Ellington Financial LLC
Form 10-Q
May 09, 2012
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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 March 31, 2012

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 filers accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	¨	Non-Accelerated Filer	¨
Accelerated Filer	x	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 May 4, 2012**
Common Shares Representing Limited Liability Company Interests, no par value	16,447,651

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ELLINGTON FINANCIAL LLC

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (unaudited)

ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY

(UNAUDITED)

(In thousands except share amounts)	**March 31, 2012**	**December 31, 2011**
	Expressed in U.S. Dollars	
ASSETS		
Cash and cash equivalents	$ 51,546	$ 62,737
Investments, financial derivatives and repurchase agreements:		
Investments at fair value (Cost $1,232,162 and $1,234,203)	1,225,584	1,212,483
Financial derivatives assets at fair value (Cost $105,906 and $118,281)	94,056	102,871
Repurchase agreements (Cost $13,650 and $15,750)	13,650	15,750
Total investments, financial derivatives and repurchase agreements	1,333,290	1,331,104
Deposits with dealers held as collateral	32,362	34,163
Receivable for securities sold	642,218	533,708
Interest and principal receivable	6,138	6,127
Other assets	1,024	216
Total Assets	$ 2,066,578	$ 1,968,055
LIABILITIES		
Investments and financial derivatives:		
Investments sold short at fair value (Proceeds $579,447 and $459,013)	$ 579,852	$ 462,394
Financial derivatives liabilities at fair value (Proceeds $21,088 and $9,636)	27,298	27,040
Total investments and financial derivatives	607,150	489,434
Reverse repurchase agreements	921,406	896,210
Due to brokers on margin accounts	65,497	79,735
Payable for securities purchased	70,688	127,517
Securitized debt (Proceeds $1,495 and $0)	1,485	
Accounts payable and accrued expenses	1,500	1,845
Base management fee payable	1,492	1,396
Interest and dividends payable	1,096	1,002
Total Liabilities	1,670,314	1,597,139
SHAREHOLDERS EQUITY	396,264	370,916
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 2,066,578	$ 1,968,055
ANALYSIS OF SHAREHOLDERS EQUITY:		
Common shares, no par value, 100,000,000 shares authorized;		

(16,447,651 and 16,447,651 shares issued and outstanding)	$ 387,367	$ 362,047
Additional paid-in capital LTIP units	8,897	8,869
Total Shareholders Equity	$ 396,264	$ 370,916
PER SHARE INFORMATION:		
Common shares	$ 24.09	$ 22.55

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT MARCH 31, 2012

(UNAUDITED)

Current Principal/ Notional Value *(In thousands)*	Description	Rate	Maturity	Fair Value *Expressed in U.S. Dollars*
North America				
Long Investments (309.28%) (a) (b) (o)				
Mortgage-Backed Securities (308.14%)				
Agency Securities (202.05%)				
Fixed Rate Agency Securities (195.93%)				
Principal and Interest - Fixed Rate Agency Securities (190.11%)				
$ 153,574	Federal National Mortgage Association Pool	4.00%	1/42	$ 161,433
35,021	Federal National Mortgage Association Pool	4.00%	11/41	36,778
31,190	Federal National Mortgage Association Pool	4.00%	1/42	32,730
24,071	Federal National Mortgage Association Pool	4.50%	12/41	25,759
22,680	Federal National Mortgage Association Pool	4.00%	1/42	23,800
19,718	Federal National Mortgage Association Pool	5.00%	8/41	21,398
19,743	Federal National Mortgage Association Pool	4.00%	4/42	20,755
18,458	Federal Home Loan Mortgage Corporation Pool	5.00%	7/41	20,020
18,361	Federal National Mortgage Association Pool	4.50%	9/41	19,649
18,045	Federal National Mortgage Association Pool	4.50%	10/41	19,305
16,768	Federal National Mortgage Association Pool	5.00%	3/41	18,259
16,716	Federal National Mortgage Association Pool	4.50%	9/41	17,820
13,480	Federal National Mortgage Association Pool	4.00%	11/41	14,150
13,443	Federal National Mortgage Association Pool	4.00%	1/42	14,123
13,099	Federal National Mortgage Association Pool	4.50%	9/41	13,965
12,546	Federal National Mortgage Association Pool	5.00%	7/41	13,646
12,655	Federal National Mortgage Association Pool	4.00%	10/41	13,300
11,054	Federal National Mortgage Association Pool	5.00%	9/41	12,051
11,147	Federal National Mortgage Association Pool	4.50%	4/26	11,976
11,075	Federal National Mortgage Association Pool	4.00%	1/42	11,618
10,305	Federal Home Loan Mortgage Corporation Pool	4.00%	1/41	10,812
9,471	Federal Home Loan Mortgage Corporation Pool	4.00%	12/41	9,924
9,133	Federal Home Loan Mortgage Corporation Pool	4.50%	2/41	9,765
9,114	Federal Home Loan Mortgage Corporation Pool	4.50%	10/41	9,705
9,080	Federal National Mortgage Association Pool	4.00%	7/26	9,643
8,194	Federal National Mortgage Association Pool	5.50%	10/39	8,974
8,259	Federal Home Loan Mortgage Corporation Pool	4.00%	3/41	8,675
7,234	Federal National Mortgage Association Pool	5.50%	5/40	7,922
7,491	Federal National Mortgage Association Pool	3.50%	12/41	7,710
6,627	Federal National Mortgage Association Pool	5.00%	6/41	7,192
6,597	Federal National Mortgage Association Pool	5.00%	7/41	7,159
6,462	Federal National Mortgage Association Pool	5.00%	11/39	6,988
6,129	Federal National Mortgage Association Pool	4.00%	6/26	6,509
5,816	Federal National Mortgage Association Pool	5.00%	10/41	6,311

5,664	Federal National Mortgage Association Pool	4.00%	10/41	5,953
5,631	Federal National Mortgage Association Pool	4.00%	2/42	5,911
5,333	Federal Home Loan Mortgage Corporation Pool	6.00%	4/39	5,899
5,114	Federal National Mortgage Association Pool	5.00%	11/40	5,550
5,189	Federal National Mortgage Association Pool	4.50%	8/41	5,532
4,869	Federal National Mortgage Association Pool	5.00%	8/41	5,308
4,909	Federal National Mortgage Association Pool	4.50%	12/41	5,235
4,817	Federal National Mortgage Association Pool	4.50%	4/41	5,165
4,684	Federal National Mortgage Association Pool	5.00%	9/41	5,107
4,532	Federal Home Loan Mortgage Corporation Pool	4.00%	2/42	4,755
4,250	Federal National Mortgage Association Pool	5.00%	6/40	4,612
4,085	Federal National Mortgage Association Pool	4.50%	11/41	4,355

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT MARCH 31, 2012 (CONTINUED)

(UNAUDITED)

Current Principal/ Notional Value *(In thousands)*	Description	Rate	Maturity	Fair Value *Expressed in U.S. Dollars*
	Principal and Interest - Fixed Rate Agency Securities (190.11%) (continued)			
$ 4,026	Federal National Mortgage Association Pool	4.00%	9/41	$ 4,231
4,022	Federal National Mortgage Association Pool	4.00%	2/42	4,226
3,853	Federal National Mortgage Association Pool	5.00%	10/41	4,181
3,946	Federal Home Loan Mortgage Corporation Pool	4.00%	1/41	4,147
3,887	Federal National Mortgage Association Pool	4.00%	1/42	4,084
3,870	Federal National Mortgage Association Pool	4.00%	4/42	4,082
3,707	Federal Home Loan Mortgage Corporation Pool	4.50%	9/41	3,947
3,263	Federal National Mortgage Association Pool	4.50%	10/41	3,494
3,034	Federal Home Loan Mortgage Corporation Pool	3.50%	1/42	3,113
2,708	Federal National Mortgage Association Pool	4.50%	10/41	2,889
2,267	Federal National Mortgage Association Pool	4.50%	4/42	2,433
1,974	Federal National Mortgage Association Pool	5.00%	7/41	2,147
4,553	Other Federal National Mortgage Association Pools	6.00%	9/39 - 2/40	5,034
1,193	Other Federal Home Loan Mortgage Corporation Pool	6.00%	5/40	1,320
731	Other Government National Mortgage Association Pool	5.50%	3/41	819
				753,353
	Interest Only - Fixed Rate Agency Securities (1.47%)			
30,340	Other Federal National Mortgage Association	4.00% - 5.50%	1/36 - 10/40	3,638
13,128	Other Federal Home Loan Mortgage Corporation	5.00% - 5.50%	6/33 - 1/39	1,704
8,171	Other Government National Mortgage Association	5.50%	3/36	475
				5,817
	TBA - Fixed Rate Agency Securities (4.35%)			
16,500	Federal Home Loan Mortgage Corporation Pool (30 Year)	4.00%	4/12	17,249
				17,249
	Total Fixed Rate Agency Securities (Cost $772,522)			776,419
	Floating Rate Agency Securities (6.12%)			
	Principal and Interest - Floating Rate Agency Securities (6.07%)			
8,567	Federal National Mortgage Association Pool	5.15%	5/38	9,033
6,350	Federal National Mortgage Association Pool	5.27%	12/35	6,687
3,243	Federal National Mortgage Association Pool	5.51%	7/37	3,481
3,245	Federal National Mortgage Association Pool	5.69%	4/36	3,441
1,336	Other Federal National Mortgage Association Pool	5.27%	9/37	1,423

				24,065
Interest Only - Floating Rate Agency Securities (0.05%)				
1,371	Other Federal National Mortgage Association	5.50%	8/36	199
				199
Total Floating Rate Agency Securities (Cost $23,744)				24,264
Total Agency Securities (Cost $796,266)				800,683

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT MARCH 31, 2012 (CONTINUED)

(UNAUDITED)

Current Principal/ Notional Value *(In thousands)*	Description	Rate	Maturity	Fair Value *Expressed in U.S. Dollars*
Private Label Securities (106.09%)				
Principal and Interest - Private Label Securities (105.83%)				
$ 733,520	Various	0.30% - 9.35%	5/19 - 12/47	$ 419,368
Total Principal and Interest - Private Label Securities (Cost $429,977)				419,368
Interest Only - Private Label Securities (0.26%)				
68,860	Various	0.50% - 0.65%	9/47	1,033
Total Interest Only - Private Label Securities (Cost $572)				1,033
Other Private Label Securities (0.00%)				
195,518	Various		6/37	
Total Other Private Label Securities (Cost $530)				
Total Private Label Securities (Cost $431,079)				420,401
Total Mortgage-Backed Securities (Cost $1,227,345)				1,221,084
Commercial Mortgage Loans (1.14%) (n)				
5,000	Various	6.25%	11/12	4,500
Total Commercial Mortgage Loans (Cost $4,817)				4,500
Total Long Investments (Cost $1,232,162)				$ 1,225,584
Repurchase Agreements (3.43%) (c)				
$ 13,650	Bank of America Securities Collateralized by Par Value $13,000 U.S. Treasury Note, Coupon 1.75%, Maturity Date 5/16	0.04%	4/12	$ 13,650

Total Repurchase Agreements (Cost $13,650)				$	13,650
Investments Sold Short (-146.33%)					
TBA - Fixed Rate Agency Securities Sold Short (-142.93%) (d)					
$ (169,000)	Federal National Mortgage Association Pool (30 Year)	4.00%	5/12	$	(176,816)
(154,370)	Federal National Mortgage Association Pool (30 Year)	4.00%	4/12		(161,847)
(75,000)	Federal National Mortgage Association Pool (30 Year)	5.00%	4/12		(81,015)
(28,610)	Federal National Mortgage Association Pool (30 Year)	4.50%	4/12		(30,430)
(26,000)	Government National Mortgage Association Pool (30 Year)	5.00%	4/12		(28,726)
(16,500)	Federal Home Loan Mortgage Corporation Pool (30 Year)	5.00%	4/12		(17,772)
(16,300)	Federal National Mortgage Association Pool (15 Year)	4.00%	4/12		(17,270)
(14,700)	Federal National Mortgage Association Pool (30 Year)	4.50%	5/12		(15,612)
(13,500)	Federal National Mortgage Association Pool (30 Year)	5.50%	4/12		(14,709)
(11,000)	Federal National Mortgage Association Pool (15 Year)	4.50%	4/12		(11,777)
(3,800)	Federal National Mortgage Association Pool (30 Year)	3.50%	4/12		(3,903)
(2,500)	Federal National Mortgage Association Pool (30 Year)	6.00%	4/12		(2,755)
(1,900)	Other Federal Home Loan Mortgage Corporation Pools (30 Year)	4.50% - 6.00%	4/12		(2,057)
(1,500)	Other Government National Mortgage Association Pool (30 Year)	5.50%	4/12		(1,677)
Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -$566,348)					(566,366)
U.S. Treasury Securities Sold Short (-3.40%)					
(13,000)	U.S. Treasury Note	1.75%	5/16		(13,486)
Total U.S. Treasury Securities Sold Short (Proceeds -$13,099)					(13,486)
Total Investments Sold Short (Proceeds -$579,447)				$	(579,852)

See Notes to Consolidated Financial Statements

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CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT MARCH 31, 2012 (CONTINUED)

(UNAUDITED)

(In thousands)	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value *Expressed in U.S. Dollars*
Financial Derivatives - Assets (23.74%)				
Swaps (23.74%) (e)				
Long Swaps:				
Credit Default Swaps on Asset-Backed Indices (Cost - $464) (f)	Credit	$ 12,198	6/36 - 7/36	$ 538
Interest Rate Swaps (g)	Interest Rates	4,500	10/16	82
Short Swaps:				
Credit Default Swaps on Asset-Backed Securities (h)	Credit	(57,875)	9/34 - 12/36	48,746
Credit Default Swaps on Asset-Backed Indices: (i)	Credit			
ABX.HE AAA 2006-2 Index		(61,791)	5/46	31,178
Other		(51,846)	8/37 - 10/52	13,507
Interest Rate Swaps (j)	Interest Rates	(600)	12/21	5
Total Swaps (Cost $105,906)				94,056
Total Financial Derivatives - Assets (Cost $105,906)				$ 94,056
Financial Derivatives - Liabilities (-6.89%)				
Swaps (-6.88%)				
Long Swaps:				
Credit Default Swaps on Asset-Backed Indices (Proceeds - $20,178) (f)	Credit	$ 46,618	8/37 - 2/51	$ (19,998)
Interest Rate Swaps (g)	Interest Rates	12,900	1/17 - 3/17	(94)
Short Swaps:				
Credit Default Swaps on Corporate Bond Indices (k)	Credit	(78,250)	6/17	(364)
Credit Default Swaps on Asset-Backed Indices (i)	Credit	(12,198)	6/36 - 7/36	(538)
Interest Rate Swaps (j)	Interest Rates	(222,500)	4/14 - 3/22	(6,003)
Total Return Swaps (l)	Equity Market	(22,446)	9/12 - 9/13	(249)
Total Swaps (Proceeds -$21,088)				(27,246)
Futures (-0.01%)				
Short Futures:				
Eurodollar Futures (m)	Interest Rates	(126,000)	6/12 - 9/13	(52)
Total Futures				(52)
Total Financial Derivatives - Liabilities (Proceeds -$21,088)				$ (27,298)

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT MARCH 31, 2012 (CONCLUDED)

(UNAUDITED)

(a) See Note 2 in Notes to Consolidated Financial Statements.
(b) At March 31, 2012, 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 173.71%, 28.02%, and 0.32% of shareholders equity, respectively.
(c) In general, securities received pursuant to repurchase agreements were delivered to counterparties in short sale transactions.
(d) At March 31, 2012, the Company s short investments guaranteed by the Federal National Mortgage Association, the Government National Mortgage Association and the Federal Home Loan Mortgage Corporation represented 130.25%, 7.67%, and 5.01% of shareholders equity, respectively.
(e) The following table shows the Company s swap assets by dealer as a percentage of shareholders equity:

Dealer/Parent Company	Percent of Shareholders Equity
Affiliates of Morgan Stanley	6.69%

(f) For long credit default swaps on asset-backed indices, the Company sold protection.
(g) For long interest rate swap contracts, a floating rate is being paid and a fixed rate is being received.
(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 amount represents number of underlying shares or par value times the closing price of the underlying security.
(m) Every $1,000,000 notional value represents one contract.
(n) Maturity date may be extended through November 4, 2015.
(o) 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 affiliated with Fannie Mae, Freddie Mac, or Ginnie Mae. 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	Percentage of Shareholders Equity
Unrated but Agency-Guaranteed	202.05%
Aaa/AAA/AAA	0.98%
Aa/AA/AA	0.59%
A/A/A	3.64%
Baa/BBB/BBB	1.49%
Ba/BB/BB or below	99.39%
Unrated	1.14%

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT DECEMBER 31, 2011

(UNAUDITED)

Current Principal/ Notional Value (In thousands)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
North America				
Long Investments (326.89%) (a) (b) (o)				
Mortgage-Backed Securities (322.98%)				
Agency Securities (206.07%)				
Fixed Rate Agency Securities (195.78%)				
Principal and Interest - Fixed Rate Agency Securities (185.76%)				
$ 85,000	Federal Home Loan Mortgage Corporation Pool	4.50%	10/41	$ 90,611
25,882	Federal National Mortgage Association Pool	5.00%	7/41	28,107
25,456	Federal Home Loan Mortgage Corporation Pool	4.00%	11/40	26,824
24,164	Federal National Mortgage Association Pool	4.50%	12/41	25,874
20,212	Federal National Mortgage Association Pool	5.00%	8/41	21,937
18,867	Federal Home Loan Mortgage Corporation Pool	5.00%	7/41	20,417
18,434	Federal National Mortgage Association Pool	4.50%	9/41	19,738
18,120	Federal National Mortgage Association Pool	4.50%	10/41	19,397
17,391	Federal National Mortgage Association Pool	5.00%	3/41	18,941
17,182	Federal National Mortgage Association Pool	4.50%	9/41	18,328
15,465	Federal Home Loan Mortgage Corporation Pool	5.00%	9/39	16,620
15,243	Federal National Mortgage Association Pool	4.50%	9/41	16,260
14,964	Federal National Mortgage Association Pool	4.50%	11/41	15,991
13,451	Federal National Mortgage Association Pool	4.50%	9/41	14,348
13,554	Federal National Mortgage Association Pool	4.00%	11/41	14,252
13,033	Federal National Mortgage Association Pool	4.50%	9/41	13,927
13,125	Federal National Mortgage Association Pool	4.00%	10/41	13,818
12,593	Federal National Mortgage Association Pool	5.00%	7/41	13,699
11,361	Federal National Mortgage Association Pool	4.50%	4/26	12,154
11,095	Federal National Mortgage Association Pool	5.00%	9/41	12,098
10,358	Federal Home Loan Mortgage Corporation Pool	4.00%	1/41	10,902
9,995	Federal Home Loan Mortgage Corporation Pool	5.00%	10/41	10,791
9,468	Federal National Mortgage Association Pool	4.00%	7/26	10,011
9,176	Federal Home Loan Mortgage Corporation Pool	4.50%	2/41	9,805
9,149	Federal Home Loan Mortgage Corporation Pool	4.50%	10/41	9,736
9,152	Federal National Mortgage Association Pool	4.00%	5/26	9,657
9,027	Federal National Mortgage Association Pool	4.00%	9/41	9,498
8,468	Federal National Mortgage Association Pool	5.50%	10/39	9,269
8,400	Federal Home Loan Mortgage Corporation Pool	4.00%	3/41	8,851
8,123	Federal National Mortgage Association Pool	5.00%	9/41	8,836
7,437	Federal National Mortgage Association Pool	5.00%	9/41	8,072
7,261	Federal National Mortgage Association Pool	5.50%	5/40	7,947
6,955	Federal National Mortgage Association Pool	5.00%	6/41	7,553
6,878	Federal National Mortgage Association Pool	5.00%	7/41	7,465

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT DECEMBER 31, 2011 (CONTINUED)

(UNAUDITED)

Current Principal/ Notional Value *(In thousands)*	Description	Rate	Maturity	Fair Value *Expressed in U.S. Dollars*
	Principal and Interest - Fixed Rate Agency Securities (185.76%) (continued)			
$6,852	Federal National Mortgage Association Pool	5.00%	5/41	$ 7,437
6,823	Federal National Mortgage Association Pool	5.00%	6/41	7,406
6,759	Federal National Mortgage Association Pool	4.00%	6/26	7,147
5,836	Federal National Mortgage Association Pool	5.00%	10/41	6,334
5,531	Federal Home Loan Mortgage Corporation Pool	6.00%	4/39	6,095
5,687	Federal National Mortgage Association Pool	4.00%	10/41	5,987
5,514	Federal National Mortgage Association Pool	5.00%	11/40	5,985
5,711	Federal National Mortgage Association Pool	3.50%	11/41	5,883
5,549	Federal Home Loan Mortgage Corporation Pool	4.00%	5/41	5,833
5,209	Federal National Mortgage Association Pool	4.50%	8/41	5,557
4,888	Federal National Mortgage Association Pool	5.00%	8/41	5,330
4,799	Federal National Mortgage Association Pool	5.00%	6/40	5,209
4,837	Federal National Mortgage Association Pool	4.50%	4/41	5,190
4,702	Federal National Mortgage Association Pool	5.00%	9/41	5,127
4,398	Federal Home Loan Mortgage Corporation Pool	3.50%	10/41	4,522
4,150	Federal National Mortgage Association Pool	5.00%	10/41	4,504
4,230	Federal National Mortgage Association Pool	4.00%	9/41	4,454
4,158	Federal Home Loan Mortgage Corporation Pool	4.00%	1/41	4,384
4,100	Federal National Mortgage Association Pool	4.50%	11/41	4,374
3,724	Federal Home Loan Mortgage Corporation Pool	4.50%	9/41	3,963
3,751	Federal National Mortgage Association Pool	3.50%	11/41	3,859
2,565	Federal National Mortgage Association Pool	5.00%	7/41	2,791
2,391	Federal National Mortgage Association Pool	5.00%	11/41	2,595
4,609	Other Federal National Mortgage Association Pools	6.00%	9/39 - 2/40	5,092
1,197	Other Federal Home Loan Mortgage Corporation Pool	6.00%	5/40	1,319
806	Other Government National Mortgage Association Pool	5.50%	3/41	907
				689,018
	Interest Only - Fixed Rate Agency Securities (1.38%)			
24,381	Other Federal National Mortgage Association	5.00% - 5.50%	1/36 - 10/40	2,734
13,937	Other Federal Home Loan Mortgage Corporation	5.00% - 5.50%	6/33 - 1/39	1,772
9,281	Other Government National Mortgage Association	5.50%	3/36	603
				5,109
	TBA - Fixed Rate Agency Securities (8.64%)			

30,500	Federal National Mortgage Association (30 Year)	4.00%	1/12	32,033
				32,033
Total Fixed Rate Agency Securities (Cost $718,177)				726,160

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT DECEMBER 31, 2011 (CONTINUED)

(UNAUDITED)

Current Principal/ Notional Value *(In thousands)*	Description	Rate	Maturity	Fair Value *Expressed in U.S. Dollars*
Floating Rate Agency Securities (10.29%)				
Principal and Interest - Floating Rate Agency Securities (10.23%)				
$ 9,464	Federal National Mortgage Association Pool	5.10%	5/38	$ 9,969
6,675	Federal National Mortgage Association Pool	5.28%	12/35	7,027
6,627	Federal National Mortgage Association Pool	5.29%	2/38	6,954
3,364	Federal Home Loan Mortgage Corporation Pool	2.71%	7/34	3,524
3,261	Federal National Mortgage Association Pool	5.52%	7/37	3,493
3,247	Federal National Mortgage Association Pool	5.69%	4/36	3,441
1,906	Federal National Mortgage Association Pool	5.44%	9/37	2,023
1,444	Other Federal National Mortgage Association Pool	5.01%	10/33	1,525
				37,956
Interest Only - Floating Rate Agency Securities (0.06%)				
1,476	Other Federal National Mortgage Association Pool	5.50%	8/36	228
				228
Total Floating Rate Agency Securities (Cost $37,594)				38,184
Total Agency Securities (Cost $755,771)				764,344
Private Label Securities (116.91%)				
Principal and Interest - Private Label Securities (114.91%)				
762,480	Various	0.35% - 9.35%	5/19 - 12/47	426,202
Total Principal and Interest - Private Label Securities (Cost $456,170)				426,202
Interest Only - Private Label Securities (0.48%)				
76,167	Various	0.50% - 6.91%	7/35 - 9/47	1,774
Total Interest Only - Private Label Securities (Cost $1,471)				1,774

Other Private Label Securities (1.52%)				
201,831	Various		6/37 - 9/46	5,650
Total Other Private Label Securities (Cost $6,011)				5,650
Total Private Label Securities (Cost $463,652)				433,626
Total Mortgage-Backed Securities (Cost $1,219,423)				1,197,970
Commercial Mortgage Loans (1.19%) (n)				
5,000	Various	6.25%	11/12	4,400
Total Commercial Mortgage Loans (Cost $4,789)				4,400
U.S. Treasury Securities (2.72%)				
10,000	U.S. Treasury Note	2.00%	11/21	10,113
Total U.S. Treasury Securities (Cost $9,991)				10,113
Total Long Investments (Cost $1,234,203)				$ 1,212,483

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT DECEMBER 31, 2011 (CONTINUED)

(UNAUDITED)

Current Principal/ Notional Value *(In thousands)*	**Description**	**Rate**	**Maturity**	**Fair Value** *Expressed in U.S. Dollars*
Repurchase Agreements (4.24%) (c)				
$ 15,750	Bank of America Securities Collateralized by Par Value $15,000 U.S. Treasury Note, Coupon 1.75%, Maturity Date 5/16	0.01%	1/12	$ 15,750
Total Repurchase Agreements (Cost $15,750)				$ 15,750
Investments Sold Short (-124.66%)				
TBA - Fixed Rate Agency Securities Sold Short (-120.43%) (d)				
$(147,700)	Federal National Mortgage Association (30 Year)	4.50%	1/12	$ (157,185)
(114,200)	Federal National Mortgage Association (30 Year)	5.00%	1/12	(123,376)
(31,000)	Federal Home Loan Mortgage Corporation (30 Year)	5.00%	1/12	(33,316)
(30,400)	Federal Home Loan Mortgage Corporation (30 Year)	4.50%	1/12	(32,217)
(26,000)	Government National Mortgage Association (30 Year)	5.00%	1/12	(28,805)
(25,300)	Federal National Mortgage Association (15 Year)	4.00%	1/12	(26,688)
(13,500)	Federal National Mortgage Association (30 Year)	5.50%	1/12	(14,700)
(11,000)	Federal National Mortgage Association (15 Year)	4.50%	1/12	(11,727)
(8,400)	Federal National Mortgage Association (30 Year)	3.50%	1/12	(8,640)
(4,400)	Federal Home Loan Mortgage Corporation (30 Year)	3.50%	1/12	(4,517)
(2,500)	Federal National Mortgage Association (30 Year)	6.00%	1/12	(2,753)
(1,500)	Other Government National Mortgage Association (30 Year)	5.50%	1/12	(1,685)
(1,000)	Other Federal Home Loan Mortgage Corporation (30 Year)	6.00%	1/12	(1,098)
Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -$443,893)				(446,707)
U.S. Treasury Securities Sold Short (-4.23%)				
(15,000)	U.S. Treasury Note	1.75%	5/16	(15,687)
Total U.S. Treasury Securities Sold Short (Proceeds -$15,120)				(15,687)
Total Investments Sold Short (Proceeds -$459,013)				$ (462,394)

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT DECEMBER 31, 2011 (CONTINUED)

(UNAUDITED)

(In thousands)	**Primary Risk Exposure**	**Notional Value**	**Range of Expiration Dates**	**Fair Value** *Expressed in U.S. Dollars*
Financial Derivatives - Assets (27.73%)				
Swaps (27.73%) (e)				
Long Swaps:				
Interest Rate Swaps (g)	Interest Rates	$ 4,500	10/16	$ 68
Short Swaps:				
Credit Default Swaps on Asset-Backed Securities (h)	Credit	(74,787)	9/34 - 12/36	61,498
Credit Default Swaps on Asset-Backed Indices: (i)	Credit			
ABX.HE AAA 2006-2 Index		(62,842)	5/46	35,542
Other		(19,800)	3/49 - 10/52	4,761
Credit Default Swaps on Corporate Bond Indices (k)	Credit	(106,500)	12/16	963
Interest Rate Swaps (j)	Interest Rates	(25,000)	12/14	27
Total Swaps (Cost $118,281)				102,859
Futures (-0.00%)				
Short Futures:				
Eurodollar Futures (m)	Interest Rates	(147,000)	3/12 - 9/13	12
Total Futures				12
Total Financial Derivatives - Assets (Cost $118,281)				$ 102,871
Financial Derivatives - Liabilities (-7.29%)				
Swaps (-7.29%)				
Long Swaps:				
Credit Default Swaps on Asset-Backed Indices (Proceeds - $9,636) (f)	Credit	$ 22,615	6/36 - 2/51	$ (9,548)
Short Swaps:				
Interest Rate Swaps (j)	Interest Rates	(280,400)	4/14 - 12/21	(17,218)
Total Return Swaps (l)	Equity Market	(20,571)	9/12 - 9/13	(274)
Total Swaps (Proceeds -$9,636)				(27,040)
Total Financial Derivatives - Liabilities (Proceeds -$9,636)				$ (27,040)

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT DECEMBER 31, 2011 (CONCLUDED)

(UNAUDITED)

(a) See Note 2 in Notes to Consolidated Financial Statements.
(b) At December 31, 2011, 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 142.04%, 63.62%, and 0.41% of shareholders equity, respectively.
(c) In general, securities received pursuant to repurchase agreements were delivered to counterparties in short sale transactions.
(d) At December 31, 2011, 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 93.03%, 19.18%, and 8.22% of shareholders equity, respectively.
(e) The following table shows the Company s swap assets by dealer as a percentage of shareholders equity:

Dealer/Parent Company	Percent of Shareholders Equity
Affiliates of Morgan Stanley	8.15%
Affiliates of Credit Suisse	7.27%
Affiliates of Deutsche Bank	5.65%

(f) For long credit default swaps on asset backed indices, the Company sold protection.
(g) For long interest rate swap contracts, a floating rate is being paid and a fixed rate is being received.
(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 or par value times the closing price of the underlying security.
(m) Every $1,000,000 in notional value represents one contract.
(n) Maturity date may be extended through November 4, 2015.
(o) 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 affiliated with Fannie Mae, Freddie Mac, or Ginnie Mae. 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	Percentage of Shareholders Equity
U.S. Treasury Securities	2.72%
Unrated but Agency-Guaranteed	206.07%
Aaa/AAA/AAA	1.25%
Aa/AA/AA	1.88%
A/A/A	5.44%
Baa/BBB/BBB	3.46%

Ba/BB/BB or below	103.36%
Unrated	2.71%

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF OPERATIONS

(UNAUDITED)

(In thousands except per share amounts)	**Three Month Period Ended March 31, 2012**	**Three Month Period Ended March 31, 2011**
	Expressed in U.S. Dollars	
INVESTMENT INCOME		
Interest income	$ 15,733	$ 15,849
EXPENSES		
Base management fee	1,492	1,481
Incentive fee		612
Share-based LTIP expense	28	38
Interest expense	1,832	1,543
Professional fees	278	553
Compensation expense	375	248
Insurance expense	177	167
Agency and administration fees	213	240
Custody and other fees	304	295
Directors fees and expenses	74	74
Total expenses	4,773	5,251
NET INVESTMENT INCOME	10,960	10,598
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FINANCIAL DERIVATIVES		
Net realized gain (loss) on:		
Investments	8,147	8,236
Swaps	(19,928)	3,739
Futures	(8)	(371)
	(11,789)	11,604
Change in net unrealized gain (loss) on:		
Investments	18,130	(9,251)
Swaps	14,817	(2,163)
Futures	(63)	319
	32,884	(11,095)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FINANCIAL DERIVATIVES	21,095	509
NET INCREASE IN SHAREHOLDERS EQUITY RESULTING FROM OPERATIONS	$ 32,055	$ 11,107
NET INCREASE IN SHAREHOLDERS EQUITY RESULTING FROM OPERATIONS PER SHARE:		
Basic and Diluted	$ 1.90	$ 0.66

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(In thousands)	**Three Month Period Ended March 31, 2012**	**Three Month Period Ended March 31, 2011**
	Expressed in U.S. Dollars	
CHANGE IN SHAREHOLDERS EQUITY RESULTING FROM OPERATIONS		
Net investment income	$ 10,960	$ 10,598
Net realized gain (loss) on investments and financial derivatives	(11,789)	11,604
Change in net unrealized gain (loss) on investments and financial derivatives	32,884	(11,095)
Net increase in shareholders equity resulting from operations	32,055	11,107
CHANGE IN SHAREHOLDERS EQUITY RESULTING FROM SHAREHOLDER TRANSACTIONS		
Shares issued in connection with incentive fee payment		142
Dividends paid(1)	(6,735)	(22,126)
Share-based LTIP awards	28	38
Net decrease in shareholders equity from shareholder transactions	(6,707)	(21,946)
Net increase (decrease) in shareholders equity	25,348	(10,839)
SHAREHOLDERS EQUITY, BEGINNING OF PERIOD	370,916	403,672
SHAREHOLDERS EQUITY, END OF PERIOD	$ 396,264	$ 392,833

(1) For the three month periods ending March 31, 2012 and 2011, dividends totaling $0.40 and $1.31, respectively, per common share and LTIP 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)

(In thousands)	**Three Month Period Ended March 31, 2012**	**Three Month Period Ended March 31, 2011**
	Expressed in U.S. Dollars	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
NET INCREASE IN SHAREHOLDERS EQUITY RESULTING FROM OPERATIONS	$ 32,055	$ 11,107
Cash flows provided by (used in) operating activities:		
Reconciliation of the net increase in shareholders equity resulting from operations to net cash used in operating activities:		
Change in net unrealized (gain) loss on investments and financial derivatives	(32,884)	11,095
Net realized (gain) loss on investments and financial derivatives	11,789	(11,604)
Amortization of premiums and accretion of discounts (net)	(2,346)	(2,721)
Purchase of investments	(827,052)	(966,316)
Proceeds from disposition of investments	814,756	879,456
Proceeds from principal payments of investments	29,722	23,898
Proceeds from investments sold short	566,348	983,292
Repurchase of investments sold short	(450,793)	(1,016,337)
Payments made to open financial derivatives	(40,628)	(29,424)
Proceeds received to close financial derivatives	41,907	66,611
Proceeds received to open financial derivatives	21,564	7,963
Payments made to close financial derivatives	(18,952)	(14,134)
Shares issued in connection with incentive fee payment		142
Share-based LTIP expense	28	38
(Increase) decrease in assets:		
(Increase) decrease in repurchase agreements	2,100	(14,441)
Increase in receivable for securities sold	(108,510)	(158,678)
(Increase) decrease in deposits with dealers held as collateral	1,801	(1,477)
(Increase) decrease in interest and principal receivable	(11)	450
Increase in other assets	(828)	(489)
Increase (decrease) in liabilities:		
Decrease in due to brokers on margin accounts	(14,238)	(31,821)
Increase (decrease) in payable for securities purchased	(56,829)	166,776
Increase (decrease) in accounts payable and accrued expenses	(323)	570
Increase (decrease) in incentive fee payable		470
Increase in interest and dividends payable	94	260
Increase in base management fee payable	96	1,481
Net cash used in operating activities	(31,134)	(93,833)
Cash flows provided by (used in) financing activities:		
Offering costs paid		(134)
Dividends paid	(6,735)	(22,126)
Proceeds from issuance of securitized debt	1,522	
Principal payments on securitized debt	(40)	
Reverse repurchase agreements, net of repayments	25,196	121,742
Net cash provided by financing activities	19,943	99,482

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(11,191)		5,649
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		62,737		35,791
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	51,546	$	41,440
Supplemental disclosure of cash flow information:				
Interest paid	$	1,727	$	1,283
Shares issued in connection with incentive fee payment (non-cash)	$		$	142
Share-based LTIP awards (non-cash)	$	28	$	38
Aggregate TBA trade activity (buys + sells) (non-cash)	$	4,179,427	$	5,633,198

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(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. EF Securities LLC, a wholly owned consolidated subsidiary of Ellington Financial LLC, was formed as a Delaware limited liability company on October 12, 2007 and commenced operations on November 30, 2007. EF Mortgage LLC, a wholly owned consolidated subsidiary of Ellington Financial LLC, was formed as a Delaware limited liability company on June 3, 2008 and commenced operations on July 8, 2008. EF CMO LLC, a wholly owned consolidated subsidiary of EF Mortgage LLC, was formed as a Delaware limited liability company on June 3, 2008 and commenced operations on July 8, 2008. EF Special Transactions LLC, a wholly owned consolidated subsidiary of EF CMO LLC, was formed as a Delaware limited liability company on December 14, 2011 and commenced operations on January 31, 2012. Ellington Financial LLC, EF Securities LLC, EF Mortgage LLC, EF CMO LLC and EF Special Transactions LLC are hereafter collectively referred to as the Company. All inter-company accounts are eliminated in consolidation.

On October 14, 2010, the Company closed its initial public offering of its common shares representing limited liability company interests, or common shares, pursuant to which it sold 4,500,000 common shares to the public at a public offering price of $22.50. The Company raised approximately $101.3 million in gross proceeds, resulting in net proceeds of approximately $94.7 million after deducting underwriting discounts and other offering costs. The Company s common shares trade on the New York Stock Exchange under the symbol EFC.

The Company is a specialty finance company that acquires and manages mortgage-related assets, including residential mortgage-backed securities, or RMBS, backed by prime jumbo, Alt-A, manufactured housing and subprime residential mortgage loans, RMBS for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored enterprise, mortgage-related derivatives, commercial mortgage-backed securities, or CMBS, commercial mortgage loans and other commercial real estate debt, as well as corporate debt and equity securities and derivatives. The Company may also opportunistically acquire and manage other types of mortgage-related and financial asset classes, such as residential whole mortgage loans, asset-backed securities, or ABS, backed by consumer and commercial assets and non-mortgage-related derivatives.

Ellington Financial Management LLC (EFM or the Manager) is a registered investment advisor that serves as the Manager to the Company pursuant to the terms of the Third Amended and Restated Management Agreement effective August 2, 2011 (the Management Agreement). EFM is an affiliate of Ellington Management Group, L.L.C., an investment management firm and also a registered investment advisor. 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 for investment companies, ASC 946, *Financial Services Investment Companies* (ASC 946), for interim financial information. 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 and its wholly owned subsidiaries. All inter-company balances and transactions have been eliminated. The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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.

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(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: Securities transactions 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, commercial mortgage loans, U.S. Treasury securities 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 expected cash flows of its investment holdings based on assumptions including, but not limited to, prepayment and default rate assumptions. 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.

(D) Cash and Cash Equivalents: Cash and cash equivalents include amounts held in an interest bearing overnight account and money market funds. As of March 31, 2012, 49% and 51% of cash and cash equivalents were held in the JP Morgan U.S. Treasury Plus Premier Fund and an interest bearing account at the Bank of New York Mellon Corporation, respectively. As of December 31, 2011, all cash was held in an interest bearing account at the Bank of New York Mellon Corporation.

(E) Financial Derivatives: The Company enters into various types of financial derivatives. The two major types utilized are swaps and futures.

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 total return swap activity has been equity market risk. The primary risk associated with the Company s credit default swaps is credit risk.

The Company is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. 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 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.

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The Company enters into total return swaps in order to take a long or short position with respect to an underlying referenced asset. The Company is subject to market price volatility of the underlying referenced 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 referenced securities. During the term of swap contracts, changes in value are recognized as unrealized gains or losses. When the contracts are terminated, the Company will realize 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/received by the Company to open swap contracts are recorded as an asset and/or liability on the Consolidated Statement of Assets, Liabilities and Shareholders Equity and are recorded as a realized gain or loss on the termination date. The Company may be required to deliver or receive cash or securities as collateral upon entering into swap transactions.

The Company s swap contracts are generally governed by International Swaps and Derivatives Association, or ISDA, trading agreements, which are separately negotiated agreements with dealer counterparties. Changes in the relative value of the swap transactions may require the Company or the counterparty to post or receive additional collateral. Typically, a collateral payment or receipt is triggered based on the net change in the value of all contracts governed by a particular ISDA trading agreement. Collateral received from counterparties is included in Due to brokers on margin accounts on the Consolidated Statement of Assets, Liabilities and Shareholders Equity. Collateral paid to counterparties is included in Deposits with dealers held as collateral on the Consolidated Statement of Assets, Liabilities and Shareholders Equity. Entering into swap contracts involves market risk in excess of amounts recorded on the Consolidated Statement of Assets, Liabilities and Shareholders Equity.

Futures Contracts: A futures contract is an agreement between two parties to buy and sell a financial instrument for a set price on a future date. The Company enters into Eurodollar futures contracts to hedge its interest rate risk. Initial margin deposits are made upon entering into futures contracts and can be either cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking to market on a daily basis to reflect the market value of the contract at the end of each day s trading. Variation margin payments are made or received periodically, depending upon whether unrealized gains or losses 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.

Derivative instruments 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, interest rate swaps, total return swaps and Eurodollar futures contracts.

Swap assets are included in Financial derivatives assets at fair value on the Consolidated Statement of Assets, Liabilities and Shareholders Equity. Swap liabilities are included in Financial derivatives liabilities at fair value on the Consolidated Statement of Assets, Liabilities and Shareholders Equity. In addition, swap contracts are summarized by type on the Consolidated Condensed Schedule of Investments. Unrealized appreciation on futures contracts is in Financial derivatives assets at fair value on the Consolidated Statement of Assets, Liabilities and Shareholders Equity. Unrealized depreciation on futures contracts is included in Financial derivatives liabilities at fair value on the Consolidated Statement of Assets, Liabilities and Shareholders Equity. For total return swaps, credit default swaps, interest rate swaps and futures, notional values reflected on the Consolidated Condensed Schedule of Investments represent approximately 105%, 102%, 90% and 89%, respectively, of average monthly notional values of each such category outstanding during the three month period ended March 31, 2012. For total return swaps, interest rate swaps, credit default swaps and futures, notional values reflected on the Consolidated Condensed Schedule of Investments represent approximately 354%, 111%, 92% and 65%, respectively, of average monthly notional values of each such category outstanding during the year ended December 31, 2011. The Company uses average monthly notional values outstanding to indicate the volume of activity with respect to these instruments.

(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 via repurchase agreement. The Company generally is required to deliver cash or securities as collateral to the repurchase agreement counterparty. 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. Interest on the value of repurchase and reverse repurchase agreements issued and outstanding is based upon competitive market rates at the time of issuance. The Company accounts for reverse repurchase agreements as collateralized borrowings. 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. The Company 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. Assets held pursuant to repurchase agreements are reflected as assets on the Consolidated Statement of Assets, Liabilities and Shareholders 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 consolidated financial statements.

Reverse repurchase agreements are carried at their contractual amounts, which the Company believes is the best estimate of fair value. At March 31, 2012, the Company s open reverse repurchase agreements had remaining terms that averaged 43 days and ranged from 2 to 180 days and had interest rates that averaged 0.79% and ranged from 0.32% to 2.60%. At March 31, 2012, approximately 38% of open reverse repurchase agreements were with two counterparties. At December 31, 2011, the Company s open reverse repurchase agreements had remaining terms that averaged 33 days and ranged from 3 to 180 days and had interest rates that averaged 0.82% and ranged from 0.08% to 2.56%. At December 31, 2011, approximately 73% of open reverse repurchase agreements were with four counterparties.

The Company follows the provisions of ASC 860-20, *Sales of Financial Assets*, which requires an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously or in contemplation of the initial transfer to be evaluated as a linked transaction unless certain criteria are met, including that the transferred asset must be readily obtainable in the marketplace. As of March 31, 2012 and December 31, 2011, the Company did not have any material seller financing. No transactions are accounted for as linked transactions at March 31, 2012 and December 31, 2011.

(H) Securitized Debt: The Company entered into a resecuritization transaction 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 820-10, the Company has elected to carry securitized debt at fair value.

(I) Purchased Options: The Company has entered into options primarily to help mitigate overall market risk. When the Company purchases an option, an amount equal to the premium paid is recorded as an asset 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 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. The Company had no purchased options outstanding as of March 31, 2012 and December 31, 2011.

(J) When-Issued/Delayed Delivery Securities: The Company may purchase or sell securities on a when-issued or delayed delivery basis. Securities purchased or sold on a when-issued basis are traded for delivery beyond the normal settlement date at a stated price or yield, and no income accrues to the purchaser prior to settlement. Purchasing or selling securities on a when-issued or delayed delivery basis involves the risk that the market price or yield at the time of settlement may be lower or higher than the agreed-upon price or yield, in which case a realized loss may be incurred.

The Company transacts in the forward settling To Be Announced MBS (TBA) market. The Company typically does not take delivery of TBAs, but rather settles with its trading counterparties on a net basis. 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

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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. As of March 31, 2012, total assets included $17.2 million of TBAs as well as $566.8 million of receivable for securities sold relating to unsettled TBA sales. As of December 31, 2011, total assets included $32.0 million of TBAs as well as $443.7 million of receivable for securities sold relating to unsettled TBA sales.

As of March 31, 2012, total liabilities included $566.4 million of TBAs sold short as well as $17.4 million of payable for securities purchased relating to unsettled TBA purchases. As of December 31, 2011, total liabilities included $446.7 million of TBAs sold short as well as $32.5 million of payable for securities purchased relating to unsettled TBA purchases. On a net basis, as of March 31, 2012, the Company held a net short position in TBAs of $549.1 million while at December 31, 2011, the Company held a net short position in TBAs of $414.7 million.

(K) Offering Costs/Placement Fees: Offering costs and placement fees are charged against shareholders equity.

(L) LTIP Units: Long term incentive plan units (LTIP units) have been issued to the Company s dedicated personnel, independent directors as well as the Manager. Costs associated with LTIP units issued to 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 period for units issued to dedicated personnel and independent directors under the Ellington Incentive Plan for Individuals (the Individual LTIP) is typically one year. 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) Dividends: Dividends payable are recorded in the consolidated financial statements on the ex-dividend date.

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

(O) 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 long term incentive plan units deemed to be participating securities, by the weighted average number of common shares outstanding calculated excluding long term incentive units. Because the Company s long term incentive plan units are deemed to be participating securities and the Company has no other equity securities outstanding, basic and diluted EPS are the same. See Note 8 for EPS computations.

(P) Income Taxes: The Company intends to be treated as a partnership for U.S. federal income tax purposes. 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.

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 tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement which could result in the Company recording a tax liability that would reduce shareholders equity. The Company did not have any additions to its unrecognized tax benefits resulting from tax positions related either to the current period or to 2011, 2010, 2009, 2008 or 2007 (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 since inception. The Company does not expect any change in unrecognized tax benefits within the next fiscal year.

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 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 (FASB), and ongoing analyses of tax laws, regulations and interpretations thereof.

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(Q) Subsequent Events: The Company applies the provisions of ASC 855-10, *Subsequent Events*, in the preparation of its consolidated financial statements. This standard establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued.

(R) Recent Accounting Pronouncements: In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). This amends ASU 210-20, *Balance Sheet Offsetting*, to require new disclosures about balance sheet offsetting for derivative and financial instruments which are offset on the Statement of Assets, Liabilities and Shareholders Equity. The update requires disclosure of gross asset and liability amounts for financial instruments shown net on the Statement of Assets, Liabilities and Shareholders Equity. ASU 2011-11 is effective for interim and annual periods beginning on or after January 1, 2013 and is to be applied retrospectively. The Company does not expect the adoption of ASU 2011-11 to have a material impact on its consolidated financial statements.

On May 12, 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement* (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles* (U.S. GAAP) *and International Financial Reporting Standards* (IFRS) (ASU 2011-04). The amendments are of two types: (i) those that clarify the FASB s intent about the application of existing fair value measurement and disclosure requirements and (ii) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurement. The amendments that change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements relate to (i) measuring the fair value of the financial instruments that are managed within a portfolio; (ii) application of premium and discount in a fair value measurement; and (iii) additional disclosures about fair value measurements. The update is effective for interim and annual periods beginning after December 15, 2011. As a result of the adoption of this update, the Company has added disclosure to Note 3 about the significant unobservable inputs underlying its Level 3 assets and liabilities.

On April 29, 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing* (Topic 860), *Reconsideration of Effective Control for Repurchase Agreements* (ASU 2011-03). This modifies the criteria for determining when repurchase agreements and other similar transactions would be accounted for as financings (secured borrowings/lending agreements) as opposed to sales (purchases) with commitments to repurchase (resell). ASU 2011-03 is effective prospectively for new transfers and existing transactions that are modified in the first interim or annual period beginning on or after December 15, 2011. The adoption of ASU 2011-03 did not 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 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 and default rate assumptions and (ii) the solicitation of valuations from third parties (typically, broker-dealers). 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 and default rate assumptions. The Manager utilizes such information to assign a good faith valuation (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 such financial instruments. The Manager has been able to obtain third-party valuations on the vast majority of the Company s financial instruments and expects to continue to solicit third-party valuations on substantially all of the Company s financial instruments in the future to the extent practical.

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The Manager uses its judgment based on its own models, the assessments of its portfolio managers and third-party valuations it obtains, to determine and assign fair values to the Company s Level 3 financial instruments. Because of the inherent uncertainty of valuation, 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 March 31, 2012:

(In thousands)

Description	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 51,546	$	$	$ 51,546
Investments at fair value-				
Agency residential mortgage-backed securities	$	$ 794,667	$ 6,016	$ 800,683
Private label residential mortgage-backed securities			408,230	408,230
Private label commercial mortgage-backed securities			12,171	12,171
Commercial mortgage loans			4,500	4,500
Total investments at fair value		794,667	430,917	1,225,584
Financial derivatives-assets at fair value-				
Credit default swaps on asset-backed securities			48,746	48,746
Credit default swaps on asset-backed indices		45,223		45,223
Interest rate swaps		87		87
Total financial derivatives-assets at fair value		45,310	48,746	94,056
Repurchase agreements		13,650		13,650
Total investments, financial derivatives-assets at fair value and repurchase agreements	$	$ 853,627	$ 479,663	$ 1,333,290
Liabilities:				
Investments sold short at fair value-				
U.S. Treasury and Agency residential mortgage-backed securities	$	$ (579,852)	$	$ (579,852)
Financial derivatives-liabilities at fair value-				
Credit default swaps on corporate indices		(364)		(364)
Credit default swaps on asset backed indices		(20,536)		(20,536)
Total return swaps		(249)		(249)
Interest rate swaps		(6,097)		(6,097)
Unrealized depreciation on futures contracts	(52)			(52)
Total financial derivatives-liabilities at fair value	(52)	(27,246)		(27,298)
Securitized debt			(1,485)	(1,485)
Total investments sold short, financial derivatives-liabilities at fair value and securitized debt	$ (52)	$ (607,098)	$ (1,485)	$ (608,635)

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 three month period ended March 31, 2012.

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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 March 31, 2012:

Description	Fair Value as of March 31, 2012 *(In thousands)*	Valuation Technique	Unobservable Input	Range Min	Range Max	Weighted Average
Private label residential mortgage-backed securities [1]	$ 406,745	Discounted Cash Flows	Yield	4.7%	22.7%	9.5%
			Projected Collateral Prepayments	0.6%	38.8%	16.4%
			Projected Collateral Losses	4.2%	88.4%	36.7%
			Projected Collateral Recoveries	0.0%	42.6%	20.7%
			Projected Collateral Scheduled Amortization	3.0%	89.4%	26.2%
						100.0%
Credit default swaps on asset-backed securities	48,746	Net Discounted Cash Flows				
			Projected Collateral Prepayments	5.3%	36.2%	13.1%
			Projected Collateral Losses	25.2%	62.1%	49.1%
			Projected Collateral Recoveries	11.7%	34.0%	20.3%
			Projected Collateral Scheduled Amortization	7.7%	37.0%	17.5%
						100.0%
Private label commercial mortgage-backed securities and Commercial mortgage loans	16,671	Discounted Cash Flows	Yield	7.9%	10.9%	9.7%
			Projected Collateral Losses	0.0%	30.5%	4.6%
			Projected Collateral Recoveries	0.0%	46.4%	14.9%
			Projected Collateral Scheduled Amortization	47.8%	100.0%	80.5%
						100.0%
Agency interest only residential mortgage-backed securities	6,016	Option Adjusted Spread (OAS)	LIBOR OAS[2]	741	2,754	1,107
			Projected Collateral Prepayments	74.3%	93.0%	81.8%
			Projected Collateral Scheduled Amortization	7.0%	25.7%	18.2%
						100.0%

(1) Includes securitized debt with a fair value of $1.5 million as of March 31, 2012.

(2) Shown in basis points.

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.

The Company uses a LIBOR Option Adjusted Spread (OAS) valuation methodology to value its Agency interest only RMBS assets. In the LIBOR OAS methodology, cash flows are projected using Ellington 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 result in a lower expectation of collateral losses. Conversely, higher losses will generally result in lower prepayments. Because the Company s credit default swaps on asset-backed security holdings represent credit default swap contracts whereby the Company has purchased credit protection, such default swaps on asset-backed securities generally have the directionally opposite sensitivity to prepayments, losses and recoveries as compared to the Company s long securities holdings. Prepayments do not represent a significant input for the Company s commercial mortgage-backed securities and commercial mortgage loans. Losses and recoveries do not represent a significant input for the Company s Agency RMBS interest only securities, given the guarantee of the issuing government agency or government-sponsored enterprise.

The 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 table below reflects the value of the Company s Level 1, Level 2 and Level 3 financial instruments at December 31, 2011:

(In thousands) **Description**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 62,737	$	$	$ 62,737
Investments at fair value-				
U.S. Treasury and Agency residential mortgage-backed securities	$	$ 769,120	$ 5,337	$ 774,457
Private label residential mortgage-backed securities			417,533	417,533
Private label commercial mortgage-backed securities			16,093	16,093
Commercial mortgage loans			4,400	4,400
Total investments at value		769,120	443,363	1,212,483
Financial derivatives-assets at fair value-				
Credit default swaps on corporate indices		963		963
Credit default swaps on asset-backed securities			61,498	61,498
Credit default swaps on asset-backed indices		40,303		40,303
Interest rate swaps		95		95
Unrealized appreciation on futures contracts	12			12
Total financial derivatives-assets at fair value	12	41,361	61,498	102,871
Repurchase agreements		15,750		15,750
Total investments, financial derivatives-assets at fair value and repurchase agreements	$ 12	$ 826,231	$ 504,861	$ 1,331,104
Liabilities:				
Investments sold short at fair value-				
U.S. Treasury and Agency residential mortgage-backed securities	$			