

Ellington Financial LLC  
Form 10-Q  
November 10, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

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

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

Delaware 26-0489289

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

53 Forest Avenue, Old Greenwich, Connecticut 06870

(Address of Principal Executive Office) (Zip Code)

(203) 698-1200

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large Accelerated Filer .. Accelerated Filer x

Non-Accelerated Filer (Do not check if a smaller reporting company) .. Smaller Reporting Company ..

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

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

Class Outstanding at November 4, 2014  
33,449,678

Common Shares Representing Limited Liability  
Company Interests, no par value

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## PART 1. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements (unaudited)

## ELLINGTON FINANCIAL LLC

## CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND EQUITY

## (UNAUDITED)

	September 30, 2014	December 31, 2013
(In thousands except share amounts)	Expressed in U.S. Dollars	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 129,124	\$ 183,489
Investments, financial derivatives, and repurchase agreements:		
Investments, at fair value (Cost – \$2,391,276 and \$1,688,257)	2,440,828	1,730,130
Financial derivatives–assets, at fair value (Net cost – \$45,074 and \$50,533)	56,366	59,664
Repurchase agreements (Cost – \$47,192 and \$27,943)	47,039	27,962
Total investments, financial derivatives, and repurchase agreements	2,544,233	1,817,756
Due from brokers	141,497	82,571
Receivable for securities sold	1,246,205	883,005
Interest and principal receivable	10,953	6,831
Other assets	2,525	1,546
Total Assets	\$4,074,537	\$2,975,198
<b>LIABILITIES</b>		
Investments and financial derivatives:		
Investments sold short, at fair value (Proceeds – \$1,223,043 and \$847,602)	\$ 1,221,894	\$ 845,614
Financial derivatives–liabilities, at fair value (Net proceeds – \$33,950 and \$29,746)	47,331	44,791
Total investments and financial derivatives	1,269,225	890,405
Reverse repurchase agreements	1,395,132	1,236,166
Due to brokers	12,010	19,762
Payable for securities purchased	576,455	193,047
Securitized debt (Proceeds – \$849 and \$980)	870	983
Accounts payable and accrued expenses	2,144	1,810
Base management fee payable	3,056	2,364
Incentive fee payable	1,400	3,091
Interest and dividends payable	2,138	1,521
Total Liabilities	3,262,430	2,349,149
<b>EQUITY</b>	812,107	626,049
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$4,074,537</b>	<b>\$2,975,198</b>
<b>ANALYSIS OF EQUITY:</b>		
Common shares, no par value, 100,000,000 shares authorized; (33,443,572 and 25,428,186 shares issued and outstanding)	\$796,108	\$611,282
Additional paid-in capital – LTIP units	9,269	9,119
Total Shareholders' Equity	805,377	620,401
Non-controlling interests	6,730	5,648
Total Equity	\$812,107	\$626,049
<b>PER SHARE INFORMATION:</b>		
Common shares	\$24.08	\$24.40

See Notes to Consolidated Financial Statements



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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT SEPTEMBER 30, 2014

(UNAUDITED)

Current Principal (In thousands)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
	Long Investments (300.56%) (a) (v) (x) (y)			
	Mortgage-Backed Securities (212.31%)			
	Agency Securities (144.78%) (b)			
	Fixed Rate Agency Securities (139.61%)			
	Principal and Interest - Fixed Rate Agency Securities (124.03%)			
\$25,954	Federal National Mortgage Association Pool	3.50%	10/42	\$ 26,602
17,116	Federal National Mortgage Association Pool	4.00%	11/43	18,152
15,562	Federal National Mortgage Association Pool	4.00%	11/43	16,490
14,850	Government National Mortgage Association Pool	4.00%	9/44	15,784
14,095	Federal National Mortgage Association Pool	5.00%	8/41	15,583
12,100	Federal Home Loan Mortgage Corporation Pool	4.50%	1/44	13,227
12,351	Federal Home Loan Mortgage Corporation Pool	4.00%	8/43	13,106
11,623	Federal National Mortgage Association Pool	5.00%	3/41	12,984
11,143	Federal Home Loan Mortgage Corporation Pool	4.00%	9/44	11,750
10,646	Federal National Mortgage Association Pool	4.00%	9/44	11,287
9,734	Federal National Mortgage Association Pool	4.00%	6/44	10,335
9,338	Federal National Mortgage Association Pool	4.50%	10/43	10,088
9,040	Federal Home Loan Mortgage Corporation Pool	4.00%	7/43	9,550
8,721	Federal National Mortgage Association Pool	4.00%	8/43	9,219
8,380	Federal National Mortgage Association Pool	4.50%	2/44	9,069
6,711	Federal National Mortgage Association Pool	5.00%	3/44	7,503
7,076	Federal Home Loan Mortgage Corporation Pool	4.00%	10/44	7,490
7,034	Federal National Mortgage Association Pool	3.50%	11/42	7,234
6,692	Federal National Mortgage Association Pool	3.50%	3/28	7,077
6,464	Federal Home Loan Mortgage Corporation Pool	4.50%	2/44	7,068
6,302	Federal National Mortgage Association Pool	4.50%	10/43	6,824
6,218	Federal National Mortgage Association Pool	4.50%	4/26	6,579
6,072	Federal Home Loan Mortgage Corporation Pool	4.00%	9/44	6,403
5,605	Federal National Mortgage Association Pool	4.50%	2/44	6,142
5,789	Federal Home Loan Mortgage Corporation Pool	4.00%	8/43	6,142
5,387	Federal National Mortgage Association Pool	5.00%	3/44	6,022
5,633	Federal National Mortgage Association Pool	4.00%	8/43	5,978
5,333	Federal National Mortgage Association Pool	5.50%	10/39	5,939
5,588	Federal National Mortgage Association Pool	4.00%	8/43	5,906
5,289	Government National Mortgage Association Pool	4.54%	11/62	5,760
5,434	Federal National Mortgage Association Pool	4.00%	5/44	5,753
5,427	Federal Home Loan Mortgage Corporation Pool	4.00%	8/43	5,731
5,757	Federal Home Loan Mortgage Corporation Pool	3.00%	1/43	5,721
5,384	Federal Home Loan Mortgage Corporation Pool	3.50%	5/29	5,680
5,011	Federal National Mortgage Association Pool	4.50%	12/43	5,480

See Notes to Consolidated Financial Statements



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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT SEPTEMBER 30, 2014 (CONTINUED)

(UNAUDITED)

Current Principal (In thousands)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
Principal and Interest - Fixed Rate Agency Securities (124.03%) (continued)				
\$5,179	Federal National Mortgage Association Pool	3.50%	12/28	\$ 5,471
5,155	Federal Home Loan Mortgage Corporation Pool	4.00%	9/44	5,466
5,150	Federal National Mortgage Association Pool	4.00%	6/44	5,448
5,501	Federal National Mortgage Association Pool	3.00%	4/43	5,435
5,108	Federal Home Loan Mortgage Corporation Pool	4.00%	7/44	5,424
5,066	Federal National Mortgage Association Pool	4.00%	5/44	5,374
4,958	Federal National Mortgage Association Pool	4.00%	1/44	5,264
4,684	Federal National Mortgage Association Pool	4.50%	1/44	5,126
4,841	Federal Home Loan Mortgage Corporation Pool	4.00%	9/44	5,124
4,522	Federal Home Loan Mortgage Corporation Pool	4.50%	10/43	4,946
4,623	Federal National Mortgage Association Pool	4.00%	1/43	4,886
4,527	Federal National Mortgage Association Pool	4.00%	9/44	4,800
4,508	Federal Home Loan Mortgage Corporation Pool	4.00%	2/44	4,787
4,514	Federal Home Loan Mortgage Corporation Pool	4.00%	8/43	4,770
4,497	Federal Home Loan Mortgage Corporation Pool	4.00%	9/44	4,768
4,312	Federal National Mortgage Association Pool	4.50%	10/43	4,691
4,253	Federal National Mortgage Association Pool	5.00%	10/43	4,686
4,262	Federal National Mortgage Association Pool	4.50%	2/44	4,638
4,387	Federal National Mortgage Association Pool	3.50%	5/29	4,633
4,285	Government National Mortgage Association Pool	4.75%	1/61	4,589
4,188	Federal National Mortgage Association Pool	4.50%	11/43	4,510
4,094	Federal National Mortgage Association Pool	4.50%	3/44	4,462
4,015	Federal National Mortgage Association Pool	5.00%	10/43	4,458
4,138	Federal National Mortgage Association Pool	4.00%	6/44	4,380
4,094	Federal National Mortgage Association Pool	4.00%	4/42	4,327
4,079	Federal National Mortgage Association Pool	4.00%	11/43	4,325
3,988	Federal National Mortgage Association Pool	4.50%	4/44	4,319
3,958	Federal Home Loan Mortgage Corporation Pool	4.50%	12/43	4,290
3,823	Federal National Mortgage Association Pool	5.00%	10/43	4,266
4,035	Federal Home Loan Mortgage Corporation Pool	3.50%	2/29	4,257
3,769	Federal National Mortgage Association Pool	5.00%	1/44	4,237
3,813	Federal National Mortgage Association Pool	5.00%	11/43	4,232
4,162	Federal Home Loan Mortgage Corporation Pool	3.50%	6/43	4,232
3,909	Federal National Mortgage Association Pool	4.00%	10/44	4,137
3,742	Federal National Mortgage Association Pool	5.00%	1/44	4,128
3,718	Federal National Mortgage Association Pool	5.00%	11/40	4,117
3,815	Federal National Mortgage Association Pool	4.50%	8/43	4,112
3,838	Federal National Mortgage Association Pool	4.00%	11/33	4,105
3,674	Federal National Mortgage Association Pool	5.00%	10/43	4,094



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ELLINGTON FINANCIAL LLC  
 CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
 AT SEPTEMBER 30, 2014 (CONTINUED)  
 (UNAUDITED)

Current Principal/Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Principal and Interest - Fixed Rate Agency Securities (124.03%) (continued)				
\$298,087	Other Federal National Mortgage Association Pools	3.00% - 6.00%	6/26 - 10/44	\$ 318,998
145,950	Other Federal Home Loan Mortgage Corporation Pools	3.00% - 6.00%	3/28 - 10/44	155,009
20,467	Other Government National Mortgage Association Pools	4.49% - 5.54%	2/60 - 6/64	22,265
				1,007,244
Interest Only - Fixed Rate Agency Securities (1.84%)				
68,234	Other Federal National Mortgage Association	3.00% - 5.50%	12/20 - 6/43	9,768
24,917	Other Federal Home Loan Mortgage Corporation	3.00% - 5.50%	12/32 - 1/43	3,663
9,547	Other Government National Mortgage Association	3.00% - 4.75%	7/40 - 11/42	1,526
				14,957
TBA - Fixed Rate Agency Securities (13.74%)				
43,978	Federal National Mortgage Association (30 Year)	3.00%	10/14	43,347
23,750	Federal Home Loan Mortgage Corporation (30 Year)	3.50%	10/14	24,231
23,120	Federal Home Loan Mortgage Corporation (30 Year)	3.00%	10/14	22,815
21,600	Federal National Mortgage Association (30 Year)	3.00%	11/14	21,231
				111,624
				1,133,825
Total Fixed Rate Agency Securities (Cost \$1,124,947)				
Floating Rate Agency Securities (5.17%)				
Principal and Interest - Floating Rate Agency Securities (2.26%)				
5,085	Federal Home Loan Mortgage Corporation Pool	4.92%	4/38	5,440
6,543	Other Federal National Mortgage Association Pools	5.04% - 6.05%	9/35 - 9/37	7,000
5,662	Other Federal Home Loan Mortgage Corporation Pools	2.36% - 5.94%	6/37 - 5/44	5,920
				18,360
Interest Only - Floating Rate Agency Securities (2.91%)				
192,100	Other Government National Mortgage Association	0.39% - 6.60%	11/42 - 10/63	15,481
29,766	Other Federal National Mortgage Association	5.50% - 6.60%	4/35 - 7/43	5,161
21,706	Resecuritization of Government National Mortgage Association (w)	4.34%	8/60	2,032
7,692	Other Federal Home Loan Mortgage Corporation	5.85%	8/39	941
				23,615
				41,975
				1,175,800
Total Floating Rate Agency Securities (Cost \$40,824)				
Total Agency Securities (Cost \$1,165,771)				

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CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
AT SEPTEMBER 30, 2014 (CONTINUED)  
(UNAUDITED)

Current Principal/ Notional Value/ Number of Properties/ Number of Shares  (In thousands)	Description	Rate	Maturity	Fair Value
				Expressed in U.S. Dollars
Private Label Securities (67.53%)				
Principal and Interest - Private Label Securities (66.86%)				
\$866,595	Various	0% - 9.35%	7/15 - 1/61	\$ 542,990
Total Principal and Interest - Private Label Securities (Cost \$504,510)				542,990
Principal Only - Private Label Securities (0.40%)				
5,800	Various	—%	8/30	3,248
Total Principal Only - Private Label Securities (Cost \$2,671)				3,248
Interest Only - Private Label Securities (0.27%)				
60,779	Various	0.50% - 2.00%	6/44 - 9/47	2,149
Total Interest Only - Private Label Securities (Cost \$1,387)				2,149
Other Private Label Securities (0.00%)				
114,905	Various	—%	6/37 - 10/47	—
Total Other Private Label Securities (Cost \$311)				—
Total Private Label Securities (Cost \$508,879)				548,387
Total Mortgage-Backed Securities (Cost \$1,674,650)				1,724,187
Other Asset-Backed Securities and Loans (13.44%)				
126,490	Various	0% - 9.73%	3/17 - 9/68	109,152
Total Other Asset-Backed Securities and Loans (Cost \$110,423)				109,152
Commercial Mortgage Loans (3.68%) (t)				
34,123	Various	0% - 10.00%	12/14 - 11/17	29,852
Total Commercial Mortgage Loans (Cost \$29,850)				29,852
Residential Mortgage Loans (2.11%)				
23,551	Various	—%	2/18 - 5/54	17,147
Total Residential Mortgage Loans (Cost \$16,324)				17,147
Real Estate Owned (0.92%) (u)				
46	Single-Family Houses			5,420
1	Commercial Property			2,044
Total Real Estate Owned (Cost \$7,252)				7,464
Private Corporate Investments (0.95%)				
5,000	Preferred Equity Investment in Commercial Mortgage-related Partnership			5,000
8,225	Equity Investment in Mortgage Originator			2,686
Private Corporate Investments (Cost \$7,924)				7,686
U.S. Treasury Securities (67.15%)				
526,091	U.S. Treasury Note	1.75%	9/19	525,452

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12,223	U.S. Treasury Note	1.00%	9/17	12,206
7,769	U.S. Treasury Note	2.38%	8/24	7,682
	U.S. Treasury Securities (Cost \$544,853)			545,340
	Total Long Investments (Cost \$2,391,276)			\$ 2,440,828

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ELLINGTON FINANCIAL LLC  
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
AT SEPTEMBER 30, 2014 (CONTINUED)  
(UNAUDITED)

Current Principal	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
(In thousands)				
Repurchase Agreements (5.79%) (a) (c) (x) (y)				
\$18,492	Deutsche Bank Securities Collateralized by Par Value \$15,657 Sovereign Government Bond, Coupon 3.75%, Maturity Date 10/18	(0.25)%	10/14	\$ 18,492
8,502	Deutsche Bank Securities Collateralized by Par Value \$7,580 Sovereign Government Bond, Coupon 2.75%, Maturity Date 4/19	(0.15)%	10/14	8,502
7,602	Barclays Capital Inc. Collateralized by Par Value \$7,669 U.S. Treasury Bond, Coupon 3.13%, Maturity Date 8/44	(0.40)%	10/14	7,602
7,453	Barclays Capital Inc. Collateralized by Par Value \$7,500 U.S. Treasury Note, Coupon 1.63%, Maturity Date 8/19	(3.00)%	10/14	7,453
4,963	Barclays Capital Inc. Collateralized by Par Value \$5,000 U.S. Treasury Note, Coupon 1.25%, Maturity Date 10/18	(0.10)%	10/14	4,962
28	Deutsche Bank Securities Collateralized by Par Value \$28 U.S. Treasury Note, Coupon 1.00%, Maturity Date 9/17	(1.15)%	10/14	28
	Total Repurchase Agreements (Cost \$47,192)			\$ 47,039

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ELLINGTON FINANCIAL LLC  
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
AT SEPTEMBER 30, 2014 (CONTINUED)  
(UNAUDITED)

Current Principal/ Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Investments Sold Short (-150.46%) (a) (x) (y)				
TBA - Fixed Rate Agency Securities Sold Short (-142.70%) (d)				
\$(248,558	) Federal National Mortgage Association (30 year)	4.00%	10/14	\$ (261,957 )
(192,422	) Federal National Mortgage Association (30 year)	3.50%	10/14	(196,669 )
(119,830	) Federal National Mortgage Association (15 year)	3.50%	10/14	(126,046 )
(115,217	) Federal Home Loan Mortgage Corporation (30 year)	4.00%	10/14	(121,293 )
(84,730	) Federal National Mortgage Association (30 year)	4.50%	10/14	(91,429 )
(62,750	) Federal National Mortgage Association (30 year)	5.00%	10/14	(69,263 )
(61,110	) Federal National Mortgage Association (15 year)	3.00%	10/14	(62,943 )
(38,900	) Federal National Mortgage Association (15 year)	2.50%	10/14	(39,119 )
(29,700	) Federal Home Loan Mortgage Corporation (15 year)	3.50%	10/14	(31,180 )
(29,300	) Federal National Mortgage Association (30 year)	4.00%	11/14	(30,788 )
(27,300	) Federal National Mortgage Association (30 year)	5.00%	12/14	(30,014 )
(17,500	) Federal National Mortgage Association (30 year)	4.50%	11/14	(18,837 )
(17,300	) Federal Home Loan Mortgage Corporation (30 year)	4.50%	11/14	(18,616 )
(14,900	) Government National Mortgage Association (30 year)	4.00%	11/14	(15,768 )
(12,631	) Federal Home Loan Mortgage Corporation (30 year)	4.50%	10/14	(13,625 )
(9,870	) Federal National Mortgage Association (15 year)	4.00%	10/14	(10,447 )
(6,700	) Federal National Mortgage Association (30 year)	5.50%	10/14	(7,464 )
(6,000	) Federal Home Loan Mortgage Corporation (30 year)	5.00%	10/14	(6,612 )
(4,100	) Federal Home Loan Mortgage Corporation (15 year)	3.00%	10/14	(4,216 )
(1,300	) Other Federal Home Loan Mortgage Corporation (30 year)	5.50%	10/14	(1,444 )
(1,100	) Other Federal Home Loan Mortgage Corporation (15 year)	4.00%	10/14	(1,162 )
Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -\$1,158,171)				(1,158,892 )
Government Debt Sold Short (-5.38%)				
(21,367	) European Sovereign Bonds	2.75% - 3.75%	10/18- 4/19	(23,707 )
(12,500	) U.S. Treasury Note	1.25% - 1.63%	10/18- 8/19	(12,389 )
(8	) U.S. Treasury Bond	3.13%	8/44	(7,550 )
Total Government Debt Sold Short (Proceeds -\$44,034)				(43,646 )
Common Stock Sold Short (-2.38%)				
(2,113	) Publicly Traded Real Estate Investment Trusts			(19,356 )
Total Common Stock Sold Short (Proceeds -\$20,838)				(19,356 )
Total Investments Sold Short (Proceeds -\$1,223,043)				\$ (1,221,894 )

See Notes to Consolidated Financial Statements



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ELLINGTON FINANCIAL LLC  
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
AT SEPTEMBER 30, 2014 (CONTINUED)  
(UNAUDITED)

	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value
(In thousands)				Expressed in U.S.Dollars
Financial Derivatives—Assets (6.94%) (a) (x) (y)				
Swaps (6.79%)				
Long Swaps:				
Credit Default Swaps on Corporate Bond Indices (Cost - \$19,410) (e)	Credit	\$ 114,693	12/18 - 6/19	\$ 20,044
Credit Default Swaps on Asset-Backed Indices (Proceeds -\$217) (e)	Credit	1,789	12/37	57
Interest Rate Swaps (f)	Interest Rates	682,994	9/16 - 9/44	8,446
Short Swaps:				
Credit Default Swaps on Asset-Backed Securities (g)	Credit	(18,892	) 9/34 - 5/36	12,788
Credit Default Swaps on Asset-Backed Indices (g)	Credit	(66,061	) 5/46 - 5/63	2,247
Interest Rate Swaps (h)	Interest Rates	(1,059,638	) 2/16 - 9/44	11,518
Total Return Swaps (i)	Equity Market	(3,065	) 10/16 - 10/18	29
Total Swaps (Net cost \$45,042)				55,129
Futures (0.07%)				
Long Futures:				
U.S. Treasury Note Futures (k)	Interest Rates	242,100	12/14	477
Eurodollar Futures (j)	Interest Rates	18,000	12/14	—
Short Futures:				
Eurodollar Futures (j)	Interest Rates	(186,000	) 9/15 - 12/16	65
Equity Index Futures (l)	Credit	(2,850	) 12/14	7
Total Futures				549
Options (0.03%)				
Purchased Options:				
Payer Swaption (n)	Interest Rates	774,000	2/17 - 3/17	261
Options on Eurodollar Futures (o)	Interest Rates	150,000	3/15	31
Total Options (Cost \$32)				292
Forwards (0.05%)				
Short Forwards:				
Currency Forwards (s)	Currency	(21,265	) 12/14	396
Total Forwards				396
Total Financial Derivatives—Assets (Net cost \$45,074)				\$ 56,366



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ELLINGTON FINANCIAL LLC  
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
AT SEPTEMBER 30, 2014 (CONTINUED)  
(UNAUDITED)

	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value	
(In thousands)					Expressed in U.S.Dollars
Financial Derivatives—Liabilities (-5.83%) (a) (x) (y)					
Swaps (-5.77%)					
Long Swaps:					
Credit Default Swaps on Asset-Backed Indices (Proceeds - \$5,461) (e)	Credit	\$ 14,770	1/47 - 10/52	\$ (4,311	)
Credit Default Swaps on Corporate Bond Indices (Proceeds - \$1,200) (e)	Credit	3,756	12/17	(1,166	)
Credit Default Swaps on Corporate Bonds (Proceeds - \$1,968) (e)	Credit	5,005	6/19 - 12/19	(2,583	)
Interest Rate Swaps (f)	Interest Rates	438,894	7/16 - 10/44	(1,141	)
Total Return Swaps (i)	Equity Market	76,371	6/18 - 10/19	(40	)
Short Swaps:					
Interest Rate Swaps (h)	Interest Rates	(1,098,816	) 3/15 - 9/44	(14,625	)
Credit Default Swaps on Asset-Backed Indices (g)	Credit	(16,250	) 5/63	(74	)
Credit Default Swaps on Corporate Bond Indices (g)	Credit	(284,577	) 12/16 - 6/19	(22,463	)
Credit Default Swaps on Asset-Backed Securities (g)	Credit	(3,000	) 3/35	(378	)
Credit Default Swaps on Corporate Bonds (g)	Credit	(2,475	) 6/19 - 9/19	(112	)
Total Return Swaps (i)	Equity Market	(7,051	) 10/18	—	)
Total Swaps (Net proceeds -\$33,692)				(46,893	)
Futures (-0.01%)					
Long Futures:					
Eurodollar Futures (j)	Interest Rates	91,000	3/17 - 6/17	(22	)
Short Futures:					
Eurodollar Futures (j)	Interest Rates	(143,000	) 3/15 - 6/15	(39	)
Total Futures				(61	)
Options (-0.05%)					
Purchased Options:					
Payer Swaption (n)	Interest Rates	504,000	1/17 - 2/17	(109	)
Straddle Swaption (q)	Interest Rates	30,000	5/29	(79	)
Written Options:					
Options on Credit Default Swaps on Corporate Bond Indices (m)	Credit	(59,202	) 10/14 - 11/14	(158	)
Options on Eurodollar Futures (p)	Interest Rates	(150,000	) 3/15	(6	)
Straddle Swaption (r)	Interest Rates	(34,000	) 9/25	(25	)
Total Options (Proceeds -\$258)				(377	)
Total Financial Derivatives—Liabilities (Net proceeds -\$33,950)				\$ (47,331	)

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC  
 CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
 AT SEPTEMBER 30, 2014 (CONTINUED)  
 (UNAUDITED)

- (a) See Note 2 and Note 3 in Notes to Consolidated Financial Statements.  
 At September 30, 2014, 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 92.40%, 44.08%, and 8.30% of equity, respectively.
- (b) Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association, represented 92.40%, 44.08%, and 8.30% of equity, respectively.
- (c) In general, securities received pursuant to repurchase agreements were delivered to counterparties in short sale transactions.  
 At September 30, 2014, 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 116.36%, 24.40%, and 1.94% of equity, respectively.
- (d) Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association, represented 116.36%, 24.40%, and 1.94% of equity, respectively.
- (e) For long credit default swaps, the Company sold protection.
- (f) For long interest rate swap contracts, a floating rate is being paid and a fixed rate is being received.
- (g) For short credit default swaps, the Company purchased protection.
- (h) For short interest rate swap contracts, a fixed rate is being paid and a floating rate is being received.
- (i) Notional value represents number of underlying shares times the closing price of the underlying security.
- (j) Every \$1,000,000 in notional value represents one contract.
- (k) Notional value represents the total face amount of U.S. Treasury Notes underlying all contracts held; as of September 30, 2014, 1,934 contracts were held.
- (l) Notional value represents the number of contracts held times 50 times the Index price at September 30, 2014; as of September 30, 2014, 29 contracts were held.
- (m) 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.
- (n) Represents the option on the part of the Company to enter into an interest rate swap whereby the Company would pay a fixed rate and receive a floating rate.
- (o) Represents the option on the part of the Company to enter into a futures contract with a counterparty. Every \$1,000,000 in notional value represents one contract.
- (p) Represents the option on the part of a counterparty to enter into a futures contract with the Company. Every \$1,000,000 in notional value represents one contract.
- (q) Represents the combination of a purchased payer swaption and a purchased receiver swaption on the same underlying swap.
- (r) Represents the combination of a written payer swaption and a written receiver swaption on the same underlying swap.
- (s) Notional amount represents U.S. Dollars to be received by the Company at the maturity of the forward contract.
- (t) Includes non-performing commercial loans in the amount of \$10.6 million whereby principal and/or interest is past due and a maturity date is not applicable.
- (u) Number of properties not shown in thousands, represents actual number of properties owned.  
 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.
- (v) 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	144.78	%
A/A/A	0.64	%

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Baa/BBB/BBB	4.59	%
Ba/BB/BB or below	66.71	%
Unrated	83.84	%

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

(x) Classification percentages are based on Total Equity.

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ELLINGTON FINANCIAL LLC  
 CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
 AT SEPTEMBER 30, 2014 (CONCLUDED)  
 (UNAUDITED)

(y) The following table details the breakout by geographical region of long investments, investments sold short, repurchase agreements, financial derivatives—assets, and financial derivatives—liabilities.

Region	Current Principal/ Notional Value/Number of Properties/Number of Shares	Cost/(Proceeds)	Fair Value	Percent of Equity	
Long Investments: (In thousands, Expressed in U.S. Dollars)					
North America	3,161,385	\$2,342,001	\$2,393,715	294.75	%
Europe	43,235	41,351	39,427	4.85	%
North America (Common Stock)	13,225	7,924	7,686	0.95	%
Total		\$2,391,276	\$2,440,828	300.56	%
Investments Sold Short:					
North America (TBAs and Government Debt)	(1,121,387	) \$(1,178,095	) \$(1,178,831	) (145.16	)%
Europe (Government Debt)	(21,367	) (24,110	) (23,707	) (2.92	)%
North America (Common Stock)	(2,113	) (20,838	) (19,356	) (2.38	)%
Total		\$(1,223,043	) \$(1,221,894	) (150.46	)%
Repurchase Agreements:					
North America	20,046	\$20,045	\$20,045	2.47	%
Europe	26,994	27,147	26,994	3.32	%
Total	47,040	\$47,192	\$47,039	5.79	%
Financial Derivatives—Assets:					
North America	634,538	\$45,074	\$56,365	6.94	%
Europe	(8,733	) —	1	—	%
Total	625,805	\$45,074	\$56,366	6.94	%
Financial Derivatives—Liabilities:					
North America	(617,900	) \$(32,133	) \$(45,569	) (5.61	)%
Europe	(16,675	) (1,817	) (1,762	) (0.22	)%
Total	(634,575	) \$(33,950	) \$(47,331	) (5.83	)%

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ELLINGTON FINANCIAL LLC  
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
AT DECEMBER 31, 2013  
(UNAUDITED)

Current Principal Description	Rate	Maturity	Fair Value
(In thousands)			Expressed in U.S. Dollars
Long Investments (276.36%) (a) (s) (u) (v)			
Mortgage-Backed Securities (262.62%)			
Agency Securities (164.58%) (b)			
Fixed Rate Agency Securities (156.28%)			
Principal and Interest-Fixed Rate Agency Securities (137.75%)			
\$38,439 Federal National Mortgage Association Pool	3.50%	1/43	\$ 37,742
27,523 Federal National Mortgage Association Pool	3.50%	10/42	27,407
17,735 Federal National Mortgage Association Pool	4.00%	11/43	18,327
18,267 Federal Home Loan Mortgage Corporation Pool	3.00%	4/43	17,322
15,538 Federal National Mortgage Association Pool	5.00%	8/41	16,910
16,572 Federal National Mortgage Association Pool	3.00%	6/28	16,729
15,759 Federal National Mortgage Association Pool	4.00%	11/43	16,279
15,017 Federal National Mortgage Association Pool	4.50%	10/41	15,958
14,835 Federal National Mortgage Association Pool	4.50%	9/41	15,743
13,367 Federal Home Loan Mortgage Corporation Pool	4.00%	8/43	13,783
12,686 Federal Home Loan Mortgage Corporation Pool	5.00%	7/41	13,692
12,316 Federal National Mortgage Association Pool	5.00%	3/41	13,444
11,295 Federal National Mortgage Association Pool	4.50%	10/43	12,005
11,478 Federal National Mortgage Association Pool	4.00%	10/43	11,861
11,835 Federal National Mortgage Association Pool	3.00%	8/42	11,263
9,697 Federal Home Loan Mortgage Corporation Pool	4.00%	7/43	9,979
9,114 Federal National Mortgage Association Pool	4.00%	8/43	9,409
8,841 Federal Home Loan Mortgage Corporation Pool	4.50%	10/41	9,378
9,025 Federal National Mortgage Association Pool	4.00%	12/43	9,326
9,747 Federal Home Loan Mortgage Corporation Pool	3.00%	2/43	9,251
8,789 Federal National Mortgage Association Pool	4.00%	11/43	9,013
7,413 Federal National Mortgage Association Pool	4.50%	4/26	7,898
6,893 Federal National Mortgage Association Pool	4.50%	10/43	7,326
7,327 Federal National Mortgage Association Pool	3.50%	11/42	7,299
6,854 Federal Home Loan Mortgage Corporation Pool	4.00%	10/43	7,005
6,288 Federal National Mortgage Association Pool	5.50%	10/39	6,946
6,463 Federal National Mortgage Association Pool	4.50%	9/43	6,865
6,033 Federal National Mortgage Association Pool	4.50%	12/43	6,418
6,022 Federal National Mortgage Association Pool	4.00%	8/43	6,228
6,025 Federal National Mortgage Association Pool	4.00%	10/43	6,218
5,632 Government National Mortgage Association Pool	4.46%	2/63	6,136
5,893 Federal National Mortgage Association Pool	4.00%	8/43	6,083

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ELLINGTON FINANCIAL LLC  
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
AT DECEMBER 31, 2013 (CONTINUED)  
(UNAUDITED)

Current Principal Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars	
(In thousands)				
Principal and Interest-Fixed Rate Agency Securities (137.75%) (continued)				
\$6,342	Federal National Mortgage Association Pool	3.00%	4/42	\$ 6,035
6,287	Federal Home Loan Mortgage Corporation Pool	3.00%	1/43	5,967
5,410	Federal National Mortgage Association Pool	5.00%	10/43	5,925
5,702	Federal Home Loan Mortgage Corporation Pool	4.00%	8/43	5,867
5,361	Government National Mortgage Association Pool	4.54%	11/62	5,859
5,241	Government National Mortgage Association Pool	4.58%	10/62	5,733
5,234	Government National Mortgage Association Pool	4.63%	6/61	5,688
5,978	Federal Home Loan Mortgage Corporation Pool	3.00%	4/43	5,676
5,189	Government National Mortgage Association Pool	4.60%	6/62	5,672
5,338	Federal National Mortgage Association Pool	4.50%	11/43	5,668
5,274	Federal National Mortgage Association Pool	4.00%	7/26	5,593
5,147	Federal Home Loan Mortgage Corporation Pool	4.50%	10/43	5,460
5,130	Federal Home Loan Mortgage Corporation Pool	4.50%	10/43	5,442
4,904	Federal National Mortgage Association Pool	4.00%	1/43	5,063
4,484	Federal National Mortgage Association Pool	5.00%	10/43	4,897
4,720	Federal National Mortgage Association Pool	4.00%	4/42	4,873
5,032	Federal Home Loan Mortgage Corporation Pool	3.00%	6/43	4,776
4,472	Federal National Mortgage Association Pool	4.50%	10/43	4,768
4,604	Federal National Mortgage Association Pool	4.00%	11/43	4,758
4,477	Federal National Mortgage Association Pool	4.50%	8/43	4,754
4,581	Federal Home Loan Mortgage Corporation Pool	4.00%	8/43	4,715
4,359	Federal Home Loan Mortgage Corporation Pool	4.50%	9/43	4,625
4,604	Federal National Mortgage Association Pool	3.50%	8/43	4,586
4,673	Federal Home Loan Mortgage Corporation Pool	3.00%	2/43	4,435
4,060	Federal National Mortgage Association Pool	5.00%	10/43	4,423
4,025	Federal National Mortgage Association Pool	5.00%	10/43	4,387
4,231	Federal National Mortgage Association Pool	4.00%	11/43	4,372
3,932	Government National Mortgage Association Pool	4.69%	7/61	4,288
3,886	Government National Mortgage Association Pool	4.75%	1/61	4,213
3,864	Federal National Mortgage Association Pool	5.00%	11/40	4,203
3,811	Federal National Mortgage Association Pool	5.00%	1/44	4,169
3,826	Government National Mortgage Association Pool	4.80%	2/61	4,157
4,225	Federal Home Loan Mortgage Corporation Pool	3.50%	6/43	4,137
3,929	Federal Home Loan Mortgage Corporation Pool	4.00%	10/43	4,043
3,801	Federal Home Loan Mortgage Corporation Pool	4.00%	11/43	3,885
3,599	Federal National Mortgage Association Pool	4.50%	12/43	3,837
3,737	Federal Home Loan Mortgage Corporation Pool	3.00%	3/28	3,810
3,434	Government National Mortgage Association Pool	4.66%	1/63	3,772
3,448	Federal National Mortgage Association Pool	5.00%	12/40	3,759



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ELLINGTON FINANCIAL LLC  
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
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Current Principal/ Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Principal and Interest-Fixed Rate Agency Securities (137.75%) (continued)				
\$3,601	Federal National Mortgage Association Pool	4.00%	8/43	\$ 3,715
3,594	Federal National Mortgage Association Pool	4.00%	8/43	3,710
3,566	Federal National Mortgage Association Pool	4.00%	8/43	3,683
3,400	Federal National Mortgage Association Pool	4.50%	10/43	3,613
3,495	Federal National Mortgage Association Pool	4.00%	8/43	3,608
3,273	Federal National Mortgage Association Pool	4.50%	10/43	3,479
3,515	Federal Home Loan Mortgage Corporation Pool	3.50%	6/43	3,454
3,111	Federal National Mortgage Association Pool	5.00%	10/35	3,429
3,134	Government National Mortgage Association Pool	4.68%	10/61	3,421
3,094	Government National Mortgage Association Pool	5.54%	2/60	3,420
3,469	Federal National Mortgage Association Pool	3.50%	6/42	3,419
3,387	Federal Home Loan Mortgage Corporation Pool	3.00%	6/28	3,412
3,421	Federal National Mortgage Association Pool	3.50%	1/43	3,407
3,170	Federal National Mortgage Association Pool	4.00%	6/26	3,362
3,200	Federal National Mortgage Association Pool	3.50%	11/28	3,355
3,194	Federal Home Loan Mortgage Corporation Pool	4.00%	8/43	3,294
3,203	Federal National Mortgage Association Pool	3.00%	6/28	3,274
2,981	Federal National Mortgage Association Pool	5.00%	11/43	3,261
3,218	Federal National Mortgage Association Pool	3.00%	3/28	3,249
3,142	Federal National Mortgage Association Pool	4.00%	10/43	3,247
3,124	Federal National Mortgage Association Pool	3.00%	7/28	3,193
2,998	Federal Home Loan Mortgage Corporation Pool	4.50%	9/43	3,191
2,996	Federal National Mortgage Association Pool	4.50%	4/42	3,182
111,228	Other Federal National Mortgage Association Pools	3.00% - 6.00%	6/28 - 1/44	115,792
80,675	Other Federal Home Loan Mortgage Corporation Pools	2.50% - 6.00%	9/28 - 12/43	81,716
8,191	Other Government National Mortgage Association Pools	4.49% - 4.68%	11/61 - 11/62	8,949
				862,368
Interest Only-Fixed Rate Agency Securities (3.06%)				
97,796	Other Federal National Mortgage Association	3.00% - 5.50%	12/20 - 6/43	13,821
21,959	Other Federal Home Loan Mortgage Corporation	3.00% - 5.50%	12/32 - 1/43	3,577
10,460	Other Government National Mortgage Association	3.00% - 5.50%	3/36 - 11/42	1,734
				19,132

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ELLINGTON FINANCIAL LLC  
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
AT DECEMBER 31, 2013 (CONTINUED)  
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Current Principal/ Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
	TBA-Fixed Rate Agency Securities (15.47%)			
\$63,300	Federal Home Loan Mortgage Corporation (30 Year)	3.00%	1/14	\$ 60,016
31,150	Federal National Mortgage Association (30 Year)	3.00%	1/14	29,612
6,700	Federal Home Loan Mortgage Corporation (30 Year)	5.00%	1/14	7,228
				96,856
	Total Fixed Rate Agency Securities (Cost \$992,207)			978,356
	Floating Rate Agency Securities (8.30%)			
	Principal and Interest-Floating Rate Agency Securities (4.89%)			
6,281	Federal Home Loan Mortgage Corporation Pool	4.92%	4/38	6,709
4,935	Federal National Mortgage Association Pool	4.27%	4/40	5,256
3,674	Federal National Mortgage Association Pool	5.73%	7/37	3,937
3,646	Federal National Mortgage Association Pool	2.53%	5/38	3,878
3,395	Federal National Mortgage Association Pool	6.10%	8/37	3,597
3,148	Other Federal Home Loan Mortgage Corporation Pools	5.83% - 5.89%	6/37 - 7/37	3,341
3,667	Other Federal National Mortgage Association Pools	2.64% - 6.05%	4/36 - 9/37	3,900
				30,618
	Interest Only-Floating Rate Agency Securities (3.41%)			
108,194	Other Government National Mortgage Association	1.64% - 6.58%	11/42 - 8/63	11,987
25,322	Other Federal National Mortgage Association	5.50% - 6.59%	8/36 - 7/43	4,600
18,180	Other Federal Home Loan Mortgage Corporation	5.83% - 6.53%	11/38 - 8/39	2,433
22,796	Resecuritization of Government National Mortgage Association (t)	4.34%	8/60	2,352
				21,372
	Total Floating Rate Agency Securities (Cost \$50,969)			51,990
	Total Agency Securities (Cost \$1,043,176)			1,030,346

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ELLINGTON FINANCIAL LLC  
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
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Current Principal/ Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Private Label Securities (98.04%)				
Principal and Interest—Private Label Securities (97.40%)				
\$920,032	Various	0.24% - 9.35%	5/19 - 6/50	\$ 609,766
Total Principal and Interest—Private Label Securities (Cost \$555,708)				609,766
Principal Only—Private Label Securities (0.45%)				
5,800	Various	0.00%	8/30	2,784
Total Principal Only—Private Label Securities (Cost \$2,477)				2,784
Interest Only—Private Label Securities (0.19%)				
50,649	Various	0.50% - 2.00%	6/44 - 9/47	1,216
Total Interest Only—Private Label Securities (Cost \$519)				1,216
Other Private Label Securities (0.00%)				
127,491	Various	0.00%	6/37 - 7/45	—
Total Other Private Label Securities (Cost \$345)				—
Total Private Label Securities (Cost \$559,049)				613,766
Total Mortgage-Backed Securities (Cost \$1,602,225)				1,644,112
Other Asset-Backed Securities (6.08%)				
42,822	Various	0% - 9.74%	6/17 - 12/40	38,069
Total Other Asset-Backed Securities (Cost \$38,758)				38,069
Commercial Mortgage Loans (3.82%) (r)				
26,227	Various	0% - 7.25%	6/14 - 12/16	23,887
Total Commercial Mortgage Loans (Cost \$23,212)				23,887
Residential Mortgage Loans (3.84%)				
36,218	Various	0.00%	8/24 - 10/42	24,062
Total Residential Mortgage Loans (Cost \$24,062)				24,062
Total Long Investments (Cost \$1,688,257)				\$ 1,730,130
Repurchase Agreements (4.47%) (a) (c) (u) (v)				
J.P. Morgan Securities Inc.				
\$19,675	Collateralized by Par Value \$20,000 U.S. Treasury Note, Coupon 1.25%, Maturity Date 10/18	(0.05)%	1/14	\$19,675
Deutsche Bank Securities				
8,287	Collateralized by Par Value \$7,751 European Sovereign Bond, Coupon 3.75%, Maturity Date 10/18	0.00%	1/14	8,287
Total Repurchase Agreements (Cost \$27,943)				\$27,962

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ELLINGTON FINANCIAL LLC  
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Current Principal/ Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Investments Sold Short (-135.07%) (a) (u) (v)				
TBA-Fixed Rate Agency Securities Sold Short (-129.69%) (d)				
\$ (156,890	) Federal National Mortgage Association (30 year)	4.00%	1/14	\$ (161,689 )
(136,182	) Federal National Mortgage Association (30 year)	3.50%	1/14	(135,427 )
(96,700	) Federal National Mortgage Association (30 year)	4.50%	1/14	(102,559 )
(89,600	) Federal National Mortgage Association (15 year)	3.50%	1/14	(93,716 )
(57,600	) Federal National Mortgage Association (30 year)	5.00%	1/14	(62,617 )
(58,960	) Federal National Mortgage Association (15 year)	3.00%	1/14	(60,158 )
(57,837	) Federal Home Loan Mortgage Corporation (30 year)	4.00%	1/14	(59,409 )
(31,150	) Federal National Mortgage Association (15 year)	2.50%	1/14	(30,816 )
(24,400	) Federal National Mortgage Association (30 year)	4.50%	2/14	(25,798 )
(23,200	) Federal Home Loan Mortgage Corporation (30 year)	5.00%	2/14	(24,996 )
(16,604	) Federal National Mortgage Association (15 year)	4.00%	1/14	(17,589 )
(8,200	) Federal Home Loan Mortgage Corporation (15 year)	3.50%	1/14	(8,550 )
(6,700	) Federal National Mortgage Association (30 year)	5.50%	1/14	(7,373 )
(6,550	) Federal Home Loan Mortgage Corporation (30 year)	3.50%	1/14	(6,495 )
(4,100	) Federal Home Loan Mortgage Corporation (15 year)	3.00%	1/14	(4,175 )
(3,900	) Federal Home Loan Mortgage Corporation (30 year)	4.50%	1/14	(4,129 )
(3,815	) Other Federal Home Loan Mortgage Corporation (30 Year)	2.50%-5.50%	1/14	(3,685 )
(2,500	) Other Federal National Mortgage Association (30 Year)	6.00%	1/14	(2,776 )
Total TBA-Fixed Rate Agency Securities Sold Short (Proceeds -\$813,757)				(811,957 )
Government Debt Sold Short (-4.36%)				
(20,000	) U.S. Treasury Note	1.25%	10/18	(19,607 )
(7,337	) European Sovereign Bond	3.75%	10/18	(7,681 )
Total Government Debt Sold Short (Proceeds -\$27,532)				(27,288 )
Common Stock Sold Short (-1.02%)				
(763	) Publicly Traded Real Estate Investment Trusts			(6,369 )
Total Common Stock Sold Short (Proceeds -\$6,313)				(6,369 )
Total Investments Sold Short (Proceeds -\$847,602)				\$ (845,614 )

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ELLINGTON FINANCIAL LLC  
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
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	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value
(In thousands)				Expressed in U.S. Dollars
Financial Derivatives—Assets (9.53%) (a) (u) (v)				
Swaps (9.49%)				
Long Swaps:				
Credit Default Swaps on Corporate Bond Indices (Cost \$13,248) (g)	Credit	\$70,425	12/18	\$ 14,273
Interest Rate Swaps (f)	Interest Rates	153,100	7/18 - 9/23	1,978
Credit Default Swaps on Asset-Backed Indices (Proceeds -\$217) (e)	Credit	1,990	12/37	61
Total Return Swaps (l)	Equity Market	3,044	6/14 - 6/15	4
Short Swaps:				
Credit Default Swaps on Asset-Backed Securities (h)	Credit	(23,426 )	9/34 - 5/36	16,646
Credit Default Swaps on Asset-Backed Indices (i)	Credit	(72,422 )	5/46 - 5/63	4,876
Interest Rate Swaps (j)	Interest Rates	(840,600 )	11/16 - 8/43	21,575
Total Return Swaps (l)	Equity Market	(23 )	9/15	—
Total Swaps (Net cost \$50,039)				59,413
Options (0.04%)				
Purchased Options:				
Options on CDS on Corporate Bond Indices (o)	Credit	22,588	6/14	190
Swaptions (p)	Interest Rates	15,000	4/14	61
Total Options (Cost \$494)				251
Total Financial Derivatives—Assets (Net cost \$50,533)				\$ 59,664
Financial Derivatives—Liabilities (-7.16%) (a) (u) (v)				
Swaps (-6.76%)				
Long Swaps:				
Credit Default Swaps on Asset-Backed Indices (Proceeds - \$14,331) (e)	Credit	\$44,082	12/49 - 10/52	\$ (11,866 )
Interest Rate Swaps (f)	Interest Rates	234,600	10/17 - 7/43	(2,857 )
Credit Default Swaps on Corporate Bond Indices (Proceeds - \$1,200) (g)	Credit	4,000	12/17	(1,047 )
Total Return Swaps (l)	Equity Market	47,974	6/15	—
Short Swaps:				
Interest Rate Swaps (j)	Interest Rates	(323,800 )	3/15 - 9/43	(2,207 )
Credit Default Swaps on Corporate Bond Indices (k)	Credit	(337,815 )	12/16 - 12/18	(23,902 )
Credit Default Swaps on Asset-Backed Securities (h)	Credit	(3,000 )	3/35	(350 )
Total Return Swaps (l)	Equity Market	(10,374 )	9/14 - 9/15	(67 )
Total Swaps (Net proceeds -\$29,746)				(42,296 )

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC  
 CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
 AT DECEMBER 31, 2013 (CONTINUED)  
 (UNAUDITED)

	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value
(In thousands)				Expressed in U.S. Dollars
Futures (-0.38%)				
Long Futures:				
U.S. Treasury Note Futures (n)	Interest Rates	\$227,200	3/14	\$ (2,370 )
Short Futures:				
Eurodollar Futures (m)	Interest Rates	(14,000 )	3/14 - 9/15	(3 )
Total Futures				(2,373 )
Options (-0.01%)				
Written Options:				
Swaption (q)	Interest Rates	(4,000 )	4/14	(84 )
Total Options				(84 )
Forwards (-0.01%)				
Currency Forwards	Currency	(6,575 )	3/14	(38 )
Total Forwards				(38 )
Total Financial Derivatives–Liabilities				\$ (44,791 )
(Net proceeds -\$29,746)				

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ELLINGTON FINANCIAL LLC  
 CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
 AT DECEMBER 31, 2013 (CONTINUED)  
 (UNAUDITED)

- (a) See Note 2 and Note 3 in Notes to Consolidated Financial Statements.  
 At December 31, 2013, the Company's long investments guaranteed by the Federal National Mortgage Association, (b) the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association, represented 100.85%, 51.37%, and 12.36% of equity, respectively.
- (c) In general, securities received pursuant to repurchase agreements were delivered to counterparties in short sale transactions.
- (d) At December 31, 2013, the Company's short investments guaranteed by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation represented 111.89% and 17.80% of equity, respectively.
- (e) For long credit default swaps on asset-backed indices, the Company sold protection.
- (f) For long interest rate swap contracts, a floating rate is being paid and a fixed rate is being received.
- (g) For long credit default swaps on corporate bond indices, the Company sold protection.
- (h) For short credit default swaps on asset-backed securities, the Company purchased protection.
- (i) For short credit default swaps on asset-backed indices, the Company purchased protection.
- (j) For short interest rate swap contracts, a fixed rate is being paid and a floating rate is being received.
- (k) For short credit default swaps on corporate bond indices, the Company purchased protection.
- (l) Notional value represents number of underlying shares times the closing price of the underlying security.
- (m) Every \$1,000,000 in notional value represents one contract.
- (n) Notional value represents the total face amount of U.S. Treasury Notes underlying all contracts held; as of December 31, 2013 1,847 contracts were held.
- (o) Represents the option on the part of the Company to enter into a credit default swap on a corporate bond index whereby the Company would pay a fixed rate and receive credit protection payments.
- (p) Represents the option on the part of the Company to enter into an interest rate swap whereby the Company would pay a fixed rate and receive a floating rate.
- (q) Represents the option on the part of a counterparty to enter into an interest rate swap with the Company whereby the Company would receive a fixed rate and pay a floating rate.
- (r) Includes a loan with a fair value in the amount of \$5.0 million where the maturity date may be extended through November 4, 2015 as well as non-performing commercial mortgage loans.
- 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.
- (s) 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	164.58	%
A/A/A	0.34	%
Baa/BBB/BBB	2.97	%
Ba/BB/BB or below	97.95	%
Unrated	10.52	%

- (t) Private trust 100% backed by interest in Government National Mortgage Association collateralized mortgage obligation certificates.
- (u) Classification percentages are based on Total Equity.

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ELLINGTON FINANCIAL LLC  
 CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
 AT DECEMBER 31, 2013 (CONCLUDED)  
 (UNAUDITED)

(v) The following table details the breakout by geographical region of long investments, investments sold short, and repurchase agreements. All financial derivatives were concentrated in North America.

Region	Current Principal/Notional Value/ Number of Shares	Cost/(Proceeds)	Fair Value	Percent of Equity	
Long Investments: (In thousands, Expressed in U.S. Dollars)					
North America	2,470,650	\$1,682,533	\$1,724,370	275.44	%
Europe	7,641	5,724	5,760	0.92	%
Total	2,478,291	\$1,688,257	\$1,730,130	276.36	%
Investments Sold Short:					
North America (TBAs and Government Debt)	(804,888	) \$(833,656	) \$(831,564	) (132.82	)%
Europe (Government Debt)	(7,337	) (7,633	) (7,681	) (1.23	)%
North America (Common Stock)	(763	) (6,313	) (6,369	) (1.02	)%
Total		\$(847,602	) \$(845,614	) (135.07	)%
Repurchase Agreements:					
North America	19,675	\$19,675	\$19,675	3.15	%
Europe	8,287	8,268	8,287	1.32	%
Total	27,962	\$27,943	\$27,962	4.47	%

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC  
CONSOLIDATED STATEMENT OF OPERATIONS  
(UNAUDITED)

	Three Month Period Ended September 30, 2014	Three Month Period Ended September 30, 2013	Nine Month Period Ended September 30, 2014	Nine Month Period Ended September 30, 2013
(In thousands except per share amounts)				
	Expressed in U.S. Dollars			
<b>INVESTMENT INCOME</b>				
Interest income	\$22,521	\$24,069	\$65,014	\$62,786
<b>EXPENSES</b>				
Base management fee	3,056	2,378	7,789	6,751
Incentive fee	1,400	2,038	1,400	5,275
Interest expense	2,179	3,277	7,222	8,001
Other investment related expenses	1,184	85	2,846	412
Compensation expense	358	523	1,030	1,283
Custody and other fees	560	355	1,411	1,010
Professional fees	553	436	1,772	1,214
Agency and administration fees	306	295	893	838
Insurance expense	191	176	573	529
Directors' fees and expenses	70	57	200	200
Share-based LTIP expense	65	43	191	129
Total expenses	9,922	9,663	25,327	25,642
<b>NET INVESTMENT INCOME</b>	<b>12,599</b>	<b>14,406</b>	<b>39,687</b>	<b>37,144</b>
<b>NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY TRANSACTIONS/TRANSLATION</b>				
Net realized gain (loss) on:				
Investments	2,449	10,731	16,887	35,326
Financial derivatives	(9,477)	) (6,442)	) (9,075)	) (12,774)
Foreign currency transactions	(1,455)	) —	(1,202)	) —
	(8,483)	) 4,289	6,610	22,552
Change in net unrealized gain (loss) on:				
Investments	(2,560)	) (4,867)	) 7,096	(10,000)
Financial derivatives	12,056	(2,005)	) 3,845	14,578
Foreign currency translation	(465)	) —	(48)	) —
	9,031	(6,872)	) 10,893	4,578
<b>NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY TRANSACTIONS/TRANSLATION</b>	<b>548</b>	<b>(2,583)</b>	<b>) 17,503</b>	<b>27,130</b>
<b>NET INCREASE IN EQUITY RESULTING FROM OPERATIONS</b>	<b>13,147</b>	<b>11,823</b>	<b>57,190</b>	<b>64,274</b>
<b>LESS: NET INCREASE IN EQUITY RESULTING FROM OPERATIONS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS</b>	<b>199</b>	<b>96</b>	<b>660</b>	<b>612</b>

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NET INCREASE IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	\$12,948	\$11,727	\$56,530	\$63,662
NET INCREASE IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS PER SHARE: Basic and Diluted	\$0.46	\$0.45	\$2.13	\$2.73

See Notes to Consolidated Financial Statements

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

	Nine Month Period Ended September 30, 2014			Nine Month Period Ended September 30, 2013		
	Shareholders' Equity	Non-controlling Interest	Total Equity	Shareholders' Equity	Non-controlling Interest	Total Equity
(In thousands)						
<b>BEGINNING EQUITY</b> (12/31/2013 and 12/31/2012, respectively)	\$ 620,401	\$ 5,648	\$ 626,049	\$ 506,355	\$ —	\$ 506,355
<b>CHANGE IN EQUITY RESULTING FROM OPERATIONS</b>						
Net investment income			39,687			37,144
Net realized gain (loss) on investments, financial derivatives, and foreign currency transactions			6,610			22,552
Change in net unrealized gain (loss) on investments, financial derivatives, and foreign currency translation			10,893			4,578
Net increase in equity resulting from operations	56,530	660	57,190	63,662	612	64,274
<b>CHANGE IN EQUITY RESULTING FROM TRANSACTIONS</b>						
Proceeds from the issuance of shares <sup>(1)</sup>	188,400		188,400	125,600		125,600
Shares issued in connection with incentive fee payment	309		309	1,058		1,058
Contribution from non-controlling interests		1,524	1,524		4,664	4,664
Dividends <sup>(2)</sup>	(59,720)	(490)	(60,210)	(71,368)	(648)	(72,016)
Distributions to non-controlling interest		(1,099)	(1,099)		—	—
Adjustment to non-controlling interest	(486)	486	—	—	—	—
Offering costs	(247)		(247)	(262)		(262)
Share-based LTIP awards	190	1	191	128	1	129
Net increase (decrease) in equity from transactions	128,446	422	128,868	55,156	4,017	59,173
Net increase in equity	184,976	1,082	186,058	118,818	4,629	123,447
<b>ENDING EQUITY</b> (9/30/2014 and 9/30/2013, respectively)	\$ 805,377	\$ 6,730	\$ 812,107	\$ 625,173	\$ 4,629	\$ 629,802

(1) For the nine month period ended September 30, 2014 proceeds from the issuance of shares is net of an underwriters' discount of \$3.0 million.

- (2) For the nine month periods ended September 30, 2014 and 2013, dividends totaling \$2.31 and \$3.06, respectively, per common share and convertible unit outstanding, were declared and paid.

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

	Nine Month Period Ended	
	September 30, 2014	September 30, 2013
	Expressed in U.S. Dollars	
(In thousands)		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
NET INCREASE IN EQUITY RESULTING FROM OPERATIONS	\$57,190	\$64,274
Cash flows provided by (used) in operating activities:		
Reconciliation of the net increase in equity resulting from operations to net cash provided by (used in) operating activities:		
Change in net unrealized (gain) loss on investments and financial derivatives, and foreign currency translation	(10,678	) (4,578
Net realized (gain) loss on investments, financial derivatives, and foreign currency transactions	(8,115	) (22,552
Amortization of premiums and accretion of discounts (net)	(6,036	) (15,485
Purchase of investments	(2,899,745	) (1,763,022
Proceeds from disposition of investments	2,118,261	1,166,380
Proceeds from principal payments of investments	135,376	145,570
Proceeds from investments sold short	1,429,501	905,142
Repurchase of investments sold short	(1,087,703	) (652,073
Payments made to open financial derivatives	(18,692	) (11,720
Proceeds received to close financial derivatives	41,677	35,406
Proceeds received to open financial derivatives	43,471	27,986
Payments made to close financial derivatives	(65,865	) (26,686
Shares issued in connection with incentive fee payment	309	1,058
Share-based LTIP expense	191	129
(Increase) decrease in assets:		
Increase in repurchase agreements	(19,077	) (27,344
Increase in receivable for securities sold	(363,200	) (299,719
Increase in due from brokers	(58,926	) (42,415
Increase in interest and principal receivable	(4,122	) (972
Increase in other assets	(1,182	) (713
Increase (decrease) in liabilities:		
Decrease in due to brokers	(7,752	) (17,214
Increase in payable for securities purchased	383,408	173,317
Increase in accounts payable and accrued expenses	440	262
Decrease in incentive fee payable	(1,691	) (5,305
Increase (decrease) in other payables	—	(396
Increase in interest and dividends payable	617	768
Increase in base management fee payable	692	444
Net cash used in operating activities	(341,651	) (369,458

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

	Nine Month Period Ended	
	September 30, 2014	September 30, 2013
	Expressed in U.S. Dollars	
(In thousands)		
Cash flows provided by (used in) financing activities:		
Proceeds from the issuance of shares	\$188,400	\$125,600
Contribution from non-controlling interests	1,524	4,664
Offering costs paid	(151	) (350
Dividends paid	(60,210	) (72,016
Distributions to non-controlling interest	(1,099	) —
Principal payments on securitized debt	(144	) (292
Reverse repurchase agreements, net of repayments	158,966	439,505
Net cash provided by financing activities	287,286	497,111
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(54,365	) 127,653
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	183,489	59,084
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$129,124	\$186,737
Supplemental disclosure of cash flow information:		
Interest paid	\$7,110	\$7,217
Shares issued in connection with incentive fee payment (non-cash)	\$309	\$1,058
Share-based LTIP awards (non-cash)	\$191	\$129
Aggregate TBA trade activity (buys + sells) (non-cash)	\$20,616,947	\$16,476,137

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2014  
(UNAUDITED)

1. Organization and Investment Objective

Ellington Financial LLC was formed as a Delaware limited liability company on July 9, 2007 and commenced operations on August 17, 2007. Ellington Financial Operating Partnership LLC (the "Operating Partnership"), a 99.4% 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 inter-company accounts are eliminated in consolidation.

The Company is a specialty finance company that primarily acquires and manages mortgage-related assets, including residential mortgage-backed securities, or "RMBS," residential mortgage loans, commercial mortgage-backed securities, or "CMBS," commercial mortgage loans and other commercial real estate debt, real property and mortgage-related derivatives. The Company also invests in corporate debt and equity securities, asset-backed securities backed by consumer and commercial assets, or "ABS," non-mortgage-related derivatives and other financial assets.

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

2. Significant Accounting Policies

(A) Basis of Presentation: The Company's unaudited interim 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"). ASC 946 requires, among other things, that investments be reported at fair value in the financial statements. The consolidated financial statements include the accounts of the Company, the Operating Partnership, and its subsidiaries. All inter-company 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. Interim results are not necessarily indicative of the results that may be expected for the entire fiscal year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

(B) Valuation: The Company applies ASC 820-10, Fair Value Measurement and Disclosures ("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 transparency 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,

• 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, and

• Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs or methodology used for valuing securities are not necessarily an

indication of the risk associated with investing in these securities.

(C) Securities Transactions and Investment Income: Purchases and sales of investments are generally recorded on trade date. Realized and unrealized gains and losses are calculated based on identified cost. Interest income, which includes accretion of discounts and amortization of premiums on mortgage-backed securities, or "MBS," ABS, commercial and residential mortgage loans, U.S. Treasury securities, sovereign debt, and securitized debt, is recognized over the life of the investment using the effective interest method. For purposes of determining the effective interest rate, management estimates the future

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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 and require the use of a significant amount of judgment. Principal write-offs are generally treated as realized losses. The Company uses the cost recovery method for certain non-performing commercial and residential mortgage loans that have principal and/or interest payments that are more than 90 days past due and for which future cash flows are not estimable.

(D) Cash and Cash Equivalents: Cash and cash equivalents include amounts held in an interest bearing overnight account and money market funds.

(E) Financial Derivatives: The Company enters into various types of financial derivatives. The Company's 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, or "FCM," 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 swaptions, 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 risk associated with the Company's total return swap activity is equity market 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 rate of interest on a notional principal amount and receives a fixed rate 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 often varies 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 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 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 Note futures contracts to hedge its interest rate risk. Initial margin deposits are made upon entering into futures contracts and can 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-

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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 or enter into swaptions. Generally, the Company enters into options primarily to help mitigate overall market, credit, or interest rate risk depending on the type of option. When the Company purchases an option, 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 that expire unexercised are recognized on the expiration date as realized losses. If an option 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 option, 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 that expire unexercised are recognized on the expiration date as realized gains. If an option 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 that contain forward-settling premiums. In this case, no money is exchanged upfront. Instead the agreed-upon premium is paid by the buyer upon expiration of the option, regardless of whether or not the option is exercised.

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

Financial 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, foreign currency forwards, and options contracts.

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

(F) Investments Sold Short: When the Company sells securities short, it typically satisfies its security delivery settlement obligation by obtaining the security sold 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 and 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 also enters into repurchase agreement transactions with third-party broker-dealers 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 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 or a repurchase agreement is based on competitive rates (or competitive market spreads, in the case of agreements with floating interest rates) at the time



such agreement is entered into. When the Company enters into a reverse repurchase agreement, the lender establishes and maintains an account containing cash and securities having a value not less than the repurchase price, including accrued interest, of the reverse repurchase agreement. Assets held pursuant to repurchase agreements are reflected as assets on the Consolidated Statement of Assets, Liabilities, and Equity. 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 netted in the Company's consolidated financial statements. Reverse repurchase agreements are carried at their contractual amounts, which approximate fair value as the debt is short-term in nature.

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(H) Securitized Debt: The Company entered into a resecuritization transaction in January 2012, which is accounted for as a collateralized borrowing. The asset contributed to the securitization was not derecognized but rather, the liability issued by the securitization was recorded to reflect the term financing of the re-securitized asset. Under ASC 825-10, the Company has elected to carry securitized debt at fair value.

(I) 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 To Be Announced MBS ("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.

(J) Investments in Operating Entities: The Company may 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, or debt. The Company carries its investments in such entities at fair value.

(K) Offering Costs/Underwriters' Discount: Offering costs and underwriters' discount are charged against shareholders' equity.

(L) 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 and independent directors are amortized over the vesting period in accordance with ASC 718-10, Compensation—Stock Compensation. Costs associated with LTIP units issued to the Manager are amortized over the vesting period in accordance with ASC 505-50, Equity-Based Payments to Non-Employees. The vesting periods for units issued under the Ellington Incentive Plan for Individuals (the "Individual LTIP") to dedicated or partially dedicated personnel are typically one year and can be up to two years. The vesting periods of Individual LTIP units are typically one year for independent directors. The vesting period for units issued to the Manager under the Ellington Incentive Plan for Entities (the "Manager LTIP") occurred over a three year period that ended in August 2010. The cost of the Manager LTIP units fluctuated with the price per share until the vesting date, whereas the cost of the Individual LTIP units is based on the price per share at the initial grant date.

(M) 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 interest of a joint venture partner in a consolidated subsidiary. The joint venture partner's interest does 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 9 for further discussion of non-controlling interests.

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

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

(P) 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 deemed to be participating securities, by the weighted average number of common shares outstanding calculated including LTIP units. Because the Company's LTIP units are deemed to be participating securities, they are included in the calculation of basic and diluted EPS.

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OP Units relating to a non-controlling interest are also considered participating securities and, accordingly, are included in the calculation of both basic and diluted EPS.

(Q) 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.

(R) Income Taxes: The Company intends 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. As of December 31, 2013, a subsidiary of the Company has elected to be treated as a corporation for U.S. federal income tax purposes. To date, this subsidiary has recognized a small loss.

The Company follows the provisions of ASC 740-10, Income Taxes ("ASC 740-10"), 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, based on the technical merits of the position. The Company did not have any additions to unrecognized tax benefits resulting from tax positions related either to the current period or to 2013, 2012, 2011, or 2010 (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.

To date there have been no material differences between the tax and U.S. GAAP bases of the Company's investments.

(S) Recent Accounting Pronouncements: In June 2013, the FASB issued ASU 2013-08, Financial Services-Investment Companies ("ASC 946"). This update modifies the guidance for ASC 946 for determining whether an entity is an investment company for U.S. GAAP purposes. It requires entities that adopted AICPA 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 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013, with retrospective application; earlier application is prohibited. Management has determined that the Company still meets the definition of an investment company under ASC 946 and, as a result, the presentation of its financial statements has not changed as a result of this ASU.

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure ("ASU 2014-04"). This update modifies the guidance for ASC 310-40, Receivables-Troubled Debt Restructurings by Creditors. ASU 2014-04 clarifies when an in-substance repossession or foreclosure occurs that would require a transfer of a mortgage loan to real estate owned. Under ASU 2014-04, repossession or foreclosure is deemed to have occurred, and the creditor is considered to have received physical possession of residential real estate property collateralizing a mortgage loan when the creditor obtains legal title to the property upon completion of a foreclosure or the borrower conveys all interest in the property to the creditor through a deed in lieu of foreclosure or a similar legal agreement. ASU 2014-04 will become effective for annual and interim periods beginning after December 15, 2014 with early adoption permitted. ASU 2014-04 can be adopted using either a modified retrospective method or a prospective transition method with the cumulative effect being recognized in the

beginning retained earnings of the earliest annual period for which ASU 2014-04 is adopted. The Company elected to adopt ASU 2014-04 effective January 1, 2014; such adoption did not have a material impact on the financial statements.

In June 2014, the FASB issued ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures ("ASU 2014-11"). This amends ASC 860, Transfers and Servicing ("ASC 860"), to require disclosure of repurchase-to maturity transactions to be accounted for as secured borrowings rather than sales of an asset, and transfers of financial assets with a contemporaneous repo will no longer be evaluated to determine whether they should be accounted for on

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a combined basis as forward contracts. The new guidance also prescribes additional disclosures particularly on the nature of collateral pledged under repurchase agreements accounted for as secured borrowings. ASU 2014-11 is effective for interim and annual periods beginning after December 15, 2014. The adoption of ASC 860, as amended by ASU 2014-11 is not expected to have a material impact on the Company's consolidated financial statements.

## 3. Valuation

The following is a description of the valuation methodologies used for the Company's financial instruments.

Level 1 valuation methodologies include the observation of quoted prices (unadjusted) for identical assets or liabilities in active markets, often received from widely recognized data providers.

Level 2 valuation methodologies include the observation of (i) quoted prices for similar assets or liabilities in active markets, (ii) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves) in active markets and (iii) quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 valuation methodologies include (i) the solicitation of valuations from third parties (typically, pricing services and broker-dealers), (ii) the use of proprietary models that require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, prepayment assumptions and default rate assumptions, (iii) the assessment of observable or reported recent trading activity, and (iv) principally in connection with investments in private operating entities, other metrics, such as estimated market multiples. The Company utilizes such information to assign a good faith fair value (the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the valuation date) to each such financial instrument.

Excluding its investments in private operating entities, the Company generally seeks to obtain at least one third-party indicative valuation for each instrument, and often obtains multiple indicative valuations when available. Third-party valuation providers often utilize proprietary models that are highly subjective and also require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, prepayment assumptions and default rate assumptions. The Company has been able to obtain third-party valuations on the vast majority of the Company's assets and expects to continue to solicit third-party valuations on substantially all of its assets in the future to the extent practical. The Company 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 on the Company and while the Company generally does not adjust valuations it receives, the Company may challenge or reject a valuation when, based on validation criteria, the Company determines that such valuation is unreasonable or erroneous.

Furthermore, the Company may determine, based on validation criteria, that for a given instrument the average of the third-party valuations received does not result in what the Company believes to be fair value, and in such circumstances the Company may override this average with its own good faith valuation. The validation criteria include the use of the Company's own models, recent trading activity in the same or similar instruments, and valuations received from third parties. The Company's valuation process, including the application of validation criteria, is overseen by the Manager's valuation committee. Because of the inherent uncertainty of valuation, these estimated values 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 consolidated financial statements.

The table below reflects the value of the Company's Level 1, Level 2, and Level 3 financial instruments at September 30, 2014:

Description	Level 1	Level 2	Level 3	Total
Assets:	(In thousands)			
Cash and cash equivalents	\$129,124	\$—	\$—	\$129,124
Investments, at fair value-				
Agency residential mortgage-backed securities and U.S. Treasury securities	\$—	\$1,682,568	\$38,572	\$1,721,140
Private label residential mortgage-backed securities	—	—	502,070	502,070
Private label commercial mortgage-backed securities	—	—	46,317	46,317
Commercial mortgage loans	—	—	29,852	29,852
Residential mortgage loans	—	—	17,147	17,147

Other asset-backed securities and loans	—	—	109,152	109,152
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Description	Level 1	Level 2	Level 3	Total
Investments, at fair value- (continued):	(In thousands)			
Real estate owned	\$—	\$—	\$7,464	\$7,464
Private corporate investments	—	—	7,686	7,686
Total investments, at fair value	—	1,682,568	758,260	2,440,828
Financial derivatives—assets, at fair value-				
Credit default swaps on asset-backed securities	—	—	12,788	12,788
Credit default swaps on corporate bond indices	—	20,044	—	20,044
Credit default swaps on asset-backed indices	—	2,304	—	2,304
Interest rate swaps	—	19,964	—	19,964
Total return swaps	—	29	—	29
Swaptions	—	261	—	261
Options	—	31	—	31
Futures	549	—	—	549
Forwards	—	396	—	396
Total financial derivatives—assets, at fair value	549	43,029	12,788	56,366
Repurchase agreements	—	47,039	—	47,039
Total investments and financial derivatives—assets, at fair value and repurchase agreements	\$549	\$1,772,636	\$771,048	\$2,544,233
Liabilities:				
Investments sold short, at fair value-				
Agency residential mortgage-backed securities	\$—	\$(1,158,892 )	\$—	\$(1,158,892 )
Government debt	—	(43,646 )	—	(43,646 )
Common stock	(19,356 )	—	—	(19,356 )
Total investments sold short, at fair value	(19,356 )	(1,202,538 )	—	(1,221,894 )
Financial derivatives—liabilities, at fair value-				
Credit default swaps on corporate bond indices	—	(23,629 )	—	(23,629 )
Credit default swaps on corporate bonds	—	(2,695 )	—	(2,695 )
Credit default swaps on asset-backed indices	—	(4,385 )	—	(4,385 )
Credit default swaps on asset-backed securities	—	—	(378 )	(378 )
Interest rate swaps	—	(15,766 )	—	(15,766 )
Total return swaps	—	(40 )	—	(40 )
Options	—	(164 )	—	(164 )
Swaptions	—	(213 )	—	(213 )
Futures	(61 )	—	—	(61 )
Forwards	—	—	—	—
Total financial derivatives—liabilities, at fair value	(61 )	(46,892 )	(378 )	(47,331 )
Securitized debt <sup>(1)</sup>	—	—	(870 )	(870 )
Total investments sold short, financial derivatives—liabilities, and securitized debt, at fair value	\$(19,417 )	\$(1,249,430 )	\$(1,248 )	\$(1,270,095 )

(1) The asset subject to the resecuritization had a fair value of \$2.3 million as of September 30, 2014, which is included on the Consolidated Schedule of Investments under Principal and Interest Private – Label Securities. Investments under the Agency residential mortgage-backed securities Level 3 category are investments in Agency interest only RMBS securities. There were no transfers of financial instruments between Level 1, Level 2, or Level 3 during the nine month period ended September 30, 2014. The Company's reverse repurchase agreements are carried at cost, which approximates fair value. These liabilities are classified as Level 2 liabilities based on the adequacy of the collateral and their short term nature.





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The following table identifies the significant unobservable inputs that affect the valuation of the Company's Level 3 assets and liabilities as of September 30, 2014:

Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range Min	Max	Weighted Average		
Private label residential mortgage-backed securities <sup>(1)</sup>	\$422,033	Market Quotes	Non Binding Indicative Price	\$1.96	\$109.91	\$76.65		
Other asset-backed securities and loans	102,804	Market Quotes	Non Binding Indicative Price	48.00	162.00	102.08		
Private label residential mortgage-backed securities	79,167	Discounted Cash Flows	Yield	3.6	% 16.1	% 7.3	%	
			Projected Collateral Prepayments	7.6	% 83.6	% 40.1	%	
			Projected Collateral Losses	3.0	% 45.2	% 13.1	%	
			Projected Collateral Recoveries	0.0	% 25.5	% 8.3	%	
			Projected Collateral Scheduled Amortization	0.0	% 79.5	% 38.5	%	
Private label commercial mortgage-backed securities	12,950	Discounted Cash Flows	Yield	14.5	% 28.4	% 22.7	%	
			Projected Collateral Losses	0.2	% 1.1	% 0.8	%	
			Projected Collateral Recoveries	2.8	% 14.1	% 8.4	%	
			Projected Collateral Scheduled Amortization	84.9	% 97.0	% 90.8	%	
Other asset-backed securities and loans	6,348	Discounted Cash Flows	Yield	5.9	% 13.9	% 9.2	%	
			Projected Collateral Prepayments	—	% 73.8	% 9.5	%	
			Projected Collateral Losses	1.1	% 94.6	% 75.6	%	
			Projected Collateral Recoveries	—	% 92.8	% 7.3	%	
			Projected Collateral Scheduled Amortization	—	% 28.0	% 7.6	%	
Private label commercial mortgage-backed securities	33,367	Market Quotes	Non Binding Indicative Price	\$10.02	\$97.09	\$57.28		
Performing commercial mortgage loans	19,108	Discounted Cash Flows	Yield	10.0	% 19.7	% 17.5	%	
	10,744		Yield	10.3	% 15.0	% 13.9	%	

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Non-performing commercial mortgage loans		Discounted Cash Flows	Months to Resolution	3.0	28.0	7.9		
Non-performing residential mortgage loan pools and real estate owned	24,611	Discounted Cash Flows	Yield	6.5	% 12.0	% 7.4	%	
			Months to Resolution	4.0	26.0	12.7		
Agency interest only residential mortgage-backed securities	35,069	Market Quotes Option	Non Binding Indicative Price	\$3.76	\$30.14	\$13.65		
Agency interest only residential mortgage-backed securities	3,503	Adjusted Spread ("OAS")	LIBOR OAS <sup>(2)</sup>	(44	) 1,401	671		
			Projected Collateral Prepayments	57.2	% 100.0	% 77.0	%	
			Projected Collateral Scheduled Amortization	0.0	% 42.8	% 23.0	%	
						100.0	%	

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(continued)

Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range Min	Max	Weighted Average		
Credit default swaps on asset-backed securities	12,410	Net Discounted Cash Flows	Projected Collateral Prepayments	18.7	% 56.9	% 32.2	%	
			Projected Collateral Losses	15.8	% 46.4	% 31.0	%	
			Projected Collateral Recoveries	7.6	% 16.9	% 12.5	%	
			Projected Collateral Scheduled Amortization	15.9	% 42.1	% 24.3	%	
						100.0	%	
Preferred equity investment in commercial mortgage-related private partnership	5,000	Discounted Cash Flows	Yield	10.7	% 10.7	% 10.7	%	
			Expected Holding Period (Months)	47.9	47.9	47.9		
Equity investment in mortgage originator	2,686	Recent Transactions	Transaction Price	N/A	N/A	N/A		

(1) Includes securitized debt with a fair value of \$0.9 million as of September 30, 2014.

(2) Shown in basis points.

Third-party non-binding indicative prices are validated by comparing such prices 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, 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.

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The table below reflects the value of the Company's Level 1, Level 2, and Level 3 financial instruments at December 31, 2013:

(In thousands)

Description	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash and cash equivalents	\$183,489	\$—	\$—	\$183,489
<b>Investments, at fair value-</b>				
Agency residential mortgage-backed securities	\$—	\$989,842	\$40,504	\$1,030,346
Private label residential mortgage-backed securities	—	—	580,772	580,772
Private label commercial mortgage-backed securities	—	—	32,994	32,994
Commercial mortgage loans	—	—	23,887	23,887
Residential mortgage loans	—	—	24,062	24,062
Other asset-backed securities	—	—	38,069	38,069
Total investments, at fair value	—	989,842	740,288	1,730,130
<b>Financial derivatives—assets, at fair value-</b>				
Credit default swaps on asset-backed securities	—	—	16,646	16,646
Credit default swaps on corporate bond indices	—	14,273	—	14,273
Credit default swaps on asset-backed indices	—	4,937	—	4,937
Interest rate swaps	—	23,553	—	23,553
Total return swaps	—	4	—	4
Options	—	251	—	251
Total financial derivatives—assets, at fair value	—	43,018	16,646	59,664
Repurchase agreements	—	27,962	—	27,962
Total investments and financial derivatives—assets, at fair value and repurchase agreements	\$—	\$1,060,822	\$756,934	\$1,817,756
<b>Liabilities:</b>				
<b>Investments sold short, at fair value-</b>				
Agency residential mortgage-backed securities	\$—	\$ (811,957 )	\$—	\$ (811,957 )
Government debt	—	(27,288 )	—	(27,288 )
Common stock	(6,369 )	—	—	(6,369 )
Total investments sold short, at fair value	(6,369 )	(839,245 )	—	(845,614 )
<b>Financial derivatives—liabilities, at fair value-</b>				
Credit default swaps on corporate bond indices	—	(24,949 )	—	(24,949 )
Credit default swaps on asset-backed indices	—	(11,866 )	—	(11,866 )
Credit default swaps on asset-backed securities	—	—	(350 )	(350 )
Interest rate swaps	—	(5,064 )	—	(5,064 )
Total return swaps	—	(67 )	—	(67 )
Options	—	(84 )	—	(84 )
Futures	(2,373 )	—	—	(2,373 )
Forwards	—	(38 )	—	(38 )
Total financial derivatives—liabilities, at fair value	(2,373 )	(42,068 )	(350 )	(44,791 )
Securitized debt <sup>(1)</sup>	—	—	(983 )	(983 )
Total investments sold short, financial derivatives—liabilities, and securitized debt, at fair value	\$ (8,742 )	\$ (881,313 )	\$ (1,333 )	\$ (891,388 )

(1) The asset subject to the resecuritization had a fair value of \$2.3 million as of December 31, 2013, which is included on the Consolidated Schedule of Investments under Principal and Interest Private – Label Securities.

Investments under the Agency residential mortgage-backed securities Level 3 category are investments in Agency interest only RMBS securities. There were no transfers of financial instruments between Level 1, Level 2, or Level 3 during the year ended December 31, 2013.



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The Company's reverse repurchase agreements are carried at cost, which approximates fair value. These liabilities are classified as Level 2 liabilities based on the adequacy of the collateral and their short term nature.

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, 2013:

Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range Min	Max	Weighted Average		
Private label residential mortgage-backed securities and Other asset-backed securities <sup>(1)</sup>	\$550,701	Market Quotes	Non Binding Indicative Price	\$1.80	\$110.35	\$78.09		
Private label residential mortgage-backed securities	67,158	Discounted Cash Flows	Yield	3.8	% 20.5	% 8.0	%	
			Projected Collateral Prepayments	6.9	% 64.5	% 29.7	%	
			Projected Collateral Losses	4.3	% 35.2	% 17.4	%	
			Projected Collateral Recoveries	0.3	% 17.1	% 9.1	%	
			Projected Collateral Scheduled Amortization	14.1	% 87.3	% 43.8	%	100.0 %
Private label commercial mortgage-backed securities	3,480	Discounted Cash Flows	Yield	9.2	% 18.2	% 13.5	%	
			Projected Collateral Losses	0.2	% 0.2	% 0.2	%	
			Projected Collateral Recoveries	15.4	% 15.4	% 15.4	%	
			Projected Collateral Scheduled Amortization	84.4	% 84.4	% 84.4	%	100.0 %
Private label commercial mortgage-backed securities and commercial mortgage loans	34,489	Market Quotes	Non Binding Indicative Price	\$14.25	\$102.89	\$74.24		
Performing commercial mortgage loans	8,788	Discounted Cash Flows	Yield	12.7	% 12.8	% 12.7	%	
Non-performing commercial mortgage loans	10,123	Discounted Cash Flows	Yield	15.0	% 15.0	% 15.0	%	
			Months to Resolution	5	7	6		
Non-performing residential mortgage loan pools	24,062	Discounted Cash Flows	Yield	7.4	% 7.4	% 7.4	%	
			Months to Resolution	16.3	16.3	16.3		
Agency interest only residential mortgage-backed securities	38,783	Market Quotes	Non Binding Indicative Price	\$6.26	\$33.77	\$14.53		
	1,721		LIBOR OAS <sup>(2)</sup>	349	645	422		



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Agency interest only residential mortgage-backed securities		Option Adjusted Spread ("OAS")					
			Projected Collateral Prepayments	49.0	% 58.1	% 51.2	%
			Projected Collateral Scheduled Amortization	41.9	% 51.0	% 48.8	%
						100.0	%
Credit default swaps on asset-backed securities	16,296	Net Discounted Cash Flows	Projected Collateral Prepayments	19.3	% 59.0	% 29.9	%
			Projected Collateral Losses	15.5	% 47.8	% 34.8	%
			Projected Collateral Recoveries	8.2	% 15.2	% 13.1	%
			Projected Collateral Scheduled Amortization	15.7	% 41.2	% 22.2	%
						100.0	%

(1) Includes securitized debt with a fair value of \$1.0 million as of December 31, 2013.

(2) Shown in basis points.

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

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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.

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.

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The tables below include a roll-forward of the Company's financial instruments for the three month periods ended September 30, 2014 and 2013 (including the change in fair value), for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

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

Three Month Period Ended September 30, 2014

(In thousands)	Ending Balance as of June 30, 2014	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/(Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/ Payments	Sales/ Issuances	Transfers and/or Out of Level 3	Ending Balance as of September 30, 2014
<b>Assets:</b>								
<b>Investments, at fair value-</b>								
Agency residential mortgage-backed securities	\$36,240	\$(2,188 )	\$286	\$ 492	\$4,695	\$(953 )	\$ —	\$38,572
Private label residential mortgage-backed securities	485,902	4,770	3,684	(5,030 )	79,431	(66,687 )	—	502,070
Private label commercial mortgage-backed securities	28,047	145	1,089	(378 )	29,496	(12,082 )	—	46,317
Commercial mortgage loans	37,415	832	1,029	(382 )	8,113	(17,155 )	—	29,852
Residential mortgage loans	23,371	878	501	(131 )	(547 )	(6,925 )	—	17,147
Other asset-backed securities and loans	81,315	(2,791 )	(170 )	(637 )	43,353	(11,918 )	—	109,152
Real estate owned	1,641	—	18	229	6,033	(457 )	—	7,464
Private corporate investments	—	—	—	(239 )	7,925	—	—	7,686
<b>Total investments, at fair value</b>	<b>693,931</b>	<b>1,646</b>	<b>6,437</b>	<b>(6,076 )</b>	<b>178,499</b>	<b>(116,177 )</b>	<b>—</b>	<b>758,260</b>
<b>Financial derivatives—assets, at fair value-</b>								
Credit default swaps on asset-backed securities	14,162	—	(2,860 )	3,004	75	(1,593 )	—	12,788
<b>Total financial derivatives— assets, at fair value</b>	<b>14,162</b>	<b>—</b>	<b>(2,860 )</b>	<b>3,004</b>	<b>75</b>	<b>(1,593 )</b>	<b>—</b>	<b>12,788</b>
<b>Total investments and financial derivatives—assets, at fair value</b>	<b>\$708,093</b>	<b>\$ 1,646</b>	<b>\$3,577</b>	<b>\$ (3,072 )</b>	<b>\$178,574</b>	<b>\$(117,770)</b>	<b>\$ —</b>	<b>\$771,048</b>
<b>Liabilities:</b>								
<b>Financial derivatives—liabilities, at</b>								

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fair value-								
Credit default swaps on asset-backed securities	\$ (350 )	\$ —	\$ (20 )	\$ (28 )	\$ —	\$ 20	\$ —	\$ (378 )
Total financial derivatives— liabilities, at fair value	\$ (350 )	\$ —	\$ (20 )	\$ (28 )	\$ —	\$ 20	\$ —	\$ (378 )
Securitized debt:								
Securitized debt	(925 )	(1 )	—	(2 )	58	—	—	(870 )
Total securitized debt	(925 )	(1 )	—	(2 )	58	—	—	(870 )
Total financial derivatives— liabilities and securitized debt, at fair value	\$ (1,275 )	\$ (1 )	\$ (20 )	\$ (30 )	\$ 58	\$ 20	\$ —	\$ (1,248 )

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at September 30, 2014, as well as Level 3 financial instruments disposed of by the Company during the three month period ended September 30, 2014. For Level 3 financial instruments held by the Company at September 30, 2014, change in net unrealized gain (loss) of \$(2.9) million, \$(0.7) million, \$(28.6) thousand and \$(2.0) thousand, for the three month period ended September 30, 2014 relate to investments, financial derivatives—assets, and securitized debt, respectively.

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

Three Month Period Ended September 30, 2013

(In thousands)	Beginning Balance as of June 30, 2013	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/ Payments	Sales/ Issuances	Transfers and/or Out of Level 3	Ending Balance as of September 30, 2013
<b>Assets:</b>								
<b>Investments, at fair value-</b>								
Agency residential mortgage-backed securities	\$ 27,397	\$(1,844 )	\$—	\$ 875	\$10,605	\$—	\$ —	\$37,033
Private label residential mortgage-backed securities	694,510	7,289	11,187	(5,865 )	106,194	(161,333 )	—	651,982
Private label commercial mortgage-backed securities	23,906	161	647	139	21,760	(13,342 )	—	33,271
Commercial mortgage loans	7,563	31	—	411	6,931	—	—	14,936
Other asset-backed securities	39,840	(658 )	38	60	8,334	(2,359 )	—	45,255
<b>Total investments, at fair value</b>	<b>793,216</b>	<b>4,979</b>	<b>11,872</b>	<b>(4,380 )</b>	<b>153,824</b>	<b>(177,034 )</b>	<b>—</b>	<b>782,477</b>
<b>Financial derivatives—assets, at fair value-</b>								
Credit default swaps on asset-backed securities	21,134	—	(3,113 )	2,995	58	(3,459 )	—	17,615
<b>Total financial derivatives— assets, at fair value</b>	<b>21,134</b>	<b>—</b>	<b>(3,113 )</b>	<b>2,995</b>	<b>58</b>	<b>(3,459 )</b>	<b>—</b>	<b>17,615</b>
<b>Total investments and financial derivatives—assets, at fair value</b>	<b>\$ 814,350</b>	<b>\$ 4,979</b>	<b>\$ 8,759</b>	<b>\$ (1,385 )</b>	<b>\$ 153,882</b>	<b>\$(180,493)</b>	<b>\$ —</b>	<b>\$ 800,092</b>
<b>Liabilities:</b>								
<b>Financial derivatives—liabilities, at fair value-</b>								
Credit default swaps on asset-backed securities	\$(541 )	\$—	\$(2 )	\$ 222	\$—	\$2	\$ —	\$(319 )
<b>Total financial derivatives— liabilities, at fair value</b>	<b>\$(541 )</b>	<b>—</b>	<b>(2 )</b>	<b>222</b>	<b>—</b>	<b>2</b>	<b>—</b>	<b>(319 )</b>
<b>Securitized debt:</b>								
Securitized debt	(1,168 )	(10 )	—	30	110	—	—	(1,038 )

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Total securitized debt	(1,168 )	(10 )	—	30	110	—	—	(1,038 )
Total financial derivatives— liabilities and securitized debt, at fair value	\$ (1,709 )	\$ (10 )	\$ (2 )	\$ 252	\$ 110	\$ 2	\$ —	\$ (1,357 )

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at September 30, 2013, as well as Level 3 financial instruments disposed of by the Company during the three month period ended September 30, 2013. For Level 3 financial instruments held by the Company at September 30, 2013, change in net unrealized gain (loss) of \$4.3 million, \$1.0 million, \$2.2 million, and \$30.0 thousand, for the three month period ended September 30, 2013 relate to investments, financial derivatives—assets, financial derivatives—liabilities, and securitized debt, respectively.

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

Nine Month Period Ended September 30, 2014

(In thousands)	Beginning Balance as of December 31, 2013	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Net Purchases/ Payments	Sales/ Issuances	Transfer and/or Out of Level 3	Ending Balance as of September 30, 2014
<b>Assets:</b>								
<b>Investments, at fair value-</b>								
Agency residential mortgage-backed securities	\$ 40,504	\$ (6,523 )	\$ 457	\$ 515	\$ 7,249	\$ (3,630 )	\$ —	\$ 38,572
Private label residential mortgage-backed securities	580,772	15,359	34,862	(14,366 )	233,654	(348,211 )	—	502,070
Private label commercial mortgage-backed securities	32,994	497	5,479	(842 )	95,665	(87,476 )	—	46,317
Commercial mortgage loans	23,887	1,916	1,901	(673 )	32,117	(29,296 )	—	29,852
Residential mortgage loans	24,062	878	878	823	1,148	(10,642 )	—	17,147
Other asset-backed securities and loans	38,069	(3,444 )	184	(581 )	97,539	(22,615 )	—	109,152
Real estate owned	—	—	7	212	7,792	(547 )	—	7,464
Private corporate investments	—	—	—	(239 )	7,925	—	—	7,686
<b>Total investments, at fair value</b>	<b>740,288</b>	<b>8,683</b>	<b>43,768</b>	<b>(15,151 )</b>	<b>483,089</b>	<b>(502,417 )</b>	<b>—</b>	<b>758,260</b>
<b>Financial derivatives—assets, at fair value-</b>								
Credit default swaps on asset-backed securities	16,646	—	(2,135 )	2,379	530	(4,632 )	—	12,788
<b>Total financial derivatives— assets, at fair value</b>	<b>16,646</b>	<b>—</b>	<b>(2,135 )</b>	<b>2,379</b>	<b>530</b>	<b>(4,632 )</b>	<b>—</b>	<b>12,788</b>
<b>Total investments and financial derivatives—assets, at fair value</b>	<b>\$ 756,934</b>	<b>\$ 8,683</b>	<b>\$ 41,633</b>	<b>\$ (12,772 )</b>	<b>\$ 483,619</b>	<b>\$ (507,049)</b>	<b>\$ —</b>	<b>\$ 771,048</b>
<b>Liabilities:</b>								
<b>Financial derivatives—liabilities, at fair value-</b>								
Credit default swaps on asset-backed securities	\$ (350 )	\$ —	\$ (59 )	\$ (28 )	\$ —	\$ 59	\$ —	\$ (378 )

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Total financial derivatives– liabilities, at fair value	(350 )	—	(59 )	(28 )	—	59	—	(378 )
Securitized debt:								
Securitized debt	(983 )	(14 )	—	(17 )	144	—	—	(870 )
Total securitized debt	(983 )	(14 )	—	(17 )	144	—	—	(870 )
Total financial derivatives– liabilities and securitized debt, at fair value	\$(1,333 )	\$(14 )	\$(59 )	\$(45 )	\$144	\$59	\$—	\$(1,248 )

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at September 30, 2014, as well as Level 3 financial instruments disposed of by the Company during the nine month period ended September 30, 2014. For Level 3 financial instruments held by the Company at September 30, 2014, change in net unrealized gain (loss) of \$2.3 million, \$(1.9) million, \$(28.4) thousand and \$(17.0) thousand, for the nine month period ended September 30, 2014 relate to investments, financial derivatives–assets, financial derivatives–liabilities, and securitized debt, respectively.



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

Nine Month Period Ended September 30, 2013

(In thousands)	Ending Balance as of December 31, 2012	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/ Payments	Sales/ Issuances	Transfers and/or Out of Level 3	Ending InBalance as of September 30, 2013
Assets:								
Investments, at fair value-								
Agency residential mortgage-backed securities	\$6,644	\$(3,846 )	\$—	\$ 1,180	\$33,055	\$—	\$ —	\$37,033
Private label residential mortgage-backed securities	528,366	20,401	30,977	11,518	363,056	(302,336)	—	651,982
Private label commercial mortgage-backed securities	19,327	258	(477 )	2,612	58,928	(47,377)	—	33,271
Commercial mortgage loans	9,546	58	482	497	9,481	(5,128 )	—	14,936
Other asset-backed securities	—	(775 )	569	(866 )	56,435	(10,108)	—	