

Ellington Financial LLC
Form 10-Q
August 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2013

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 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 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 Accelerated Filer
Non-Accelerated Filer 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

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

Class Outstanding at August 2, 2013
25,417,155

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)

	June 30, 2013	December 31, 2012
	Expressed in U.S. Dollars	
(In thousands except share amounts)		
ASSETS		
Cash and cash equivalents	\$201,795	\$59,084
Investments, financial derivatives, and repurchase agreements:		
Investments at fair value (Cost – \$1,675,134 and \$1,328,153)	1,710,422	1,375,116
Financial derivatives – assets at fair value (Net cost – \$47,291 and \$65,860)	46,977	48,504
Repurchase agreements (Cost – \$41,188 and \$13,650)	41,188	13,650
Total investments, financial derivatives, and repurchase agreements	1,798,587	1,437,270
Due from brokers	48,294	22,744
Receivable for securities sold	672,035	626,919
Interest and principal receivable	6,571	5,719
Other assets	1,125	379
Total Assets	\$2,728,407	\$2,152,115
LIABILITIES		
Investments and financial derivatives:		
Investments sold short at fair value (Proceeds – \$614,208 and \$621,048)	\$608,922	\$622,301
Financial derivatives – liabilities at fair value (Net proceeds – \$16,042 and \$13,171)	18,543	15,212
Total investments and financial derivatives	627,465	637,513
Reverse repurchase agreements	1,287,992	905,718
Due to brokers	30,345	30,954
Payable for securities purchased	136,084	57,333
Securitized debt (Proceeds – \$1,150 and \$1,311)	1,168	1,335
Accounts payable and accrued expenses	1,917	1,995
Base management fee payable	2,405	1,934
Incentive fee payable	1,182	7,343
Other payables	311	903
Interest and dividends payable	1,680	732
Total Liabilities	2,090,549	1,645,760
EQUITY	637,858	506,355
TOTAL LIABILITIES AND EQUITY	\$2,728,407	\$2,152,115
ANALYSIS OF EQUITY:		
Common shares, no par value, 100,000,000 shares authorized; (25,412,011 and 20,370,469 shares issued and outstanding)	\$624,096	\$497,373
Additional paid-in capital – LTIP units	9,066	8,982
Total Shareholders' Equity	633,162	506,355
Non-controlling interest	4,696	—
Total Equity	\$637,858	\$506,355
PER SHARE INFORMATION:		
Common shares	\$24.92	\$24.86
See Notes to Consolidated Financial Statements		

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT JUNE 30, 2013

(UNAUDITED)

Current Principal/

Notional

Value/Number

of Shares

Description

Rate

Maturity

Fair Value

(In thousands)

Expressed in U.S.
Dollars

North America (r)

Long Investments (268.15%) (a) (p)

Mortgage-Backed Securities (260.25%)

Agency Securities (147.62%) (b)

Fixed Rate Agency Securities (143.67%)

Principal and Interest - Fixed Rate Agency Securities (129.00%)

\$75,125	Federal National Mortgage Association Pool	3.50%	2/43	\$ 75,620
39,607	Federal National Mortgage Association Pool	3.50%	1/43	39,769
19,593	Federal National Mortgage Association Pool	4.50%	12/41	20,895
16,806	Federal National Mortgage Association Pool	4.50%	9/41	17,922
17,552	Federal National Mortgage Association Pool	3.50%	8/42	17,846
16,329	Federal National Mortgage Association Pool	5.00%	8/41	17,740
17,128	Federal National Mortgage Association Pool	3.00%	6/28	17,574
16,033	Federal National Mortgage Association Pool	4.50%	10/41	17,098
15,831	Federal Home Loan Mortgage Corporation Pool	5.00%	7/41	17,076
13,767	Federal National Mortgage Association Pool	5.00%	3/41	15,027
12,008	Federal National Mortgage Association Pool	4.00%	8/42	12,523
12,607	Federal Home Loan Mortgage Corporation Pool	3.00%	10/42	12,308
11,105	Federal National Mortgage Association Pool	4.50%	9/41	11,775
11,076	Federal National Mortgage Association Pool	4.00%	11/41	11,558
10,519	Federal National Mortgage Association Pool	5.00%	7/41	11,480
9,995	Federal Home Loan Mortgage Corporation Pool	4.00%	7/43	10,447
9,753	Federal National Mortgage Association Pool	4.00%	1/42	10,177
9,853	Federal Home Loan Mortgage Corporation Pool	3.00%	2/43	9,618
8,923	Federal Home Loan Mortgage Corporation Pool	4.50%	10/41	9,454
8,372	Federal National Mortgage Association Pool	4.50%	4/26	8,905
6,614	Federal National Mortgage Association Pool	5.50%	10/39	7,250
6,788	Federal Home Loan Mortgage Corporation Pool	4.50%	2/41	7,203
6,480	Federal Home Loan Mortgage Corporation Pool	3.00%	1/43	6,325
6,446	Federal Home Loan Mortgage Corporation Pool	3.00%	4/43	6,291
5,593	Government National Mortgage Association Pool	4.54%	11/62	6,177
5,542	Government National Mortgage Association Pool	4.46%	2/63	6,108
5,965	Federal National Mortgage Association Pool	3.50%	5/43	6,064
5,647	Federal National Mortgage Association Pool	4.00%	7/26	5,955
5,385	Government National Mortgage Association Pool	4.58%	10/62	5,952
5,319	Government National Mortgage Association Pool	4.52%	1/63	5,875
5,771	Federal National Mortgage Association Pool	3.50%	6/43	5,869
5,178	Government National Mortgage Association Pool	4.60%	6/62	5,718

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2013 (CONTINUED)
(UNAUDITED)

Current Principal/ Notional Value/Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Principal and Interest - Fixed Rate Agency Securities (129.00%) (continued)				
\$5,157	Government National Mortgage Association Pool	4.63%	6/61	\$ 5,661
5,062	Federal National Mortgage Association Pool	5.00%	6/41	5,474
5,252	Federal Home Loan Mortgage Corporation Pool	4.00%	5/42	5,473
5,355	Federal National Mortgage Association Pool	3.50%	8/42	5,444
5,034	Federal National Mortgage Association Pool	4.00%	4/42	5,277
5,040	Federal National Mortgage Association Pool	4.00%	10/41	5,260
5,023	Federal National Mortgage Association Pool	3.50%	6/43	5,056
4,638	Federal National Mortgage Association Pool	5.00%	11/40	5,038
4,624	Federal National Mortgage Association Pool	5.00%	7/41	4,999
5,092	Federal Home Loan Mortgage Corporation Pool	3.00%	6/43	4,970
4,658	Federal National Mortgage Association Pool	4.50%	8/41	4,939
4,669	Federal National Mortgage Association Pool	3.50%	7/42	4,747
4,730	Federal Home Loan Mortgage Corporation Pool	3.00%	2/43	4,617
4,418	Federal Home Loan Mortgage Corporation Pool	4.00%	2/42	4,605
4,465	Federal National Mortgage Association Pool	3.50%	11/42	4,543
4,456	Federal National Mortgage Association Pool	3.50%	7/42	4,528
4,173	Federal National Mortgage Association Pool	4.00%	9/42	4,357
3,965	Federal National Mortgage Association Pool	5.00%	10/41	4,280
4,267	Federal Home Loan Mortgage Corporation Pool	3.50%	6/43	4,274
4,010	Federal National Mortgage Association Pool	3.00%	7/27	4,129
3,886	Federal National Mortgage Association Pool	3.50%	8/42	3,950
3,511	Federal National Mortgage Association Pool	5.00%	10/35	3,834
3,439	Government National Mortgage Association Pool	4.66%	1/63	3,821
3,368	Government National Mortgage Association Pool	4.80%	2/61	3,698
3,300	Government National Mortgage Association Pool	4.48%	2/63	3,639
3,587	Federal Home Loan Mortgage Corporation Pool	3.50%	11/42	3,637
3,453	Federal National Mortgage Association Pool	4.00%	6/26	3,634
3,429	Federal National Mortgage Association Pool	3.50%	6/27	3,581
3,483	Federal Home Loan Mortgage Corporation Pool	3.00%	6/28	3,572
3,552	Federal Home Loan Mortgage Corporation Pool	3.50%	6/43	3,566
3,387	Federal National Mortgage Association Pool	4.00%	4/42	3,535
3,469	Federal National Mortgage Association Pool	3.50%	1/43	3,529
3,229	Federal National Mortgage Association Pool	5.00%	6/40	3,514
3,292	Federal National Mortgage Association Pool	4.50%	4/42	3,500
3,145	Government National Mortgage Association Pool	4.68%	10/61	3,466
3,326	Federal National Mortgage Association Pool	3.00%	6/28	3,430
3,338	Federal National Mortgage Association Pool	3.00%	3/28	3,426
3,242	Federal National Mortgage Association Pool	4.00%	9/42	3,385

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3,170	Federal National Mortgage Association Pool	4.50%	12/41	3,374
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See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2013 (CONTINUED)
(UNAUDITED)

Current Principal/ Notional Value/Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Principal and Interest - Fixed Rate Agency Securities (129.00%) (continued)				
\$3,383	Federal Home Loan Mortgage Corporation Pool	3.00%	11/42	\$ 3,301
3,162	Federal Home Loan Mortgage Corporation Pool	4.00%	1/42	3,293
3,361	Federal Home Loan Mortgage Corporation Pool	3.00%	4/43	3,281
3,228	Federal National Mortgage Association Pool	3.50%	12/42	3,280
3,026	Federal Home Loan Mortgage Corporation Pool	4.50%	9/41	3,206
3,148	Federal National Mortgage Association Pool	3.50%	5/43	3,202
131,020	Other Federal National Mortgage Association Pools	3.00% - 6.00%	3/26 - 7/43	136,057
45,976	Other Federal Home Loan Mortgage Corporation Pools	3.00% - 6.00%	4/26 - 7/43	46,836
13,609	Other Government National Mortgage Association Pools	4.49% - 4.69%	7/61 - 11/62	15,018
				822,835
Interest Only - Fixed Rate Agency Securities (1.98%)				
53,465	Other Federal National Mortgage Association	3.00% - 5.50%	12/20 - 4/43	6,177
24,264	Other Federal Home Loan Mortgage Corporation	3.00% - 5.50%	12/32 - 1/43	3,393
22,552	Other Government National Mortgage Association	3.00% - 5.50%	3/36 - 11/42	3,043
				12,613
TBA - Fixed Rate Agency Securities (12.69%)				
65,800	Federal Home Loan Mortgage Corporation (30 Year)	3.00%	7/13	64,135
15,570	Federal National Mortgage Association (30 Year)	4.00%	7/13	16,221
600	Other Federal National Mortgage Association (15 Year)	2.50%	7/13	603
				80,959
				916,407
Total Fixed Rate Agency Securities (Cost \$938,872)				
Floating Rate Agency Securities (3.95%)				
Principal and Interest - Floating Rate Agency Securities (1.63%)				
3,804	Federal National Mortgage Association Pool	2.53%	5/38	4,005
3,243	Federal National Mortgage Association Pool	2.55%	12/35	3,407
2,851	Other Federal National Mortgage Association Pools	2.69% - 4.93%	4/36 - 9/37	3,013
				10,425
Interest Only - Floating Rate Agency Securities (2.32%)				
46,845	Other Government National Mortgage Association	2.58% - 6.56%	11/42 - 4/61	6,165
31,510	Other Federal National Mortgage Association	5.50% - 6.56%	8/36 - 2/43	5,865

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23,104	Resecuritization of Government National Mortgage Association (q)	4.28%	8/60	2,754
				14,784
	Total Floating Rate Agency Securities (Cost \$25,535)			25,209
	Total Agency Securities (Cost \$964,407)			941,616

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2013 (CONTINUED)
(UNAUDITED)

Current Principal/ Notional Value/Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Private Label Securities (112.63%)				
Principal and Interest - Private Label Securities (112.06%)				
\$989,570	Various	0.28% - 9.35%	5/19 - 6/47	\$ 714,797
Total Principal and Interest - Private Label Securities (Cost \$656,261)				714,797
Principal Only - Private Label Securities (0.39%)				
5,800	Various	—%	8/30	2,466
Total Principal Only - Private Label Securities (Cost \$2,355)				2,466
Interest Only - Private Label Securities (0.18%)				
54,772	Various	0.50%-2.00%	6/44 - 9/47	1,153
Total Interest Only - Private Label Securities (Cost \$569)				1,153
Other Private Label Securities (0.00%)				
136,465	Various	—%	6/37	—
Total Other Private Label Securities (Cost \$370)				—
Total Private Label Securities (Cost \$659,555)				718,416
Total Mortgage-Backed Securities (Cost \$1,623,962)				1,660,032
Other Asset-Backed Securities (6.25%)				
43,432	Various	0% - 9.78%	6/17 - 12/49	39,840
Total Other Asset-Backed Securities (Cost \$40,767)				39,840
Commercial Mortgage Loans (1.18%) (o)				
9,041	Various	0% - 7.25%	11/13 - 6/14	7,563
Total Commercial Mortgage Loans (Cost \$7,453)				7,563
Common Stock (0.47%)				
130	Publicly Traded Real Estate Investment Trusts			2,987
Total Common Stock (Cost \$2,952)				2,987
Total Long Investments (Cost \$1,675,134)				\$ 1,710,422
Repurchase Agreements (6.46%) (a) (c)				
\$18,116	J.P. Morgan Securities Inc. Collateralized by Par Value \$18,700 U.S. Treasury Note, Coupon 2.00%, Maturity Date 2/23	0.03%	7/13	\$18,116
	J.P. Morgan Securities Inc. Collateralized by Par Value \$13,000 U.S. Treasury Note, Coupon 1.75%, Maturity Date 5/16	0.12%	7/13	13,422
9,650	Bank of America Securities Collateralized by Par Value \$10,000 U.S. Treasury Note, Coupon 1.13%, Maturity Date 12/19	0.08%	7/13	9,650

Total Repurchase Agreements (Cost \$41,188)

\$41,188

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC
 CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
 AT JUNE 30, 2013 (CONTINUED)
 (UNAUDITED)

Current Principal/ Notional Value/Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Investments Sold Short (-95.46%) (a)				
TBA - Fixed Rate Agency Securities Sold Short (-88.08%) (d)				
\$(193,482	) Federal National Mortgage Association (30 Year)	3.50%	7/13	\$ (196,437)
(77,380	) Federal National Mortgage Association (30 Year)	4.50%	7/13	(81,893)
(61,400	) Federal National Mortgage Association (30 Year)	5.00%	7/13	(66,091)
(42,160	) Federal National Mortgage Association (15 Year)	3.00%	7/13	(43,369)
(40,400	) Federal National Mortgage Association (30 Year)	3.50%	8/13	(40,900)
(27,950	) Federal National Mortgage Association (30 Year)	3.00%	7/13	(27,320)
(20,100	) Federal Home Loan Mortgage Corporation (30 Year)	3.50%	7/13	(20,356)
(16,500	) Federal Home Loan Mortgage Corporation (30 Year)	5.00%	7/13	(17,621)
(15,800	) Federal National Mortgage Association (15 Year)	3.50%	7/13	(16,475)
(14,104	) Federal National Mortgage Association (15 Year)	4.00%	7/13	(14,869)
(11,000	) Federal National Mortgage Association (15 Year)	4.50%	7/13	(11,656)
(9,200	) Federal Home Loan Mortgage Corporation (30 Year)	4.00%	7/13	(9,564)
(7,400	) Federal National Mortgage Association (30 Year)	4.00%	8/13	(7,689)
(3,500	) Federal National Mortgage Association (30 Year)	5.50%	7/13	(3,801)
(2,500	) Other Federal National Mortgage Association (30 Year)	6.00%	7/13	(2,720)
(1,000	) Other Federal Home Loan Mortgage Corporation (30 Year)	6.00%	7/13	(1,084)
Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -\$566,128)				(561,845)
U.S. Treasury Securities Sold Short (-6.42%)				
(18,700	) U.S. Treasury Note	2.00%	2/23	(17,989)
(13,000	) U.S. Treasury Note	1.75%	5/16	(13,408)
(10,000	) U.S. Treasury Note	1.13%	12/19	(9,580)
Total U.S. Treasury Securities Sold Short (Proceeds -\$41,929)				(40,977)
Common Stock Sold Short (-0.96%)				
(439)	Publicly Traded Real Estate Investment Trusts			(6,100)
Total Common Stock Sold Short (Proceeds -\$6,151)				(6,100)
Total Investments Sold Short (Proceeds -\$614,208)				\$ (608,922)

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2013 (CONTINUED)
(UNAUDITED)

	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value
(In thousands)				Expressed in U.S. Dollars
Financial Derivatives - Assets (7.36%) (a)				
Swaps (7.36%)				
Long Swaps:				
Credit Default Swaps on Corporate Bond Indices (Cost - \$171) (f)	Credit	\$4,875	12/17	\$ 127
Credit Default Swaps on Asset-Backed Indices (Proceeds - \$217) (e)	Credit	2,192	12/37	65
Total Return Swaps (k)	Equity Market	2,922	3/14 - 6/15	65
Short Swaps:				
Credit Default Swaps on Asset-Backed Securities (g)	Credit	(26,625)	11/34 - 5/36	21,134
Credit Default Swaps on Asset-Backed Indices (h)	Credit	(63,937)	5/46 - 5/63	9,553
Interest Rate Swaps (i)	Interest Rates	(647,200)	3/15 - 6/23	15,967
Total Return Swaps (k)	Equity Market	(5,590)	9/13	61
Total Swaps (Net cost \$47,291)				46,972
Futures (0.00%)				
Long Futures:				
U.S. Treasury Note Futures (m)	Interest Rates	6,700	9/13	5
Total Futures				5
Total Financial Derivatives - Assets (Net cost \$47,291)				\$ 46,977
Financial Derivatives - Liabilities (-2.91%) (a)				
Swaps (-2.90%)				
Long Swaps:				
Credit Default Swaps on Asset-Backed Indices (Proceeds - \$13,953) (e)	Credit	\$41,455	12/49 - 5/52	\$ (13,543)
Total Return Swaps (k)	Equity Market	4,817	3/14 - 6/15	(118)
Short Swaps:				
Interest Rate Swaps (i)	Interest Rates	(4,200)	7/23	(22)
Credit Default Swaps on Corporate Bond Indices (j)	Credit	(111,438)	12/17 - 6/18	(4,236)
Credit Default Swaps on Asset-Backed Securities (g)	Credit	(4,638)	9/34 - 3/35	(541)
Total Return Swaps (k)	Equity Market	(6,354)	9/13	—
Total Swaps (Net proceeds -\$16,042)				(18,460)
Futures (-0.01%)				
Long Futures:				
U.S. Treasury Note Futures (n)	Interest Rates	27,800	9/13	\$ (54)
Short Futures:				
Eurodollar Futures (l)	Interest Rates	(21,000)	9/13	(29)
Total Futures				(83)
Total Financial Derivatives - Liabilities (Net proceeds -\$16,042)				\$ (18,543)

See Notes to Consolidated Financial Statements
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ELLINGTON FINANCIAL LLC
 CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
 AT JUNE 30, 2013 (CONCLUDED)
 (UNAUDITED)

- (a) See Note 2 and Note 3 in Notes to Consolidated Financial Statements.
 At June 30, 2013, the Company's long investments guaranteed by the Federal National Mortgage Association, the
 (b) Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association represented
 97.77%, 37.76%, and 12.09% of equity, respectively.
 (c) In general, securities received pursuant to repurchase agreements were delivered to counterparties in short sale
 transactions.
 At June 30, 2013, the Company's short investments guaranteed by the Federal National Mortgage Association and
 (d) the Federal Home Loan Mortgage Corporation represented 80.46% and 7.62% of equity, respectively.
 (e) For long credit default swaps on asset-backed indices, the Company sold protection.
 (f) For long credit default swaps on corporate bond indices, the Company sold protection.
 (g) For short credit default swaps on asset-backed securities, the Company purchased protection.
 (h) For short credit default swaps on asset-backed indices, the Company purchased protection.
 (i) For short interest rate swap contracts, a fixed rate is being paid and a floating rate is being received.
 (j) For short credit default swaps on corporate bond indices, the Company purchased protection.
 (k) Notional value represents number of underlying shares or par value times the closing price of the underlying
 security.
 (l) Every \$1,000,000 in notional value represents one contract.
 (m) Notional value represents the total face amount of U.S. Treasury Notes underlying all contracts held; as of June
 30, 2013 67 contracts were held.
 (n) Notional value represents the total face amount of U.S. Treasury Notes underlying all contracts held; as of June 30,
 2013 229 contracts were held.
 (o) 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 a non-performing commercial whole loan.
 The table below shows the ratings on the Company's long investments, excluding common stock, 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
 (p) 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	146.99	%
Aaa/AAA/AAA	0.00	%
Aa/AA/AA	0.00	%
A/A/A	1.16	%
Baa/BBB/BBB	1.81	%
Ba/BB/BB or below	113.82	%
Unrated	3.90	%

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

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2012
(UNAUDITED)

Current Principal/ Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
North America (p)				
Long Investments (271.57%) (a) (n)				
Mortgage-Backed Securities (269.68%)				
Agency Securities (161.52%) (b)				
Fixed Rate Agency Securities (157.46%)				
Principal and Interest - Fixed Rate Agency Securities (148.21%)				
\$49,427	Federal National Mortgage Association Pool	3.50%	12/42	\$ 52,864
45,304	Federal Home Loan Mortgage Corporation Pool	3.50%	11/42	48,596
35,601	Federal National Mortgage Association Pool	5.00%	7/37	38,657
21,338	Federal National Mortgage Association Pool	4.50%	12/41	23,268
18,227	Federal National Mortgage Association Pool	3.50%	8/42	19,552
17,845	Federal National Mortgage Association Pool	4.50%	9/41	19,459
17,634	Federal Home Loan Mortgage Corporation Pool	5.00%	7/41	19,218
17,621	Federal National Mortgage Association Pool	5.00%	8/41	19,201
17,113	Federal National Mortgage Association Pool	4.50%	10/41	18,661
15,869	Federal National Mortgage Association Pool	5.00%	3/41	17,430
14,911	Federal National Mortgage Association Pool	3.00%	10/42	15,642
14,242	Federal National Mortgage Association Pool	4.00%	8/42	15,407
13,519	Federal Home Loan Mortgage Corporation Pool	3.00%	10/42	14,157
11,985	Federal National Mortgage Association Pool	4.50%	9/41	12,994
11,942	Federal National Mortgage Association Pool	4.00%	11/41	12,848
11,003	Federal National Mortgage Association Pool	5.00%	7/41	12,058
10,576	Federal National Mortgage Association Pool	4.00%	1/42	11,355
9,576	Federal National Mortgage Association Pool	4.50%	4/26	10,338
9,002	Federal Home Loan Mortgage Corporation Pool	4.50%	10/41	9,772
8,321	Federal Home Loan Mortgage Corporation Pool	4.50%	2/41	9,038
7,395	Federal National Mortgage Association Pool	5.50%	10/39	8,075
7,428	Federal National Mortgage Association Pool	3.50%	10/42	7,984
7,352	Federal National Mortgage Association Pool	4.00%	7/26	7,888
6,324	Federal National Mortgage Association Pool	5.00%	6/41	6,891
5,929	Federal National Mortgage Association Pool	3.50%	5/42	6,356
5,689	Federal Home Loan Mortgage Corporation Pool	4.00%	5/42	6,141
5,592	Federal National Mortgage Association Pool	4.00%	10/41	6,079
5,642	Federal National Mortgage Association Pool	3.50%	11/42	6,020
5,494	Federal National Mortgage Association Pool	3.50%	8/42	5,862
5,085	Federal National Mortgage Association Pool	5.00%	10/41	5,534
5,085	Federal National Mortgage Association Pool	4.00%	4/42	5,531
5,045	Federal National Mortgage Association Pool	5.00%	11/40	5,497
5,025	Federal National Mortgage Association Pool	5.00%	7/41	5,444
4,944	Federal National Mortgage Association Pool	4.50%	8/41	5,361
4,911	Federal Home Loan Mortgage Corporation Pool	3.50%	9/42	5,242

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT DECEMBER 31, 2012 (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 (148.21%) (continued)				
\$4,676	Federal National Mortgage Association Pool	4.00%	9/42	\$ 5,059
4,725	Federal National Mortgage Association Pool	3.50%	7/42	5,042
4,699	Federal National Mortgage Association Pool	4.00%	6/26	5,041
4,513	Federal National Mortgage Association Pool	3.50%	11/42	4,828
4,465	Federal Home Loan Mortgage Corporation Pool	4.00%	2/42	4,787
4,456	Federal National Mortgage Association Pool	3.00%	7/27	4,710
4,261	Federal National Mortgage Association Pool	3.50%	11/42	4,573
4,009	Federal Home Loan Mortgage Corporation Pool	4.00%	11/41	4,303
3,964	Federal Home Loan Mortgage Corporation Pool	3.50%	11/42	4,229
3,926	Federal National Mortgage Association Pool	3.50%	8/42	4,189
3,798	Federal National Mortgage Association Pool	5.00%	10/35	4,172
3,864	Federal Home Loan Mortgage Corporation Pool	3.50%	10/42	4,116
3,728	Federal National Mortgage Association Pool	5.00%	6/40	4,062
3,726	Federal National Mortgage Association Pool	4.50%	12/41	4,040
3,763	Federal National Mortgage Association Pool	3.50%	6/27	4,022
3,766	Federal National Mortgage Association Pool	3.00%	8/27	3,980
3,606	Federal National Mortgage Association Pool	4.50%	4/42	3,941
3,526	Federal Home Loan Mortgage Corporation Pool	6.00%	4/39	3,848
3,534	Federal National Mortgage Association Pool	3.50%	12/42	3,770
3,442	Federal Home Loan Mortgage Corporation Pool	4.50%	9/41	3,737
3,483	Federal Home Loan Mortgage Corporation Pool	3.50%	11/42	3,712
3,419	Federal National Mortgage Association Pool	4.00%	4/42	3,706
3,404	Federal Home Loan Mortgage Corporation Pool	4.00%	1/42	3,653
3,344	Federal National Mortgage Association Pool	4.00%	9/42	3,618
3,415	Federal Home Loan Mortgage Corporation Pool	3.00%	11/42	3,573
3,288	Federal Home Loan Mortgage Corporation Pool	3.50%	2/42	3,518
3,182	Federal National Mortgage Association Pool	4.00%	8/42	3,440
3,095	Federal National Mortgage Association Pool	4.50%	11/41	3,355
3,053	Federal National Mortgage Association Pool	3.50%	11/42	3,262
2,931	Federal National Mortgage Association Pool	4.00%	8/42	3,178
2,947	Federal National Mortgage Association Pool	3.50%	7/27	3,145
2,921	Federal National Mortgage Association Pool	3.50%	6/27	3,123
2,828	Federal National Mortgage Association Pool	4.50%	10/41	3,076
2,605	Government National Mortgage Association	4.55%	10/62	2,977
2,676	Federal National Mortgage Association Pool	4.50%	10/41	2,901
2,566	Federal National Mortgage Association Pool	4.00%	8/42	2,774
2,490	Federal National Mortgage Association Pool	4.50%	8/42	2,719
2,497	Federal National Mortgage Association Pool	4.00%	9/42	2,699
2,519	Federal National Mortgage Association Pool	3.50%	11/42	2,690
2,520	Federal Home Loan Mortgage Corporation Pool	3.50%	11/42	2,685

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2012 (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 (148.21%) (continued)				
\$2,498	Federal National Mortgage Association Pool	3.50%	8/42	\$ 2,679
2,500	Federal Home Loan Mortgage Corporation Pool	3.50%	1/42	2,667
2,452	Federal National Mortgage Association Pool	3.50%	11/42	2,619
2,377	Federal National Mortgage Association Pool	4.00%	6/42	2,564
69,330	Other Federal National Mortgage Association Pools	2.50% - 6.00%	3/26 - 1/43	74,508
19,340	Other Federal Home Loan Mortgage Corporation Pools	3.50% - 6.00%	4/26 - 12/42	20,744
				750,454
Interest Only - Fixed Rate Agency Securities (0.64%)				
20,095	Other Federal National Mortgage Association	4.00% - 5.50%	1/36 - 10/40	1,920
10,426	Other Federal Home Loan Mortgage Corporation	5.00% - 5.50%	6/33 - 1/39	1,195
4,269	Other Government National Mortgage Association	5.50%	3/36	135
				3,250
TBA - Fixed Rate Agency Securities (8.61%)				
18,950	Federal Home Loan Mortgage Corporation (30 Year)	4.00%	1/13	20,232
16,600	Federal National Mortgage Association (15 Year)	3.00%	1/13	17,523
5,600	Federal Home Loan Mortgage Corporation (30 Year)	3.00%	1/13	5,855
				43,610
Total Fixed Rate Agency Securities (Cost \$789,964)				797,314
Floating Rate Agency Securities (4.06%)				
Principal and Interest - Floating Rate Agency Securities (3.39%)				
6,045	Federal National Mortgage Association Pool	5.08%	5/38	6,374
4,537	Federal National Mortgage Association Pool	3.14%	12/35	4,783
2,478	Federal National Mortgage Association Pool	5.69%	4/36	2,627
3,159	Other Federal National Mortgage Association Pools	4.93% - 5.50%	7/37 - 9/37	3,385
				17,169
Interest Only - Floating Rate Agency Securities (0.67%)				
23,140	Resecuritization of Government National Mortgage Association (o)	4.28%	8/60	3,242
1,042	Other Federal National Mortgage Association	5.50%	8/36	152
				3,394
Total Floating Rate Agency Securities (Cost \$19,979)				20,563
Total Agency Securities (Cost \$809,943)				817,877

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2012 (CONTINUED)
(UNAUDITED)

Current Principal/ Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Private Label Securities (108.16%)				
Principal and Interest - Private Label Securities (107.47%)				
\$850,320	Various	0.17% - 9.35%	5/19 - 5/47	\$ 544,208
Total Principal and Interest - Private Label Securities (Cost \$505,380)				544,208
Principal Only - Private Label Securities (0.46%)				
5,800	Various	—%	8/30	2,320
Total Principal Only - Private Label Securities (Cost \$2,242)				2,320
Interest Only - Private Label Securities (0.23%)				
61,640	Various	0.50% - 2.00%	6/44 - 9/47	1,165
Total Interest Only - Private Label Securities (Cost \$637)				1,165
Other Private Label Securities (0.00%)				
158,348	Various	—%	6/37	—
Total Other Private Label Securities (Cost \$429)				—
Total Private Label Securities (Cost \$508,688)				547,693
Total Mortgage-Backed Securities (Cost \$1,318,631)				1,365,570
Commercial Mortgage Loans (1.89%) (m)				
10,225	Various	5.00% - 6.25%	11/13 - 5/39	9,546
Total Commercial Mortgage Loans (Cost \$9,522)				9,546
Total Long Investments (Cost \$1,328,153)				\$ 1,375,116
Repurchase Agreements (2.70%) (a) (c)				
\$13,650	Bank of America Securities Collateralized by Par Value \$13,000 U.S. Treasury Note, Coupon 1.75%, Maturity Date 5/16	0.20%	1/13	\$ 13,650
Total Repurchase Agreements (Cost \$13,650)				\$13,650

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2012 (CONTINUED)
(UNAUDITED)

Current Principal/Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Investments Sold Short (-122.90%) (a)				
TBA - Fixed Rate Agency Securities Sold Short (-120.22%) (d)				
\$(198,168)	) Federal National Mortgage Association (30 Year)	3.50%	1/13	\$ (211,343)
(87,500)	) Federal National Mortgage Association (30 Year)	5.00%	1/13	(94,794)
(77,730)	) Federal National Mortgage Association (30 Year)	4.50%	1/13	(83,982)
(53,400)	) Federal Home Loan Mortgage Corporation (30 Year)	3.50%	1/13	(56,804)
(34,510)	) Federal National Mortgage Association (15 Year)	3.00%	1/13	(36,430)
(31,600)	) Federal National Mortgage Association (30 Year)	3.00%	1/13	(33,128)
(16,500)	) Federal Home Loan Mortgage Corporation (30 Year)	5.00%	1/13	(17,776)
(16,450)	) Federal National Mortgage Association (15 Year)	3.50%	1/13	(17,460)
(15,718)	) Federal National Mortgage Association (30 Year)	4.00%	1/13	(16,852)
(14,104)	) Federal National Mortgage Association (15 Year)	4.00%	1/13	(15,096)
(11,000)	) Federal National Mortgage Association (15 Year)	4.50%	1/13	(11,833)
(7,500)	) Federal National Mortgage Association (30 Year)	5.50%	1/13	(8,148)
(2,500)	) Federal National Mortgage Association (30 Year)	6.00%	1/13	(2,731)
(1,200)	) Other Federal National Mortgage Association (15 Year)	2.50%	1/13	(1,255)
(1,000)	) Other Federal Home Loan Mortgage Corporation (30 Year)	6.00%	1/13	(1,088)
Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -\$607,967)				(608,720)
U.S. Treasury Securities Sold Short (-2.68%)				
(13,000)	) U.S. Treasury Note	1.75%	05/16	(13,581)
Total U.S. Treasury Securities Sold Short (Proceeds -\$13,081)				(13,581)
Total Investments Sold Short (Proceeds -\$621,048)				\$ (622,301)

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2012 (CONTINUED)
(UNAUDITED)

	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value	
(In thousands)					Expressed in U.S.Dollars
Financial Derivatives - Assets (9.58%) (a)					
Swaps (9.58%)					
Long Swaps:					
Credit Default Swaps on Asset-Backed Indices (Net Cost \$135) (e)	Credit	\$ 10,166	6/36 - 12/37	\$ 765	
Short Swaps:					
Credit Default Swaps on Asset-Backed Securities (g)	Credit	(42,121	) 9/34 - 5/36	36,031	
Credit Default Swaps on Asset-Backed Indices (h)	Credit	(66,829	) 5/46 - 10/52	11,703	
Interest Rate Swaps (i)	Interest Rates	(18,900	) 10/17	5	
Total Swaps (Net cost \$65,860)				48,504	
Total Financial Derivatives - Assets (Net cost \$65,860)				\$ 48,504	
Financial Derivatives - Liabilities (-3.00%) (a)					
Swaps (-2.99%)					
Long Swaps:					
Credit Default Swaps on Asset-Backed Indices (Proceeds - \$12,736) (e)	Credit	30,050	12/49 - 2/51	\$ (12,751)
Interest Rate Swaps (f)	Interest Rates	2,500	11/22 - 12/22	(32)
Short Swaps:					
Interest Rate Swaps (i)	Interest Rates	(220,000	) 8/14 - 11/22	(1,092)
Credit Default Swaps on Asset-Backed Indices (h)	Credit	(7,792	) 6/36 - 12/37	(717)
Credit Default Swaps on Corporate Bond Indices (j)	Credit	(67,500	) 12/17	(484)
Credit Default Swaps on Asset-Backed Securities (g)	Credit	(3,000	) 3/35	(1)
Total Return Swaps (k)	Equity Market	(18,737	) 9/13	(65)
Total Swaps (Net proceeds -\$13,171)				(15,142)
Futures (-0.01%)					
Short Futures:					
Eurodollar Futures (l)	Interest Rates	(63,000	) 3/13 - 9/13	(70)
Total Futures				(70)
Total Financial Derivatives - Liabilities (Net proceeds -\$13,171)				\$ (15,212)

See Notes to Consolidated Financial Statements

Table of Contents ELLINGTON FINANCIAL LLC
 CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
 AT DECEMBER 31, 2012 (CONCLUDED)
 (UNAUDITED)

- (a) See Note 2 and Note 3 in Notes to Consolidated Financial Statements.
 At December 31, 2012, 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
 119.78%, 40.49%, and 1.25% of equity, respectively.
 (c) In general, securities received pursuant to repurchase agreements were delivered to counterparties in short sale
 transactions.
 At December 31, 2012, the Company's short investments guaranteed by the Federal National Mortgage Association
 (d) and the Federal Home Loan Mortgage Corporation represented 105.27% and 14.95% 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 short credit default swaps on asset-backed securities, the Company purchased protection.
 (h) For short credit default swaps on asset-backed indices, the Company purchased protection.
 (i) For short interest rate swap contracts, a fixed rate is being paid and a floating rate is being received.
 (j) For short credit default swaps on corporate bond indices, the Company purchased protection.
 (k) Notional value represents number of underlying shares or par value times the closing price of the underlying
 security.
 (l) Every \$1,000,000 in notional value represents one contract.
 (m) Includes a loan with a fair value in the amount of \$4.9 million where the maturity date may be extended through
 November 4, 2015 as well as a non-performing commercial whole loan.
 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
 (n) 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	161.52	%
Aaa/AAA/AAA	0.01	%
Aa/AA/AA	0.26	%
A/A/A	1.02	%
Baa/BBB/BBB	3.70	%
Ba/BB/BB or below	102.40	%
Unrated	2.66	%

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

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Month Period Ended June 30, 2013	Three Month Period Ended June 30, 2012	Six Month Period Ended June 30, 2013	Six Month Period Ended June 30, 2012
(In thousands except per share amounts)				
	Expressed in U.S. Dollars			
INVESTMENT INCOME				
Interest income	\$20,335	\$16,045	\$38,717	\$31,777
EXPENSES				
Base management fee	2,405	1,497	4,373	2,988
Incentive fee	1,182	2,312	3,237	2,312
Interest expense	2,582	1,992	4,724	3,824
Other investment related expenses	327	—	327	—
Compensation expense	432	300	760	675
Custody and other fees	338	304	656	608
Professional fees	338	328	779	606
Agency and administration fees	281	217	543	430
Insurance expense	173	177	353	354
Directors' fees and expenses	66	66	143	140
Share-based LTIP expense	43	30	85	58
Total expenses	8,167	7,223	15,980	11,995
NET INVESTMENT INCOME	12,168	8,822	22,737	19,782
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FINANCIAL DERIVATIVES				
Net realized gain (loss) on:				
Investments	10,598	(2,734	) 24,596	5,413
Swaps	(4,152	) (8,537	) (5,535	) (28,464
Futures	(775	) (9	) (797	) (17
	5,671	(11,280	) 18,264	(23,068
Change in net unrealized gain (loss) on:				
Investments	(27,971	) 10,300	(5,132	) 28,430
Swaps	21,866	2,928	16,589	17,745
Futures	(29	) (2	) (7	) (66
	(6,134	) 13,226	11,450	46,109
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FINANCIAL DERIVATIVES	(463	) 1,946	29,714	23,041
NET INCREASE IN EQUITY RESULTING FROM OPERATIONS	11,705	10,768	52,451	42,823
LESS: NET INCREASE IN EQUITY RESULTING FROM OPERATIONS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	105	—	516	—
NET INCREASE IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	\$11,600	\$10,768	\$51,935	\$42,823
NET INCREASE IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS PER SHARE:				
Basic and Diluted	\$0.49	\$0.64	\$2.35	\$2.54

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

	Six Month Period Ended June 30, 2013			Six Month Period Ended June 30, 2012		
	Shareholders' Equity	Non-controlling Interest	Total Equity	Shareholders' Equity	Non-controlling Interest	Total Equity
(In thousands)						
BEGINNING EQUITY (12/31/2012 and 12/31/2011, respectively)	\$ 506,355	\$ —	\$ 506,355	\$ 370,916	\$ —	\$ 370,916
CHANGE IN EQUITY RESULTING FROM OPERATIONS						
Net investment income			22,737			19,782
Net realized gain (loss) on investments and financial derivatives			18,264			(23,068)
Change in net unrealized gain (loss) on investments and financial derivatives			11,450			46,109
Net increase in equity resulting from operations	51,935	516	52,451	42,823	—	42,823
CHANGE IN EQUITY RESULTING FROM TRANSACTIONS						
Proceeds from the issuance of shares	125,600		125,600	—		—
Shares issued in connection with incentive fee payment	941		941	—		—
Contribution from non-controlling interest		4,664	4,664		—	—
Dividends ⁽¹⁾	(51,491)	(485)	(51,976)	(18,522)	—	(18,522)
Offering costs	(262)		(262)	—		—
Share-based LTIP awards	84	1	85	58	—	58
Net increase (decrease) in equity from transactions	74,872	4,180	79,052	(18,464)	—	(18,464)
Net increase in equity	126,807	4,696	131,503	24,359	—	24,359
ENDING EQUITY (6/30/2013 and 6/30/2012, respectively)	\$ 633,162	\$ 4,696	\$ 637,858	\$ 395,275	\$ —	\$ 395,275

(1) For the six month periods ended June 30, 2013 and 2012, dividends totaling \$2.29 and \$1.10, respectively, per common share and convertible unit outstanding were declared and paid.

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ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Six Month Period Ended June 30, 2013	Six Month Period Ended June 30, 2012	
(In thousands)			
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:			
NET INCREASE IN EQUITY RESULTING FROM OPERATIONS	\$52,451	\$42,823	
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	(11,450	) (46,109)
Net realized (gain) loss on investments and financial derivatives	(18,264	) 23,068	
Amortization of premiums and accretion of discounts (net)	(10,204	) (5,150)
Purchase of investments	(1,026,018	) (1,188,608)
Proceeds from disposition of investments	602,098	1,257,719	
Proceeds from principal payments of investments	97,641	63,097	
Proceeds from investments sold short	631,565	480,034	
Repurchase of investments sold short	(624,288	) (459,870)
Payments made to open financial derivatives	(4,974	) (67,208)
Proceeds received to close financial derivatives	23,201	89,373	
Proceeds received to open financial derivatives	11,815	35,603	
Payments made to close financial derivatives	(14,934	) (38,363)
Shares issued in connection with incentive fee payment	941	—	
Share-based LTIP expense	85	58	
(Increase) decrease in assets:			
Increase in repurchase agreements	(27,538	) (20,998)
Increase in receivable for securities sold	(45,116	) (78,158)
(Increase) decrease in due from brokers	(25,550	) 4,803	
Increase in interest and principal receivable	(852	) (1,002)
Increase in other assets	(674	) (626)
Increase (decrease) in liabilities:			
Decrease in due to brokers	(609	) (33,350)
Increase (decrease) in payable for securities purchased	78,751	(44,217)
Increase (decrease) in accounts payable and accrued expenses	(159	) 278	
Increase (decrease) in incentive fee payable	(6,161	) 2,312	
Increase (decrease) in other payables	(592) —	
Increase (decrease) in interest and dividends payable	948	(224)
Increase in base management fee payable	471	101	
Net cash provided by (used in) operating activities	(317,416	) 15,386	
Cash flows provided by (used in) financing activities:			
Proceeds from the issuance of shares	125,600	—	
Contribution from non-controlling interest	4,664	—	
Offering costs paid	(253) —	
Dividends paid	(51,976) (18,522)
Proceeds from issuance of securitized debt	—	1,522	

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Principal payments on securitized debt	(182) (115)
Reverse repurchase agreements, net of repayments	382,274	(12,888)
Net cash provided by (used in) financing activities	460,127	(30,003)

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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	142,711	(14,617)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	59,084	62,737	
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$201,795	\$48,120	
Supplemental disclosure of cash flow information:			
Interest paid	\$4,007	\$4,034	
Shares issued in connection with incentive fee payment (non-cash)	\$941	\$—	
Share-based LTIP awards (non-cash)	\$85	\$58	
Aggregate TBA trade activity (buys + sells) (non-cash)	\$10,009,367	\$8,312,761	

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ELLINGTON FINANCIAL LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2013
 (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% 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. EF Securities LLC, a wholly owned consolidated subsidiary of the Operating Partnership, 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 the Operating Partnership, 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. EF SBC 2013-1 LLC, a consolidated subsidiary of EF Mortgage LLC, was formed as a Delaware limited liability company on January 3, 2013 and commenced operations on January 8, 2013. Ellington Financial LLC, the Operating Partnership, EF Securities LLC, EF Mortgage LLC, EF CMO LLC, EF Special Transactions LLC, and EF SBC 2013-1 LLC are hereafter collectively referred to as the "Company." All inter-company accounts are eliminated in consolidation.

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 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 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, the Operating Partnership 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. 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, 2012.

(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,

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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," ABS, 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, 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. For non-performing commercial mortgage loans, purchase discounts are generally not amortized.

(D) Cash and Cash Equivalents: Cash and cash equivalents include amounts held in an interest bearing overnight account and money market funds. As of June 30, 2013 and December 31, 2012, 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 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 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 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/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. The Company may be required to deliver or receive cash or securities as collateral upon entering into swap transactions.

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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 the Consolidated Statement of Assets, Liabilities, and Equity. Collateral paid to counterparties is included in Due from brokers on the Consolidated Statement of Assets, Liabilities, and Equity. Entering into swap contracts involves market risk in excess of amounts recorded on the Consolidated Statement of Assets, Liabilities, and 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 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 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 futures contracts.

Swap assets are included in Financial derivatives—assets at fair value on the Consolidated Statement of Assets, Liabilities, and Equity. Swap liabilities are included in Financial derivatives—liabilities at fair value on the Consolidated Statement of Assets, Liabilities, and Equity. In addition, swap contracts are summarized by type on the Consolidated Condensed Schedule of Investments. Unrealized appreciation on futures contracts is included in Financial derivatives—assets at fair value on the Consolidated Statement of Assets, Liabilities, and Equity. Unrealized depreciation on futures contracts is included in Financial derivatives—liabilities at fair value on the Consolidated Statement of Assets, Liabilities, and Equity. For interest rate swaps, total return swaps, credit default swaps, and futures, notional values reflected on the Consolidated Condensed Schedule of Investments represent approximately 132%, 113%, 109%, and 66% respectively, of average monthly notional values of each such category outstanding during the six month period ended June 30, 2013. For interest rate swaps, total return swaps, credit default swaps, and futures, notional values reflected on the Consolidated Condensed Schedule of Investments represent approximately 92%, 87%, 78%, and 57%, respectively, of average monthly notional values of each such category outstanding during the year ended December 31, 2012. 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. 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. 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 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 June 30, 2013, the Company's open reverse repurchase agreements had remaining terms that averaged 62 days and ranged from 2 to 180 days, and had interest rates that averaged 0.91% and ranged from 0.34% to 2.44%. At June 30, 2013,

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approximately 58% of open reverse repurchase agreements were with three counterparties. At December 31, 2012, the Company's open reverse repurchase agreements had remaining terms that averaged 57 days and ranged from 10 to 180 days, and had interest rates that averaged 0.77% and ranged from 0.37% to 2.31%. At December 31, 2012, approximately 67% of open reverse repurchase agreements were with two counterparties.

(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 820-10, the Company has elected to carry securitized debt at fair value. The asset subject to the resecuritization had a fair value of \$2.4 million as of June 30, 2013 which is included on the Consolidated Condensed Schedule of Investments under Principal and Interest – Private Label Securities.

(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. As of June 30, 2013, total assets included \$81.0 million of TBAs as well as \$571.5 million of receivable for securities sold relating to unsettled TBA sales. As of December 31, 2012, total assets included \$43.6 million of TBAs as well as \$608.5 million of receivable for securities sold relating to unsettled TBA sales.

As of June 30, 2013, total liabilities included \$561.8 million of TBAs sold short as well as \$82.1 million of payable for securities purchased relating to unsettled TBA purchases. As of December 31, 2012, total liabilities included \$608.7 million of TBAs sold short as well as \$43.8 million of payable for securities purchased relating to unsettled TBA purchases. As of June 30, 2013, the Company held on an aggregate basis a short position in TBAs of \$480.9 million while at December 31, 2012, the Company held in aggregate a short position in TBAs of \$565.1 million.

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

(K) LTIP Units: Long term incentive plan units ("LTIP units") have been issued to the Company's dedicated personnel and 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.

(L) Non-controlling interest: Non-controlling interest represents the interest in the Operating Partnership owned by an affiliate of the Manager.

(M) 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 long term incentive plan units deemed to be

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participating securities, by the weighted average number of common shares outstanding calculated including long term incentive plan units. Because the Company's long term incentive plan units are deemed to be participating securities, they are included in the calculation of basic and diluted EPS. Operating Partnership Units relating to the non-controlling interest ("OP Units") are convertible into common shares and are included in the calculation of diluted EPS.

(Q) 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.

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 its unrecognized tax benefits resulting from tax positions related either to the current period or to 2012, 2011, 2010, or 2009 (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. 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 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.

(R) 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.

(S) Recent Accounting Pronouncements: In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"). This amends ASC 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 Equity. The update requires disclosure of gross asset and liability amounts for financial instruments shown net on the Statement of Assets, Liabilities and Equity. ASU 2011-11 is effective for interim and annual periods beginning on or after January 1, 2013 and is to be applied retrospectively.

In January 2013, the FASB issued ASU No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities ("ASU 2013-01"). The amendment clarifies that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with ASU No. 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements, reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The adoption of ASU 2011-11, as amended by ASU 2013-01, did not have a material impact on the Company's consolidated financial statements.

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 GAAP purposes. It requires entities that adopted Statement of Position 07-1 prior to its deferral to reassess whether they continue to meet the definition of an investment company for 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. While Management currently believes that the Company still meets the definition of an investment company under ASC 946, it is still in the process of performing its reassessment.

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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, 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, and (iii) the assessment of observable or reported recent trading activity. 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.

The Company 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 assets in the future to the extent practical. Beginning January 1, 2013, 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 the 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. Prior to 2013, the valuation process relied more heavily on the use of the Company's models and observation of reported recent trading activity, which was substantiated by third party valuations. 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.

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The table below reflects the value of the Company's Level 1, Level 2, and Level 3 financial instruments at June 30, 2013:

(In thousands)

Description	Level 1	Level 2
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