, 2014 to $183.9 million as of December 31, 2015.

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 debt or additional 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.

The following table summarizes our contractual obligations at December 31, 2017:

(In thousands)	Less than One Year	1-3 Years	3-5 Years	More than Five Years	Total
Reverse repurchase agreements	$ 1,152,371	$ 56,944	$ —	$ —	$ 1,209,315
Interest expense on repurchase agreements, based on rates at December 31, 2017[1]	5,423	8,578	—	—	14,001
Senior notes	4,678	9,030	95,030	—	108,738
Payable for securities purchased and financial derivatives	202,703	—	—	—	202,703
Capital commitment to mortgage originator[2]	2,500	—	—	—	2,500
Total	$ 1,367,675	$ 74,552	$ 95,030	$ —	$ 1,537,257

(1) Includes accrued interest expense on repurchase agreements at December 31, 2017 of $2.2 million which is included in Interest payable on the Consolidated Balance Sheet.
(2) See Note 17 of the notes to consolidated financial statements for details.

The above table excludes repayment obligations related to our Total other secured borrowings. These repayment obligations have been excluded from the above table since the timing of their actual maturities is based on the timing of the repayments of the underlying consumer and mortgage loans that collateralize them rather than a stated contractual maturity. Consumer and mortgage loans are subject to prepayment by borrowers and such prepayments are inherently difficult to predict. In addition, other secured borrowings related to our non-QM loan securitization is subject to our optional redemption right as described in Note 6 of the notes to consolidated financial statements.

The following table details our projected payments under our obligations related to our Total other secured borrowings as of December 31, 2017.

(In thousands)	2018	2019	Total
Total other secured borrowings	$ 42,409	$ 140,608	$ 183,017
Interest expense on Total other secured borrowings, based on rates at December 31, 2017	3,240	7,021	10,261
Total	$ 45,649	$ 147,629	$ 193,278

We enter into reverse repos with third-party broker-dealers whereby we sell securities to such broker-dealers at agreed-upon purchase prices at the initiation of the reverse repos and agree to repurchase such securities at predetermined repurchase prices and termination dates, thus providing the broker-dealers with an implied interest rate on the funds initially transferred to us by the broker-dealers. We enter into repos with third-party broker-dealers whereby we purchase securities under agreements to resell at an agreed-upon price and date. In general, we most often enter into repo transactions in order to effectively borrow securities that we can then deliver to counterparties to whom we have made short sales of the same securities. The implied interest rates on the repos and reverse repos we enter into are based upon competitive market rates at the time of initiation. Repos and reverse repos 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*. See "*—Liquidity and Capital Resources*" for a summary of our borrowings on reverse repos. As of December 31, 2017 and 2016 there were no repos or reverse repos reported on a net basis on the Consolidated Statement of Assets, Liabilities, and Equity.

See Note 17 in 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, 2017, 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 and Note 7 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, 2017 the Company had 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, 2017 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, 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.

Similarly, we are exposed to the risk of potential credit losses on other credit-related assets in our portfolio, including distressed corporate debt, CLOs, and investments in mortgage-related entities.

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.

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, 2017, 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	$ 7,534	1.21 %	$ 12,241	1.97 %	$ (10,358)	(1.67)%	$ (23,541)	(3.79)%
Non-Agency RMBS, CMBS, Other ABS, and Mortgage Loans	3,827	0.62 %	7,784	1.25 %	(3,697)	(0.60)%	(7,265)	(1.17)%
U.S. Treasury Securities, and Interest Rate Swaps, Options, and Futures	(7,942)	(1.28)%	(16,240)	(2.61)%	7,585	1.22 %	14,814	2.38 %
Mortgage-Related Derivatives	18	— %	39	0.01 %	(15)	— %	(26)	— %
Corporate Securities and Derivatives on Corporate Securities	(654)	(0.10)%	(1,297)	(0.21)%	665	0.11 %	1,340	0.21 %
Repurchase Agreements and Reverse Repurchase Agreements	(2,409)	(0.39)%	(4,833)	(0.78)%	2,357	0.38 %	4,690	0.76 %
Total	$ 374	0.06 %	$ (2,306)	(0.37)%	$ (3,463)	(0.56)%	$ (9,988)	(1.61)%

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, 2017 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 LLC:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of assets, liabilities and equity, including the consolidated condensed schedule of investments, of Ellington Financial LLC and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, 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, 2017, 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, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 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, 2017, 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 the accompanying Management's Report on Internal Control over Financial Reporting. 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 15, 2018

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, 2017	December 31, 2016
	Expressed in U.S. Dollars	
ASSETS		
Cash and cash equivalents	$ 47,233	$ 123,274
Restricted cash	425	655
Investments, financial derivatives, and repurchase agreements:		
Investments, at fair value (Cost – $2,071,754 and $1,525,710)	2,071,707	1,505,026
Financial derivatives–assets, at fair value (Net cost – $31,474 and $40,724)	28,165	35,595
Repurchase agreements, at fair value (Cost – $155,109 and $185,205)	155,949	184,819
Total investments, financial derivatives, and repurchase agreements	2,255,821	1,725,440
Due from brokers	140,404	93,651
Receivable for securities sold and financial derivatives	476,000	445,112
Interest and principal receivable	29,688	21,704
Other assets	43,770	3,359
Total Assets	$ 2,993,341	$ 2,413,195
LIABILITIES		
Investments and financial derivatives:		
Investments sold short, at fair value (Proceeds – $640,202 and $589,429)	$ 642,240	$ 584,896
Financial derivatives–liabilities, at fair value (Net proceeds – $27,463 and $12,012)	36,273	18,687
Total investments and financial derivatives	678,513	603,583
Reverse repurchase agreements	1,209,315	1,033,581
Due to brokers	1,721	12,780
Payable for securities purchased and financial derivatives	202,703	85,168
Other secured borrowings (Proceeds – $57,909 and $24,086)	57,909	24,086
Other secured borrowings, at fair value (Proceeds – $125,105 and $0)	125,105	—
Senior notes, net	84,771	—
Accounts payable and accrued expenses	3,885	3,327
Base management fee payable to affiliate	2,113	2,416
Interest and dividends payable	5,904	3,460
Other liabilities	441	17
Total Liabilities	2,372,380	1,768,418
EQUITY	620,961	644,777
TOTAL LIABILITIES AND EQUITY	$ 2,993,341	$ 2,413,195
Commitments and contingencies (Note 17)		
ANALYSIS OF EQUITY:		
Common shares, no par value, 100,000,000 shares authorized;		
(31,335,938 and 32,294,703 shares issued and outstanding)	$ 589,722	$ 627,620
Additional paid-in capital – Long term incentive plan units	10,377	10,041
Total Shareholders' Equity	600,099	637,661
Non-controlling interests	20,862	7,116
Total Equity	$ 620,961	$ 644,777
PER SHARE INFORMATION:		
Common shares	$ 19.15	$ 19.75

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

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

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*
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

See Notes to Consolidated Financial Statements

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				

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*	
(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				

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*	
(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

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*
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)

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 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%

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016

Current Principal/Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
Cash Equivalents—Money Market Funds (13.96%) (a) (b)				
North America				
Funds				
50,000	BlackRock Liquidity Funds FedFund Portfolio, Institutional Class Shares	0.42%		$ 50,000
40,000	Various	0.44% - 0.45%		40,000
Total Cash Equivalents—Money Market Funds (Cost $90,000)				$ 90,000
Long Investments (233.42%) (a) (b) (ad)				
Mortgage-Backed Securities (168.25%)				
Agency Securities (139.27%) (c)				
Fixed Rate Agency Securities (134.44%)				
Principal and Interest - Fixed Rate Agency Securities (121.61%)				
North America				
Mortgage-related—Residential				
$ 147,479	Federal National Mortgage Association Pools (30 Year)	4.00%	2/42 - 1/47	$ 156,144
121,756	Federal Home Loan Mortgage Corporation Pools (30 Year)	4.00%	8/43 - 1/47	128,798
67,681	Federal National Mortgage Association Pools (30 Year)	4.50%	10/41 - 3/46	73,305
58,682	Federal National Mortgage Association Pools (30 Year)	3.50%	3/43 - 1/47	60,451
51,402	Federal National Mortgage Association Pools (15 Year)	3.50%	3/28 - 11/31	54,019
44,796	Federal National Mortgage Association Pools (30 Year)	5.00%	10/35 - 12/44	49,062
40,722	Federal Home Loan Mortgage Corporation Pools (30 Year)	4.50%	9/43 - 9/46	44,010
25,244	Federal Home Loan Mortgage Corporation Pools (30 Year)	3.50%	1/42 - 1/47	25,993
21,855	Government National Mortgage Association Pools (30 Year)	4.00%	6/45 - 12/46	23,346
22,073	Federal National Mortgage Association Pools (15 Year)	3.00%	4/30 - 1/32	22,730
10,504	Government National Mortgage Association Pools (Other)	4.60%	12/63 - 11/64	11,351
9,968	Federal National Mortgage Association Pools (15 Year)	4.00%	6/26 - 5/31	10,596
10,120	Federal Home Loan Mortgage Corporation Pools (Other)	3.50%	2/30 - 9/46	10,379
9,219	Federal Home Loan Mortgage Corporation Pools (15 Year)	3.50%	9/28 - 9/30	9,686
6,714	Federal National Mortgage Association Pools (Other)	5.00%	9/43 - 1/44	7,408
6,568	Government National Mortgage Association Pools (30 Year)	4.50%	8/45 - 9/46	7,099
6,200	Government National Mortgage Association Pools (Other)	4.68%	11/63 - 9/64	6,703
6,231	Government National Mortgage Association Pools (30 Year)	3.50%	2/46 - 12/46	6,513
5,219	Government National Mortgage Association Pools (Other)	4.55%	1/65	5,648
4,942	Government National Mortgage Association Pools (Other)	4.44%	11/66	5,383
3,892	Government National Mortgage Association Pools (Other)	4.61%	11/64	4,216
3,619	Federal National Mortgage Association Pools (15 Year)	4.50%	4/26	3,905
3,518	Government National Mortgage Association Pools (Other)	4.42%	7/61	3,741
3,513	Government National Mortgage Association Pools (30 Year)	2.50%	10/46	3,414
3,123	Government National Mortgage Association Pools (Other)	4.48%	11/64	3,361
3,043	Government National Mortgage Association Pools (Other)	4.62%	10/64	3,303
2,896	Federal National Mortgage Association Pools (30 Year)	5.50%	10/39	3,216
2,945	Government National Mortgage Association Pools (Other)	4.57%	1/65	3,186
3,030	Federal Home Loan Mortgage Corporation Pools (15 Year)	3.00%	4/30	3,119

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

Current Principal/Notional Value		Description	Rate	Maturity	Fair Value	
(In thousands)					*Expressed in U.S. Dollars*	
(continued)						
$	3,030	Federal Home Loan Mortgage Corporation Pools (Other)	3.00%	6/28 - 3/30	$	3,109
	2,726	Federal Home Loan Mortgage Corporation Pools (Other)	4.50%	5/44		2,968
	2,459	Government National Mortgage Association Pools (Other)	4.64%	3/65		2,672
	2,433	Government National Mortgage Association Pools (Other)	5.49%	4/60		2,551
	2,195	Federal National Mortgage Association Pools (30 Year)	3.00%	1/42 - 6/45		2,193
	2,043	Federal National Mortgage Association Pools (20 Year)	4.00%	12/33		2,172
	1,943	Government National Mortgage Association Pools (Other)	4.63%	6/64		2,103
	1,793	Federal National Mortgage Association Pools (30 Year)	6.00%	9/39 - 2/40		2,049
	1,916	Government National Mortgage Association Pools (Other)	5.51%	2/60		2,016
	1,734	Federal Home Loan Mortgage Corporation Pools (15 Year)	4.00%	2/29		1,842
	1,675	Government National Mortgage Association Pools (Other)	5.57%	2/60		1,756
	1,689	Government National Mortgage Association Pools (Other)	3.00%	5/30 - 6/30		1,694
	1,369	Federal Home Loan Mortgage Corporation Pools (30 Year)	6.00%	4/39 - 5/40		1,553
	1,523	Federal Home Loan Mortgage Corporation Pools (30 Year)	3.00%	7/43 - 10/45		1,518
	1,275	Federal National Mortgage Association Pools (Other)	3.00%	6/43		1,258
	1,156	Federal Home Loan Mortgage Corporation Pools (20 Year)	4.50%	12/33		1,254
	496	Federal Home Loan Mortgage Corporation Pools (30 Year)	5.50%	8/33		551
	498	Federal Home Loan Mortgage Corporation Pools (30 Year)	5.00%	7/44		543
	165	Government National Mortgage Association Pools (Other)	3.50%	10/30		168
	75	Federal National Mortgage Association Pools (Other)	4.00%	6/37		77
						784,132
Interest Only - Fixed Rate Agency Securities (1.89%)						
North America						
Mortgage-related—Residential						
	26,883	Government National Mortgage Association	4.00%	2/45 - 6/45		4,547
	9,820	Federal National Mortgage Association	4.50%	12/20 - 6/44		1,414
	6,303	Government National Mortgage Association	5.50%	11/43		1,137
	5,099	Federal Home Loan Mortgage Corporation	3.50%	12/32		808
	6,695	Federal National Mortgage Association	5.00%	1/38 - 5/40		806
	5,354	Federal National Mortgage Association	4.00%	5/39 - 11/43		648
	3,844	Government National Mortgage Association	4.50%	2/41		615
	2,661	Federal National Mortgage Association	6.00%	1/40		512
	81,664	Government National Mortgage Association	0.26%	6/40		472
	3,167	Federal National Mortgage Association	3.00%	9/41		321
	1,123	Government National Mortgage Association	6.00%	6/38		263
	1,396	Government National Mortgage Association	4.75%	7/40		253
	1,201	Federal National Mortgage Association	5.50%	10/40		163
	2,289	Government National Mortgage Association	5.00%	5/37		151
	763	Federal Home Loan Mortgage Corporation	5.50%	1/39		79
						12,189

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

Current Principal/Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
TBA - Fixed Rate Agency Securities (10.94%)				
North America				
Mortgage-related—Residential				
$ 28,560	Federal Home Loan Mortgage Corporation (30 Year)	3.50%	1/17	$ 29,247
24,540	Government National Mortgage Association (30 Year)	4.00%	1/17	26,047
14,620	Federal National Mortgage Association (15 Year)	3.50%	1/17	15,231
				70,525
Total Fixed Rate Agency Securities (Cost $869,071)				866,846
Floating Rate Agency Securities (4.83%)				
Principal and Interest - Floating Rate Agency Securities (2.12%)				
North America				
Mortgage-related—Residential				
5,876	Federal National Mortgage Association Pools	2.55% - 5.94%	9/35 - 5/45	6,129
5,122	Federal Home Loan Mortgage Corporation Pools	3.12% - 5.97%	6/37 - 5/44	5,328
2,097	Government National Mortgage Association Pools	2.89%	11/64	2,231
				13,688
Interest Only - Floating Rate Agency Securities (2.71%)				
North America				
Mortgage-related—Residential				
228,955	Other Government National Mortgage Association	0.40% - 6.09%	5/37 - 11/64	13,831
12,928	Other Federal National Mortgage Association	5.39% - 6.79%	6/33 - 12/41	1,867
15,902	Resecuritization of Government National Mortgage Association (d)	3.95%	8/60	870
5,182	Other Federal Home Loan Mortgage Corporation	5.30% - 5.93%	3/36 - 8/39	865
				17,433
Total Floating Rate Agency Securities (Cost $31,069)				31,121
Total Agency Securities (Cost $900,140)				897,967
Private Label Securities (28.98%)				
Principal and Interest - Private Label Securities (28.17%)				
North America (20.48%)				
Mortgage-related—Residential				
233,890	Various	0.00% - 9.35%	5/19 - 9/46	101,737
Mortgage-related—Commercial				
119,636	Various	2.31% - 4.41%	7/45 - 12/49	30,334
Total North America (Cost $125,106)				132,071
Europe (7.69%)				
Mortgage-related—Residential				
63,244	Various	0.00% - 5.15%	6/25 - 3/40	40,898
Mortgage-related—Commercial				
9,361	Various	0.00% - 11.00%	6/17 - 2/39	8,680
Total Europe (Cost $59,311)				49,578
Total Principal and Interest - Private Label Securities (Cost $184,417)				181,649

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

Current Principal/Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
Interest Only - Private Label Securities (0.81%)				
North America				
Mortgage-related—Residential				
$ 36,498	Various	0.50% - 2.00%	6/44 - 9/47	$ 973
Mortgage-related—Commercial				
72,535	Various	1.25% - 2.71%	10/47 - 12/49	4,254
Total Interest Only - Private Label Securities (Cost $4,963)				5,227
Other Private Label Securities (0.00%)				
North America				
Mortgage-related—Residential				
90,639	Various	—%	6/37	—
Mortgage-related—Commercial				
—	Various	—%	7/45 - 12/49	—
Total Other Private Label Securities (Cost $245)				—
Total Private Label Securities (Cost $189,625)				186,876
Total Mortgage-Backed Securities (Cost $1,089,765)				1,084,843
Collateralized Loan Obligations (6.97%)				
North America (3.49%)				
69,917	Various	0.00% - 7.88%	11/17 - 6/24	22,519
Total North America (Cost $25,860)				22,519
Europe (3.48%)				
28,053	Various	0.00% - 3.84%	1/22 - 3/25	22,437
Total Europe (Cost $23,227)				22,437
Total Collateralized Loan Obligations (Cost $49,087)				44,956
Consumer Loans and Asset-backed Securities backed by Consumer Loans (16.62%) (e) (af)				
North America (16.15%)				
Consumer (f) (g)				
103,026	Various	5.31% - 60.28%	1/17 - 12/21	104,108
Total North America (Cost $108,982)				104,108
Europe (0.47%)				
Consumer				
3,449	Various	—%	8/24 - 3/26	3,049
Total Europe (Cost $2,133)				3,049
Total Consumer Loans and Asset-backed Securities backed by Consumer Loans (Cost $111,115)				107,157

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

Current Principal/Number of Properties		Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
Corporate Debt (12.42%)				
North America (12.13%)				
Communications				
$ 9,381	Various	6.75% - 9.07%	4/18 - 12/22	$ 9,489
Consumer				
22,991	Various	3.85% - 11.00%	5/17 - 5/25	24,187
Energy				
16,170	Various	6.38% - 9.63%	3/19 - 2/23	16,951
Industrial				
12,470	Various	3.75% - 7.75%	5/19 - 12/22	12,709
Mortgage-related—Residential				
10,500	Various	15.00%	10/19	9,975
Technology				
3,827	Various	6.13% - 7.50%	3/20 - 8/22	3,937
Utilities				
840	Various	7.38%	7/21	939
Total North America (Cost $78,482)				78,187
Europe (0.29%)				
Consumer				
17,618	Various	—%	12/17 - 12/18	380
Industrial				
1,867	Various	6.50%	3/21	1,528
Total Europe (Cost $2,554)				1,908
Total Corporate Debt (Cost $81,036)				80,095
Mortgage Loans (22.55%) (e)				
North America				
Mortgage-related—Commercial (i)				
71,020	Various	2.73% - 12.12%	6/17 - 10/37	61,129
Mortgage-related—Residential (k)				
89,658	Various	2.00% - 12.63%	4/22 - 7/57	84,290
Total Mortgage Loans (Cost $148,173)				145,419
Real Estate Owned (0.52%) (e) (j)				
North America				
Real estate-related				
9	Single-Family Houses			1,699
1	Commercial Property			1,650
Total Real Estate Owned (Cost $3,539)				3,349

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

Current Principal/Number of Shares		Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
Corporate Equity Investments (5.25%) (af)				
North America (5.25%)				
Consumer				
n/a	Non-Controlling Equity Interest in Limited Liability Company (h)			$ 7,315
1,557	Non-Exchange Traded Corporate Equity			825
Diversified				
191	Non-Exchange Traded Corporate Equity			3,162
Financial				
51	Exchange Traded Equity			4,396
Mortgage-related—Commercial				
n/a	Non-Controlling Interest in Mortgage-Related Private Partnership			3,090
Mortgage-related—Residential (ae)				
1,838	Non-Exchange Traded Preferred Equity Investment in Mortgage Originators			14,325
6,750	Non-Exchange Traded Common Equity Investment in Mortgage Originators			675
Total North America (Cost $37,360)				33,788
Europe (0.00%)				
Consumer				
125	Non-Exchange Traded Corporate Equity			—
Total Europe (Cost $0)				—
Total Corporate Equity Investments (Cost $37,360)				33,788
U.S. Treasury Securities (0.84%)				
North America				
Government				
$ 5,620	U.S. Treasury Note	1.13% - 1.63%	5/21 - 5/26	5,419
Total U.S. Treasury Securities (Cost $5,635)				5,419
Total Long Investments (Cost $1,525,710)				$ 1,505,026

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

Current Principal	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
Repurchase Agreements (28.66%) (a) (b) (l)				
$ 46,749	JP Morgan Securities LLC	(1.15)%	1/17	$ 46,749
	Collateralized by Par Value $48,133			
	U.S. Treasury Note, Coupon 2.00%,			
	Maturity Date 11/26			
14,900	JP Morgan Securities LLC	(0.89)%	1/17	14,900
	Collateralized by Par Value $14,507			
	Sovereign Government Bond, Coupon 0.25%,			
	Maturity Date 4/18			
12,912	JP Morgan Securities LLC	(1.10)%	1/17	12,912
	Collateralized by Par Value $12,498			
	Sovereign Government Bond, Coupon 0.25%,			
	Maturity Date 11/20			
11,324	JP Morgan Securities LLC	(0.30)%	1/17	11,324
	Collateralized by Par Value $12,160			
	U.S. Treasury Note, Coupon 1.50%,			
	Maturity Date 8/26			
9,494	JP Morgan Securities LLC	(0.89)%	1/17	9,494
	Collateralized by Par Value $9,176			
	Sovereign Government Bond, Coupon 0.75%,			
	Maturity Date 7/21			
9,165	JP Morgan Securities LLC	(0.80)%	1/17	9,165
	Collateralized by Par Value $8,322			
	Sovereign Government Bond, Coupon 2.75%,			
	Maturity Date 4/19			
8,725	JP Morgan Securities LLC	(0.81)%	1/17	8,725
	Collateralized by Par Value $8,257			
	Sovereign Government Bond, Coupon 1.15%,			
	Maturity Date 7/20			
8,447	JP Morgan Securities LLC	(0.95)%	1/17	8,447
	Collateralized by Par Value $8,257			
	Sovereign Government Bond, Coupon 0.65%,			
	Maturity Date 11/20			
6,166	CILO 2016-LD1 Holdings LLC (m)	2.90%	2/17	6,166
	Collateralized by Par Value $9,512			
	Exchange-Traded Debt, Coupon 5.50%,			
	Maturity Date 7/22			
5,827	RBC Capital Markets LLC	(0.35)%	1/17	5,827
	Collateralized by Par Value $6,300			
	Exchange-Traded Corporate Debt, Coupon 6.25%,			
	Maturity Date 9/21			
4,691	Bank of America Securities	(3.00)%	1/17	4,691
	Collateralized by Par Value $4,726			
	U.S. Treasury Note, Coupon 1.75%,			
	Maturity Date 11/21			

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

Current Principal	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
(continued)				
$ 3,274	RBC Capital Markets LLC	0.30%	1/17	$ 3,274
	Collateralized by Par Value $3,274			
	Exchange-Traded Corporate Debt, Coupon 6.25%,			
	Maturity Date 7/22			
3,147	RBC Capital Markets LLC	(1.00)%	1/17	3,147
	Collateralized by Par Value $3,100			
	Exchange-Traded Corporate Debt, Coupon 8.00%,			
	Maturity Date 1/25			
3,125	Bank of America Securities	0.10%	1/17	3,125
	Collateralized by Par Value $3,230			
	U.S. Treasury Note, Coupon 1.13%,			
	Maturity Date 8/21			
3,006	Barclays Capital Inc	(0.50)%	1/17	3,006
	Collateralized by Par Value $3,050			
	Exchange-Traded Corporate Debt, Coupon 4.00%,			
	Maturity Date 11/21			
2,774	RBC Capital Markets LLC	(4.50)%	1/17	2,774
	Collateralized by Par Value $3,032			
	Exchange-Traded Corporate Debt, Coupon 4.50%,			
	Maturity Date 4/22			
2,534	Societe Generale	(0.50)%	1/17	2,534
	Collateralized by Par Value $2,532			
	Exchange-Traded Corporate Debt, Coupon 4.00%,			
	Maturity Date 11/21			
2,232	JP Morgan Securities LLC	(2.50)%	1/17	2,232
	Collateralized by Par Value $2,090			
	Exchange-Traded Corporate Debt, Coupon 6.25%,			
	Maturity Date 10/22			
1,899	Bank of America Securities	0.10%	1/17	1,899
	Collateralized by Par Value $1,968			
	U.S. Treasury Note, Coupon 1.13%,			
	Maturity Date 9/21			
1,777	Barclays Capital Inc	(2.25)%	1/17	1,777
	Collateralized by Par Value $1,864			
	Exchange-Traded Corporate Debt, Coupon 4.88%,			
	Maturity Date 4/22			
1,573	RBC Capital Markets LLC	(1.50)%	1/17	1,573
	Collateralized by Par Value $1,550			
	Exchange-Traded Corporate Debt, Coupon 8.00%,			
	Maturity Date 1/25			
1,503	JP Morgan Securities LLC	(2.50)%	1/17	1,503
	Collateralized by Par Value $1,556			
	Exchange-Traded Corporate Debt, Coupon 4.88%,			
	Maturity Date 4/22			

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

Current Principal	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
(continued)				
$ 1,435	RBC Capital Markets LLC	0.30%	1/17	$ 1,435
	Collateralized by Par Value $1,560			
	Exchange-Traded Corporate Debt, Coupon 3.88%,			
	Maturity Date 3/23			
1,369	Societe Generale	0.35%	1/17	1,369
	Collateralized by Par Value $1,240			
	Exchange-Traded Corporate Debt, Coupon 9.25%,			
	Maturity Date 7/21			
1,281	Bank of America Securities	0.25%	1/17	1,281
	Collateralized by Par Value $1,305			
	U.S. Treasury Note, Coupon 1.38%,			
	Maturity Date 4/21			
1,214	RBC Capital Markets LLC	0.25%	1/17	1,214
	Collateralized by Par Value $1,190			
	Exchange-Traded Corporate Debt, Coupon 3.88%,			
	Maturity Date 1/22			
1,147	RBC Capital Markets LLC	(1.75)%	1/17	1,147
	Collateralized by Par Value $1,300			
	Exchange-Traded Corporate Debt, Coupon 5.50%,			
	Maturity Date 10/24			
1,119	RBC Capital Markets LLC	0.30%	1/17	1,119
	Collateralized by Par Value $1,130			
	Exchange-Traded Corporate Debt, Coupon 4.13%,			
	Maturity Date 2/22			
975	JP Morgan Securities LLC	(0.65)%	1/17	975
	Collateralized by Par Value $1,008			
	Exchange-Traded Corporate Debt, Coupon 4.00%,			
	Maturity Date 11/21			
909	Societe Generale	0.35%	1/17	909
	Collateralized by Par Value $850			
	Exchange-Traded Corporate Debt, Coupon 3.88%,			
	Maturity Date 1/22			
817	JP Morgan Securities LLC	(0.50)%	1/17	817
	Collateralized by Par Value $840			
	Exchange-Traded Corporate Debt, Coupon 4.00%,			
	Maturity Date 11/21			
795	RBC Capital Markets LLC	(2.50)%	1/17	795
	Collateralized by Par Value $780			
	Exchange-Traded Corporate Debt, Coupon 6.25%,			
	Maturity Date 10/22			
780	JP Morgan Securities LLC	(2.80)%	1/17	780
	Collateralized by Par Value $800			
	U.S. Treasury Note, Coupon 1.25%,			
	Maturity Date 10/21			

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

Current Principal	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
(continued)				
$ 760	Barclays Capital Inc	(4.75)%	1/17	$ 760
	Collateralized by Par Value $819			
	Exchange-Traded Corporate Debt, Coupon 4.50%,			
	Maturity Date 4/22			
674	RBC Capital Markets LLC	0.30%	1/17	674
	Collateralized by Par Value $650			
	Exchange-Traded Corporate Debt, Coupon 5.25%,			
	Maturity Date 9/22			
673	RBC Capital Markets LLC	0.30%	1/17	673
	Collateralized by Par Value $620			
	Exchange-Traded Corporate Debt, Coupon 6.38%,			
	Maturity Date 4/26			
671	RBC Capital Markets LLC	0.30%	1/17	671
	Collateralized by Par Value $620			
	Exchange-Traded Corporate Debt, Coupon 6.88%,			
	Maturity Date 5/23			
587	JP Morgan Securities LLC	(1.50)%	1/17	587
	Collateralized by Par Value $620			
	Exchange-Traded Corporate Debt, Coupon 5.50%,			
	Maturity Date 10/24			
566	JP Morgan Securities LLC	(0.35)%	1/17	566
	Collateralized by Par Value $570			
	Exchange-Traded Corporate Debt, Coupon 4.00%,			
	Maturity Date 11/21			
562	Barclays Capital Inc	(0.10)%	1/17	562
	Collateralized by Par Value $550			
	Exchange-Traded Corporate Debt, Coupon 2.40%,			
	Maturity Date 12/22			
545	RBC Capital Markets LLC	(0.38)%	1/17	545
	Collateralized by Par Value $560			
	Exchange-Traded Corporate Debt, Coupon 4.00%,			
	Maturity Date 11/21			
543	JP Morgan Securities LLC	(0.35)%	1/17	543
	Collateralized by Par Value $560			
	Exchange-Traded Corporate Debt, Coupon 6.25%,			
	Maturity Date 9/21			
533	Bank of America Securities	0.60%	1/17	533
	Collateralized by Par Value $549			
	U.S. Treasury Note, Coupon 1.13%,			
	Maturity Date 7/21			
520	RBC Capital Markets LLC	0.30%	1/17	520
	Collateralized by Par Value $500			
	Exchange-Traded Corporate Debt, Coupon 5.75%,			
	Maturity Date 10/22			

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

Current Principal		Description	Rate	Maturity	Fair Value	
(In thousands)					*Expressed in U.S. Dollars*	
(continued)						
$	449	RBC Capital Markets LLC	0.30%	1/17	$	449
		Collateralized by Par Value $430				
		Exchange-Traded Corporate Debt, Coupon 5.13%,				
		Maturity Date 10/21				
	373	RBC Capital Markets LLC	0.30%	1/17		373
		Collateralized by Par Value $360				
		Exchange-Traded Corporate Debt, Coupon 5.13%,				
		Maturity Date 11/23				
	278	RBC Capital Markets LLC	(7.00)%	1/17		278
		Collateralized by Par Value $270				
		Exchange-Traded Corporate Debt, Coupon 7.75%,				
		Maturity Date 6/21				
Total Repurchase Agreements (Cost $185,205)					$	184,819
Investments Sold Short (-90.71%) (a) (b)						
TBA - Fixed Rate Agency Securities Sold Short (-62.77%) (n)						
North America						
Mortgage-related—Residential						
$	(87,767)	Federal Home Loan Mortgage Corporation (30 year)	4.00%	1/17	$	(92,210)
	(50,930)	Federal National Mortgage Association (30 year)	4.50%	1/17		(54,748)
	(31,620)	Federal National Mortgage Association (30 year)	5.00%	1/17		(34,426)
	(26,000)	Federal National Mortgage Association (30 year)	4.00%	2/17		(27,295)
	(24,352)	Federal National Mortgage Association (30 year)	3.50%	1/17		(24,960)
	(23,151)	Federal Home Loan Mortgage Corporation (30 year)	4.50%	1/17		(24,840)
	(21,940)	Government National Mortgage Association (30 year)	3.50%	1/17		(22,819)
	(20,558)	Federal National Mortgage Association (30 year)	4.00%	1/17		(21,611)
	(20,740)	Federal National Mortgage Association (15 year)	3.00%	1/17		(21,285)
	(15,770)	Government National Mortgage Association (30 year)	4.50%	1/17		(17,058)
	(13,510)	Federal Home Loan Mortgage Corporation (15 year)	3.00%	1/17		(13,869)
	(11,170)	Federal National Mortgage Association (15 year)	4.00%	1/17		(11,494)
	(8,790)	Federal Home Loan Mortgage Corporation (15 year)	3.50%	1/17		(9,169)
	(6,860)	Federal National Mortgage Association (30 year)	5.50%	1/17		(7,622)
	(6,500)	Government National Mortgage Association (30 year)	3.00%	1/17		(6,568)
	(4,612)	Federal National Mortgage Association (30 year)	3.00%	1/17		(4,584)
	(3,155)	Federal Home Loan Mortgage Corporation (30 year)	3.00%	1/17		(3,134)
	(2,530)	Federal National Mortgage Association (15 year)	3.50%	2/17		(2,633)
	(2,500)	Government National Mortgage Association (30 year)	3.50%	2/17		(2,597)
	(1,700)	Government National Mortgage Association (30 year)	4.00%	1/17		(1,806)
Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -$404,967)						(404,728)

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

Current Principal/Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				*Expressed in U.S. Dollars*
Government Debt Sold Short (-20.54%)				
North America (-10.82%)				
Government				
$ (48,133)	U.S. Treasury Note	2.00%	11/26	$ (46,287)
(12,160)	U.S. Treasury Note	1.50%	8/26	(11,179)
(4,726)	U.S. Treasury Note	1.75%	11/21	(4,690)
(3,230)	U.S. Treasury Note	1.13%	8/21	(3,121)
(1,968)	U.S. Treasury Note	1.13%	9/21	(1,898)
(1,305)	U.S. Treasury Note	1.38%	4/21	(1,280)
(800)	U.S. Treasury Note	1.25%	10/21	(776)
(549)	U.S. Treasury Note	1.13%	7/21	(531)
Total North America (Proceeds -$69,946)				(69,762)
Europe (-9.72%)				
Government				
(20,754)	European Sovereign Bond	0.25% - 0.65%	11/20	(21,219)
(14,507)	Spanish Sovereign Bond	0.25%	4/18	(14,614)
(9,176)	Spanish Sovereign Bond	0.75%	7/21	(9,379)
(8,322)	Spanish Sovereign Bond	2.75%	4/19	(8,888)
(8,257)	Spanish Sovereign Bond	1.15%	7/20	(8,580)
Total Europe (Proceeds -$66,800)				(62,680)
Total Government Debt Sold Short (Proceeds -$136,746)				(132,442)
Common Stock Sold Short (-1.26%)				
North America				
Financial				
(207)	Exchange Traded Equity			(8,154)
Total Common Stock Sold Short (Proceeds -$8,052)				(8,154)
Corporate Debt Sold Short (-6.14%)				
North America				
Basic Materials				
(8,970)	Various	3.88% - 5.13%	10/21 - 3/23	(8,717)
Communications				
(8,750)	Various	5.25% - 9.25%	7/21 - 9/22	(8,551)
Consumer				
(8,930)	Various	3.88% - 6.88%	1/22 - 4/26	(8,695)
Energy				
(10,597)	Various	2.40% - 8.00%	6/21 - 1/25	(10,041)
Financial				
(1,130)	Various	4.13%	2/22	(1,121)
Utilities				
(2,430)	Various	6.25%	7/22	(2,447)
Total Corporate Debt Sold Short (Proceeds -$39,664)				(39,572)
Total Investments Sold Short (Proceeds -$589,429)				$ (584,896)

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

(In thousands)	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value
				Expressed in U.S.Dollars
Financial Derivatives–Assets (5.52%) (a) (b)				
Swaps (5.49%)				
Long Swaps:				
Credit Default Swaps on Corporate Bond Indices (o)	Credit	$ 40,611	12/18 - 12/21	$ 2,744
Credit Default Swaps on Asset-Backed Indices (o)	Credit	1,202	12/37	12
Interest Rate Swaps (p)	Interest Rates	215,826	12/17 - 1/45	2,274
North America				
Total Return Swaps (t)				
Consumer	Credit	3,130	7/19	87
Utilities	Credit	685	2/20	68
Total Total Return Swaps				155
Credit Default Swaps on Corporate Bonds (o)				
Basic Materials	Credit	760	3/21	90
Consumer	Credit	8,043	3/19 - 12/21	973
Energy	Credit	4,120	3/19 - 12/21	7
Financial	Credit	1,120	12/21	140
Utilities	Credit	2,060	6/21	151
Total Credit Default Swaps on Corporate Bonds				1,361
Short Swaps:				
Credit Default Swaps on Asset-Backed Indices (q)	Credit	(112,999)	5/46 - 9/58	16,701
Interest Rate Swaps (r)	Interest Rates	(607,499)	4/17 - 12/45	5,828
North America				
Credit Default Swaps on Asset-Backed Securities (q)				
Mortgage-related—Residential	Credit	(7,077)	5/35 - 12/35	5,326
Credit Default Swaps on Corporate Bonds (q)				
Consumer	Credit	(2,880)	12/21	102
Communications	Credit	(1,930)	6/21	30
Energy	Credit	(20,507)	6/17 - 6/21	867
Total Credit Default Swaps on Corporate Bonds				999
Total Swaps (Net cost $40,491)				35,400
Futures (0.00%)				
Short Futures:				
U.S. Treasury Note Futures (ac)	Interest Rates	(7,000)	3/17	19
Eurodollar Futures (u)	Interest Rates	(13,000)	9/17	10
Total Futures				29

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

(In thousands)	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value
				Expressed in U.S.Dollars
Options (0.01%)				
Purchased Options:				
Put Options on Credit Default Swaps on Corporate Bond Indices (x)	Credit	$ 10,000	1/17	$ —
Interest Rate Caps (w)	Interest Rates	61,908	3/18 - 10/18	2
North America				
Equity Call Options (y)				
Consumer	Equity Market	16	4/17	42
Total Options (Cost $133)				44
Forwards (0.00%)				
Short Forwards:				
Currency Forwards (aa)	Currency	(6,529)	3/17	16
Total Forwards				16
Warrants (0.02%)				
North America				
Warrants (v)				
Mortgage-related—Residential	Equity Market	1,639		106
Total Warrants (Cost $100)				106
Total Financial Derivatives–Assets (Net cost $40,724)				$ 35,595
Financial Derivatives–Liabilities (-2.90%) (a) (b)				
Swaps (-2.81%)				
Long Swaps:				
Credit Default Swaps on Asset-Backed Indices (o)	Credit	$ 16,026	1/47 - 5/63	$ (2,899)
Interest Rate Swaps (p)	Interest Rates	160,248	2/19 - 1/45	(4,396)
North America				
Credit Default Swaps on Corporate Bonds (o)				
Basic Materials	Credit	9,480	6/21 - 12/21	(1,107)
Communications	Credit	9,990	6/21 - 12/21	(430)
Consumer	Credit	9,736	6/21 - 12/21	(298)
Energy	Credit	14,317	3/18 - 12/21	(928)
Total Credit Default Swaps on Corporate Bonds				(2,763)
Total Return Swaps (t)				
Communications	Credit	1,623	7/19	(249)
Total Total Return Swaps				(249)
Europe				
Credit Default Swaps on Corporate Bonds (o)				
Basic Materials	Credit	11	12/19	(6)

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

(In thousands)	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value *Expressed in U.S.Dollars*
Short Swaps:				
Interest Rate Swaps (r)	Interest Rates	$ (154,836)	8/17 - 11/45	$ (742)
Interest Rate Basis Swaps (z)	Interest Rates	(100,200)	6/17 - 6/19	(24)
Credit Default Swaps on Corporate Bond Indices (q)	Credit	(49,306)	12/18 - 12/21	(2,840)
North America				
Credit Default Swaps on Asset-Backed Securities (q)				
Mortgage-related—Residential	Credit	(3,057)	10/34 - 3/35	(256)
Credit Default Swaps on Corporate Bonds (q)				
Basic Materials	Credit	(2,260)	6/17 - 3/21	(93)
Communications	Credit	(3,140)	6/20	(44)
Consumer	Credit	(30,901)	3/19 - 12/21	(3,097)
Energy	Credit	(5,150)	12/17 - 12/21	(80)
Industrial	Credit	(12,460)	3/20 - 12/21	(119)
Technology	Credit	(3,020)	3/20	(345)
Utilities	Credit	(860)	6/21	(107)
Total Credit Default Swaps on Corporate Bonds				(3,885)
Total Return Swaps (s)				
Financial	Equity	(42,093)	5/17 - 8/17	(55)
Total Swaps (Net proceeds -$12,012)				(18,115)
Futures (-0.01%)				
Long Futures:				
Eurodollar Futures (u)	Interest Rates	11,000	6/17	(8)
Short Futures:				
Eurodollar Futures (u)	Interest Rates	(49,000)	3/17 - 9/17	(61)
Total Futures				(69)
Forwards (-0.07%)				
Short Forwards:				
Currency Forwards (aa)	Currency	(48,258)	3/17	(472)
Total Forwards				(472)
Mortgage Loan Purchase Commitments (-0.01%)				
North America				
Mortgage Loan Purchase Commitments (ab)				
Mortgage-related—residential	Interest rate	20,601	2/17	(31)
Total Mortgage Loan Purchase Commitments				(31)
Total Financial Derivatives–Liabilities (Net proceeds -$12,012)				$ (18,687)

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONTINUED)

(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, 2016, 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 73.78%, 42.13%, and 23.36% of Total Equity, respectively.

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

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

(f) 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, 2016 loans for which the Company has beneficial interests in the net cash flows, totaled $7.6 million. See Note 9 to the Notes to Consolidated Financial Statements.

(g) 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, 2016 loans held in the related party trust for which the Company has participating interests in the cash flows, totaled $43.2 million. See Note 9 to the Notes to Consolidated Financial Statements.

(h) Includes the Company's beneficial interest in an entity, which is co-owned by an affiliate of Ellington Management Group, L.L.C., in the amount of $7.3 million as of December 31, 2016. The entity 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.

(i) Includes non-performing commercial loans in the amount of $28.6 million whereby principal and/or interest is past due and a maturity date is not applicable.

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

(k) As of December 31, 2016, the Company had residential mortgage loans that were in the process of foreclosure with a fair value of $3.2 million.

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

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

(n) At December 31, 2016, 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 32.67%, 22.21%, and 7.89% of Total Equity, respectively.

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

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

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

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

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

(t) Notional value represents outstanding principal balance on underlying corporate debt.

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

(v) Notional value represents number of shares that warrants are convertible into.

(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) Represents the option on the part of a counterparty to enter into a credit default swap on a corporate bond index whereby the Company would receive a fixed rate and pay credit protection payments.

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

(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 principal balance of mortgage loan purchase commitments. Actual loan purchases are contingent upon successful loan closings in accordance with agreed-upon parameters.

(ac) Notional value represents the total face amount of U.S. Treasury securities underlying all contracts held. As of December 31, 2016, a total of 70 contracts were held.

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2016 (CONCLUDED)

(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	139.27%
Aaa/AAA/AAA	0.84%
Aa/AA/AA	0.03%
A/A/A	0.05%
Baa/BBB/BBB	2.60%
Ba/BB/BB or below	30.24%
Unrated	60.39%

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

(af) Conformed to current period presentation.

ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31,		
	2017	**2016**	**2015**
(In thousands except per share amounts)	*Expressed in U.S. Dollars*		
INVESTMENT INCOME			
Interest income	$ 89,629	$ 74,344	$ 101,783
Other income	4,331	5,841	2,813
Total investment income	93,960	80,185	104,596
EXPENSES			
Base management fee to affiliate (Net of fee rebates of $332, $0, and $0, respectively)(1)	9,056	10,065	11,493
Interest expense	31,120	16,306	12,112
Other investment related expenses(2)			
Servicing expense	4,132	3,770	2,657
Debt issuance costs related to Other secured borrowings, at fair value	1,679	—	—
Other	3,943	4,300	2,955
Professional fees	2,915	3,474	3,129
Administration fees	720	1,123	1,355
Compensation expense	2,200	2,096	1,508
Insurance expense	498	597	641
Directors' fees and expenses	272	267	259
Share-based long term incentive plan unit expense	385	400	393
Other expenses	1,872	2,022	1,918
Total expenses	58,792	44,420	38,420
NET INVESTMENT INCOME	35,168	35,765	66,176
NET REALIZED AND CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY TRANSACTIONS/TRANSLATION			
Net realized gain (loss) on:			
Investments	3,924	2,729	34,384
Financial derivatives, excluding currency hedges	(12,153)	(40,758)	(15,096)
Financial derivatives—currency hedges	(6,420)	4,093	4,738
Foreign currency transactions	3,845	(5,597)	(3,073)
	(10,804)	(39,533)	20,953
Change in net unrealized gain (loss) on:			
Investments	7,374	(8,033)	(56,869)
Financial derivatives, excluding currency hedges	426	(5,964)	9,498
Financial derivatives—currency hedges	(526)	(1,580)	377
Foreign currency translation	4,326	3,643	(1,706)
	11,600	(11,934)	(48,700)
NET REALIZED AND CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY TRANSACTIONS/TRANSLATION	796	(51,467)	(27,747)

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF OPERATIONS (CONTINUED)

(UNAUDITED)

	Year Ended December 31,		
	2017	**2016**	**2015**
	Expressed in U.S. Dollars		
NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS	35,964	(15,702)	38,429
LESS: NET INCREASE IN EQUITY RESULTING FROM OPERATIONS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1,983	305	340
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ 33,981	$ (16,007)	$ 38,089
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS PER SHARE:			
Basic and Diluted	$ 1.04	$ (0.48)	$ 1.13
CASH DIVIDENDS PER SHARE:			
Dividends declared	$ 1.76	$ 1.95	$ 2.45

(1) See Note 9 for further details on management fee rebates.
(2) Conformed to current period presentation.

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year Ended December 31, 2017			Year Ended December 31, 2016			Year Ended December 31, 2015		
	Shareholders' Equity	Non-controlling Interest	Total Equity	Shareholders' Equity	Non-controlling Interest	Total Equity	Shareholders' Equity	Non-controlling Interest	Total Equity
(In thousands)				*Expressed in U.S. Dollars*					
BEGINNING EQUITY (12/31/2016, 12/31/15, and 12/31/2014, respectively)	$ 637,661	$ 7,116	$644,777	$ 732,049	$ 6,903	$738,952	$ 782,155	$ 6,389	$788,544
CHANGE IN EQUITY RESULTING FROM OPERATIONS									
Net investment income			35,168			35,765			66,176
Net realized gain (loss) on investments, financial derivatives, and foreign currency transactions			(10,804)			(39,533)			20,953
Change in net unrealized gain (loss) on investments, financial derivatives, and foreign currency translation			11,600			(11,934)			(48,700)
Net increase (decrease) in equity resulting from operations	33,981	1,983	35,964	(16,007)	305	(15,702)	38,089	340	38,429
CHANGE IN EQUITY RESULTING FROM TRANSACTIONS									
Contributions from non-controlling interests		20,707	20,707		5,552	5,552		2,153	2,153
Dividends[(1)]	(57,263)	(373)	(57,636)	(64,735)	(413)	(65,148)	(82,940)	(520)	(83,460)
Distributions to non-controlling interests		(8,594)	(8,594)		(5,249)	(5,249)		(1,468)	(1,468)
Adjustment to non-controlling interest	(21)	21	—	(15)	15	—	(6)	6	—
Shares repurchased	(14,642)		(14,642)	(14,028)		(14,028)	(5,639)		(5,639)
Share-based long term incentive plan unit awards	383	2	385	397	3	400	390	3	393
Net increase (decrease) in equity from transactions	(71,543)	11,763	(59,780)	(78,381)	(92)	(78,473)	(88,195)	174	(88,021)
Net increase (decrease) in equity	(37,562)	13,746	(23,816)	(94,388)	213	(94,175)	(50,106)	514	(49,592)
ENDING EQUITY (12/31/2017, 12/31/2016, and 12/31/2015, respectively)	$ 600,099	$ 20,862	$620,961	$ 637,661	$ 7,116	$644,777	$ 732,049	$ 6,903	$738,952

(1) For the years ended December 31, 2017, 2016, and 2015, dividends totaling $1.76, $1.95, and $2.45, respectively, per common share and convertible unit outstanding, were declared and paid.

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2017	**2016**	**2015**
(In thousands)	*Expressed in U.S. Dollars*		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:			
NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS	$ 35,964	$ (15,702)	$ 38,429
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	17,860	35,498	(23,454)
Change in net unrealized (gain) loss on investments and financial derivatives, and foreign currency translation	(13,750)	13,664	48,649
Amortization of premiums and accretion of discounts (net)	32,764	24,573	21,815
Purchase of investments	(2,849,027)	(2,246,552)	(3,381,699)
Proceeds from disposition of investments	1,962,711	2,032,219	3,570,304
Proceeds from principal payments of investments	286,426	276,880	284,166
Proceeds from investments sold short	1,718,668	1,430,898	1,461,459
Repurchase of investments sold short	(1,674,760)	(1,573,705)	(2,031,578)
Payments on financial derivatives	(103,499)	(354,814)	(505,956)
Proceeds from financial derivatives	109,496	394,038	416,103
Amortization of deferred debt issuance costs	97	—	—
Share-based long term incentive plan unit expense	385	400	393
Interest income related to consolidated securitization trust(1)	(1,175)	—	—
Interest expense related to consolidated securitization trust(1)	794	—	—
Debt issuance costs related to Other secured borrowings, at fair value(1)	1,679	—	—
Repurchase agreements	28,870	(79,119)	66,301
(Increase) decrease in assets:			
Receivable for securities sold and financial derivatives	(30,888)	260,636	531,844
Due from brokers	(46,753)	47,954	5,360
Interest and principal receivable	(7,984)	(1,260)	167
Restricted cash	230	4,202	(4,857)
Other assets	(40,411)	1,910	(3,295)
Increase (decrease) in liabilities:			
Due to brokers	(11,059)	(102,017)	92,573
Payable for securities purchased and financial derivatives	117,535	(80,197)	66,618
Accounts payable and accrued expenses	558	(299)	846
Other liabilities	424	(811)	828
Interest and dividends payable	2,444	1,654	(580)
Base management fee payable to affiliate	(303)	(357)	(190)
Net cash provided by (used in) operating activities	(462,704)	69,693	654,246

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Year Ended December 31,		
	2017	**2016**	**2015**
(In thousands)	*Expressed in U.S. Dollars*		
Cash flows provided by (used in) financing activities:			
Contributions from non-controlling interests	$ 20,707	$ 5,552	$ 2,153
Shares repurchased	(14,642)	(14,028)	(5,639)
Dividends paid	(57,636)	(65,148)	(83,460)
Distributions to non-controlling interests	(8,594)	(5,249)	(1,468)
Offering costs paid	—	—	(56)
Proceeds from issuance of Other secured borrowings	111,338	40,921	—
Principal payments on Other secured borrowings	(28,839)	(295)	(763)
Proceeds from issuance of Other secured borrowings, at fair value	106,590	—	—
Debt issuance costs related to Other secured borrowings, at fair value	(947)	—	—
Proceeds from issuance of senior notes	86,000	—	—
Debt issuance costs paid related to senior notes	(1,326)	—	—
Borrowings under reverse repurchase agreements	9,919,449	5,762,742	9,758,474
Repayments of reverse repurchase agreements	(9,745,437)	(5,854,823)	(10,253,718)
Net cash provided by (used in) financing activities	386,663	(130,328)	(584,477)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(76,041)	(60,635)	69,769
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	123,274	183,909	114,140
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 47,233	$ 123,274	$ 183,909
Supplemental disclosure of cash flow information:			
Interest paid	$ 28,006	$ 15,296	$ 12,112
Share-based long term incentive plan unit awards (non-cash)	385	400	393
Aggregate TBA trade activity (buys + sells) (non-cash)	23,917,506	22,923,388	36,357,456
Purchase of investments (non-cash)	(25,318)	(44,914)	—
Proceeds from principal payments of investments (non-cash)	27,307	10,365	—
Proceeds from the disposition of investments (non-cash)	26,800	96,131	—
Payments made on financial derivatives (non-cash)	—	(4,000)	—
Proceeds from financial derivatives (non-cash)	—	7,486	—
Proceeds from issuance of Other secured borrowings (non-cash)	17,175	13,088	—
Principal payments on Other secured borrowings (non-cash)	(65,851)	(29,629)	—
Proceeds received from Other secured borrowings, at fair value (non-cash)	31,958	—	—
Principal payments on Other secured borrowings, at fair value (non-cash)	(13,442)	—	—
Debt issuance costs related to Other secured borrowings, at fair value (non-cash)	(732)	—	—
Borrowings under reverse repurchase agreements (non-cash)	33,329	—	—
Repayments of reverse repurchase agreements (non-cash)	(31,607)	(48,527)	—

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

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

1. Organization and Investment Objective

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

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

(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, and Other secured borrowings, at fair value.

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

Summary Valuation Techniques

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

For mortgage-backed securities, or "MBS," including To Be Announced MBS, or "TBAs," CLOs, and distressed and non-distressed corporate debt and equity, management seeks to obtain at least one third-party valuation, and often obtains multiple valuations when available. Management has been able to obtain third-party valuations on the vast majority of these instruments and expects to continue to solicit third-party valuations in the future. Management generally values each financial instrument at the average of third-party valuations received and not rejected as described below. Third-party valuations are not binding, and while management generally does not adjust the valuations it receives, management may challenge or reject a valuation when, based on its validation criteria, management determines that such valuation is unreasonable or erroneous. Furthermore, based on its validation criteria, management may determine that the average of the third-party valuations received for a given instrument does not result in what management believes to be the fair value of such instrument, and in such circumstances management may override this average with its own good faith valuation. The validation criteria may take into account output from management's own models, recent trading activity in the same or similar instruments, and valuations received from third parties. The use of proprietary models requires the use of a significant amount of judgment and the application of various assumptions including, but not limited to, assumptions concerning future prepayment rates and default rates. Valuations for fixed-rate RMBS pass-throughs issued by a U.S. government agency or government-sponsored enterprise are typically based on observable pay-up data (pay-ups are price premiums for specified categories of fixed-rate pools relative to their TBA counterparts) or models that use observable market data, such as interest rates and historical prepayment speeds, and are validated against third-party valuations. Given their relatively high level of price transparency, Agency RMBS pass-throughs are typically designated as Level 2 assets. Non-Agency MBS, Agency interest only and inverse interest only RMBS, and CLOs are generally classified as either Level 2 or Level 3 based on analysis of available market data and/or third-party valuations. The Company's investments in distressed corporate debt can be in the form of loans as well as total return swaps on loans. These investments, as well as related non-listed equity investments, are generally designated as Level 3 assets. Valuations for total return swaps are typically based on prices of the underlying loans received from widely used third-party pricing services. Investments in non-distressed corporate bonds are generally also valued based on prices received from third-party pricing services, and many of these bonds, because they are very liquid with readily observable data, are generally classified as Level 2 holdings. Furthermore, the methodology used by the third-party valuation providers is reviewed at least annually by management, so as to ascertain whether such providers are utilizing observable market data to determine the valuations that they provide.

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

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

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

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

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

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

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

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

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 mortgage originators. Investments in such operating entities may be in the form of preferred and/or common equity, debt, or some other form of investment. The Company carries its investments in such entities at fair value. In cases where the operating entity provides services to the Company, the Company is required to use the equity method of accounting.

(M) Variable Interest Entities: VIEs are entities in which: (i) the equity investors do not have the characteristics of a controlling financial interest, or (ii) there is insufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties. The Company holds beneficial interests in securitization trusts that are considered VIEs. The beneficial interests in these securitization trusts are represented by certificates issued by the trusts. The securitization trusts have been structured as pass-through entities that receive principal and interest payments on the underlying collateral and distribute those payments to the certificate holders, which include both third-party investors and the Company. The certificates held by the Company typically include some or all of the most subordinated tranches. The assets held by the trusts are restricted in that they can only be used to fulfill the obligations of the related trust. In certain cases the design and structure of the securitization trust is such that the Company effectively retains control of the assets as well as the activities that most significantly impact the economic performance of the trust; in such cases the trust is considered a direct extension of the Company's business, and the Company consolidates the trust. In cases where the Company does not effectively retain control of the assets of, or the activities that most significantly impact the economic performance of, the related trust, it does not consolidate the trust. See Note 6 for further discussion of the Company's securitization trusts.

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

(O) Debt Issuance Costs: Debt issuance costs associated with debt for which the Company has elected the fair value option are expensed at the issuance of the debt, and are included in Other investment related expenses on the Consolidated Statement of Operations. Costs associated with the issuance of debt for which the Company has not elected the fair value

option are amortized over the life of the debt, which approximates the effective interest rate method, and are included in Interest expense on the Consolidated Statement of Operations. Deferred debt issuance costs are presented on the Consolidated Statement of Assets, Liabilities, and Equity as a direct deduction from the related debt liability, unless such deferred debt issuance costs are associated with borrowing facilities that are expected to have a future benefit, such as giving the Company the ability to access additional borrowings over the contractual term of the debt, in which case such deferred debt issuance costs are included in Other Assets on Consolidated Statement of Assets, Liabilities, and Equity. Debt issuance costs include legal and accounting fees, purchasers' or underwriters' discount, as well as other fees associated with the cost of the issuance of the related debt.

(P) Expenses: Expenses are recognized as incurred on the Consolidated Statement of Operations.

(Q) Other Investment Related Expenses: Other investment related expenses consist of expenses directly related to specific financial instruments. Such expenses generally include dividend expense on common stock sold short, servicing fees and corporate and escrow advances on mortgage and consumer loans, and various other expenses and fees related directly to the Company's financial instruments. Other investment related expenses are recognized as incurred on the Consolidated Statement of Operations; dividend expense on common stock sold short is recognized on the ex-dividend date.

(R) LTIP Units: Long term incentive plan units ("LTIP Units") have been issued to the Company's dedicated or partially dedicated personnel and independent directors as well as the Manager. Costs associated with LTIP Units issued to dedicated or partially dedicated personnel, or to independent directors, are measured as of the grant date based on the closing stock price on the New York Stock Exchange and are amortized over the vesting period in accordance with ASC 718-10, *Compensation—Stock Compensation*. The vesting periods for LTIP Units are typically one year from issuance for independent directors, and are typically one year to two years from issuance for dedicated or partially dedicated personnel.

(S) Non-controlling interests: Non-controlling interests include the interest in the Operating Partnership owned by an affiliate of the Manager and certain related parties and consist of units convertible into the Company's common shares. Non-controlling interests also include the interests of joint venture partners in certain of our consolidated subsidiaries. The joint venture partners' interests do not consist of units convertible into the Company's common shares. The Company adjusts the non-controlling interests owned by an affiliate of the Manager and certain related parties to align their carrying value with the share of total outstanding operating partnership units ("OP Units") issued by the Operating Partnership to the non-controlling interest. Any such adjustments are reflected in "Adjustment to non-controlling interest" on the Consolidated Statement of Changes in Equity. See Note 11 for further discussion of non-controlling interests.

(T) Dividends: Dividends payable by the Company are recorded on the ex-dividend date. Dividends are typically declared and paid on a quarterly basis in arrears.

(U) Shares Repurchased: Common shares that are repurchased by the Company subsequent to issuance are immediately retired upon settlement and decrease the total number of shares outstanding and issued.

(V) Earnings Per Share ("EPS"): Basic EPS is computed using the two class method by dividing net increase (decrease) in shareholders' equity resulting from operations after adjusting for the impact of LTIP Units which are participating securities, by the weighted average number of common shares outstanding calculated including LTIP Units. Because the Company's LTIP Units are participating securities, they are included in the calculation of basic and diluted EPS. OP Units relating to a non-controlling interest are also participating securities and, accordingly, are included in the calculation of both basic and diluted EPS.

(W) Foreign Currency: Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at current exchange rates at the following dates: (i) assets, liabilities, and unrealized gains/losses—at the valuation date; and (ii) income, expenses, and realized gains/losses—at the accrual/transaction date. The Company isolates the portion of realized and change in unrealized gain (loss) resulting from changes in foreign currency exchange rates on investments and financial derivatives from the fluctuations arising from changes in fair value of investments and financial derivatives held. Changes in realized and change in unrealized gain (loss) due to foreign currency are included in Foreign currency transactions and Foreign currency translation, respectively, on the Consolidated Statement of Operations.

(X) Income Taxes: The Company has been and continues to expect to be treated as a partnership for U.S. federal income tax purposes. Certain of the Company's subsidiaries are not consolidated for U.S. federal income tax purposes, but are also treated as partnerships. In general, partnerships are not subject to entity-level tax on their income, but the income of a partnership is taxable to its owners on a flow-through basis. In addition, certain subsidiaries of the Company have elected to be 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 2016, 2015, or 2014 (its open tax years), and no reductions resulting from tax positions of prior years or due to settlements, and thus had no unrecognized tax benefits or reductions since inception. The Company does not expect any change in unrecognized tax benefits within the next fiscal year. There were no amounts accrued for tax penalties or interest as of or during the periods presented in these consolidated financial statements.

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

(Y) Recent Accounting Pronouncements: In 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 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The adoption of ASU 2016-18 is not expected to 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, 2017:

Description	Level 1	Level 2	Level 3	Total
Assets:		*(In thousands)*		
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
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)

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

(continued) Description	Fair Value	Valuation Technique	Unobservable Input	Range Min	Range Max	Weighted Average
	(In thousands)					
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
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 Option Adjusted Spread ("OAS") valuation methodology, cash flows are projected using the Company's models over multiple interest rate scenarios, and these projected cash flows are then discounted using the LIBOR rates implied by each interest rate scenario. The LIBOR OAS of an asset is then computed as the unique constant yield spread that, when added to all LIBOR rates in each interest rate scenario generated by the model, will equate (a) the expected present value of the projected asset cash flows over all model scenarios to (b) the actual current market price of the asset. LIBOR OAS is therefore model-dependent. Generally speaking, LIBOR OAS measures the additional yield spread over LIBOR that an asset provides at its current market price after taking into account any interest rate options embedded in the asset. The Company considers the expected timeline to resolution in the determination of fair value for its non-performing commercial and residential loans.

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

The table below reflects the value of the Company's Level 1, Level 2, and Level 3 financial instruments at December 31, 2016:

Description	Level 1	Level 2	Level 3	Total
Assets:		*(In thousands)*		
Cash equivalents	$ 90,000	$ —	$ —	$ 90,000
Investments, at fair value-				
Agency residential mortgage-backed securities	$ —	$ 868,345	$ 29,622	$ 897,967
U.S. Treasury securities	—	5,419	—	5,419
Private label residential mortgage-backed securities	—	53,525	90,083	143,608
Private label commercial mortgage-backed securities	—	—	43,268	43,268
Commercial mortgage loans	—	—	61,129	61,129
Residential mortgage loans	—	—	84,290	84,290
Collateralized loan obligations	—	—	44,956	44,956
Consumer loans and asset-backed securities backed by consumer loans(1)	—	—	107,157	107,157
Corporate debt	—	55,091	25,004	80,095
Real estate owned	—	—	3,349	3,349
Corporate equity investments(1)	4,396	—	29,392	33,788
Total investments, at fair value	4,396	982,380	518,250	1,505,026

Description	Level 1	Level 2	Level 3	Total
(continued)		*(In thousands)*		
Financial derivatives–assets, at fair value-				
Credit default swaps on asset-backed securities	$ —	$ —	$ 5,326	$ 5,326
Credit default swaps on corporate bond indices	—	2,744	—	2,744
Credit default swaps on corporate bonds	—	2,360	—	2,360
Credit default swaps on asset-backed indices	—	16,713	—	16,713
Interest rate swaps	—	8,102	—	8,102
Total return swaps	—	—	155	155
Options	42	2	—	44
Futures	29	—	—	29
Forwards	—	16	—	16
Warrants	—	—	106	106
Total financial derivatives–assets, at fair value	71	29,937	5,587	35,595
Repurchase agreements, at fair value	—	184,819	—	184,819
Total investments, financial derivatives–assets, and repurchase agreements, at fair value	$ 4,467	$ 1,197,136	$ 523,837	$ 1,725,440
Liabilities:				
Investments sold short, at fair value-				
Agency residential mortgage-backed securities	$ —	$ (404,728)	$ —	$ (404,728)
Government debt	—	(132,442)	—	(132,442)
Corporate debt	—	(39,572)	—	(39,572)
Common stock	(8,154)	—	—	(8,154)
Total investments sold short, at fair value	(8,154)	(576,742)	—	(584,896)
Financial derivatives–liabilities, at fair value-				
Credit default swaps on corporate bond indices	—	(2,840)	—	(2,840)
Credit default swaps on corporate bonds	—	(6,654)	—	(6,654)
Credit default swaps on asset-backed indices	—	(2,899)	—	(2,899)
Credit default swaps on asset-backed securities	—	—	(256)	(256)
Interest rate swaps	—	(5,162)	—	(5,162)
Total return swaps	—	(55)	(249)	(304)
Futures	(69)	—	—	(69)
Forwards	—	(472)	—	(472)
Mortgage loan purchase commitments	—	(31)	—	(31)
Total financial derivatives–liabilities, at fair value	(69)	(18,113)	(505)	(18,687)
Total investments sold short and financial derivatives–liabilities, at fair value	$ (8,223)	$ (594,855)	$ (505)	$ (603,583)

(1) Conformed to current period presentation.

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, 2016:

Description	Fair Value	Valuation Technique	Unobservable Input	Range Min	Range Max	Weighted Average
	(In thousands)					
Private label residential mortgage-backed securities	$ 47,024	Market Quotes	Non Binding Third-Party Valuation	$ 2.00	$ 101.02	$ 67.51
Collateralized loan obligations	37,517	Market Quotes	Non Binding Third-Party Valuation	9.42	100.25	83.36
Corporate debt and non-exchange traded corporate equity	19,017	Market Quotes	Non Binding Third-Party Valuation	1.88	102.25	87.14
Private label commercial mortgage-backed securities	27,283	Market Quotes	Non Binding Third-Party Valuation	5.17	77.75	40.88
Agency interest only residential mortgage-backed securities	23,322	Market Quotes	Non Binding Third-Party Valuation	2.47	20.17	11.65
Total return swaps	(94)	Market Quotes	Non Binding Third-Party Valuation (1)	98.25	99.50	98.77
Private label residential mortgage-backed securities	43,059	Discounted Cash Flows	Yield	0.6%	20.5%	11.0%
			Projected Collateral Prepayments	0.0%	81.0%	10.0%
			Projected Collateral Losses	1.4%	51.2%	41.4%
			Projected Collateral Recoveries	0.4%	53.6%	41.2%
			Projected Collateral Scheduled Amortization	0.0%	90.7%	7.4%
						100.0%
Private label commercial mortgage-backed securities	15,985	Discounted Cash Flows	Yield	8.8%	57.0%	23.6%
			Projected Collateral Losses	0.1%	5.3%	2.2%
			Projected Collateral Recoveries	0.9%	20.5%	10.7%
			Projected Collateral Scheduled Amortization	77.8%	99.0%	87.1%
						100.0%
Corporate debt and warrants	10,080	Discounted Cash Flows	Yield	19.7%	19.7%	19.7%
Collateralized loan obligations	7,439	Discounted Cash Flows	Yield	11.2%	50.3%	20.5%
			Projected Collateral Prepayments	11.4%	55.2%	45.5%
			Projected Collateral Losses	4.5%	28.3%	10.7%
			Projected Collateral Recoveries	1.5%	27.2%	8.6%
			Projected Collateral Scheduled Amortization	29.8%	51.5%	35.2%
						100.0%
Consumer loans and asset-backed securities backed by consumer loans(2)	107,157	Discounted Cash Flows	Yield	9.0%	25.0%	11.0%
			Projected Collateral Prepayments	0.0%	45.4%	25.6%
			Projected Collateral Losses	3.3%	97.4%	9.4%
			Projected Collateral Scheduled Amortization	0.0%	87.7%	65.0%
						100.0%
Performing commercial mortgage loans	32,557	Discounted Cash Flows	Yield	8.0%	17.2%	11.6%

(continued) Description	Fair Value	Valuation Technique	Unobservable Input	Range Min	Range Max	Weighted Average
	(In thousands)					
Non-performing commercial mortgage loans and commercial real estate owned	$ 30,222	Discounted Cash Flows	Yield	10.2%	27.8%	16.3%
			Months to Resolution	3.0	39.1	19.5
Performing residential mortgage loans	78,576	Discounted Cash Flows	Yield	5.0%	13.5%	6.6%
Non-performing residential mortgage loans and residential real estate owned	7,413	Discounted Cash Flows	Yield	5.8%	39.9%	9.7%
			Months to Resolution	1.8	162.9	41.9
Credit default swaps on asset-backed securities	5,070	Net Discounted Cash Flows	Projected Collateral Prepayments	19.3%	29.8%	22.7%
			Projected Collateral Losses	15.3%	27.6%	22.2%
			Projected Collateral Recoveries	4.7%	15.3%	8.7%
			Projected Collateral Scheduled Amortization	43.2%	50.2%	46.4%
						100.0%
Non-exchange traded equity investments in commercial mortgage-related private partnerships	3,090	Discounted Cash Flows	Yield	16.5%	16.5%	16.5%
			Expected Holding Period (Months)	2.9	2.9	2.9
Agency interest only residential mortgage-backed securities	6,300	Option Adjusted Spread ("OAS")	LIBOR OAS(3)	142	2,831	568
			Projected Collateral Prepayments(2)	0.0%	100.0%	63.6%
			Projected Collateral Scheduled Amortization	0.0%	88.1%	36.4%
						100.0%
Non-exchange traded preferred and common equity investment in mortgage-related entity	2,500	Enterprise Value	Equity Price-to-Book(4)	1.3x	1.3x	1.3x
Non-controlling equity interest in limited liability company(2)	7,315	Net Discounted Cash Flows	Yield	8.5%	8.5%	8.5%
Non-exchange traded preferred equity investment in mortgage-related entity	12,500	Recent Transactions	Transaction Price	N/A	N/A	N/A

(1) Represents valuations on underlying assets.
(2) Conformed to current period presentation.
(3) Shown in basis points.
(4) Represent an estimation of where market participants might value an enterprise on a price-to-book basis.

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 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, 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 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, 2017, 2016, and 2015 (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, 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

(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
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)	—	—	—
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.

As of June 30, 2017, the Company modified its procedures to determine the level within the hierarchy for certain financial instruments. Under the revised procedure, the Company examines financial instruments individually rather than in cohorts of like instruments as it had previously. As of 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.

Year Ended December 31, 2016

(In thousands)	Ending Balance as of December 31, 2015	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, 2016
Assets:									
Investments, at fair value-									
Agency residential mortgage-backed securities	$ 24,918	$ (7,998)	$ (536)	$ 845	$ 12,665	$ (272)	$ —	$ —	$ 29,622
Private label residential mortgage-backed securities	116,435	1,896	(2,748)	3,972	30,065	(55,407)	10,041	(14,171)	90,083
Private label commercial mortgage-backed securities	34,145	1,627	1,008	(6,081)	24,488	(11,919)	—	—	43,268
Commercial mortgage loans	66,399	2,463	1,920	(1,434)	39,684	(47,903)	—	—	61,129
Residential mortgage loans	22,089	467	774	(800)	102,224	(40,464)	—	—	84,290
Collateralized loan obligations	45,974	(3,829)	71	2,471	27,862	(27,593)	—	—	44,956
Consumer loans and asset-backed securities backed by consumer loans[(1)]	115,376	(10,668)	(164)	(3,711)	154,101	(147,777)	—	—	107,157
Corporate debt	27,028	(60)	(8,326)	6,864	26,851	(27,353)	—	—	25,004
Real estate owned	12,522	—	2,256	(458)	17,526	(28,497)	—	—	3,349
Corporate equity investments[(1)]	22,088	—	(144)	(3,075)	44,680	(34,157)	—	—	29,392
Total investments, at fair value	486,974	(16,102)	(5,889)	(1,407)	480,146	(421,342)	10,041	(14,171)	518,250
Financial derivatives–assets, at fair value-									
Credit default swaps on asset-backed securities	6,332	—	1,042	(667)	148	(1,529)	—	—	5,326
Total return swaps	85	—	3,070	70	57	(3,127)	—	—	155
Warrants	150	—	(50)	6	7,486	(7,486)	—	—	106
Total financial derivatives–assets, at fair value	6,567	—	4,062	(591)	7,691	(12,142)	—	—	5,587
Total investments and financial derivatives–assets, at fair value	$ 493,541	$ (16,102)	$ (1,827)	$ (1,998)	$ 487,837	$ (433,484)	$ 10,041	$ (14,171)	$ 523,837
Liabilities:									
Investments sold short, at fair value									
Corporate debt	$ (448)	$ (1)	$ 362	$ (228)	$ 315	$ —	$ —	$ —	$ —
Total investments sold short, at fair value	(448)	(1)	362	(228)	315	—	—	—	—
Financial derivatives–liabilities, at fair value-									
Credit default swaps on asset-backed securities	(221)	—	(323)	(36)	324	—	—	—	(256)
Total return swaps	(4,662)	—	(7,534)	4,413	8,214	(680)	—	—	(249)
Total financial derivatives–liabilities, at fair value	(4,883)	—	(7,857)	4,377	8,538	(680)	—	—	(505)
Guarantees:									
Guarantees	(828)	—	—	828	—	—	—	—	—
Total guarantees	(828)	—	—	828	—	—	—	—	—
Total investments sold short, financial derivatives–liabilities, and guarantees, at fair value	$ (6,159)	$ (1)	$ (7,495)	$ 4,977	$ 8,853	$ (680)	$ —	$ —	$ (505)

(1) Conformed to current period presentation.

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, 2016, as well as Level 3 financial instruments disposed of by the

Company during the year ended December 31, 2016. For Level 3 financial instruments held by the Company at December 31, 2016, change in net unrealized gain (loss) of $(14.7) million, $(0.8) million, and $(0.2) million, for the year ended December 31, 2016 relate to investments, financial derivatives–assets, and financial derivatives–liabilities, respectively.

As of December 31, 2016, the Company transferred $14.2 million of non-Agency RMBS from Level 3 to Level 2. These assets were transferred from Level 3 to Level 2 based on an increased volume of observed trading of these and similar assets. This increase in observed trading activity led to greater price transparency for these assets, thereby making a Level 2 designation appropriate in the Company's view.

In addition, as of December 31, 2016, the Company transferred $10.0 million of non-Agency RMBS from Level 2 to Level 3. Since December 31, 2015, these securities exhibited indications of a reduced level of price transparency. Examples of such indications include wider spreads relative to similar securities and a reduction in observable transactions involving these and similar securities.

Year Ended December 31, 2015

(In thousands)	Ending Balance as of December 31, 2014	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, 2015
Assets:									
Investments, at fair value-									
Agency residential mortgage-backed securities	$ 31,385	$ (8,355)	$ 223	$ 81	$ 6,977	$ (5,393)	$ —	$ —	$ 24,918
Private label residential mortgage-backed securities	274,369	8,593	20,648	(16,429)	62,994	(191,902)	6,687	(48,525)	116,435
Private label commercial mortgage-backed securities	53,311	3,076	2,000	(4,183)	21,382	(41,441)	—	—	34,145
Commercial mortgage loans	28,309	1,895	1,114	(142)	69,778	(34,555)	—	—	66,399
Residential mortgage loans	27,482	1,363	2,372	(505)	19,555	(28,178)	—	—	22,089
Collateralized loan obligations	121,994	(21,110)	46	(4,033)	59,102	(110,025)	—	—	45,974
Consumer loans and asset-backed securities backed by consumer loans	24,294	(6,197)	—	283	139,373	(42,377)	—	—	115,376
Corporate debt	42,708	60	(4,028)	(6,882)	28,942	(33,772)	—	—	27,028
Real estate owned	8,635	—	1,168	381	14,155	(11,817)	—	—	12,522
Private corporate equity investments	14,512	—	116	(306)	8,347	(581)	—	—	22,088
Total investments, at fair value	626,999	(20,675)	23,659	(31,735)	430,605	(500,041)	6,687	(48,525)	486,974
Financial derivatives–assets, at fair value-									
Credit default swaps on asset-backed securities	$ 11,387	$ —	$ (2,964)	$ 2,098	$ 28	$ (4,217)	$ —	$ —	$ 6,332
Total return swaps	—	—	113	85	—	(113)	—	—	85
Warrants	100	—	—	—	50	—	—	—	150
Total financial derivatives–assets, at fair value	11,487	—	(2,851)	2,183	78	(4,330)	—	—	6,567
Total investments and financial derivatives–assets, at fair value	$ 638,486	$ (20,675)	$ 20,808	$ (29,552)	$ 430,683	$ (504,371)	$ 6,687	$ (48,525)	$ 493,541

(In thousands)	Ending Balance as of December 31, 2014	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, 2015
Liabilities:									
Investments sold short, at fair value									
Corporate debt	$ —	$ (2)	$ 197	$ 228	$ 1,372	$ (2,243)	$ —	$ —	$ (448)
Total investments sold short, at fair value	—	(2)	197	228	1,372	(2,243)	—	—	(448)
Financial derivatives–liabilities, at fair value-									
Credit default swaps on asset-backed securities	$ (239)	$ —	$ (102)	$ 35	$ —	$ 85	$ —	$ —	$ (221)
Total return swaps	—	—	2,516	(4,662)	14	(2,530)	—	—	(4,662)
Total financial derivatives–liabilities, at fair value	(239)	—	2,414	(4,627)	14	(2,445)	—	—	(4,883)
Securitized debt:									
Securitized debt	(774)	(15)	—	26	763	—	—	—	—
Total securitized debt	(774)	(15)	—	26	763	—	—	—	—
Guarantees:									
Guarantees	—	—	—	(828)	—	—	—	—	(828)
Total guarantees	—	—	—	(828)	—	—	—	—	(828)
Total investments sold short, financial derivatives–liabilities, securitized debt, and guarantees, at fair value	$ (1,013)	$ (17)	$ 2,611	$ (5,201)	$ 2,149	$ (4,688)	$ —	$ —	$ (6,159)

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, 2015, as well as Level 3 financial instruments disposed of by the Company during the year ended December 31, 2015. For Level 3 financial instruments held by the Company at December 31, 2015, change in net unrealized gain (loss) of $(20.7) million, $7 thousand, $(4.6) million, and $(0.8) million, for the year ended December 31, 2015 relate to investments, financial derivatives–assets, financial derivatives–liabilities, and guarantees, respectively.

As of December 31, 2015, the Company transferred $48.5 million of non-Agency RMBS from Level 3 to Level 2. These assets were transferred from Level 3 to Level 2 based on an increased volume of observed trading of these and/or similar assets. This increase in observed trading activity led to greater price transparency for these assets, thereby making a Level 2 designation appropriate in the Company's view.

In addition, as of December 31, 2015, the Company transferred $6.7 million of non-Agency RMBS from Level 2 to Level 3. Following December 2014, these securities exhibited indications of a reduced level of price transparency. Examples of such indications include wider spreads relative to similar securities and a reduction in observable transactions involving these and similar securities.

There were no transfers of financial instruments between Level 1 and Level 2 during the years ended December 31, 2017, 2016, and 2015.

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

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

4. To Be Announced RMBS

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

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

The below table details TBA assets, liabilities, and the respective related payables and receivables as of December 31, 2017 and 2016:

	As of	
	December 31, 2017	**December 31, 2016**
Assets:	*(In thousands)*	
TBA securities, at fair value (Current principal: $118,806 and $67,720, respectively)	$ 123,680	$ 70,525
Receivable for securities sold relating to unsettled TBA sales	460,666	406,708
Liabilities:		
TBA securities sold short, at fair value (Current principal: -$442,197 and -$384,155, respectively)	$ (460,189)	$ (404,728)
Payable for securities purchased relating to unsettled TBA purchases	(123,918)	(70,347)
Net short TBA securities, at fair value	(336,509)	(334,203)

5. Financial Derivatives

Gains and losses on the Company's derivative contracts for the years ended December 31, 2017 and 2016 are summarized in the tables below:

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 Rate	(1,171)	571
Futures	Interest Rate/Currency	(195)	(423)
Forwards	Currency	(6,390)	(18)
Warrants	Equity Market	(100)	(5)
Mortgage loan purchase commitments	Interest Rate	—	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, 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, which is included on the Consolidated Statement of Operations in Change in net unrealized gain (loss) on foreign currency translation.

Year Ended December 31, 2016:

Derivative Type	Primary Risk Exposure	Year Ended December 31, 2016 Net Realized Gain/(Loss)(1)	Change in Net Unrealized Gain/(Loss)(2)
(In thousands)			
Credit default swaps on asset-backed securities	Credit	$ 719	$ (703)
Credit default swaps on asset-backed indices	Credit	3,935	(3,349)
Credit default swaps on corporate bond indices	Credit	(36,195)	(4,044)
Credit default swaps on corporate bonds	Credit	(14)	712
Total return swaps	Equity Market/Credit	(12,987)	4,427
Interest rate swaps	Interest Rate	(2,912)	(1,983)
Futures	Interest Rate/ Equity Market	(84)	456
Forwards	Currency	4,093	(1,580)
Warrants	Equity Market	(50)	6
Mortgage loan purchase commitments	Interest Rates	—	(23)
Options	Credit/Interest Rate/Equity Market	7,174	(413)
Total		$ (36,321)	$ (6,494)

(1) Includes gain/(loss) on foreign currency transactions on derivatives in the amount of $0.3 million, 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 $1.1 million, which is included on the Consolidated Statement of Operations in Change in net unrealized gain (loss) on foreign currency translation.

Year Ended December 31, 2015:

Derivative Type	Primary Risk Exposure	Year Ended December 31, 2015 Net Realized Gain/(Loss)[1]	Year Ended December 31, 2015 Change in Net Unrealized Gain/(Loss)[2]
(In thousands)			
Credit default swaps on asset-backed securities	Credit	$ (3,066)	$ 2,133
Credit default swaps on asset-backed indices	Credit	(714)	(285)
Credit default swaps on corporate bond indices	Credit	(8,059)	7,503
Credit default swaps on corporate bonds	Credit	(1,005)	694
Total return swaps	Equity Market/Credit	1,838	(4,564)
Interest rate swaps[3]	Interest Rates	(9,603)	1,983
Futures	Interest Rates/Equity Market	708	(676)
Forwards	Currency	4,738	377
Mortgage loan purchase commitments	Interest Rates	—	(8)
Options	Credit/ Interest Rates/Equity Market	5,048	1,623
Total		$ (10,115)	$ 8,780

(1) Includes foreign currency translation on derivatives in the amount of $0.2 million, 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 $(1.1) million, which is included on the Consolidated Statement of Operations in Change in net unrealized gain (loss) on foreign currency translation.
(3) Includes a $1.5 million reimbursement from a third party.

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, 2017 and 2016:

Derivative Type	Year Ended December 31, 2017	Year Ended December 31, 2016
	(In thousands)	
Interest rate swaps	$ 1,306,853	$ 1,731,368
Credit default swaps	531,008	1,586,923
Total return swaps	19,760	113,628
Futures	48,244	371,900
Options	94,415	357,260
Forwards	76,784	80,513
Warrants	378	1,640
Mortgage loan purchase commitments	1,585	6,143

From time to time the Company enters into credit derivative contracts for which the Company sells credit protection ("written credit derivatives"). As of December 31, 2017 and 2016, 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, 2017 and 2016, are summarized below:

Credit Derivatives	December 31, 2017	December 31, 2016
(In thousands)		
Fair Value of Written Credit Derivatives, Net	$ (4,770)	$ (1,551)
Fair Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties [(1)]	$ (3,582)	$ 4,552
Notional Value of Written Credit Derivatives [(2)]	$ 177,588	$ 117,476
Notional Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties [(1)]	$ (88,400)	$ (68,357)

(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 payment) 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, 2017, implied credit spreads on such contracts ranged between 15.4 and 1,945.7 basis points. For the Company's written credit derivatives that were outstanding at December 31, 2016, implied credit spreads on such contracts ranged between 68.5 and 636.6 basis points. Excluded from these spread ranges are contracts outstanding for which the individual spread is greater than 2,000 basis points. The Company believes that these contracts would be quoted based on estimated points up front. The total fair value of contracts with individual implied credit spreads in excess of 2,000 basis points was $(0.4) million and $(2.5) million as of December 31, 2017 and 2016, respectively. Estimated points up front on these contracts as of December 31, 2017 ranged between 51.4 and 71.6 points, and as of December 31, 2016 ranged between 45.0 and 72.6 points. Total net up-front payments (paid) or received relating to written credit derivatives outstanding at December 31, 2017 and 2016 were $(5.5) million and $(3.3) 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 increased to approximately 75%. The Company's interest in the Acquiror is accounted for as a beneficial interest and is included on the Consolidated Condensed Schedule of Investments in Corporate Equity Investments.

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

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

Participation in CLO Transactions

In June 2017, the Company and several other affiliates of Ellington (the "CLO I Co-Participants") participated in a CLO securitization transaction (the "CLO I Securitization"), collateralized by corporate loans and sponsored and managed by an affiliate of Ellington (the "CLO Manager"). Pursuant to the CLO I Securitization, a newly formed securitization trust (the "CLO I Issuer") issued various classes of notes totaling $373.6 million in face amount, which were in turn sold to unrelated third parties and the CLO I Co-Participants. The notes issued by the CLO Issuer are backed by the cash flows from the underlying corporate loans, including loans that will be purchased during the reinvestment period, which is expected to end in July 2019.

The Company and one CLO I 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.

The Company and each of the CLO I Co-Participants purchased various classes of subordinated notes issued by the CLO I Issuer. In addition, the Company and the CLO I Co-Participants also funded a newly formed entity (the "Risk Retention Vehicle") to purchase approximately 25% of the unsecured subordinated notes issued by the CLO I Issuer, in order to comply with risk retention rules (the "Risk Retention Rules") under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as described below.

The Company purchased a total of $36.6 million face amount of secured and unsecured subordinated notes for an aggregate purchase price of $35.9 million. The Company subsequently sold some of these notes, and as of December 31, 2017 the Company's remaining investment in these notes had an aggregate fair value of $24.3 million, and is included on the Company's Consolidated Condensed Schedule of Investments in Collateralized Loan Obligations. In addition to these investments, the Company holds an approximate 25% ownership interest in the Risk Retention Vehicle, with a fair value of $5.0 million, as of December 31, 2017, and is included on the Company's Consolidated Condensed Schedule of Investments in Corporate Equity Investments.

Pursuant to the CLO I Securitization, the cash flows from the underlying loans are applied in accordance with the contractual priority of payments.

Under the Risk Retention Rules, securitization sponsors are generally required to retain at least 5% of the economic interest in the credit risk of the securitized assets. The unsecured subordinated notes purchased by the Risk Retention Vehicle represent approximately 6% of the economic interest in the credit risk of the underlying corporate loans. While the Risk Retention Vehicle is generally required under the Risk Retention Rules to hold its investment in the CLO I Issuer for a specified minimum amount of time, the Company is not required to hold its investment in the Risk Retention Vehicle for such minimum period. The CLO Manager has full and exclusive management and control of the business of the Risk Retention Vehicle and is required to hold its investment in the Risk Retention Vehicle for the specified minimum amount of time under the Risk Retention Rules.

The Company does not retain control of the assets nor does it have the power to direct the activities of either the CLO I Issuer or the Risk Retention Vehicle that most significantly impact each entity's economic performance.

In December 2017, Ellington priced another CLO securitization (the "CLO II Securitization"). Participants in the CLO II Securitization include Ellington, the Company, several other affiliates of Ellington, and several third parties (the "CLO II Co-Participants"). This transaction closed in January 2018 and while certain details differ, it is structured similarly to the CLO I Securitization which closed in June 2017. The Company and each of the CLO II Co-Participants purchased various classes of notes issued by the CLO II Issuer. In accordance with the Company's accounting policy for recording investment transactions, these purchases were recorded on the trade date (CLO pricing date) rather than the closing date.

The Company purchased a total of $18.2 million face amount of secured senior and secured and unsecured subordinated notes for an aggregate purchase price of $16.6 million. The Company subsequently sold the senior notes, and as of December 31, 2017 the Company's remaining investment in the subordinated notes had an aggregate fair value of $13.4 million, and is included on the Company's Consolidated Condensed Schedule of Investments in Collateralized Loan Obligations. Pursuant to the CLO II Securitization, the cash flows from the underlying loans are applied in accordance with the contractual priority of payments. Upon the closing of the transaction in January 2018, the Company will purchase an interest in the associated risk retention vehicle, which was formed in order for the CLO transaction to comply with the Risk Retention Rules. Prior to the CLO pricing date, the Company along with certain other CLO II Co-Participants that are also affiliates of Ellington advanced funds (in the form of loans) to the CLO II Issuer to enable it to establish a warehouse facility for the purpose of acquiring assets for the securitization. The CLO II Issuer will repay these loans upon the closing of the CLO transaction. As of December 31, 2017, the Company's loan receivable from the CLO II Issuer was in the amount of $16.9 million and is included on the Consolidated Statement of Assets, Liabilities and Equity in Other assets.

The Company does not have the power to direct the activities of the CLO II Issuer that most significantly impact its economic performance.

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

Residential Loan Securitization

In November 2017, the Company, through its wholly owned subsidiary, Ellington Financial REIT TRS LLC (the "Sponsor"), sponsored a $141.2 million securitization of non-QM loans. The Sponsor transferred $141.2 million of non-QM loans to a wholly owned, newly created entity (the "Depositor") and on November 15, 2017 (the "Closing Date") such loans were deposited into a newly created securitization trust (the "Issuing Entity"). Pursuant to the securitization, the Issuing Entity issued various classes of mortgage pass-through certificates (the "Certificates") totaling $141.2 million in face amount and which are backed by the cash flows from the underlying non-QM loans. In order to comply with the Risk Retention Rules, the Sponsor purchased the two most subordinated classes of Certificates and the excess cash flow certificates, with an aggregate value equal to 5.1% of the fair value of all Certificates issued. The Sponsor also purchased, for an aggregate purchase price of $0.7 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.

The Certificates have a final scheduled distribution date of October 25, 2047. However, the Depositor may, at its sole option, purchase all of the outstanding Certificates (the "Optional Redemption") following the earlier of (1) the two year anniversary of the Closing Date or (2) the date on which the aggregate stated principal balance of the underlying non-QM loans has declined below 30% of the aggregate stated principal balance of the underlying non-QM loans as of October 1, 2017. The purchase price that the Depositor is required to pay in connection with the Optional Redemption is equal to the sum of the unpaid principal balance of each class of Certificates as of the redemption date and any accrued and unpaid interest thereon. In light of this Optional Redemption right held by the Depositor, the transfer of non-QM loans to the Issuing Entity does not qualify as a sale under ASC 860, Transfers and Servicing.

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

The Sponsor also serves as the servicing administrator and as such, is entitled to receive a monthly fee equal to one-twelfth of the product of (a) 0.03% and (b) the stated principal balance of the non-QM loans as of the first day of the related due period. The Sponsor in its role as servicing administrator provides direction and consent to the third-party servicer for certain loss mitigation activities. In certain circumstances, the servicing administrator will be required to reimburse the servicer for principal and interest advances and servicing advances made by the servicer.

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

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

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

The following table details the assets and liabilities of the consolidated securitization trust included in the Company's Consolidated Statement of Assets, Liabilities, and Equity as of December 31, 2017 and 2016:

	As of	
(In thousands)	**December 31, 2017**	**December 31, 2016**
Assets:		
Cash and cash equivalents	$ 333	$ —
Investments, at fair value	132,424	—
Liabilities:		
Interest and dividends payable	333	—
Other secured borrowings, at fair value	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, 2017 and 2016, the Company's total secured borrowings were $1.392 billion and $1.058 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 twenty-three and twenty-one counterparties as of December 31, 2017 and 2016, respectively.

At December 31, 2017, approximately 19% of open reverse repurchase agreements were with one counterparty. As of December 31, 2016, there was no counterparty that held 15% or more of the Company's outstanding reverse repurchase agreements. As of December 31, 2017 remaining days to maturity on the Company's open reverse repurchase agreements ranged from 2 days to 1094 days and from 3 days to 320 days as of December 31, 2016. Interest rates on the Company's open reverse repurchase agreements ranged from (1.25)% to 4.94% as of December 31, 2017 and from 0.60% to 3.76% as of December 31, 2016.

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, 2017 and 2016:

(In thousands)	December 31, 2017			December 31, 2016		
		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	$ 287,014	1.43%	15	$ 405,725	0.83%	18
31-60 Days	264,058	1.47%	46	195,288	0.94%	45
61-90 Days	277,950	1.63%	74	149,965	0.97%	74
91-120 Days	—	—%	—	8,240	0.83%	102
121-150 Days	—	—%	—	11,798	0.96%	131
151-180 Days	602	2.56%	158	19,296	1.05%	164
Total Agency RMBS	829,624	1.51%	44	790,312	0.89%	41
Credit:						
30 Days or Less	37,433	2.61%	13	94,849	2.55%	16
31-60 Days	132,201	2.44%	49	26,974	2.36%	47
61-90 Days	130,875	2.75%	77	41,522	2.43%	77
91-120 Days	—	—%	—	10,084	2.91%	97
121-150 Days	8,551	3.79%	128	1,239	2.73%	124
151-180 Days	8,300	3.40%	164	12,616	3.17%	165
181-360 Days	5,090	3.59%	280	50,557	3.46%	316
> 360 Days	56,944	4.94%	1094	—	—%	—
Total Credit Assets	379,394	3.00%	219	237,841	2.75%	105
U.S. Treasury Securities:						
30 Days or Less	297	1.70%	2	5,428	0.91%	4
Total U.S. Treasury Securities	297	1.70%	2	5,428	0.91%	4
Total	$ 1,209,315	1.98%	99	$ 1,033,581	1.32%	56

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, 2017 and 2016, the fair value of investments transferred as collateral under outstanding borrowings under reverse repurchase agreements was $1.41 billion and $1.15 billion, respectively. Collateral transferred under outstanding borrowings as of December 31, 2017 include investments in the amount of $10.6 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 $18.6 million and additional securities with a fair value of $1.3 million as of December 31, 2017 to its counterparties. Collateral transferred under outstanding borrowings as of December 31, 2016 include investments in the amount of $33.4 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 $39.2 million and additional securities with a fair value of $2.7 million as of December 31, 2016 as a result of margin calls from various counterparties.

As of December 31, 2017 and 2016 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

The Company was a party to various securitization transactions, which were accounted for as collateralized borrowings, to finance certain of its commercial mortgage loans and REO. As of December 31, 2016, the Company had outstanding borrowings in the amount of $24.1 million in connection with one such securitization, which is included under the caption

Other secured borrowings on the Company's Consolidated Statement of Assets, Liabilities, and Equity. As of December 31, 2016, the fair value of commercial mortgage loans and REO collateralizing this borrowing was $42.0 million. This securitization was terminated in December 2017, upon which the Company immediately entered into a reverse repurchase agreement with the same counterparty to finance certain of its commercial mortgage loans and REO. See Note 9, Related Party Transactions, for further information on the Company's secured borrowings.

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, 2017, the Company had outstanding borrowings under this facility in the amount of $57.9 million which is included under the caption Other secured borrowings, on the Company's Consolidated Statement of Assets, Liabilities, and Equity and the effective interest rate on this facility, inclusive of related deferred financing costs, was 4.34% as of December 31, 2017. As of December 31, 2017, the fair value of unsecured loans collateralizing this borrowing was $89.7 million.

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

Unsecured Borrowings

Senior Notes

On August 18, 2017, the Company issued $86.0 million in aggregate principal amount of Senior Notes. The total net proceeds to the Company from the issuance of the Senior Notes was approximately $84.7 million, after deducting debt issuance costs. The Senior Notes bear an interest rate of 5.25%, subject to adjustment based on changes in the ratings, if any, of the Senior Notes. Interest on the Senior notes is payable semi-annually in arrears on March 1 and September 1 of each year, with the first interest payment date on March 1, 2018. 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, 2017 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, 2017:

Year	Reverse Repurchase Agreements(1)	Other Secured Borrowings(2)	Senior Notes(1)	Total
2018	1,152,371	42,409	—	1,194,780
2019	—	140,608	—	140,608
2020	56,944	—	—	56,944
2021	—	—	—	—
2022	—	—	86,000	86,000
Total	$ 1,209,315	$ 183,017	$ 86,000	$ 1,478,332

(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 December 31, 2017 one such subsidiary had a deferred tax asset, resulting from a net operating loss carryforward, which was fully reserved through a valuation allowance. As of December 31, 2017, the deferred tax asset and the valuation allowance were valued at $4.0 million and $(4.0) million, respectively. New tax reform legislation enacted in late 2017 reduces the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. This had the effect of reducing both the deferred tax asset and the valuation allowance from their values prior to the enactment.

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 November 3, 2015, the Board of Directors approved a Sixth 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, 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, 2017, 2016, and 2015, the total base management fee incurred, net of fee rebates, was $9.1 million, $10.1 million, and $11.5 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, 2017, there was no Loss Carryforward.

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

Summary information—The Company did not incur any expense for incentive fees for either of the years ended December 31, 2017, 2016, and 2015, 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, 2017, 2016, and 2015, the Company reimbursed the Manager $6.4 million, $6.5 million, and $5.1 million, respectively, for previously incurred operating and compensation expenses.

Equity Investments in Certain Mortgage Originators

As of December 31, 2017, 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 15.00% 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, 2017, there were no advances outstanding. The Company has also entered into two agreements whereby it guarantees the performance of such mortgage originator under third-party master repurchase agreements. See Note 17, Commitments and Contingencies, for further information on the Company's guarantees of the third-party borrowing arrangements.

In connection with another mortgage originator in which the Company holds an equity interest, the Company has certain obligations with respect to this mortgage originator. See Note 17, Commitments and Contingencies, for further information on such obligations.

Consumer, Residential, and Commercial Loan Transactions with Affiliates

The Company has investments in participation certificates related to consumer loans titled in the name of a related party of Ellington. Through its participation certificates, the Company has beneficial interests in the loan cash flows, net of servicing-related fees and expenses. The total fair value of the Company's beneficial interests in the net cash flows, was $11.7 million and $7.6 million as of December 31, 2017 and 2016, respectively, and is included on the Company's Consolidated Condensed Schedule of Investments in Consumer Loans and Asset-backed Securities backed by Consumer Loans.

The Company purchases certain of its consumer loans through an affiliate, or the "Purchasing Entity." The Purchasing Entity has entered into purchase agreements, open-ended in duration, with third party consumer loan originators whereby it has agreed to purchase eligible consumer loans. The amount of loans purchased under these purchase agreements is dependent on, among other factors, the amount of loans originated in any given period by the selling originators. The Company and other affiliates of Ellington have entered into agreements with the Purchasing Entity whereby the Company and each of the affiliates have agreed to purchase their allocated portion (subject to monthly determination based on available capital and other factors) of the eligible loans acquired by the Purchasing Entity under each purchase agreement. Immediately after the Purchasing Entity purchases beneficial interests in the loans, the Company and other affiliates purchase such beneficial interests from the Purchasing Entity, at the same price paid by the Purchasing Entity. During the year ended December 31, 2017, the Company purchased loans under these agreements with an aggregate principal balance of $102.6 million. As of December 31, 2017, the estimated remaining contingent purchase obligations of the Company under these purchase agreements was approximately $163.3 million in principal balance.

The Company's beneficial interests in the consumer loans purchased through the Purchasing Entity are evidenced by participation certificates issued by trusts that hold legal title to the loans. These trusts are owned by a related party of Ellington and were established to hold such loans. Through its participation certificates, the Company participates in the cash flows of the underlying loans held by each trust. The total amount of consumer loans held in the related party trusts, for which the Company has participating interests in the net cash flows, was $114.5 million and $43.2 million as of December 31, 2017 and 2016, respectively, and is included on the Company's Consolidated Condensed Schedule of Investments in Consumer Loans and Asset-backed Securities backed by Consumer Loans.

The Company has investments in participation certificates related to residential mortgage loans and REO held in a trust owned by another related party of Ellington. Through its participation certificates, the Company participates in the cash flows of the underlying loans held by such trust. The total amount of residential mortgage loans and REO held in the related party trust, for which the Company has participating interests in the net cash flows, was $183.1 million and $86.0 million as of December 31, 2017 and 2016, 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 loans with two other investors, including an unrelated third party and an affiliate of Ellington. These loans are held in a consolidated subsidiary of the Company. As of December 31, 2017, the aggregate fair value of these loans was $27.9 million and the non-controlling interests held by the unrelated third party and the Ellington affiliate were $1.8 million and $5.3 million, respectively.

Participation in Multi-Borrower Financing Facility

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

In connection with the financing of the SBC Assets, each of the Company and the Affiliated Entities transferred their respective SBC Assets to a jointly owned entity (the "Jointly Owned Entity"), which in turn transferred these assets to a securitization trust. While the Company's SBC Assets were transferred to the securitization trust, the Company's SBC Assets and the related debt were not derecognized for financial reporting purposes, in accordance with ASC 860-10, because the Company continued to retain the risks and rewards of ownership of its SBC Assets. The Company's portion of the total debt outstanding as of December 31, 2016 was $24.1 million, and is included under the caption Other secured borrowings on the Company's Consolidated Statement of Assets, Liabilities, and Equity. The facility was terminated in December 2017 and replaced by a reverse repurchase agreement involving the same counterparty.

In December 2017 the Company and the Affiliated Entities, together with the Jointly Owned Entity, terminated the securitization trust financing facility, and entered into amended agreements involving the same counterparty, a global financial institution, to facilitate the financing of the SBC Assets under a reverse repurchase agreement. In connection with this financing, the Company and the Affiliated Entities collectively transferred additional SBC Assets, not previously financed, to the Jointly Owned Entity. As of December 31, 2017, the Jointly Owned Entity has outstanding issued debt under the reverse repurchase agreement in the amount of $106.6 million. The Company's portion of this debt as of December 31, 2017 was $56.9 million and is included under the caption Reverse repurchase agreements on the Company's Consolidated Statement of Assets, Liabilities, and Equity. To the extent that there is a default under the reverse repurchase agreement, all of the assets of the Jointly Owned Entity, including those beneficially owned by any non-defaulting owners of the Jointly Owned Entity could be used to satisfy the outstanding obligations under the reverse repurchase agreement. As of December 31, 2017, no party to the reverse repurchase agreement was in default. In connection with this financing as of December 31, 2017 there was a receivable from the Jointly Owned Entity in the amount of $23.4 million which is included in Other assets on the Company's Consolidated Statement of Assets, Liabilities, and Equity.

Multi-Seller Consumer Loan Securitization

In December 2016, in order to facilitate the financing of the Company's share of the subordinated note held by the Acquiror, the Company entered into a repurchase agreement with the Acquiror (the "Acquiror Repurchase Agreement") whereby the Company's share of the subordinated note held by the Acquiror was transferred to the Company as collateral under the Acquiror Repurchase Agreement. The Company then re-hypothecated this collateral to a third-party lending institution pursuant to a reverse repurchase agreement (the "Reverse Agreement"). The Acquiror Repurchase Agreement is included on the Company's Consolidated Statement of Assets, Liabilities and Equity under the caption, Repurchase agreements, at fair value and on its Consolidated Condensed Schedule of Investments. The Company's obligation under the Reverse Agreement is included on its Consolidated Statement of Assets, Liabilities and Equity under the caption, Reverse repurchase agreements. As of 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 on the Company's participation in a multi-seller consumer loan securitization. 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, in June 2017 and again in December 2017, the Company participated in securitization transactions, sponsored and managed by the CLO Manager. The CLO Co-Participants, certain CLO II Co-Participants, and the CLO Manager are deemed to be related parties of the Company.

The CLO Manager is entitled to receive management and incentive fees in accordance with the respective management agreements between the CLO I Issuer and the CLO II Issuer (the "CLO Issuers") and the CLO Manager. In accordance with the Company's Management Agreement, the Manager rebates to the Company the portion of the management fees payable by each of the CLO Issuers to the CLO Manager that is allocable to the Company's participating interest in the unsecured subordinated notes issued by each of the CLO Issuers. For the year ended December 31, 2017, the amount of such fee rebates was $0.3 million.

10. Long-Term Incentive Plan Units

LTIP Units held pursuant to the Company's incentive plans are generally exercisable by the holder at any time after vesting. Each unit is convertible into one common share. Costs associated with the LTIP Units issued under the Company's incentive plans are measured as of the grant date and expensed ratably over the vesting period. Total expense associated with LTIP Units issued under the Company's incentive plans for each of the years ended December 31, 2017, 2016, and 2015 was $0.4 million.

On September 12, 2017, The Company's Board of Directors authorized the issuance of 10,002 LTIP Units to its independent directors pursuant to the Company's 2017 Equity Incentive Plan. These LTIP Units will vest and become non-forfeitable on September 11, 2018.

On December 12, 2017, the Company's Board of Directors authorized the issuance of 14,419 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 December 12, 2018 with respect to 8,533 LTIP Units and December 12, 2019 with respect to 5,886 LTIP Units.

The below table details on the Company's unvested LTIP Units as of December 31, 2017:

Grant Recipient	Number of LTIP Units Granted	Grant Date	Vesting Date[1]
Independent directors:			
	10,002	September 12, 2017	September 11, 2018
Partially dedicated employees:			
	8,533	December 12, 2017	December 12, 2018
	5,886	December 12, 2017	December 12, 2019
	5,583	December 13, 2016	December 13, 2018
Total unvested LTIP Units at December 31, 2017	30,004		

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

The following table summarizes issuance and exercise activity of the Company's LTIP Units for the years ended December 31, 2017, 2016, and 2015:

	Year Ended December 31, 2017			Year Ended December 31, 2016			Year Ended December 31, 2015		
	Manager	Director/ Employee	Total	Manager	Director/ Employee	Total	Manager	Director/ Employee	Total
LTIP Units Outstanding (12/31/2016, 12/31/2015, and 12/31/2014, respectively)	375,000	94,539	469,539	375,000	74,938	449,938	375,000	54,314	429,314
Granted	—	24,421	24,421	—	22,076	22,076	—	22,571	22,571
Exercised	—	(2,801)	(2,801)	—	(2,475)	(2,475)	—	(1,947)	(1,947)
LTIP Units Outstanding (12/31/2017, 12/31/2016, and 12/31/2015, respectively)	375,000	116,159	491,159	375,000	94,539	469,539	375,000	74,938	449,938
LTIP Units Vested and Outstanding (12/31/2017, 12/31/2016, and 12/31/2015, respectively)	375,000	86,155	461,155	375,000	65,828	440,828	375,000	46,120	421,120

As of December 31, 2017, there were an aggregate of 1,907,769 common shares underlying awards, including LTIP Units, available for future issuance under the Company's 2017 Equity Incentive Plan.

11. Non-controlling Interests

Operating Partnership

Non-controlling interests include the interest in the Operating Partnership owned by an affiliate of the Manager and certain related parties. On January 1, 2013, 212,000 OP Units were purchased by the initial non-controlling interest member. Income allocated to the non-controlling interest is based on the non-controlling interest owners' ownership percentage of the Operating Partnership during the quarter, calculated using a daily weighted average of all common shares and convertible units outstanding during the quarter. Holders of OP Units are entitled to receive the same distributions that holders of common shares receive, and OP Units are convertible into common shares on a one-for-one basis, subject to specified limitations. OP Units are non-voting with respect to matters as to which common shareholders are entitled to vote. As of December 31, 2017, non-controlling interest related to the outstanding 212,000 OP Units represented an interest of approximately 0.7% in the Operating Partnership. As of December 31, 2017 and 2016 non-controlling interest related to the outstanding 212,000 OP Units was $4.0 million and $4.1 million, respectively.

Joint Venture Interests

Non-controlling interests also include the interests of joint venture partners in various consolidated subsidiaries of the Company. These subsidiaries hold the Company's investments in certain commercial mortgage loans and REO. These joint venture partners participate in these subsidiaries on a pari passu basis with the Company at a predetermined percentage, and therefore participate in all income, expense, gains and losses of such 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, 2017 and 2016 these joint venture partners' interests in subsidiaries of the Company were $16.7 million and $3.0 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, 2017, 2016, and 2015, the Board of Directors authorized dividends totaling $1.76 per share, $1.95 per share, and $2.45 per share, respectively. Total dividends paid during the years ended December 31, 2017, 2016, and 2015 were $57.6 million, $65.1 million, and $83.5 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, 2017, 2016, and 2015:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Common Shares Outstanding (12/31/2016, 12/31/2015, and 12/31/2014, respectively)	32,294,703	33,126,012	33,449,678
Share Activity:			
Shares repurchased	(961,566)	(833,784)	(325,613)
Director LTIP Units exercised	2,801	2,475	1,947
Common Shares Outstanding (12/31/2017, 12/31/2016, and 12/31/2015, respectively)	31,335,938	32,294,703	33,126,012

If all LTIP and OP Units that have been previously issued were to become fully vested and exchanged for common shares as of December 31, 2017, 2016, and 2015, the Company's issued and outstanding common shares would increase to 32,039,097 shares, 32,976,242 shares, and 33,787,950 shares, respectively.

On March 6, 2017, the Company's Board of Directors approved the adoption of a share repurchase program under which the Company is authorized to repurchase up to 1.7 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 supersedes the program that was previously adopted on August 3, 2015. During the year ended December 31, 2017, the Company repurchased 961,566 shares at an average price per share of $15.23 and a total cost of $14.6 million.

13. Earnings Per Share

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

	Year Ended December 31,		
	2017	2016	2015
(In thousands except share amounts)			
Net increase (decrease) in shareholders' equity resulting from operations	$ 33,981	$ (16,007)	$ 38,089
Add: Net increase (decrease) in equity resulting from operations attributable to the participating non-controlling interest(1)	221	(101)	239
Net increase (decrease) in equity resulting from operations related to common shares, LTIP Unit holders, and participating non-controlling interest	34,202	(16,108)	38,328
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	33,487	(15,789)	37,604
Net increase (decrease) in shareholders' equity resulting from operations– LTIP Units	494	(218)	485
Dividends Paid(2):			
Common shareholders	(56,434)	(63,855)	(81,886)
LTIP Unit holders	(829)	(880)	(1,054)
Non-controlling interest	(373)	(413)	(520)
Total dividends paid to common shareholders, LTIP Unit holders, and non-controlling interest	(57,636)	(65,148)	(83,460)
Undistributed (Distributed in excess of) earnings:			
Common shareholders	(22,947)	(79,644)	(44,282)
LTIP Unit holders	(335)	(1,098)	(569)
Non-controlling interest	(152)	(514)	(281)
Total undistributed (distributed in excess of) earnings attributable to common shareholders, LTIP Unit holders, and non-controlling interest	$ (23,434)	$ (81,256)	$ (45,132)
Weighted average shares outstanding (basic and diluted):			
Weighted average common shares outstanding	32,062,091	32,758,050	33,422,053
Weighted average participating LTIP Units	472,527	452,436	431,640
Weighted average non-controlling interest units	212,000	212,000	212,000
Basic earnings per common share:			
Distributed	$ 1.76	$ 1.95	$ 2.45
Undistributed (Distributed in excess of)	(0.72)	(2.43)	(1.32)
	$ 1.04	$ (0.48)	$ 1.13
Diluted earnings per common share:			
Distributed	$ 1.76	$ 1.95	$ 2.45
Undistributed (Distributed in excess of)	(0.72)	(2.43)	(1.32)
	$ 1.04	$ (0.48)	$ 1.13

(1) For the years ended December 31, 2017, 2016, and 2015, excludes net increase in equity resulting from operations of $1.8 million, $0.4 million, and $0.1 million, respectively attributable to joint venture partners, which have non-participating interests as described in Note 11.
(2) The Company pays quarterly dividends in arrears, so a portion of the dividends paid in each calendar year relate to the prior year's earnings.

14. Counterparty Risk

As of December 31, 2017, investments with an aggregate value of approximately $1.41 billion were held with dealers as collateral for various reverse repurchase agreements. The investments held as collateral include securities in the amount of $10.6 million that were sold prior to period end but for which such sale had not yet settled as of December 31, 2017.

The following table details the percentage of such collateral held by counterparties who hold greater than 15% of the aggregate $1.41 billion in collateral for various reverse repurchase agreements as of December 31, 2017. In addition to the below, unencumbered investments, on a settlement date basis, of approximately $61.3 million were held in custody at the Bank of New York Mellon Corporation as of December 31, 2017.

Dealer	% of Total Collateral on Reverse Repurchase Agreements
Royal Bank of Canada	18%

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, 2017:

Dealer	% of Total Due from Brokers
Morgan Stanley	35%
BNP Paribas Securities Corp.	24%
J.P. Morgan Securities LLC	17%

The following table details the percentage of amounts held by dealers who hold greater than 15% of the Company's Receivable for securities sold as of December 31, 2017:

Dealer	% of Total Receivable for Securities Sold
Bank of America Securities	28%
Nomura Securities International Inc.	26%

In addition, the Company held cash and cash equivalents of $47.2 million and $123.3 million as of December 31, 2017 and 2016, respectively. The below table details the concentration of cash and cash equivalents held by each counterparty:

	As of	
Counterparty	**December 31, 2017**	**December 31, 2016**
BlackRock Liquidity Funds FedFund Portfolio	56%	41%
Bank of New York Mellon Corporation	37%	27%
Deutsche Bank Securities	5%	—%
Bank of America Securities	2%	—%
Goldman Sachs Financial Square Funds—Government Fund	—%	16%
Morgan Stanley Institutional Liquidity Fund—Government Portfolio	—%	16%

15. Restricted Cash

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

In connection with a letter of credit with a mortgage originator in which the Company holds an equity interest, funds were deposited into an account for the benefit of the mortgage originator. This letter of credit was terminated in April 2017. Additionally, 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 specific minimum cash balances in connection with certain regulated subsidiaries, including 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, 2017 and 2016.

	December 31, 2017	December 31, 2016
	(In thousands)	
Restricted cash balance related to:		
Minimum account balance required for regulatory purposes	$ 250	$ 250
Letter of credit	—	230
Flow consumer loan purchase and sale agreement	175	175
Total	$ 425	$ 655

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, 2017 and 2016. 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, 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	—

December 31, 2016:

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	$ 35,595	$ (15,082)	$ —	$ (7,933)	$ 12,580
Repurchase agreements	184,819	(184,819)	—	—	—
Liabilities					
Financial derivatives–liabilities	(18,687)	15,082	—	3,574	(31)
Reverse repurchase agreements	(1,033,581)	184,819	809,573	39,189	—

(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, 2017 and 2016 were $1.41 billion and $1.16 billion, respectively. As of December 31, 2017 and 2016, total cash collateral on financial derivative assets excludes excess net cash collateral pledged of $6.4 million and $14.9 million, respectively. As of December 31, 2017 and 2016, total cash collateral on financial derivative liabilities excludes excess cash collateral pledged of $16.6 million and $14.8 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. The Company has no liabilities recorded for these agreements as of December 31, 2017 and 2016.

Commitments and Contingencies Related to Investments in Mortgage Originators

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

As described in Note 9, Related Party Transactions, the Company is party to a flow mortgage loan purchase and sale agreement with a mortgage originator. The Company has entered into two agreements whereby it guarantees the performance of this mortgage originator under master repurchase agreements. The Company's maximum guarantees are capped at $30.0 million. As of December 31, 2017 the mortgage originator had $21.2 million outstanding borrowings under these agreements guaranteed by the Company. The Company's obligation under these arrangements are deemed to be guarantees under ASC 460-10 and are carried at fair value and included in Other Liabilities on the Consolidated Statement of Assets, Liabilities, and Equity. As of December 31, 2017 the estimated fair value of such guarantees was zero.

As of December 31, 2017, in connection with its equity investment in another mortgage originator as referenced in Note 9, Related Party Transactions, the Company had a commitment to invest an additional $2.5 million.

18. Financial Highlights

Results of Operations for a Share Outstanding Throughout the Periods:

	Year Ended December 31,		
	2017	**2016**	**2015**
Beginning Shareholders' Equity Per Share (12/31/2016, 12/31/2015, and 12/31/2014, respectively)	$ 19.75	$ 22.10	$ 23.38
Net Investment Income	1.10	1.09	1.98
Net Realized/Unrealized Gains (Losses)	0.02	(1.57)	(0.83)
Results of Operations Attributable to Equity	1.12	(0.48)	1.15
Less: Results of Operations Attributable to Non-controlling Interests	(0.06)	(0.01)	(0.01)
Results of Operations Attributable to Shareholders' Equity(1)	1.06	(0.49)	1.14
Dividends Paid to Common Shareholders	(1.76)	(1.95)	(2.45)
Weighted Average Share Impact on Dividends Paid (2)	(0.04)	(0.04)	(0.05)
Accretive (Dilutive) Effect of Share Issuances (Net of Offering Costs), Share Repurchases, and Adjustments to Non-controlling Interest	0.14	0.13	0.08
Ending Shareholders' Equity Per Share (12/31/2017, 12/31/2016, and 12/31/2015, respectively)(3)	$ 19.15	$ 19.75	$ 22.10
Shares Outstanding, end of period	31,335,938	32,294,703	33,126,012

(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, 2017, 2016, and 2015, shareholders' equity per share would be $18.85, $19.46, and $21.80, 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,		
	2017	**2016**	**2015**
Total Return	6.14%	(1.83)%	5.14%

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

Market Based Total Return for a Shareholder:

For the years ended December 31, 2017, 2016, and 2015, the Company's market based total return based on the closing price as reported by the New York Stock Exchange was 4.35%, 3.50%, and (4.56)%, 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,		
	2017	**2016**	**2015**
Net Investment Income	5.51%	5.22%	8.59%

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

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

	Year Ended December 31,		
	2017	**2016**	**2015**
Operating expenses, before interest expense and other investment related expenses	(2.81)%	(2.93)%	(2.69)%
Interest expense and other investment related expenses	(6.41)%	(3.56)%	(2.30)%
Total Expenses	(9.22)%	(6.49)%	(4.99)%

(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, 2017 and 2016.

	Three Month Period Ended			
(In thousands except per share amounts)	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
INVESTMENT INCOME				
Interest income	$ 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[1]	2,410	2,372	2,161	2,113
Interest expense	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[2]	$ 0.47	$ 0.16	$ 0.19	$ 0.23

(1) 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.

(2) 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 share, as EPS is calculated using average shares outstanding during the period.

(In thousands except per share amounts)	Three Month Period Ended March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
INVESTMENT INCOME				
Interest income	$ 20,427	$ 18,990	$ 16,662	$ 18,265
Other income	1,668	1,024	807	2,342
Total investment income	22,095	20,014	17,469	20,607
EXPENSES				
Base management fee to affiliate	2,611	2,553	2,485	2,416
Interest expense	3,468	4,234	4,143	4,461
Other investment related expenses	1,749	2,191	2,068	2,062
Other operating expenses	2,445	2,515	2,379	2,640
Total expenses	10,273	11,493	11,075	11,579
NET INVESTMENT INCOME	11,822	8,521	6,394	9,028
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	(11,940)	(2,331)	(23,020)	(2,242)
Change in net unrealized gain (loss) on investments, financial derivatives, and foreign currency translation	(23,068)	(1,188)	17,176	(4,854)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY	(35,008)	(3,519)	(5,844)	(7,096)
NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS	(23,186)	5,002	550	1,932
LESS: NET INCREASE IN EQUITY RESULTING FROM OPERATIONS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	14	17	34	240
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ (23,200)	$ 4,985	$ 516	$ 1,692
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS PER SHARE:				
Basic and Diluted	$ (0.69)	$ 0.15	$ 0.02	$ 0.05

20. Subsequent Events

On February 6, 2018, the Company's Board of Directors approved a dividend for the fourth quarter of 2017 in the amount of $0.41 per share payable on March 15, 2018 to shareholders of record as of March 1, 2018.

In addition, on February 6, 2018, the Company's Board of Directors also 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 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 supersedes the previous program that was approved on March 6, 2017. From the adoption of the program on February 6, 2018 through March 9, 2018, the Company has repurchased 371,705 shares for an aggregate cost of $5.5 million.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

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, 2017. 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, 2017.

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three month period ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in 13a-15(f) and 15d-15(f) of 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, 2017.

The Company's independent registered public accounting firm, PricewaterhouseCoopers LLP, has issued an attestation report on the Company's internal control over financial reporting. This report appears on page 88 of this Annual Report on Form 10-K.

Item 9B. Other Information

Additional Material U.S. Federal Income Tax Considerations

The information set forth in Exhibit 99.1 hereto and incorporated by reference herein is a summary of certain additional material U.S. federal income tax considerations with respect to the ownership of our common shares and preferred shares. The information filed herewith as Exhibit 99.1 supplements and should be read together with "Material U.S. Federal Income Tax Considerations" in the base prospectus dated June 15, 2017, which is included in and forms a part of our registration statement on Form S-3 (No. 333-218371).

Amended and Restated Management Agreement

On March 13, 2018, the Company, for itself and on behalf of each of the Company's current and future subsidiaries, Ellington Financial Operating Partnership LLC, and Ellington Financial Management LLC (the "Manager") entered into the

Seventh Amended and Restated Management Agreement (the "Amended Management Agreement"). The Amended Management Agreement was amended to allow a majority of the independent members of the Board of Directors to waive potential fee reductions in specified circumstances. The Amended Management Agreement amends, restates, and supersedes in all respects that certain Sixth Amended and Restated Management Agreement between the Company and the Manager, dated as of November 3, 2015.

A copy of the Amended Management Agreement is filed as Exhibit 10.1 hereto and incorporated herein by reference.

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 2018 annual shareholders' 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 2018 annual shareholders' 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 2018 annual shareholders' 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 2018 annual shareholders' meeting.

Item 14. Principal Accounting 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 2018 annual shareholders' 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)
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)
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)
4.1	Form of Common Share Certificate of Ellington Financial LLC (incorporated by reference to the registration statement on Form S-11 (No. 333-160562), filed on July 14, 2009, as amended)
4.2	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)
4.3	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)
4.4	Registration Rights Agreement, dated as of August 18, 2017, between Ellington Financial LLC and Sandler O'Neill & Partners, L.P., as representative of the initial purchasers (incorporated by reference to the Current Report on Form 8-K filed on August 22, 2017)
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	Sixth Amended and Restated Management Agreement, by and between the Company, Ellington Financial Operating Partnership LLC and Ellington Financial Management LLC, dated as of November 3, 2015 (incorporated by reference to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2015)
10.3	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)
10.4†	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)
10.5†	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)
10.6†	Ellington Financial LLC 2017 Equity Incentive Plan (incorporated by reference to the Current Report on Form 8-K filed on May 18, 2017)
10.7†	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)
10.8†	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)
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10.11	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)
12.1	Statement re: Computation of Ratio of Earnings to Fixed Charges and of Earnings to Combined Fixed Charges and Preferred Stock Dividends
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	Additional 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, 2017, 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.

For purposes of CFTC Rule 4.22(h), to the best of the knowledge and belief of the undersigned, the information contained in the CFTC Annual Report set forth herein is accurate and complete.

		ELLINGTON FINANCIAL LLC.	
Date:	March 15, 2018	By:	/s/ LAURENCE PENN
			Laurence Penn Chief Executive Officer (Principal Executive Officer)

POWER OF ATTORNEY

We, the undersigned officers and directors of Ellington Financial LLC, hereby severally constitute Laurence Penn, Daniel Margolis, Jason Frank and Lisa Mumford, 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 15, 2018
/s/ LISA MUMFORD **LISA MUMFORD**	Chief Financial Officer *(Principal Financial and Accounting Officer)*	March 15, 2018
/s/ MICHAEL W. VRANOS **MICHAEL W. VRANOS**	Director	March 15, 2018
/s/ THOMAS F. ROBARDS **THOMAS F. ROBARDS**	Chairman of the Board	March 15, 2018
/s/ RONALD I. SIMON PH.D **RONALD I. SIMON PH.D**	Director	March 15, 2018
/s/ EDWARD RESENDEZ **EDWARD RESENDEZ**	Director	March 15, 2018

EXHIBIT INDEX

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* 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.

EXHIBIT 10.1

SEVENTH AMENDED AND RESTATED MANAGEMENT AGREEMENT

This SEVENTH AMENDED AND RESTATED MANAGEMENT AGREEMENT is effective as of March 13, 2018 (this "Agreement") by and between Ellington Financial LLC, a Delaware limited liability company (the "Company"), Ellington Financial Operating Partnership LLC, a Delaware limited liability company of which the Company is the managing member (the "Operating Partnership"), and Ellington Financial Management LLC, a Delaware limited liability company (the "Manager").

W I T N E S S E T H:

WHEREAS, the Company is a specialty finance company that specializes in acquiring and managing various mortgage-related assets; and

WHEREAS, the Company holds its assets and conducts its operations through the Operating Partnership and subsidiaries of the Operating Partnership; and

WHEREAS, the Company has retained the Manager to manage the assets, operations and affairs of the Company pursuant to that certain Sixth Amended and Restated Management Agreement, dated as of November 3, 2015 the ("Previous Management Agreement"); and

WHEREAS, the Company, the Operating Partnership and the Manager now desire to amend and restate the terms of the Previous Management Agreement as described herein on the terms and conditions hereinafter set forth.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, the parties hereto agree as follows:

1. **Definitions.**

(a) "Adjusted Net Income" means, for any Incentive Calculation Period, the excess, if any, of (i) total Net Income for all fiscal quarters comprising such Incentive Calculation Period over (ii) the Loss Carryforward, if any, as of the end of the fiscal quarter immediately preceding such period; provided that for the purpose of this definition of Adjusted Net Income only, Net Income for any fiscal quarter: (i) shall be determined after deducting all Quarterly Base Management Fee Amounts incurred with respect to such fiscal quarter, (ii) shall be determined, in the case of the last fiscal quarter of such Incentive Calculation Period, before determining the Quarterly Incentive Fee Amount for such fiscal quarter and, in the case of any other fiscal quarter (other than the last fiscal quarter) during such Incentive Calculation Period, shall be adjusted by reversing any Quarterly Incentive Fee Amount charges for such fiscal quarter, (iii) shall be determined before any non-cash equity compensation expenses for such fiscal quarter (including any such expenses remaining to be charged with respect to such fiscal quarter and reversing any other such expenses previously charged with respect to such fiscal quarter), and (iv) shall be adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between the Manager and the Independent Directors and approval by a majority of the Independent Directors in the case of non-cash charges.

(b) "Affiliate" shall mean, with respect to any Person, any Person controlling, controlled by, or under common Control with, such Person.

(c) "Agreement" has the meaning assigned in the first paragraph.

(d) "Base Management Fee Annual Rate" means 1.50%.

(e) "Board of Directors" means the Board of Directors of Ellington Financial LLC.

(f) "CDO" means a collateralized debt obligation.

(g) "Change of Control" means the occurrence of any of the following:

(i) the sale, lease or transfer, in one or a series of related transactions, of all or substantially all of the assets of the Manager, taken as a whole, to any Person other than EMG Holdings or any of its Affiliates; or

(ii) the acquisition by any Person or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, or any successor provision), including any group acting for the purpose of acquiring, holding or disposing of securities (within the meaning of Rule 13d-5(b)(1) under the Exchange Act), other than EMG Holdings or any of its Affiliates, in a single transaction or in a series of related transactions, by way of merger, consolidation or other business combination or purchase of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act, or any successor provision) of 50% or more of the total voting power of the voting capital interests of the Manager; or

(iii) the departure of Michael Vranos from senior management of Ellington, whether through resignation, retirement, withdrawal, Disability, death, or termination of employment with or without cause or for any other reason.

(h) "Code" means the Internal Revenue Code of 1986, as amended.

(i) "Common Shares" means the common shares, no par value per share, representing limited liability interests of Ellington Financial LLC, but does not include any Company LTIP Unit.

(j) "Company" has the meaning assigned in the first paragraph; provided that all references herein to the Company shall, except as otherwise expressly provided herein or where the context would imply otherwise, be deemed to include any Subsidiaries

(k) "Company Account" has the meaning assigned in Section 5.

(l) "Company LTIP Unit" means a limited liability company interest in Ellington Financial LLC which is designated as an LTIP Unit and which has the rights, preference and other privileges designated in the Company Operating Agreement in respect of holders of Company LTIP Units.

(m) "Company Operating Agreement" means the Second Amended and Restated Operating Agreement of Ellington Financial LLC, originally dated as of July 1, 2009, and as amended from time to time.

(n) "Compliance Policies" means the compliance policies and procedures of Ellington, as in effect from time to time.

(o) "Confidential Information" means all non-public information, written or oral, obtained by the Manager in connection with the services rendered hereunder.

(p) "Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of another Person, whether by contract, voting equity, legal right or otherwise.

(q) "Conversion Factor" shall have the meaning assigned to such term in the Operating Partnership Operating Agreement.

(r) "Cross Transactions" has the meaning assigned in Section 3(c).

(s) "Dedicated Officers" has the meaning assigned in Section 3(a).

(t) "Disability" occurs when a person is unable, due to a physical or mental condition, to perform the essential functions of his position with or without reasonable accommodation for six (6) months in the aggregate during any twelve (12) month period or based on the written certification by two licensed physicians of the likely continuation of such condition for such period, one selected by Ellington or its insurance carrier and the other selected by the person or his legal representative. This definition shall be interpreted and applied consistent with the Americans with Disabilities Act, the Family and Medical Leave Act, Section 409A of the Code and other applicable law.

(u) "Ellington" means Ellington Management Group, L.L.C., a Delaware limited liability company.

(v) “EMG Holdings” means EMG Holdings, L.P., a Delaware limited partnership.

(w) “Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(x) “Expenses” has the meaning assigned in Section 9.

(y) “GAAP” means generally accepted accounting principles in effect in the U.S. on the date such principles are applied consistently.

(z) “Governing Instruments” means, with respect to any Person, the articles of incorporation and bylaws in the case of a corporation, the certificate of limited partnership (if applicable) and partnership agreement in the case of a general or limited partnership or the articles or certificate of formation and operating agreement in the case of a limited liability company.

(aa) “Hurdle Amount” means, with respect to any fiscal quarter, the product of (i) one-fourth of the Hurdle Rate for such fiscal quarter, (ii) the Hurdle Price Per Share for such fiscal quarter, and (iii) the sum of (x) the average number of Common Shares and Company LTIP Units outstanding for each day during such fiscal quarter and (y) the average number of Units and Incentive Units (other than Units and Incentive Units held by the Company) outstanding for each day during such fiscal quarter multiplied by the Conversion Factor in effect on such day. The determination of Hurdle Price Per Share and, if necessary, Hurdle Amount shall be appropriately adjusted to take into account any declaration or payment of a dividend in Common Shares or Units, recapitalization, stock split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange or other similar corporate transaction or event, including without limitation any event that causes a change in the Conversion Factor.

(bb) “Hurdle Price Per Share” means, with respect to any fiscal quarter, the sum of (i) the weighted average gross proceeds per share or Unit (as applicable) of all Common Share and Unit (other than Units held by the Company) issuances since the inception of each of the Company and the Operating Partnership and up to the end of such fiscal quarter, with each such issuance weighted by both the number of Common Shares and Units (as applicable) issued in such issuance and the number of days that such issued Common Shares and Units were outstanding during such fiscal quarter, using FIFO accounting (i.e., attributing any Common Share and Unit repurchases to the earliest respective issuances first) and (ii) the result obtained by dividing (A) retained earnings attributable to the Common Shares and Units (other than Units held by the Company) at the beginning of such fiscal quarter by (B) the average number of Common Shares and Units (other than Units held by the Company) outstanding for each day during such fiscal quarter. For purposes of determining the Hurdle Price Per Share, issuances of Common Shares or Units (as applicable) (i) as equity incentive awards to the Manager, any Affiliates of the Manager or of the Company or the Operating Partnership, or any of their respective directors, officers, employees, managers, members, partners, consultants, agents or representatives of the foregoing or of the Company, (ii) to the Manager as part of any compensation or payments from the Company or the Operating Partnership, such as pursuant to Section 8(c) hereof, or (iii) to the Manager or any of its Affiliates in a privately negotiated transaction with the Company or the Operating Partnership in which the purchase price and other terms of the transaction are not determined by a third party, shall be excluded from the calculation. For the avoidance of doubt, the Units issued to EMG Holdings on January 1, 2013 pursuant to the Operating Partnership Operating Agreement shall not be included in the determination of Hurdle Price Per Share for any fiscal quarter beginning on or after January 1, 2013.

(cc) “Hurdle Rate” means, with respect to any fiscal quarter, the greater of (i) 9% and (ii) 3% plus the Ten-Year U.S. Treasury Rate for such fiscal quarter.

(dd) “Incentive Calculation Period” related to any fiscal quarter means the period consisting of the four fiscal quarters ending with and including such fiscal quarter.

(ee) “Incentive Fee Rate” means 25%.

(ff) “Incentive Unit” means a limited liability company interest in the Operating Partnership which is designated as an LTIP Unit and which has the rights, preference and other privileges designated in the Operating Partnership Operating Agreement in respect of holders of LTIP Units.

(gg) “Indemnitee” has the meaning assigned in Section 11(d).

(hh) “Indemnitor” has the meaning assigned in Section 11(d).

(ii) "Independent Directors" means the members of the Board of Directors who are not officers or employees of the Company, the Operating Partnership, the Manager or Ellington and who are otherwise "independent" in accordance with the Company Operating Agreement and, at any time during which any securities of the Company are listed on the New York Stock Exchange or another securities exchange, the rules of the New York Stock Exchange or such other securities exchange, as applicable, as may be in effect from time to time.

(jj) "Investments" means the investments of the Company.

(kk) "Investment and Risk Management Committee" has the meaning assigned in Section 7(d).

(ll) "Investment Company Act" means the Investment Company Act of 1940, as amended.

(mm) "Investment Guidelines" means the general criteria, parameters and policies relating to Investments as established by the Board of Directors, as the same may be modified from time-to-time.

(nn) "Last Appraiser" has the meaning assigned in Section 8(e).

(oo) "Loss Carryforward" means, as of the end of any fiscal quarter, the excess, if any, of (i) the Loss Carryforward of the Operating Partnership as of the end of the immediately preceding fiscal quarter over (ii) Net Income for such fiscal quarter; provided, that the foregoing calculation of Loss Carryforward shall be adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between the Manager and the Independent Directors and approval by a majority of the Independent Directors in the case of non-cash charges.

(pp) "Manager" means Ellington Financial Management LLC, a Delaware limited liability company.

(qq) "Net Income" means, with respect to any fiscal quarter, (i) the Operating Partnership's net increase in members' equity resulting from operations for such quarter calculated in accordance with GAAP. For the avoidance of doubt, net income may be a positive or negative number.

(rr) "Operating Partnership" has the meaning assigned in the first paragraph.

(ss) "Operating Partnership Operating Agreement" means the Limited Liability Company Operating Agreement of Ellington Financial Operating Partnership LLC, originally dated as of January 1, 2013, and as amended from time to time.

(tt) "Person" means any individual, corporation, partnership, joint venture, limited liability company, estate, trust, unincorporated association, any federal, state, county or municipal government or any bureau, department or agency thereof and any fiduciary acting in such capacity on behalf of any of the foregoing.

(uu) "Previous Management Agreement" has the meaning set forth in the recitals to this Agreement.

(vv) "PORTAL" means The PORTAL[SM] Market, which is a subsidiary of The NASDAQ OMX Group, Inc.

(ww) "Principal Transaction" has the meaning assigned in Section 3(d).

(xx) "Quarterly Base Management Fee Amount" means, with respect to any fiscal quarter, the product of: (i) the Shareholders' Equity as of the end of such fiscal quarter, and (ii) one-fourth of the Base Management Fee Annual Rate.

(yy) "Quarterly Incentive Fee Amount" means, with respect to any fiscal quarter, the excess, if any, of (i) the product of (A) the Incentive Fee Rate and (B) the excess of (1) the Adjusted Net Income for the related Incentive Calculation Period over (2) the sum of the Hurdle Amounts for each fiscal quarter comprising the related Incentive Calculation Period, over (ii) the sum of the Quarterly Incentive Fee Amounts for each fiscal quarter, other than the final fiscal quarter, comprising the related Incentive Calculation Period.

(zz) "Records" has the meaning assigned in Section 6(a).

(aaa) "Representatives" means collectively the Manager's Affiliates, officers, directors, employees, agents and representatives.

(bbb) "SEC" means the United States Securities and Exchange Commission.

(ccc) "Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(ddd) "Services Agreement" has the meaning assigned in Section 2(c).

(eee) "Shareholders' Equity" means, as of the end of any fiscal quarter, the members' equity of the Operating Partnership calculated in accordance with GAAP (before deductions for Quarterly Base Management Fee Amounts payable with respect to such fiscal quarter, and before deductions for Quarterly Incentive Fee Amounts payable with respect to such fiscal quarter), provided that Shareholders' Equity will be adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between the Manager and the Independent Directors and approval by a majority of the Independent Directors in the case of non-cash charges.

(fff) "Split Price Executions" has the meaning assigned in Section 3(e).

(ggg) "Subsidiary" means any direct or indirect subsidiary of the Company, any partnership, the general partner of which is the Company or any subsidiary of the Company and any limited liability company, the managing member of which is the Company or any subsidiary of the Company, and includes the Operating Partnership.

(hhh) "Tax Preparer" has the meaning assigned in Section 7(f).

(iii) "Ten-Year U.S. Treasury Rate" means, for any fiscal quarter, the average yield (expressed as a per annum rate) on U.S. Treasury securities adjusted to a constant maturity of ten years for the most recent week ending before (but not on) the beginning of such fiscal quarter that the Federal Reserve Board publishes in Federal Reserve Statistical Release No. H.15 (519) (currently published by the Federal Reserve at www.federalreserve.gov/releases/h15/current). In the event Federal Reserve Statistical Release No. H.15 (519) is not published or is otherwise unavailable, the Manager will determine the Ten-Year U.S. Treasury Rate in good faith in consultation with the Board of Directors.

(jjj) "Termination Fee" means, with respect to any termination or non-renewal of this Agreement with respect to which payment of the Termination Fee is required under Section 13 of this Agreement, a termination fee 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.

(kkk) "Treasury Regulations" means the Procedures and Administration Regulations promulgated by the U.S. Department of Treasury under the Code, as amended.

(lll) "Unit" means units of limited liability company interest in the Operating Partnership, but does not include any Incentive Units.

(mmm) "Valuation Notice" has the meaning assigned in Section 8(e).

2. **Appointment and Duties of the Manager.**

(a) *Appointment.* Each of the Company and the Operating Partnership hereby appoints the Manager to manage, operate and administer the assets, operations and affairs of the Company subject to the further terms and conditions set forth in this Agreement, and the Manager hereby agrees to use its commercially reasonable efforts to perform each of the duties set forth herein in accordance with the provisions of this Agreement.

(b) *Duties.* The Manager shall manage, operate and administer the Company's day-to-day operations, business and affairs, subject to the supervision of the Board of Directors, and shall have only such functions and authority as the Company may delegate to it, including, without limitation, the authority identified and delegated to the Manager herein. Without limiting the foregoing, the Manager shall oversee and conduct the Company's investment activities in accordance with the Investment Guidelines attached hereto as Exhibit A, as amended from time to time, and other policies adopted and implemented by the Board of Directors. Subject to the foregoing, the Manager will perform (or cause to be performed) such services and activities relating to the management, operation and administration of the assets, liabilities and business of the Company as is appropriate, including, without limitation:

(i) serving as the Company's consultant with respect to the periodic review of the Investment Guidelines and other policies and criteria for the other borrowings and the operations of the Company for the approval by the Board of Directors;

(ii) investigating, analyzing and selecting possible Investment opportunities and originating, acquiring, structuring, financing, retaining, selling, negotiating for prepayment, restructuring or disposing of Investments consistent with the Investment Guidelines;

(iii) with respect to any prospective Investment by the Company and any sale, exchange or other disposition of any Investment by the Company, including the accumulation of assets for securitization, conducting negotiations on the Company's behalf with sellers and purchasers and their respective agents, representatives and investment bankers, and owners of privately and publicly held real estate companies;

(iv) engaging and supervising, on the Company's behalf and at the Company's sole cost and expense, third party service providers who provide legal, accounting, due diligence, transfer agent, registrar, leasing services, master servicing, special servicing, banking, investment banking, mortgage brokerage, real estate brokerage, securities brokerage and other financial services and such other services as may be required relating to the Investments or potential Investments and to the Company's other business and operations;

(v) coordinating and supervising, on behalf of the Company and at the Company's sole cost and expense, other third party service providers to the Company;

(vi) serving as the Company's consultant with respect to arranging for any issuance of mortgage-backed securities from pools of mortgage loans or mortgage backed securities owned by the Company;

(vii) coordinating and managing operations of any joint venture or co-investment interests held by the Company and conducting all matters with any joint venture or co-investment partners;

(viii) providing executive and administrative personnel, office space and office services required in rendering services to the Company;

(ix) administering the Company's day-to-day operations and performing and supervising the performance of such other administrative functions necessary to the Company's management as may be agreed upon by the Manager and the Board of Directors, including, without limitation, the collection of revenues and the payment of the Company's debts and obligations and maintenance of appropriate computer services to perform such administrative functions;

(x) in connection with the Company's on-going obligations under the Sarbanes Oxley Act of 2002 and the Exchange Act, engaging and supervising, on the Company's behalf and at the Company's sole cost and expense, third party consultants and other service providers to assist the Company in complying with the requirements of the Sarbanes Oxley Act of 2002 and the Exchange Act;

(xi) communicating on the Company's behalf with the holders of any of the Company's equity or debt securities as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders;

(xii) counseling the Company in connection with policy decisions to be made by the Board of Directors;

(xiii) counseling the Company, and when appropriate, evaluating and making recommendations to the Board of Directors regarding hedging, financing and securitization strategies and engaging in hedging, financing, borrowing and securitization activities on the Company's behalf, consistent with the Investment Guidelines;

(xiv) counseling the Company regarding the maintenance of the Company's exclusion from status as an investment company under the Investment Company Act and monitoring compliance with the requirements for maintaining such exclusion and using commercially reasonable efforts to cause the Company to maintain such exclusion from status as an investment company under the Investment Company Act;

(xv) assisting the Company in developing criteria for asset purchase commitments that are specifically tailored to the Company's investment objectives and making available to the Company its knowledge and experience with respect to mortgage loans, real estate, real estate related securities, other real estate related assets, asset-backed securities, non-real estate related assets and real estate operating companies;

(xvi) furnishing such reports to the Company or the Board of Directors that the Manager reasonably determines to be responsive to reasonable requests for information from the Company or the Board of Directors regarding the Company's activities and services performed for the Company by the Manager;

(xvii) monitoring the operating performance of the Investments and providing periodic reports with respect thereto to the Board of Directors, including comparative information with respect to such operating performance and budgeted or projected operating results;

(xviii) investing or reinvesting any money or securities of the Company and advising the Company as to the Company's capital structure and capital raising;

(xix) causing the Company to retain, at the sole cost and expense of the Company, qualified independent accountants and legal counsel, as applicable, to assist in developing appropriate accounting procedures, compliance procedures and testing systems with respect to financial reporting obligations, including soliciting shareholders or members (as applicable) for required information to the extent provided by the provisions of the Code and the Treasury Regulations applicable to the Company, and to conduct quarterly compliance reviews with respect thereto;

(xx) causing the Company to qualify to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses;

(xxi) assisting the Company in complying with all regulatory requirements applicable to the Company in respect of the Company's business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents, if any, required under the Exchange Act and the Securities Act;

(xxii) taking all necessary actions to enable the Company to make required tax filings and reports and compliance with the provisions of the Code, and Treasury Regulations applicable to the Company, including, without limitation, the provisions applicable to the taxation of the Company as a partnership, and not an association or publicly traded partnership taxable as a corporation, for U.S. federal income tax purposes;

(xxiii) handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which the Company may be involved or to which the Company may be subject arising out of the Company's day-to-day operations, subject to such limitations or parameters as may be imposed from time to time by the Board of Directors;

(xxiv) using commercially reasonable efforts to cause expenses incurred by or on behalf of the Company to be commercially reasonable or commercially customary and within any budgeted parameters or expense guidelines set by the Board of Directors from time to time;

(xxv) advising on, and obtaining on behalf of the Company, appropriate warehouse and similar credit facilities or other financings for the Investments consistent with the Investment Guidelines;

(xxvi) advising the Company with respect to and structuring long-term financing vehicles for the Company's portfolio of assets, and offering and selling securities publicly or privately in connection with any such structured financing;

(xxvii) performing such other services as may be required from time to time for management and other activities relating to the Company's assets as the Board of Directors shall reasonably request or the Manager shall deem appropriate under the particular circumstances; and

(xxviii) using commercially reasonable efforts to cause the Company to comply with all applicable laws.

(c) *Services Agreement.* The Manager will maintain that certain services agreement, dated August 17, 2007, by and between the Manager and Ellington (the "Services Agreement") pursuant to which Ellington and its Affiliates will continue to provide the Manager the personnel, services and resources as needed by the Manager to enable the Manager to carry out its obligations and responsibilities under this Agreement, including due diligence, asset management and credit risk management. The Company will continue to be a named third party beneficiary of the Services Agreement.

(d) *Service Providers.* The Manager may engage Persons who are non-Affiliates, for and on behalf, and at the sole cost and expense, of the Company to provide to the Company acquisition, disposition, asset management, property management, leasing, financing, development, disposition of real estate and/or similar services customarily provided in connection with the management, operation and administration of a business similar to the business of the Company, pursuant to agreement(s) that provide for market rates and contain standard market terms.

(e) *Reporting Requirements.*

(i) As frequently as the Manager may deem necessary or advisable, or at the direction of the Board of Directors, the Manager shall prepare, or cause to be prepared, with respect to any Investment (A) reports and information on the Company's operations and asset performance and (B) other information reasonably requested by the Company.

(ii) The Manager shall prepare, or cause to be prepared, at the sole cost and expense of the Company, all reports, financial or otherwise, with respect to the Company reasonably required by the Board of Directors in order for the Company to comply with the Company Operating Agreement or the Operating Partnership Operating Agreement or any other materials required to be filed with any governmental entity or agency, and shall prepare, or cause to be prepared, at the sole cost and expense of the Company, all materials and data necessary to complete such reports and other materials including, without limitation, an annual audit of the Company's books of account by a nationally recognized independent accounting firm, currently PricewaterhouseCoopers LLP.

(iii) The Manager shall prepare regular reports for the Board of Directors to enable the Board of Directors to review the Company's acquisitions, portfolio composition and characteristics, credit quality, performance and compliance with the Investment Guidelines and policies approved by the Board of Directors.

(f) *Reliance by Manager.* In performing its duties under this Section 2, the Manager shall be entitled to rely on qualified experts and professionals (including, without limitation, accountants, legal counsel and other professional service providers) hired by the Manager at the Company's sole cost and expense.

(g) *Use of the Manager's Funds.* The Manager shall not be required to expend money in connection with any expenses that are required to be paid for or reimbursed by the Company pursuant to Section 9 of this Agreement in excess of that contained in any applicable Company Account or otherwise made available by the Company to be expended by the Manager hereunder.

(h) *Payment and Reimbursement of Expenses.* The Company shall pay all expenses, and reimburse the Manager for the Manager's expenses incurred on its behalf, in connection with any such services to the extent such expenses are payable or reimbursable by the Company to the Manager pursuant to Section 9.

3. **Dedication; Other Activities.**

(a) *Devotion of Time.* The Manager, through Ellington and its Affiliates, will provide a management team (which shall include, without limitation, a chief executive officer and president, a chief financial officer, a chief investment officer or co-chief investment officers, a controller (or comparable professional) and a secretary) along with appropriate support personnel, to deliver the management services to the Company hereunder. The members of such management team may serve more than one role for the Company (i.e. the chief financial officer may also serve as the secretary) and may have other duties and responsibilities for the Manager and its Affiliates, including, but not limited to, with respect to other clients, but such management team members shall devote such of their working time and efforts to the management of the Company as shall be necessary and appropriate for the proper performance of all of the Manager's duties hereunder, commensurate with the level of activity of the Company from time to time. The Company shall have the benefit of the Manager's reasonable judgment and effort in rendering services and, in furtherance of the foregoing, the Manager shall not undertake activities which, in its reasonable judgment, will materially adversely affect the performance of its obligations under this Agreement.

The Manager shall have the obligation to provide to the Company a dedicated or partially dedicated chief financial officer (or comparable professional), and shall have the right, but not the obligation, to provide the Company with a dedicated or partially dedicated controller (or comparable professional), assistant controller, internal legal counsel, investor relations professional, internal audit staff and other dedicated personnel if approved by the independent directors of the Company (such personnel are referred to herein as "Dedicated Officers"). Each Dedicated Officer shall be an employee of the Manager or one of its Affiliates.

(b) *Other Activities*. Except to the extent set forth in clause (a) above, and subject to Ellington's Compliance Policies, the Company's conflicts of interest policy as it may exist from time to time, Ellington's investment allocation policy as it may exist from time to time and the Company's Investment Guidelines, nothing herein shall prevent the Manager, Ellington, EMG Holdings or any of their Affiliates or any of the officers, directors or employees of any of the foregoing, from engaging in other businesses or from rendering services of any kind to any other Person, including, without limitation, investing in, or rendering advisory services to others investing in, any type of real estate, real estate related investment or non-real estate related investment or other mortgage loans (including, without limitation, investments that meet the principal investment objectives of the Company or any Subsidiary), whether or not the investment objectives or policies of any such other Person are similar to those of the Company or in any way bind or restrict the Manager, Ellington, EMG Holdings or any of their Affiliates, officers, directors or employees from buying, selling or trading any securities or commodities for their own accounts or for the account of others for whom the Manager, Ellington, EMG Holdings or any of their Affiliates, officers, directors or employees may be acting.

(c) *Cross Transactions*. Cross transactions are transactions between the Company, on the one hand, and an account (other than the Company) that is managed or advised by the Manager, Ellington or one of Ellington's other investment advisory affiliates, on the other hand (each a "Cross Transaction"). The Manager is authorized to execute Cross Transactions for the Company in accordance with applicable law and the Ellington Compliance Policies. Each of the Company and the Operating Partnership acknowledges that the Manager has a potentially conflicting division of loyalties and responsibilities regarding each party to a Cross Transaction. Either of the Company or the Operating Partnership may at any time, upon written notice to the Manager, revoke its consent to the Manager to execute Cross Transactions. In addition, unless approved in advance by a majority of the Company's Independent Directors or pursuant to and in accordance with a policy that has been approved by a majority of the Company's Independent Directors, all Cross Transactions must be effected at then-prevailing market prices.

(d) *Principal Transactions*. Principal transactions are transactions between the Company, on the one hand, and the Manager, Ellington, or any of their investment advisory affiliates (or any of the related parties of the foregoing, which includes employees of Ellington and their families), on the other hand (each a "Principal Transaction"). The Manager is only authorized to execute Principal Transactions with the prior approval of a majority of the Company's Independent Directors and in accordance with applicable law. Certain Cross Transactions may also be considered Principal Transactions whenever the Manager, Ellington or any of their investment advisory affiliates (or any of the related parties of the foregoing, which includes employees of Ellington and their families) have a substantial ownership interest in of one of the transacting parties.

(e) *Split Price Executions*. The Manager is authorized to combine purchase or sale orders on the Company's behalf together with orders for other accounts managed by the Manager, Ellington or any of 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 (collectively, "Split Price Executions"). Each of the Company and the Operating Partnership acknowledges that the Manager has a potentially conflicting division of loyalties and responsibilities regarding each party to a Split Price Execution.

(f) *Officers, Employees, Etc.* The Manager's or its Affiliates' members, partners, officers, employees and agents may serve as directors, officers, employees, agents, nominees or signatories for the Company or any Subsidiary, to the extent permitted by their Governing Instruments, as may be amended from time to time, or by any resolutions duly adopted by the Board of Directors pursuant to the Company's Governing Instruments. When executing documents or otherwise acting in such capacities for the Company or any Subsidiary, such Persons shall use their respective titles with respect to the Company or any such Subsidiary.

(g) The Manager agrees to offer the Company the right to participate in all investment opportunities that the Manager determines, in its reasonable and good faith judgment based on the Company's investment objectives, policies and strategies, and other relevant factors, are appropriate for the Company, subject to the Company's Investment Guidelines and the exception that, in accordance with Ellington's Compliance Policies, the Company might not participate in each such opportunity but will on an overall basis equitably participate with the Manager's or any of its Affiliate's other clients in all such opportunities. While information and recommendations supplied to the Company shall, in the Manager's reasonable and good faith judgment, be appropriate under the circumstances and in light of the investment objectives and policies of the Company, they may be different from the information and recommendations supplied by the Manager or any Affiliate of the Manager to other investment companies, funds and advisory accounts. The Manager shall provide to the Company such information, recommendations and any other services, but the Company recognizes that it is not entitled to receive preferential treatment as compared with the treatment given by the Manager or any Affiliate of the Manager to any investment company, fund or advisory account other than any fund or advisory account which contains only funds invested by the Manager (and not any funds of any of its clients or customers).

(h) The Manager is authorized, for and on behalf, and at the sole cost and expense of the Company, to employ such securities dealers for the purchase and sale of investment assets of the Company as may, in the good faith judgment of the Manager, be reasonably necessary for the best execution of such transactions taking into account all relevant factors, including but not limited to such factors as the policies of the Company, price, dealer spread, the size, type and difficulty of the transaction involved, the firm's general execution and operational facilities and the firm's risk in positioning the securities involved. Consistent with this policy, the Manager is authorized to direct the execution of the Company's portfolio transactions to dealers and brokers furnishing statistical information, research and other services deemed by the Manager to be useful or valuable to the performance of its investment advisory functions. Such services may be used by the Manager in connection with its advisory services for clients other than the Company or any Subsidiary, and such arrangements may be outside the parameters of the "safe harbor" provided by Section 28(e) of the Exchange Act.

(i) Each of the Company and the Operating Partnership agrees to take all actions reasonably required to permit and enable the Manager to carry out its duties and obligations under this Agreement, including, without limitation, all steps reasonably necessary to allow the Manager to file in a timely manner any registration statement required to be filed by the Company or the Operating Partnership or to deliver any financial statements or other reports required to be delivered by the Company or the Operating Partnership. Each of the Company and the Operating Partnership further agrees to use commercially reasonable efforts to make available to the Manager all resources, information and materials reasonably requested by the Manager to enable the Manager to satisfy its obligations hereunder, including its obligations to deliver financial statements and any other information or reports with respect to the Company. If the Manager is not able to provide a service, or in the reasonable judgment of the Manager it is not prudent to provide a service, without the approval of the Board of Directors or the Independent Directors, as applicable, then the Manager shall be excused from providing such service (and shall not be in breach of this Agreement) until the applicable approval has been obtained.

4. **Agency; Authority.**

(a) The Manager shall act as the agent of the Company in originating, acquiring, structuring, financing and disposing of Investments, disbursing and collecting the Company's funds, paying the debts and fulfilling the obligations of the Company, supervising the performance of professionals engaged by or on behalf of the Company and handling, prosecuting and settling any claims of or against the Company, the holders of Common Shares, Company LTIP Units, Units or Incentive Units or the Company's representatives or assets.

(b) In performing the services set forth in this Agreement, as an agent of the Company, the Manager shall have the right to exercise all powers and authority which are reasonably necessary and customary to perform its obligations under this Agreement, including the following powers, subject in each case to the terms and conditions of this Agreement, including, without limitation, the Investment Guidelines:

(i) to purchase, exchange or otherwise acquire and to sell, exchange or otherwise dispose of, any Investment in a public or private sale;

(ii) to execute Cross Transactions;

(iii) to execute Principal Transactions;

(iv) to execute Split Price Executions;

(v) to borrow and, for the purpose of securing the repayment thereof, to pledge, mortgage or otherwise encumber Investments;

(vi) to purchase, take and hold Investments subject to mortgages, liens or other encumbrances;

(vii) to extend the time of payment of any liens or encumbrances which may at any time be encumbrances upon any Investment, irrespective of by whom the same were made;

(viii) to foreclose, to reduce the rate of interest on, and to consent to the modification and extension of the maturity of any Investments, or to accept a deed in lieu of foreclosure;

(ix) to join in a voluntary partition of any Investment;

(x) to cause to be demolished any structures on any real estate Investment;

(xi) to cause renovations and capital improvements to be made to any real estate Investment;

(xii) to abandon any Investment deemed to be worthless;

(xiii) to enter into joint ventures or otherwise participate in investment vehicles investing in Investments;

(xiv) to cause any real estate Investment to be leased, operated, developed, constructed or exploited;

(xv) to cause the Company to indemnify third parties in connection with contractual arrangements between the Company and such third parties;

(xvi) to obtain and maintain insurance in such amounts and against such risks as are prudent in accordance with customary and sound business practices in the appropriate geographic area;

(xvii) to cause any property to be maintained in good state of repair and upkeep; and to pay the taxes, upkeep, repairs, carrying charges, maintenance and premiums for insurance;

(xviii) to use the personnel and resources of its Affiliates in performing the services specified in this Agreement;

(xix) to hire third party service providers subject to and in accordance with Section 2(d);

(xx) to designate and engage all third party professionals and consultants to perform services (directly or indirectly) on behalf of the Company or its Subsidiaries, including, without limitation, accountants, legal counsel and engineers; and

(xxi) to take any and all other actions as are necessary or appropriate in connection with the Investments.

(c) The Manager shall be authorized to represent to third parties that it has the power to perform the actions which it is authorized to perform under this Agreement.

5. **Bank Accounts.** At the direction of the Board of Directors, the Manager may establish and maintain as an agent on behalf of the Company one or more bank accounts in the name of the Company or any Subsidiary (any such account, a "Company Account"), collect and deposit funds into any such Company Account and disburse funds from any such Company Account, under such terms and conditions as the Board of Directors may approve. The Manager shall from time-to-time render appropriate accountings of such collections and payments to the Board of Directors and, upon request, to the auditors of Company.

6. **Books and Records; Confidentiality.**

(a) *Books and Records.* The Manager shall maintain appropriate books of account, records data and files (including without limitation, computerized material) (collectively, "Records") relating to the Company and the Investments generated or obtained by the Manager in performing its obligations under this Agreement, and such Records shall be accessible for inspection by representatives of the Company or the Operating Partnership at any time during normal business hours upon one business day's advance written notice. The Manager shall have full responsibility for the maintenance, care and safekeeping of all Records.

(b) *Confidentiality.* The Manager shall keep confidential any and all non-public information, written or oral, obtained by it in connection with the services rendered hereunder and shall not disclose Confidential Information, in whole or in part, to any Person other than to its Affiliates, officers, directors, employees, agents or representatives who need to know such Confidential Information for the purpose of rendering services hereunder or with the consent of the Company, except: (i) to Ellington and its Affiliates; (ii) in accordance with the Services Agreement or any advisory agreement contemplated by Section 2 hereunder; (iii) with the prior written consent of the Board of Directors; (iv) to legal counsel, accountants and other professional advisors; (v) to appraisers, creditors, financing sources, trading counterparties, other counterparties, third party service providers to the Company and others (in each case, both those actually doing business with the Company or any Subsidiary and those with whom the Company or any such Subsidiary seeks to do business) in the ordinary course of the Company's or such Subsidiary's business; (vi) to governmental officials having jurisdiction over the Company; (vii) in connection with any governmental or regulatory filings of the Company or disclosure or presentations to Company investors; or (viii) as required by law or legal process to which the Manager or any Person to whom disclosure is permitted hereunder is a party. If, failing the entry of a protective order or the receipt of a waiver hereunder, the Manager is, in the opinion of counsel, required to disclose Confidential Information, the Manager may disclose only that portion of such information that its counsel advises is legally required without liability hereunder; provided, that the Manager agrees to exercise its best efforts to obtain reliable assurance that confidential treatment will be accorded such information. Notwithstanding anything herein to the contrary, each of the following shall be deemed to be excluded from provisions hereof: any Confidential Information that (A) is available to the public from a source other than the Manager not resulting from the Manager's violation of this Section 6(b), (B) is released in writing by the Company to the public or to persons who are not under a similar obligation of confidentiality to the Company, or (C) is obtained by the Manager from a third-party without breach by such third-party of an obligation of confidence with respect to the Confidential Information disclosed. The Manager agrees to inform each of its Representatives of the non-public nature of the Confidential Information and to direct such Persons to treat such Confidential Information in accordance with the terms hereof. The provisions of this Section 6(b) shall survive the expiration or earlier termination of this Agreement for a period of one year.

7. **Obligations of Manager; Restrictions.**

(a) *Internal Control*. The Manager shall (i) establish and maintain a system of internal accounting and financial controls designed to provide reasonable assurance of the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws, (ii) maintain records for each Investment on a GAAP basis, (iii) develop accounting entries and reports required by the Company to meet its reporting requirements under applicable laws, (iv) consult with the Company with respect to proposed or new accounting/reporting rules identified by the Manager or the Company and (v) prepare quarterly and annual financial statements as soon as practicable after the end of each such period as may be reasonably requested and general ledger journal entries and other information necessary for the Company's compliance with applicable laws and in accordance with GAAP and cooperate with the Company's independent accounting firm in connection with the auditing or review of such financial statements, the cost of any such audit or review to be paid by the Company.

(b) *Restrictions.*

(i) The Manager acknowledges that the Company intends to conduct its operations so as not to become regulated as an investment company under the Investment Company Act, and agrees to use commercially reasonable efforts to cooperate with each of the Company's and each Subsidiary's efforts to conduct its operations so as not to become regulated as an investment company under the Investment Company Act. The Manager shall refrain from any action that, in its reasonable judgment made in good faith, (a) is not in compliance with the Investment Guidelines, (b) would cause the Company to fail to maintain its exclusion from status as an investment company under the Investment Company Act, or (c) would violate any law, rule or regulation of any governmental body or agency having jurisdiction over the Company or that would otherwise not be permitted by the Company Operating Agreement or Operating Partnership Operating Agreement. If the Manager is ordered to take any such action by the Board of Directors, the Manager shall promptly notify the Board of Directors of the Manager's judgment that such action would adversely affect such status or violate any such law, rule or regulation or the Company Operating Agreement or Operating Partnership Operating Agreement.

(ii) The Manager shall require each seller or transferor of investment assets to the Company to make such representations and warranties regarding such assets as may, in the reasonable judgment of the Manager, be necessary and appropriate or as may be advised by the Board of Directors and consistent with standard industry practice. In addition, the Manager shall take such other action as it deems necessary or appropriate or as may be advised by the Board of Directors and consistent with standard industry practice with regard to the protection of the Investments.

(iii) The Company shall not invest in joint ventures with the Manager or any Affiliate thereof, unless (a) such Investment is made in accordance with the Investment Guidelines and (b) such Investment is approved in advance by a majority of the Independent Directors.

(c) *Board of Directors Review and Approval.* Subject to the terms of Ellington's Compliance Policies and the Company's conflicts of interest policy as it may exist from time to time, the Board of Directors will periodically review the Investment Guidelines and the Company's portfolio of Investments but will not review each proposed Investment; provided that neither the Company nor any Subsidiary may acquire any Investment, sell any Investment, or engage in any co-investment that, pursuant to the terms of the Compliance Policies or the Company's conflicts of interest policy, requires the approval of a majority of the Independent Directors unless such transaction has been so approved. If a majority of the Independent Directors determine in their periodic review of transactions that a particular transaction does not comply with the Investment Guidelines, then a majority of the Independent Directors will consider what corrective action, if any, is appropriate. The Manager shall be permitted to rely upon the direction of the Secretary of the Company to evidence approval of the Board of Directors or the Independent Directors with respect to a proposed Investment.

(d) *Investment and Risk Management Committee.* The Manager shall maintain its investment and risk management committee (the "Investment and Risk Management Committee"). The Investment and Risk Management Committee shall continue to advise and consult with the Manager with respect to the Company's investment policies, investment portfolio holdings and financing and leveraging strategies and the Company's Investment Guidelines. The Investment and Risk Management Committee shall continue to meet as regularly as necessary to perform its duties, as determined by the Investment and Risk Management Committee, in its sole discretion.

(e) *Insurance.* The Manager, or Ellington on behalf of the Manager, shall obtain, as soon as reasonably practicable, and shall thereafter maintain "errors and omissions" insurance coverage and such other insurance coverage which is customarily carried by managers performing functions similar to those of the Manager under this Agreement with respect to assets similar to the assets of the Company, in an amount which is comparable to that customarily maintained by other managers or servicers of similar assets.

(f) *Tax Filings*. The Manager shall (i) assemble, maintain and provide to the firm designated by the Company to prepare tax returns on behalf of the Company and its Subsidiaries (the "Tax Preparer") information and data required for the preparation of federal, state, local and foreign tax returns, any audits, examinations or administrative or legal proceedings related thereto or any contractual tax indemnity rights or obligations of the Company and supervise the preparation and filing of such tax returns, the conduct of such audits, examinations or proceedings and the prosecution or defense of such rights, (ii) provide factual data reasonably requested by the Tax Preparer or the Company with respect to tax matters, (iii) assemble, record, organize and report to the Company data and information with respect to the Investments relative to taxes and tax returns in such form as may be reasonably requested by the Company, (iv) supervise the Tax Preparer in connection with the preparation, filing or delivery to appropriate persons, of applicable tax information reporting forms with respect to the Investments and transactions involving the real estate (including, without limitation, information reporting forms, whether on Form 1099 or otherwise with respect to sales, interest received, interest paid, partnership reports and other relevant transactions); it being understood that, in the context of the foregoing, the Company shall rely on its own tax advisers in the preparation of its tax returns and the conduct of any audits, examinations or administrative or legal proceedings related thereto and that, without limiting the Manager's obligation to provide the information, data, reports and other supervision and assistance provided herein, the Manager will not be responsible for the preparation of such returns or the conduct of such audits, examinations or other proceedings.

8. **Compensation.**

(a) *Base Management Fee*. With respect to each fiscal quarter, the Manager shall receive a base management fee equal to the Quarterly Base Management Fee Amount. Within 45 days following the last day of each fiscal quarter, the Manager shall make available the quarterly calculation of the base management fee to the Company and the Operating Partnership with respect to such quarter, and the Operating Partnership shall pay the Manager the base management fee for such quarter in cash within 15 business days thereafter; provided, however, that such base management fee may be offset by the Operating Partnership against amounts due to the Operating Partnership by the Manager.

(b) *Quarterly Incentive Fee*. In addition to the base management fee, the Manager shall receive an incentive fee with respect to each fiscal quarter in an amount equal to the Quarterly Incentive Fee Amount.

(c) *Computation and Payment of Quarterly Incentive Fee*. Within 45 days after the end of each fiscal quarter, the Manager will compute the incentive fee with respect to such fiscal quarter, and the Operating Partnership will pay the incentive fee with respect to such fiscal quarter within 15 business days following the delivery to the Company and the Operating Partnership of the Manager's written statement setting forth the computation of the incentive fee for such fiscal quarter. Ten percent (10%) of each incentive fee payable to the Manager hereunder will automatically be paid by the Company in Common Shares (with the Operating Partnership concurrently issuing a corresponding number of Units to the Company), with the balance paid in cash by the Operating Partnership, unless the Manager notifies the Board of Directors before the first day of the last calendar month of the quarter to which such incentive fee relates that the Manager elects to receive a greater percentage of the incentive fee for such quarter in Common Shares. Notwithstanding the foregoing, the Manager may not elect to receive Common Shares as payment of its incentive fee except in accordance with all applicable securities exchange rules and securities laws (including prohibitions on insider trading). The number of Common Shares to be received by the Manager will be based on the fair market value of such Common Shares. Common Shares delivered as payment of the incentive fee will be immediately vested; provided that the Manager agrees not to sell such Common Shares prior to one year after the date such shares are issued to the Manager, and provided further that such transfer restriction will immediately terminate if this Agreement is terminated for any reason.

(d) *Valuation of Incentive Fee Shares*. Common Shares payable as incentive fee shall be valued as follows:

(i) If such shares are traded on a securities exchange, the value of such shares shall be deemed to be the average of the closing prices of the shares on such exchange during the last calendar month of the quarter to which such incentive fee relates;

(ii) if such shares are actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sales price as applicable over the thirty (30) calendar day period ending three (3) calendar days prior to the date of issuance of such shares;

(iii) if such shares are traded on PORTAL, the value shall be deemed to be the average of the sales price reported on PORTAL over the thirty (30) calendar day period ending three (3) calendar days prior to the date of issuance of such shares; and

(iv) if there is no active public market for such shares and such shares are not traded on PORTAL, the value shall be the fair market value thereof, as reasonably determined in good faith by the Board of Directors of the Company.

(e) If at any time the Manager shall, in connection with a determination of fair market value made by the Board of Directors pursuant to clause (iv) of Section 8(d) above, (i) dispute such value in good faith by more than five percent (5%), and (ii) such dispute cannot be resolved between the Independent Directors and the Manager within ten (10) business days after the Manager provides written notice to the Company of such dispute (the "Valuation Notice"), then the matter shall be resolved by an independent appraiser of recognized standing selected jointly by the Independent Directors and the Manager within not more than twenty (20) days after the Valuation Notice. In the event the Independent Directors and the Manager cannot agree with respect to such selection within the aforesaid twenty (20) day time-frame, the Independent Directors shall select one independent appraiser and the Manager shall select another independent appraiser within five (5) business days after the expiration of the twenty (20) day period, with one additional such appraiser (the "Last Appraiser") to be selected by the appraisers so designated within five (5) business days after their selection. Any valuation decision made by the appraisers shall be deemed final and binding upon the Board of Directors and the Manager and shall be delivered to the Manager and the Company within not more than fifteen (15) days after the selection of the Last Appraiser. The expenses of the appraisal shall be paid by the party with the estimate that deviated the furthest from the final valuation decision made by the appraisers and split by the parties if the difference between each of their estimates and the final valuation decision made by the appraisers is exactly the same.

(f) Notwithstanding the provisions of Sections 8(a), 8(b) and 8(c), in the event that the Company acquires or invests in (i) any equity of a CDO at issuance that is managed, structured or originated by Ellington, the Manager or any of their Affiliates, (ii) any investment fund, account or other investment that is managed, structured or originated by Ellington, the Manager or any of their Affiliates or (iii) a participating interest in the debt securities of an issuer of debt for which Ellington, the Manager or any of their Affiliates has received an origination fee, then in each such case, unless approved otherwise by a majority of the Independent Directors, the Quarterly Base Management Fee Amount and Quarterly Incentive Fee Amount payable by the Operating Partnership to the Manager will in the aggregate be reduced by (or the Manager will otherwise rebate to the Operating Partnership) an amount equal to the portion of any management fees, origination fees or structuring fees payable to the Manager, Ellington or their Affiliates that is allocable to the Company's equity investment or participating interest, as the case may be, in such CDO, investment fund, other investment or debt securities for the same periods.

9. **Expenses.** The Company shall bear all of its operating expenses, except those specifically required to be borne by the Manager under this Agreement. The expenses required to be borne by the Company include, but are not limited to:

(a) issuance and transaction costs incident to the acquisition, disposition and financing of Investments;

(b) legal, regulatory, compliance, tax, accounting, consulting, auditing, administrative fees and expenses and fees and expenses for other similar services rendered to the Company by third-party service providers retained by the Manager;

(c) the compensation and expenses of the Company's directors and the cost of liability insurance to indemnify the Company's directors and officers;

(d) the costs associated with the establishment and maintenance of any credit facilities and other indebtedness of the Company (including commitment fees, accounting fees, legal fees, closing costs, etc.);

(e) expenses associated with securities offerings of the Company;

(f) expenses relating to the payment of distributions;

(g) expenses connected with communications to holders of the Company's securities and in complying with the continuous reporting and other requirements of the Exchange Act, the SEC and other governmental bodies;

(h) transfer agent, registrar and exchange listing fees;

(i) the costs of printing and mailing proxies, reports and other materials to the Company's shareholders;

(j) costs associated with any computer software or hardware, electronic equipment, or purchased information technology services from third party vendors that is used solely for the Company;

(k) costs and out of pocket expenses incurred by directors, officers, employees or other agents of the Manager for travel on the Company's behalf;

(l) the portion of any costs and expenses incurred by the Manager or its Affiliates with respect to market information systems and publications, research publications and materials that are allocable to the Company in accordance with the expense allocation policies of Ellington;

(m) settlement, clearing, and custodial fees and expenses;

(n) all taxes and license fees;

(o) all insurance costs incurred with respect to insurance policies obtained in connection with the operation of the Company's business, including but not limited to insurance covering activities of the Manager and its employees relating to the performance of the Manager's duties and obligations under this Agreement;

(p) costs and expenses incurred in contracting with third parties for the servicing and special servicing of assets of the Company;

(q) all other actual out of pocket costs and expenses relating to the Company's business and investment operations, including, without limitation, the costs and expenses of acquiring, owning, protecting, maintaining, developing and disposing of Investments, including appraisal, reporting, audit and legal fees;

(r) any judgment or settlement of pending or threatened proceedings (whether civil, criminal or otherwise) against the Company, or against any trustee, director or officer of the Company in his or her capacity as such for which the Company is required to indemnify such trustee, director or officer by any court or governmental agency, or settlement of pending or threatened proceedings;

(s) the costs of maintaining compliance with all federal, state and local rules and regulations, including securities regulations, or any other regulatory agency, all taxes and license fees and all insurance costs incurred on the Company's behalf and the allocated costs of the wages, salaries and benefits incurred by the Manager with respect to internal audit staff in connection with Sarbanes-Oxley compliance initiatives provided that (A) the projected costs of such wages, salaries and benefits allocated to the Company shall be approved by the Board of Directors, (B) unless approved by the Board of Directors, the Company shall not bear the costs of such wages, salaries and benefits that exceed the amount approved in accordance with clause (A), and (C) the costs for any time spent by such staff on matters unrelated to the Company shall not be borne by the Company.

(t) expenses relating to any office or office facilities, including disaster backup recovery sites and facilities, maintained expressly for the Company and separate from offices of the Manager;

(u) the costs of the wages, salaries and benefits incurred by the Manager with respect to any Dedicated Officers that the Manager elects to provide the Company pursuant to Section 3(a) above; *provided* that (A) if the Manager elects to provide a partially dedicated Dedicated Officer rather than a fully dedicated Dedicated Officer, the Company shall be required to bear only a *pro rata* portion of the costs of the wages, salaries and benefits incurred by the Manager with respect to such personnel based on the percentage of their working time and efforts spent on matters related to the Company and (B) the amount of such wages, salaries and benefits paid to the Dedicated Officers shall be subject to the approval of the Compensation Committee of the Board of Directors; and

(v) all other costs and expenses approved by the Board of Directors.

Other than as expressly provided above, the Company will not be required to pay any portion of the rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Manager and its Affiliates. In particular, the Manager is not entitled to be reimbursed for wages, salaries and benefits of its officers and employees, other than as described in Section 9(s) and 9(u) above.

Subject to any required Board of Directors approval, the Manager may retain, for and on behalf, and at the sole cost and expense, of the Company, such services of non-Affiliate third party accountants, legal counsel, appraisers, insurers, brokers, transfer agents, registrars, developers, investment banks, financial advisors, banks and other lenders and others as the Manager deems necessary or advisable in connection with the management and operations of the Company. The provisions of this Section 9 shall survive the expiration or earlier termination of this Agreement to the extent such expenses have previously been incurred or are incurred in connection with such expiration or termination.

10. **Expense Reports and Reimbursements.** The Manager shall prepare a statement documenting the operating expenses of the Company incurred during each fiscal quarter, and deliver the same to the Company and the Operating Partnership within 60 days following the end of the applicable fiscal quarter. Such expenses incurred by the Manager on behalf of the Company shall be reimbursed by the Operating Partnership within 60 days following delivery of the expense statement by the Manager; provided, however, that such reimbursements may be offset by the Manager against amounts due to the Operating Partnership from the Manager. The provisions of this Section 10 shall survive the expiration or earlier termination of this Agreement.

11. **Limits of Manager Responsibility; Indemnification.**

(a) Pursuant to this Agreement, the Manager will not assume any responsibility other than to render the services called for hereunder in good faith and will not be responsible for any action of the Board of Directors in following or declining to follow its advice or recommendations. The Manager, Ellington, EMG Holdings and their Affiliates, who may provide services hereunder or pursuant to the Services Agreement, their directors, officers, members, shareholders, managers, Investment and Risk Management Committee members, employees, agents successors and assigns will not be liable to the Company, the Operating Partnership or any other Subsidiary or any of their respective directors, officers, shareholders, members, managers, owners or partners except by reason of acts or omissions constituting bad faith, willful misconduct, gross negligence or reckless disregard of the Manager's duties under this Agreement, as determined by a final non-appealable order of a court of competent jurisdiction.

(b) The Company and the Operating Partnership hereby agree to indemnify, defend and hold harmless the Manager, Ellington, EMG Holdings and their Affiliates, officers, directors, members, shareholders, managers, Investment and Risk Management Committee members, employees, agents, successors and assigns (collectively, "Manager Indemnified Parties") from and against all liabilities, judgments, costs, charges, losses, expenses and claims, including attorneys' fees, charges and expenses and expert witness fees, of any nature, kind or description, arising out of claims by third parties caused by (i) acts or omissions of any Manager Indemnified Party not constituting bad faith, willful misconduct, gross negligence or reckless disregard of the Manager's duties under this Agreement or (ii) claims by the employees of the Manager relating to the terms and conditions of their employment with the Manager. For the avoidance of doubt, none of the Manager Indemnified Parties will be liable for (i) trade errors that may result from ordinary negligence, such as errors in the investment-decision process (e.g. a transaction was effected in violation of the Company's Investment Guidelines) or in the trade process (e.g. a buy order was entered instead of a sell order or the wrong security was purchased or sold or the security was purchased or sold at the wrong price) or (ii) acts or omissions of any Manager Indemnified Party made or taken in accordance with written advice provided to the Manager Indemnified Parties by specialized, reputable, professional consultants selected, engaged or retained by the Manager, Ellington, EMG Holdings and their Affiliates with commercially reasonable care, including without limitation counsel, accountants, investment bankers, financial advisers, and appraisers (absent bad faith, gross negligence, willful misconduct or fraud by a Manager Indemnified Party). Notwithstanding the foregoing, no provision of this Agreement will constitute a waiver or limitation of the Company's or the Operating Partnership's rights under federal or state securities laws.

(c) The Manager hereby agrees to indemnify the Company, the Operating Partnership and each of the other Subsidiaries and each of their respective directors and officers with respect to all liabilities, judgments, costs, charges, losses, expenses and claims, including attorney's fees, charges and expenses and expert witness fees, of any nature, kind or description, arising out of (i) claims by third parties based on acts or omissions of the Manager constituting bad faith, willful misconduct, gross negligence or reckless disregard of the Manager's duties under this Agreement, as determined pursuant to a final, non-appealable order of a court of competent jurisdiction or (ii) claims by the Manager's employees relating to the terms and conditions of their employment with the Manager.

(d) The party seeking indemnity ("Indemnitee") will promptly notify the party against whom indemnity is claimed ("Indemnitor") of any claim for which it seeks indemnification; provided, however, that the failure to so notify the Indemnitor will not relieve Indemnitor from any liability which it may have hereunder, except to the extent such failure actually prejudices the Indemnitor. The Indemnitor shall have the right to assume the defense and settlement of such claim; provided that, Indemnitor notifies Indemnitee of its election to assume such defense and settlement within (30) days after the Indemnitee gives the Indemnitor notice of the claim. In such case the Indemnitee will not settle or compromise such claim, and the Indemnitor will not be liable for any such settlement made without its prior written consent. If Indemnitor is entitled to, and does, assume such defense by delivering the aforementioned notice to Indemnitee, Indemnitee will (i) have the right to approve Indemnitor's counsel (which approval will not be unreasonably withheld or delayed), (ii) be obligated to cooperate in furnishing evidence and testimony and in any other manner in which Indemnitor may reasonably request and (iii) be entitled to participate in (but not control) the defense of any such action, with its own counsel and at its own expense.

(e) Reasonable expenses (including attorney's fees) incurred by an Indemnitee in defense or settlement of a claim that may be subject to a right of indemnification hereunder may be advanced by the Company or the Operating Partnership to such Indemnitee as such expenses are incurred prior to the final disposition of such claim; provided that, Indemnitee undertakes to repay such amounts if it shall be determined ultimately by a court of competent jurisdiction that Indemnitee was not entitled to be indemnified hereunder.

(f) The Manager, Ellington, EMG Holdings and their Affiliates shall remain entitled to exculpation and indemnification from the Company and the Operating Partnership pursuant to this Section 11 (subject to the limitations set forth herein) with respect to any matter arising prior to the termination of this Agreement and shall have no liability to the Company, the Operating Partnership or any other Subsidiary in respect of any matter arising after such termination unless such matter arose out of events or circumstances that occurred prior to such termination.

12. **No Joint Venture.** The parties are not partners or joint venturers with each other and nothing in this Agreement shall be construed to make the Company, the Operating Partnership and the Manager partners or joint venturers or impose any liability as such on either of them.

13. **Term; Termination.**

(a) *Term.* This Agreement shall remain in full force through December 31, 2018, unless terminated by the Company or Manager as set forth below, and shall be renewed automatically for successive one year periods thereafter (except as provided in the second sentence of Section 13(b) below), until this Agreement is terminated in accordance with the terms hereof.

(b) *Non-Renewal.* Either party may elect not to renew this Agreement at the expiration of the initial term or any renewal term for any or no reason by notice to the other party at least 180 days, but not more than 270 days, prior to the end of the term. Notwithstanding the preceding sentence, if the Board adopts a plan of liquidation and dissolution for the Company, the adoption of such plan by the Board shall be considered to constitute notice of non-renewal of this Agreement by the Company (with the non-renewal and termination of the Agreement to be effective upon the completion of the liquidation and dissolution of the Company). Upon a non-renewal of this Agreement by the Company pursuant to this section, the Company will pay the Manager the Termination Fee.

(c) *Termination by the Company for Cause.* At the option of the Company and at any time during the term of this Agreement, this Agreement shall be and become terminated upon 30 days' written notice of termination from the Board of Directors to the Manager, without payment of the Termination Fee, if any of the following events shall occur:

(i) the Manager shall commit a material breach of any provision of this Agreement (including the failure of the Manager to use reasonable efforts to comply with the Company's Investment Guidelines), which such material breach continues uncured for a period of 30 days after written notice of such breach;

(ii) the Manager in its corporate capacity (as distinguished from the acts of any employees of the Manager which are taken without the complicity of the board of directors or executive officers of the Manager) shall commit any act of fraud, misappropriation of funds, or embezzlement against the Company or any Subsidiary or shall be grossly negligent in the performance of its duties under this Agreement;

(iii) (A) the Manager shall commence any case, proceeding or other action (1) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (2) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or the Manager shall make a general assignment for the benefit of its creditors; or (B) there shall be commenced against the Manager any case, proceeding or other action of a nature referred to in clause (A) above which (1) results in the entry of an order for relief or any such adjudication or appointment or (2) remains undismissed, undischarged or unbonded for a period of 90 days; or (C) the Manager shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (A) or (B) above; or (D) the Manager shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(iv) upon a Change of Control of the Manager.

(d) *Termination by the Company Based on Performance.* The Independent Directors will review the Manager's performance annually at the Board's regularly scheduled meeting during the Company's first fiscal quarter, and, within 30 days after such Board meeting, this Agreement may be terminated upon the affirmative vote of at least two-thirds of the 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 the Manager that is materially detrimental to the Company or a determination by the Independent Directors that the management fees payable to the Manager hereunder are not fair, subject to the Manager's right to prevent such a termination by accepting a mutually acceptable reduction of such management fees. The Board of Directors must provide at least 60 days', but not more than 120 days', prior notice to the Manager of any termination under this Section 13(d). Upon a termination of this Agreement pursuant to this Section 13(d), the Company will pay the Manager the Termination Fee.

(e) *Termination by Manager.*

(i) The Manager may terminate this Agreement effective upon 60 days prior written notice of termination to the Company in the event that the Company or the Operating Partnership shall default in the performance or observance of any material term, condition or covenant in this Agreement and such default shall continue for a period of 30 days after written notice thereof specifying such default and requesting that the same be remedied in such 30 day period.

(ii) The Manager may terminate this Agreement in the event that the Company becomes regulated as an investment company under the Investment Company Act, with such termination deemed to occur immediately prior to such event.

(iii) Upon the termination of this Agreement pursuant to this Section 13(e), but in the case of a termination under clause (ii) only if the Manager was not at fault for the Company becoming regulated as an investment company under the Investment Company Act, the Company will pay the Manager the Termination Fee.

(f) *Survival.* If this Agreement is terminated pursuant to this Section 13, such termination shall be without any further liability or obligation of either party to the other, except as otherwise expressly provided herein.

14. **Action Upon Termination or Expiration of Term.** From and after the effective date of termination of this Agreement pursuant to Section 13 herein, the Manager shall not be entitled to compensation for further services under this Agreement but shall be paid all compensation accruing to the date of termination, reimbursement for all Expenses and the Termination Fee, if applicable. For the avoidance of doubt, if the date of termination occurs other than at the end of a fiscal quarter, compensation to the Manager accruing to the date of termination shall also include: (i) base management fees equal to the Quarterly Base Management Fee Amount for such final fiscal quarter, taking into account only the portion of such final fiscal quarter that this Agreement was in effect, and with appropriate adjustments to all relevant definitions and (ii) incentive fees equal to the Quarterly Incentive Fee Amount for such final fiscal quarter, taking into account any Net Income only for the portion of such final quarter that this Agreement was in effect, with appropriate adjustments to all relevant definitions. Upon such termination or expiration, the Manager shall reasonably promptly:

(a) after deducting any accrued compensation and reimbursement for Expenses to which it is then entitled, pay over to the Company all money collected and held for the account of the Company pursuant to this Agreement;

(b) deliver to the Board of Directors a full accounting, including a statement showing all payments collected and all money held by it, covering the period following the date of the last accounting furnished to the Board of Directors with respect to the Company and through the termination date; and

(c) deliver to the Board of Directors all property and documents of the Company provided to or obtained by the Manager pursuant to or in connection with this Agreement, including all copies and extracts thereof in whatever form, then in the Manager's possession or under its control.

15. **Assignment.** The Manager may not assign its duties under this Agreement unless such assignment is consented to in writing by a majority of the Company's Independent Directors. However, the Manager may assign to one or more of its Affiliates performance of any of its responsibilities hereunder without the approval of the Company's Independent Directors so long as the Manager remains liable for any such Affiliate's performance and such assignment does not require the Company's approval under the Investment Advisers Act of 1940.

16. **Release of Money or other Property Upon Written Request.** The Manager agrees that any money or other property of the Company held by the Manager under this Agreement shall be held by the Manager as custodian for the Company, and the Manager's records shall be clearly and appropriately marked to reflect the ownership of such money or other property by the Company. Upon the receipt by the Manager of a written request signed by a duly authorized officer of the Company requesting the Manager to release to the Company any money or other property then held by the Manager for the account of the Company under this Agreement, the Manager shall release such money or other property to the Company within a reasonable period of time, but in no event later than thirty (30) days following such request. The Manager, Ellington, EMG Holdings and their Affiliates, directors, officers, managers and employees will not be liable to the Company, the Manager or any of their respective directors, officers, shareholders, members, managers, employees, owners or partners for any acts or omissions by the Company in connection with the money or other property released to the Company in accordance with the terms hereof. The Company and the Operating Partnership shall indemnify the Manager, Ellington, EMG Holdings and their Affiliates, officers, directors, Investment and Risk Management Committee members, employees, agents and successors and assigns against any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever which arise in connection with the Manager's release of such money or other property to the Company in accordance with the terms of this Section 16. Indemnification pursuant to this Section 16 shall be in addition to any right of the Manager to indemnification under Section 11.

17. **Notices.** Unless expressly provided otherwise in this Agreement, all notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made and received when delivered against receipt or upon actual receipt of (a) personal delivery, (b) delivery by a reputable overnight courier, (c) delivery by facsimile transmission but only if such transmission is confirmed, or (d) delivery by registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

The Company or the Operating Partnership:	Ellington Financial LLC 53 Forest Avenue - Suite 301 Old Greenwich, CT 06870 Attn:Laurence Penn, Chief Executive Officer Facsimile:203-698-0869 With a copy to: Ellington Financial LLC 53 Forest Avenue - Suite 301 Old Greenwich, CT 06870 Attn:Chief Financial Officer Facsimile:203-698-0869
The Manager:	Ellington Financial Management LLC 53 Forest Avenue - Suite 301 Old Greenwich, CT 06870 Attn:Michael Vranos, Chief Executive Officer Facsimile:203-698-0869 with a copy to: Ellington Management Group, L.L.C. 53 Forest Avenue - Suite 301 Old Greenwich, CT 06870 Attn:General Counsel Facsimile:203-698-0869

Any party may change the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 17 for the giving of notice.

18. **Binding Nature of Agreement; Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns as provided in this Agreement.

19. **Entire Agreement; Amendments.** This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter of this Agreement. The express terms of this Agreement control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms of this Agreement. This Agreement may not be modified or amended other than by an agreement in writing signed by the parties hereto.

20. **Governing Law.** This Agreement and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed, interpreted and enforced in accordance with the laws of the State of New York without giving effect to such state’s laws and principles regarding the conflict of interest laws (other than Section 5-1401 of the general obligations Law of the State of New York).

21. **Indulgences, Not Waivers.** Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any other right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

22. **Titles Not to Affect Interpretation.** The titles of sections, paragraphs and subparagraphs contained in this Agreement are for convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation of this Agreement.

23. **Execution in Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts of this Agreement, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

24. **Severability.** The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

25. **Principles of Construction.** Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires. All references to recitals, sections, paragraphs and schedules are to the recitals, sections, paragraphs and schedules in or to this Agreement unless otherwise specified.

26. **Use of Name**. The Company acknowledges that it has adopted its name through the permission of the Manager. The Manager hereby consents to the non-exclusive use by the Company of the name “Ellington Financial LLC” so long as the Manager serves as the manager of the Company. The Company agrees to indemnify and hold harmless the Manager, Ellington, EMG Holdings and their Affiliates from and against any and all costs, losses, claims, damages or liabilities, joint or several, including, without limitation, attorney’s fees and disbursements, which may arise out of the Company’s use or misuse of the name “Ellington Financial LLC” or out of any breach of or failure to comply with this Section 26.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

THE COMPANY:

ELLINGTON FINANCIAL LLC

By: /s/ Laurence Penn
Name: Laurence Penn
Title: Chief Executive Officer and President

THE OPERATING PARTNERSHIP:

ELLINGTON FINANCIAL OPERATING PARTNERSHIP LLC

By: Ellington Financial LLC,
its Managing Member

By: /s/ Laurence Penn
Name: Laurence Penn
Title: Chief Executive Officer and President

THE MANAGER:

ELLINGTON FINANCIAL MANAGEMENT LLC

By: /s/ Laurence Penn
Name: Laurence Penn
Title: Executive Vice President

Exhibit A

INVESTMENT GUIDELINES OF ELLINGTON FINANCIAL LLC

Capitalized terms used but not defined herein shall have the meanings ascribed thereto in that certain Seventh Amended and Restated Management Agreement, effective as of March 13, 2018, as may be amended from time to time (the "Management Agreement"), by and between Ellington Financial LLC (the "Company"), Ellington Financial Operating Partnership LLC and Ellington Financial Management LLC (the "Manager").

1. No investment shall be made that would cause the Company to fail to qualify as a partnership under the Internal Revenue Code of 1986, as amended;

2. No investment shall be made that would cause the Company to be regulated as an investment company under the Investment Company Act;

3. The Company shall not enter into Cross Transactions, Principal Transactions or Split Price Executions with the Manager or any of its Affiliates unless (i) such transaction is otherwise in accordance with these guidelines and the Management Agreement and (ii) the terms of such transaction are at least as favorable to the Company as to the Manager or such Affiliate (as applicable);

4. The Company shall use leverage as described in its periodic reports filed with the SEC under the Exchange Act (the "Periodic Reports").

5. Any proposed investment that is outside those targeted or other asset classes or targeted platforms or opportunities mentioned or otherwise described in or contemplated by the Periodic Reports must be approved by at least a majority of the Independent Directors.

6. Any loan transaction to or from the Company, on the one hand, and the Manager and its affiliates, on the other hand, must be approved by at least a majority of the Independent Directors.

These investment guidelines may be changed by the Company's Board of Directors without the approval of its shareholders.

Exhibit 12.1

RATIO OF EARNINGS TO FIXED CHARGES AND OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED SHARE DIVIDENDS

The following table sets forth our ratio of earnings to fixed charges and of earnings to combined fixed charges and preferred share dividends for each of the periods indicated:

	Fiscal Years Ended December 31,				
	2017	2016[2]	2015	2014	2013
Ratio of Earnings to Fixed Charges[1]	2.11x	0.01x	4.16x	7.01x	8.19x
Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends[1]	2.11x	0.01x	4.16x	7.01x	8.19x

(1) Fixed charges consist of interest expense.
(2) For the year ended December 31, 2016 our earnings were insufficient to cover fixed charges at a 1:1 ratio by $16.1 million.

We computed the ratio of earnings to fixed charges by dividing earnings by fixed charges. We computed the ratio of earnings to combined fixed charges and preferred share dividends by dividing earnings by the sum of fixed charges and dividends on outstanding preferred shares. In each case, earnings represent increase (decrease) in shareholders' equity resulting from operations plus fixed charges and preferred share dividends, if any. Fixed charges include interest expense. During the periods presented in the table above, no preferred shares were outstanding.

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
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 Cayman Holdings 2 Ltd.	Cayman Islands
EF SBC 2015-2 LLC	Delaware
Ellington Financial REIT Lending Corp.	Delaware
Ellington Financial REIT TRS LLC	Delaware
EF SBC 2015-1 LLC	Delaware
EF CH2 LLC	Delaware
EF Cayman Holdings 3 Ltd.	Cayman Islands
EF NM 2015-1 LLC	Delaware
EF SBC 2016-1 LLC	Delaware
EF Holdco Other Assets LLC	Delaware
EF Holdco RER Assets LLC	Delaware
EF Titan SBC 2016-1 LLC	Delaware
EF SBC FM Holdings LLC	Delaware
EF Edgewood SBC 2016-1 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 15, 2018 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 15, 2018

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 LLC;

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 15, 2018

/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, Lisa Mumford, certify that:

1. I have reviewed this Annual Report on Form 10-K of Ellington Financial LLC;

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 15, 2018

/s/ Lisa Mumford
Lisa Mumford
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 LLC (the “Company”) on Form 10-K for the year ended December 31, 2017, 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 15, 2018	/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 LLC (the “Company”) on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Lisa Mumford, 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 15, 2018	/s/ Lisa Mumford
	Lisa Mumford Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 99.1

Additional Material U.S. Federal Income Tax Considerations

The following is a summary of certain additional material U.S. federal income tax considerations with respect to the ownership of our common shares and preferred shares. This summary supplements and should be read together with "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).

Recent Legislation

The recently enacted tax law informally titled the Tax Cuts and Jobs Act ("TCJA") made many significant changes to the U.S. federal income tax laws applicable to businesses and their owners, and may lessen the relative competitive advantage of operating as a publicly traded partnership, rather than as a corporation. Unless otherwise noted, all of the TCJA changes discussed in this summary supplement are effective for taxable years beginning after December 31, 2017. Pursuant to this legislation, as of January 1, 2018, the federal income tax rate applicable to corporations is reduced to 21% (from the prior maximum rate of 35%), and the corporate (but not the individual) alternative minimum tax is repealed. These changes generally will reduce the federal income taxes paid by corporations, thereby making a corporation a more attractive form for conducting business than under prior federal income tax law and reducing the relative benefit of the pass-through tax treatment applicable to partnerships. These changes could also reduce the federal income taxes paid by our U.S. corporate subsidiaries.

For taxable years that begin after December 31, 2017, and before January 1, 2026, (1) the TCJA modifies the U.S. federal income tax brackets generally applicable to ordinary income of individuals, trusts and estates and generally reduces the related rates, (2) the highest marginal individual income tax rate is reduced to 37%, and (3) the backup withholding rate for U.S. holders is reduced to 24%. In addition, individuals, estates and trusts may deduct up to 20% of certain pass-through income, including "qualified publicly traded partnership income," subject to certain limitations. However, certain specified types of investment income are excepted from this provision, including income from a business that consists of investing, trading, or dealing in securities, so we do not believe that our income is qualified publicly traded partnership income. Accordingly, we do not anticipate that our shareholders will be eligible for this deduction with respect to more than a small percentage of our taxable income.

The maximum rate of withholding with respect to our distributions to non-U.S. holders that are attributable to gains from the sale or exchange of U.S. real property interests (or to dividends received by us from a REIT that are attributable to such gains) is reduced from 35% to 21%.

The TCJA imposes new limitations on the deductibility of business interest expense and excess business losses. The new business interest expense limitation applies to net interest expense (i.e., interest expense in excess of interest income). Any disallowed partnership interest expense may generally be carried forward to future taxable years, subject to additional requirements and limitations. Because our activities generate substantial amounts of interest income, we anticipate that the deductibility of our interest expense generally will not be impacted by the new limitation. To the extent that we generate a business loss for any taxable year, that loss will flow through to our shareholders. However, our shareholders’ ability to deduct that loss against income from other sources may be limited by the new excess business loss rules applicable to non-corporate taxpayers. Any such disallowed loss may be carried forward (but not backward) by the shareholder as a net operating loss ("NOL") to future taxable years, subject to certain limitations, including a provision limiting NOL deductions to 80% of taxable income in the carryforward year.

Under the TCJA, we generally will be required to take certain amounts in income no later than the time such amounts are reflected on our financial statements. The application of this rule may require the accrual of income with respect to our debt instruments or MBS, such as original issue discount or market discount, earlier than would be the case under the general tax rules, although the precise application of this rule is unclear at this time. This rule generally will be effective for tax years beginning after December 31, 2017 or, for debt instruments or MBS issued with original issue discount, for tax years beginning after December 31, 2018. This rule could increase our "phantom income," in which case you may not receive cash distributions equal to your tax liability attributable to your share of our taxable income for the taxable year in which this "phantom income" is recognized. However, the application of this rule to a partnership such as ours that makes an election under Section 475(f) of the Code to mark to market for U.S. federal income tax purposes the securities that it holds as a trader is not entirely clear. In any event, we do not anticipate that this rule will have a material impact on the timing of our income recognition.

The TCJA included significant changes to the federal income tax rules applicable to foreign corporations, which, among other consequences, could affect the amount, timing, or character of the income that we recognize with respect to our foreign subsidiaries.

The TCJA makes other significant changes to the Code. 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 law changes on publicly traded partnerships or their shareholders. You are urged to consult your tax advisor regarding the effects of the TCJA on your investment in our shares.