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Ellington Residential Mortgage REIT  
Form 10-Q  
May 04, 2018

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 March 31, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-35896  
Ellington Residential Mortgage REIT  
(Exact Name of Registrant as Specified in Its Charter)

Maryland 46-0687599  
(State or Other Jurisdiction of Incorporation) (IRS Employer Identification No.)  
53 Forest Avenue  
Old Greenwich, CT 06870  
(Address of principal executive offices, 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 filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer (do not check if a smaller reporting company)  Smaller Reporting Company   
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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 3, 2018

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Common Shares of Beneficial Interest, \$0.01 par value per share 12,712,050

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ELLINGTON RESIDENTIAL MORTGAGE REIT

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## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements (unaudited)

## ELLINGTON RESIDENTIAL MORTGAGE REIT

## CONSOLIDATED BALANCE SHEET

(UNAUDITED)

|  | March 31,<br>2018 | December<br>31, 2017 |
|--|-------------------|----------------------|
| (In thousands except for share amounts)  |                   |                      |
| <b>ASSETS</b>  |                   |                      |
| Cash and cash equivalents  | \$46,025          | \$56,117             |
| Mortgage-backed securities, at fair value  | 1,630,575         | 1,685,998            |
| Due from brokers   | 32,061            | 26,754               |
| Financial derivatives—assets, at fair value  | 13,528            | 8,792                |
| Reverse repurchase agreements  | 44,617            | 81,461               |
| Receivable for securities sold   | 73,560            | 21,606               |
| Interest receivable  | 5,645             | 5,784                |
| Other assets   | 523               | 575                  |
| Total Assets   | \$1,846,534       | \$1,887,087          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                   |                      |
| <b>LIABILITIES</b>   |                   |                      |
| Repurchase agreements  | \$1,589,319       | \$1,597,206          |
| Payable for securities purchased   | 17,612            | 3,830                |
| Due to brokers   | 1,025             | 489                  |
| Financial derivatives—liabilities, at fair value   | 5,876             | 1,863                |
| U.S. Treasury securities sold short, at fair value   | 44,377            | 81,289               |
| Dividend payable   | 4,746             | 4,936                |
| Accrued expenses   | 911               | 728                  |
| Management fee payable to affiliate  | 671               | 725                  |
| Interest payable   | 3,685             | 3,318                |
| Total Liabilities  | 1,668,222         | 1,694,384            |
| <b>SHAREHOLDERS' EQUITY</b>  |                   |                      |
| Preferred shares, par value \$0.01 per share, 100,000,000 shares authorized;<br>(0 shares issued and outstanding, respectively)                      | —                 | —                    |
| Common shares, par value \$0.01 per share, 500,000,000 shares authorized;<br>(12,827,850 and 13,340,217 shares issued and outstanding, respectively) | 128               | 134                  |
| Additional paid-in-capital   | 234,376           | 240,062              |
| Accumulated deficit  | (56,192 )         | (47,493 )            |
| Total Shareholders' Equity   | 178,312           | 192,703              |
| Total Liabilities and Shareholders' Equity   | \$1,846,534       | \$1,887,087          |

See Notes to Consolidated Financial Statements

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ELLINGTON RESIDENTIAL MORTGAGE REIT  
CONSOLIDATED STATEMENT OF OPERATIONS  
(UNAUDITED)

|  | Three Month<br>Period Ended<br>March 31, |                |
|--|--|----------------|
|  | 2018                                     | 2017           |
| (In thousands except for per share amounts)                      |  |                |
| <b>INTEREST INCOME (EXPENSE)</b>                                 |  |                |
| Interest income  | \$13,426                                 | \$12,329       |
| Interest expense   | (7,248 )                                 | (3,179 )       |
| Total net interest income  | 6,178                                    | 9,150          |
| <b>EXPENSES</b>  |  |                |
| Management fees to affiliate                                     | 671                                      | 527            |
| Professional fees  | 234                                      | 175            |
| Compensation expense   | 189                                      | 159            |
| Insurance expense <sup>(1)</sup>                                 | 74                                       | 82             |
| Other operating expenses <sup>(1)</sup>                          | 349                                      | 329            |
| Total expenses   | 1,517                                    | 1,272          |
| <b>OTHER INCOME (LOSS)</b>                                       |  |                |
| Net realized gains (losses) on securities                        | 1,927                                    | (2,990 )       |
| Net realized gains (losses) on financial derivatives             | 15,955                                   | 1,653          |
| Change in net unrealized gains (losses) on securities            | (27,061 )                                | (2,347 )       |
| Change in net unrealized gains (losses) on financial derivatives | 565                                      | (2,142 )       |
| Total other income (loss)  | (8,614 )                                 | (5,826 )       |
| <b>NET INCOME (LOSS)</b>   | <b>\$(3,953 )</b>                        | <b>\$2,052</b> |
| <b>NET INCOME (LOSS) PER COMMON SHARE:</b>                       |  |                |
| Basic and Diluted  | \$(0.30 )                                | \$0.22         |
| <b>CASH DIVIDENDS PER COMMON SHARE:</b>                          |  |                |
| Dividends declared   | \$0.37                                   | \$0.40         |

(1) Conformed to current period presentation.

See Notes to Consolidated Financial Statements

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ELLINGTON RESIDENTIAL MORTGAGE REIT  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(UNAUDITED)

|   | Common<br>Shares | Common<br>Shares,<br>par<br>value | Preferred<br>Shares | Preferred<br>Shares,<br>par<br>value | Additional<br>Paid-in-Capital | Accumulated<br>(Deficit)<br>Earnings | Total     |
|---|------------------|-----------------------------------|---------------------|--------------------------------------|-------------------------------|--------------------------------------|-----------|
| (In thousands except for share amounts) |                  |                                   |                     |                                      |                               |                                      |           |
| BALANCE, December 31, 2016              | 9,130,897        | \$ 92                             | —                   | \$ —                                 | \$ 180,996                    | \$(39,411)                           | \$141,677 |
| Share based compensation                |                  |                                   |                     |                                      | 48                            |                                      | 48        |
| Dividends declared                      |                  |                                   |                     |                                      |                               | (3,652)                              | (3,652)   |
| Net income                              |                  |                                   |                     |                                      |                               | 2,052                                | 2,052     |
| BALANCE, March 31, 2017                 | 9,130,897        | \$ 92                             | —                   | \$ —                                 | \$ 181,044                    | \$(41,011)                           | \$140,125 |
|   |                  |                                   |                     |                                      |                               |                                      |           |
| BALANCE, December 31, 2017              | 13,340,217       | \$ 134                            | —                   | \$ —                                 | \$ 240,062                    | \$(47,493)                           | \$192,703 |
| Share based compensation                |                  |                                   |                     |                                      | 49                            |                                      | 49        |
| Repurchase of common shares             | (512,367)        | (6)                               | —                   | —                                    | (5,735)                       |                                      | (5,741)   |
| Dividends declared                      |                  |                                   |                     |                                      |                               | (4,746)                              | (4,746)   |
| Net loss                                |                  |                                   |                     |                                      |                               | (3,953)                              | (3,953)   |
| BALANCE, March 31, 2018                 | 12,827,850       | \$ 128                            | —                   | \$ —                                 | \$ 234,376                    | \$(56,192)                           | \$178,312 |

See Notes to Consolidated Financial Statements

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ELLINGTON RESIDENTIAL MORTGAGE REIT  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

|   | Three Month Period<br>Ended March 31, |             |
|---|---------------------------------------|-------------|
|   | 2018                                  | 2017        |
| (In thousands)  |                                       |             |
| Cash flows provided by (used in) operating activities:                                      |                                       |             |
| Net income (loss)   | \$(3,953)                             | \$ 2,052    |
| Reconciliation of net income (loss) to net cash provided by (used in) operating activities: |                                       |             |
| Net realized (gains) losses on securities   | (1,927 )                              | 2,990       |
| Change in net unrealized (gains) losses on securities                                       | 27,061                                | 2,347       |
| Net realized (gains) losses on financial derivatives  | (15,955 )                             | (1,653 )    |
| Change in net unrealized (gains) losses on financial derivatives                            | (565 )                                | 2,142       |
| Amortization of premiums and accretion of discounts (net)                                   | 4,219                                 | 701         |
| Share based compensation  | 49                                    | 48          |
| (Increase) decrease in assets:  |                                       |             |
| Due from brokers  | (5,307 )                              | 22,313      |
| Interest receivable   | 139                                   | (333 )      |
| Other assets  | 52                                    | 81          |
| Increase (decrease) in liabilities:   |                                       |             |
| Due to brokers  | 536                                   | (24 )       |
| Accrued expenses  | 183                                   | 61          |
| Interest payable  | 367                                   | (80 )       |
| Management fees payable to affiliate  | (54 )                                 | (5 )        |
| Net cash provided by (used in) operating activities   | 4,845                                 | 30,640      |
| Cash flows provided by (used in) investing activities:                                      |                                       |             |
| Purchases of securities   | (271,590)                             | (315,416 )  |
| Proceeds from sale of securities  | 214,246                               | 273,393     |
| Principal repayments of mortgage-backed securities  | 41,253                                | 37,716      |
| Proceeds from investments sold short  | 443,964                               | 225,738     |
| Repurchase of investments sold short  | (476,886)                             | (221,258 )  |
| Proceeds from disposition of financial derivatives  | 18,938                                | 4,362       |
| Purchase of financial derivatives   | (3,141 )                              | (2,709 )    |
| Payments made on reverse repurchase agreements  | (7,682,238)                           | (4,354,368) |
| Proceeds from reverse repurchase agreements   | 7,719,081                             | 4,349,247   |
| Net cash provided by (used in) investing activities   | 3,627                                 | (3,295 )    |

See Notes to Consolidated Financial Statements

ELLINGTON RESIDENTIAL MORTGAGE REIT  
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)  
(UNAUDITED)

|  | Three Month<br>Period Ended<br>March 31, |           |
|--|--|-----------|
|  | 2018                                     | 2017      |
| Cash flows provided by (used in) financing activities: |  |           |
| Repurchase of common shares                            | (5,741 )                                 | —         |
| Dividends paid   | (4,936 )                                 | (3,652 )  |
| Borrowings under repurchase agreements                 | 268,450                                  | 390,532   |
| Repayments of repurchase agreements                    | (276,337)                                | (410,220) |
| Cash provided by (used in) financing activities        | (18,564 )                                | (23,340 ) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS   | (10,092 )                                | 4,005     |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD         | 56,117                                   | 33,504    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD               | \$46,025                                 | \$37,509  |
| Supplemental disclosure of cash flow information:      |  |           |
| Interest paid  | \$6,881                                  | \$3,259   |
| Dividends payable                                      | \$4,746                                  | \$3,652   |

See Notes to Consolidated Financial Statements

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ELLINGTON RESIDENTIAL MORTGAGE REIT  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

(UNAUDITED)

1. Organization and Investment Objective

Ellington Residential Mortgage REIT, or "EARN," was formed as a Maryland real estate investment trust, or "REIT," on August 2, 2012, and commenced operations on September 25, 2012. EARN conducts its business through its wholly owned subsidiaries, EARN OP GP LLC, or the "General Partner," and Ellington Residential Mortgage LP, or the "Operating Partnership," which were formed as a Delaware limited liability company and a Delaware limited partnership, respectively, on July 31, 2012 and commenced operations on September 25, 2012. The Operating Partnership conducts its business of acquiring, investing in, and managing residential mortgage- and real estate-related assets through its wholly owned subsidiaries. EARN, the General Partner, the Operating Partnership, and their consolidated subsidiaries are hereafter defined as the "Company."

Ellington Residential Mortgage Management LLC, or the "Manager," serves as the Manager of the Company pursuant to the terms of the Fifth Amended and Restated Management Agreement, or the "Management Agreement." The Manager is an affiliate of Ellington Management Group, L.L.C., or "EMG," an investment management firm that is an SEC-registered investment adviser with a 23-year history of investing in a broad spectrum of mortgage-backed securities and related derivatives, with an emphasis on the residential mortgage-backed securities, or "RMBS," market. In accordance with the terms of the Management Agreement and the Services Agreement (as described in Note 9), the Manager is responsible for administering the Company's business activities and day-to-day operations, and performs certain services, subject to oversight by the Board of Trustees. See Note 9 for further information on the Management Agreement.

The Company acquires and manages RMBS, for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," and RMBS that do not carry such guarantees, or "non-Agency RMBS," such as RMBS backed by prime jumbo, Alternative A-paper, manufactured housing, and subprime residential mortgage loans. Agency RMBS include both Agency pools and Agency collateralized mortgage obligations, or "CMOs," and non-Agency RMBS primarily consist of non-Agency CMOs, both investment grade and non-investment grade. The Company may also acquire and manage mortgage servicing rights, credit risk transfer securities, residential mortgage loans, and other mortgage- and real estate-related assets. The Company may also invest in other instruments including, but not limited to, forward-settling To-Be-Announced Agency pass-through certificates, or "TBAs," interest rate swaps and swaptions, U.S. Treasury securities, Eurodollar and U.S. Treasury futures, other financial derivatives, and cash equivalents. The Company's targeted investments may range from unrated first loss securities to AAA senior securities.

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or "the Code," and intends to conduct its operations to be qualified and taxed as a REIT. As a REIT, the Company is required to distribute annually at least 90% of its taxable income. As long as the Company continues to qualify as a REIT, it will not be subject to U.S. federal corporate taxes on its taxable income to the extent that it distributes all of its annual taxable income to its shareholders. It is the intention of the Company to distribute at least 100% of its taxable income, after application of available tax attributes, within the time limits prescribed by the Code, which may extend into the subsequent taxable year.

2. Significant Accounting Policies

(A) Basis of Presentation: The Company's unaudited interim consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, or "U.S. GAAP." Entities in which the Company has a controlling financial interest, through ownership of the majority of the entities' voting equity interests, or through other contractual rights that give the Company control, are consolidated by the Company. All inter-company balances and transactions have been eliminated. The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those

differences could be material. In management's opinion, all material adjustments considered necessary for a fair statement of the Company's interim consolidated financial statements have been included and are only of a normal recurring nature. 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, 2017.

(B) Valuation: The Company applies ASC 820-10, Fair Value Measurement ("ASC 820-10"), to its holdings of financial instruments. ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation

hierarchy is based upon the observability of inputs to the valuation of an asset or liability as of the measurement date.

The three levels are defined as follows:

Level 1—inputs to the valuation methodology are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets. Currently, the types of financial instruments the Company generally includes in this category are exchange-traded derivatives;

Level 2—inputs to the valuation methodology other than quoted prices included in Level 1 are observable for the asset or liability, either directly or indirectly. Currently, the types of financial instruments that the Company generally includes in this category are Agency RMBS, U.S. Treasury securities, certain non-Agency RMBS, and actively traded derivatives such as TBAs, interest rate swaps, and swaptions, and;

Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement. Currently, this category includes certain RMBS, such as certain non-Agency RMBS and certain Agency IOs, where there is less price transparency.

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

#### Summary Valuation Techniques

For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of the Company's financial instruments are not traded in an active market. Therefore, management generally uses third-party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as the discounted cash flow methodology. The following are summary descriptions, for the various categories of financial instruments, of the valuation methodologies management uses in determining fair value of the Company's financial instruments in such categories. Management utilizes such methodologies to assign a good faith fair value (the estimated price that, in an orderly transaction at the valuation date, would be received to sell an asset, or paid to transfer a liability, as the case may be) to each such financial instrument. Valuations for fixed-rate RMBS pass-throughs issued by a U.S. government agency or government-sponsored enterprise, or "GSE," are typically based on observable pay-up data (pay-ups are price premiums for specified categories of fixed-rate pools relative to their TBA counterparts) or models that use observable market data, such as interest rates and historical prepayment speeds, and are validated against third-party valuations. With respect to the Company's other RMBS investments and TBAs, management seeks to obtain at least one third-party valuation, and often obtains multiple valuations when available. Management has been able to obtain third-party valuations on the vast majority of these instruments and expects to continue to solicit third-party valuations in the future. Management generally values each financial instrument at the average of third-party valuations received and not rejected as described below. Third-party valuations are not binding, and while management generally does not adjust the valuations it receives, management may challenge or reject a valuation when, based on its validation criteria, management determines that such valuation is unreasonable or erroneous. Furthermore, based on its validation criteria, management may determine that the average of the third-party valuations received for a given instrument does not result in what management believes to be the fair value of such instrument, and in such circumstances

management may override this average with its own good faith valuation. The validation criteria may take into account output from management's own models, recent trading activity in the same or similar instruments, and valuations received from third parties. The use of proprietary models requires the use of a significant amount of judgment and the application of various assumptions including, but not limited to, assumptions concerning future prepayment rates and default rates.

Given their relatively high level of price transparency, Agency RMBS pass-throughs and TBAs are typically designated as Level 2 assets. Non-Agency RMBS and Agency interest only and inverse interest only RMBS are generally classified as either

Level 2 or Level 3 based on the analysis of available market data and/or third-party valuations. Furthermore, the methodology used by the third-party valuation providers is reviewed at least annually by management, so as to ascertain whether such providers are utilizing observable market data to determine the valuations that they provide. Interest rate swaps and swaptions are typically valued based on internal models that use observable market data, including applicable interest rates in effect as of the measurement date; the model-generated valuations are then typically compared to counterparty valuations for reasonableness. These financial derivatives are generally designated as Level 2 instruments.

In valuing its derivatives, the Company also considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement.

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

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

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

(C) Accounting for Securities: Purchases and sales of investments are recorded on trade date and realized and unrealized gains and losses are calculated based on identified cost.

The Company has chosen to make a fair value election pursuant to ASC 825-10, Financial Instruments, for its securities portfolio. Electing the fair value option allows the Company to record changes in fair value in the Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. As such, securities are recorded at fair value on the Consolidated Balance Sheet and the period change in fair value is recorded in current period earnings on the Consolidated Statement of Operations as a component of Change in net unrealized gains (losses) on securities.

(D) Interest Income: Coupon interest income on investment securities is accrued based on the outstanding principal balance or notional amount and the current coupon rate on each security. The Company amortizes purchase premiums and accretes purchase discounts on its fixed-income securities. For RMBS that are deemed to be of high credit quality at the time of purchase, premiums and discounts are generally amortized/accreted into interest income over the life of such securities using the effective interest method. An effective yield retroactive to the time of purchase is periodically recomputed based on actual prepayments and changes in projected prepayment activity, and a catch-up adjustment, or "Catch-up Premium Amortization Adjustment," is made to amortization to reflect the cumulative impact of the change in effective yield. For RMBS that are deemed not to be of high credit quality at the time of purchase, interest income is recognized based on the effective interest method. For purposes of determining the effective interest rate, management estimates the future expected cash flows of its investment holdings based on assumptions including, but not limited to, assumptions for future prepayment rates, default rates, and loss severities (each of which may in turn incorporate various macro-economic assumptions, such as future housing prices). These assumptions are re-evaluated not less than quarterly. Principal write-offs are generally treated as realized losses. Changes in projected cash flows, as applied to the current amortized cost of the security, may result in a prospective change in the yield/interest income recognized on such securities.

The Company's accretion of discounts and amortization of premiums on securities for U.S. federal and other tax purposes is likely to differ from the accounting treatment under U.S. GAAP of these items as described above.

(E) Cash and Cash Equivalents: Cash and cash equivalents include cash and short term investments with original maturities of three months or less at the date of acquisition. Cash and cash equivalents typically include amounts held

in an interest bearing overnight account and amounts held in money market funds, and these balances generally exceed insured limits. The Company holds its cash at institutions that it believes to be highly creditworthy.

(F) Due from brokers/Due to brokers: Due from brokers and Due to brokers accounts on the Consolidated Balance Sheet include collateral transferred to or received from counterparties, including clearinghouses, along with receivables and payables for open and/or closed derivative positions.

(G) Financial Derivatives: The Company enters into various types of financial derivatives subject to its investment guidelines, which include restrictions associated with maintaining its qualification as a REIT. The Company's financial derivatives are predominantly subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Company may be required to deliver or may receive cash or securities as collateral upon entering into derivative transactions. In addition, changes in the relative value of financial derivative transactions may require the Company or the counterparty to post or receive additional collateral. In the case of cleared financial derivatives, the clearinghouse becomes the Company's counterparty and a futures commission merchant acts as intermediary between the Company and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral. Collateral received by the Company is reflected on the Consolidated Balance Sheet as "Due to Brokers." Conversely, collateral posted by the Company is reflected as "Due from Brokers" on the Consolidated Balance Sheet. The types of financial derivatives that have been utilized by the Company to date are interest rate swaps, TBAs, swaptions, and futures.

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

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

TBA Securities: The Company transacts in the forward settling TBA market. A TBA position is a forward contract for the purchase ("long position") or sale ("short position") of Agency RMBS at a predetermined price, face amount, issuer, coupon, and maturity on an agreed-upon future delivery date. For each TBA contract and delivery month, a uniform settlement date for all market participants is determined by the Securities Industry and Financial Markets Association. The specific Agency RMBS to be delivered into the contract at the settlement date are not known at the time of the transaction. The Company typically does not take delivery of TBAs, but rather enters into offsetting transactions and settles the associated receivable and payable balances with its counterparties. The Company primarily uses TBAs to mitigate interest rate risk, but from time to time it also holds net long positions in certain TBA securities as a means of acquiring exposure to Agency RMBS.

TBAs are accounted for by the Company as financial derivatives. The difference between the contract price and the fair value of the TBA position as of the reporting date is included in Change in net unrealized gains (losses) on financial derivatives in the Consolidated Statement of Operations. Upon settlement of the TBA contract, the realized gain (loss) on the TBA contract is equal to the net cash amount received (paid).

Options: The Company enters into swaption contracts. It may purchase or write put, call, straddle, or other similar options contracts. The Company enters into options contracts primarily to help mitigate interest rate risk. When the Company purchases an options contract, the option asset is initially recorded at an amount equal to the premium paid, if any, and is subsequently marked-to-market. Premiums paid for purchasing options contracts that expire unexercised are recognized on the expiration date as realized losses. If an options contract is exercised, the premium paid is subtracted from the proceeds of the sale or added to the cost of the purchase to determine whether the Company has realized a gain or loss on the related investment transaction. When the Company writes an options contract, the option liability is initially recorded at an amount equal to the premium received, if any, and is subsequently marked-to-market. Premiums received for writing options contracts that expire unexercised are recognized on the expiration date as realized gains. If an options contract is exercised, the premium received is subtracted from the cost of the purchase or added to the proceeds of the sale to determine whether the Company has realized a gain or loss on

the related investment transaction. When the Company enters into a closing transaction, the Company will realize a gain or loss depending upon whether the amount from the closing transaction is greater or less than the premiums paid or received. In general, the Company's options contracts contain forward-settling premiums. In this case, no money is exchanged upfront; instead, the agreed-upon premium is paid by the buyer upon expiration of the options contract, regardless of whether or not the options contract is exercised. Unrealized gains or (losses) resulting from the options contract being marked-to-market are included in Change in net unrealized gains (losses) on financial derivatives in the Consolidated Statement of Operations. Realized gains or (losses) are included in Realized gains (losses) on financial derivatives in the Consolidated Statement of Operations.



**Futures Contracts:** The Company enters into Eurodollar futures contracts and U.S. Treasury futures contracts. A futures contract is an exchange-traded agreement to buy or sell an asset for a set price on a future date. 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 to reflect the current market value of the contract. Unrealized gains or (losses) are included in Change in net unrealized gains (losses) on financial derivatives in the Consolidated Statement of Operations.

Variation margin payments are made or received periodically, depending upon whether unrealized losses or gains are incurred. When the contract is closed, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract. Realized gains or (losses) are included in Realized gains (losses) on financial derivatives in the Consolidated Statement of Operations.

Financial derivative assets are included in Financial derivatives—assets, at fair value on the Consolidated Balance Sheet while financial derivative liabilities are included in Financial derivatives—liabilities, at fair value on the Consolidated Balance Sheet.

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

**(I) Reverse Repurchase Agreements:** The Company enters into reverse repurchase agreement transactions with third-party broker-dealers, whereby it purchases securities under agreements to resell at an agreed upon price and date. The interest rate on a reverse repurchase agreement is based on competitive market rates (or competitive market spreads, in the case of agreements with floating interest rates) at the time such agreement is entered into. Reverse repurchase agreements are carried at their contractual amounts, which approximate fair value due to their short-term nature.

Repurchase and reverse repurchase agreements that are conducted with the same counterparty can be reported on a net basis if they meet the requirements of ASC 210-20, Balance Sheet Offsetting. There are currently no repurchase and reverse repurchase agreements reported on a net basis in the Company's consolidated financial statements.

**(J) Securities Sold Short:** The Company may purchase or engage in short sales of U.S. Treasury securities to mitigate the potential impact of changes in interest rates on the performance of its portfolio. When the Company sells securities short, it typically satisfies its security delivery settlement obligation by obtaining the security sold short from the same or a different counterparty. The Company generally is required to deliver cash or securities as collateral to the counterparty for the Company's obligation to return the borrowed security.

The Company has chosen to make a fair value election pursuant to ASC 825-10, Financial Instruments, for its securities sold short. Electing the fair value option allows the Company to record changes in fair value in the Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. As such, securities sold short are recorded at fair value on the Consolidated Balance Sheet and the period change in fair value is recorded in current period earnings on the Consolidated Statement of Operations as a component of Change in net unrealized gains (losses) on securities. 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. Such realized gain or loss is recorded on the Company's Consolidated Statement of Operations in Net realized gains (losses) on securities.

**(K) Offering Costs/Deferred Offering Costs/Underwriters' Discounts:** Offering costs, underwriters' discounts and commissions and fees, are charged against shareholders' equity within Additional paid-in-capital. Offering costs typically include legal, accounting, and other fees associated with the cost of raising equity capital.

(L) Share Based Compensation: The Company applies the provisions of ASC 718, Compensation—Stock Compensation ("ASC 718"), with regard to its equity incentive plans. ASC 718 covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. ASC 718 requires that compensation cost relating to share-based payment transactions be

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recognized in the financial statements. The cost is measured based on the fair value, at the grant date, of the equity or liability instruments issued and is amortized over the vesting period. Restricted shares issued to the Company's independent directors and partially dedicated personnel are participating securities and receive dividends prior to vesting. Fair value for such awards is based on the closing stock price on the New York Stock Exchange at the grant date. The vesting period for restricted share awards is typically one to two years. Shares issued to the Company's independent directors and partially dedicated personnel are subject to tax withholding upon vesting. The Company's independent directors and partially dedicated personnel are permitted to forfeit a portion of their vested shares to pay such withholding tax. Forfeited shares decrease the total number of shares issued and outstanding and are immediately retired upon settlement.

(M) Dividends: Dividends payable are recorded on the declaration date.

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

(O) Earnings Per Share: In accordance with the provisions of ASC 260, Earnings per Share, the Company calculates basic income (loss) per share by dividing net income (loss) for the period by the weighted average of the Company's common shares outstanding for that period. Diluted income (loss) per share takes into account the effect of dilutive instruments, such as share options and warrants, and uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted average number of shares outstanding.

(P) Share Repurchases: Common shares that are repurchased by the Company subsequent to issuance decrease the total number of shares issued and outstanding and are immediately retired upon settlement. The cost of such share repurchases is charged against Additional paid-in-capital on the Company's Consolidated Balance Sheet.

(Q) Income Taxes: The Company has elected to be taxed as a REIT under Sections 856 to 860 of the Code. As a REIT, the Company is generally not subject to corporate-level federal and state income tax on net income it distributes to its shareholders. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including the distribution of at least 90% of its annual taxable income to shareholders. Even if the Company qualifies as a REIT, it may be subject to certain federal, state, local and foreign taxes on its income and property and to federal income and excise taxes on its undistributed taxable income. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state, and local income taxes and may be precluded from qualifying as a REIT for the four taxable years following the year in which the Company fails to qualify as a REIT.

The Company follows the authoritative guidance on accounting for and disclosure of uncertainty on tax positions, which requires management to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For uncertain tax positions, the tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company did not have any unrecognized tax benefits resulting from tax positions related to the current period or to 2017, 2016, 2015, or 2014 (its open tax years). In the normal course of business, the Company may be subject to examination by federal, state, local, and foreign jurisdictions, where applicable, for the current period, 2017, 2016, 2015, and 2014 (its open tax years). The Company may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any of such positions, the Company might be found to have a tax liability that has not been recorded in the accompanying consolidated financial statements. Also, management's conclusions regarding the authoritative guidance may be subject to review and adjustment at a later date based on changing tax laws, regulations, and interpretations thereof. There were no amounts accrued for penalties or interest as of or during the periods presented in these consolidated financial statements.

(R) Recent Accounting Pronouncements: In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"). This amends ASC 810, Consolidation (ASC "810"), to improve targeted areas of consolidation guidance by simplifying the requirements of consolidation and placing more emphasis on risk of loss when determining a controlling financial interest. ASU 2015-02 is effective for annual periods beginning after December 15, 2016 and interim periods beginning after December 15, 2017. The adoption of ASU 2015-02 did not have a material impact on the Company's consolidated financial statements.

### 3. Mortgage-Backed Securities

The following tables present details of the Company's mortgage-backed securities portfolio at March 31, 2018 and December 31, 2017, respectively. The Company's Agency RMBS include mortgage pass-through certificates and CMOs representing interests in or obligations backed by pools of residential mortgage loans issued or guaranteed by a U.S. government agency or GSE. The non-Agency RMBS portfolio is not issued or guaranteed by the Federal National Mortgage

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Association, the Federal Home Loan Mortgage Corporation, or any agency of the U.S. Government and is therefore subject to greater credit risk.

By RMBS Type

March 31, 2018:

(\$ in thousands)

|                              | Current Principal | Unamortized Premium (Discount) | Amortized Cost | Gross Unrealized |            |             | Weighted Average |       |                             |
|------------------------------|-------------------|--------------------------------|----------------|------------------|------------|-------------|------------------|-------|-----------------------------|
|                              |                   |                                |                | Gains            | Losses     | Fair Value  | Coupon           | Yield | Life (Years) <sup>(1)</sup> |
| Agency RMBS:                 |                   |                                |                |                  |            |             |                  |       |                             |
| 15-year fixed-rate mortgages | \$151,969         | \$ 6,721                       | \$158,690      | \$—              | \$(3,840)  | \$154,850   | 3.41%            | 2.31% | 4.63                        |
| 20-year fixed-rate mortgages | 8,432             | 646                            | 9,078          | —                | (305)      | 8,773       | 4.00%            | 2.53% | 6.04                        |
| 30-year fixed-rate mortgages | 1,304,988         | 70,183                         | 1,375,171      | 416              | (34,367)   | 1,341,220   | 3.93%            | 3.08% | 8.39                        |
| Adjustable rate mortgages    | 22,613            | 1,397                          | 24,010         | 10               | (638)      | 23,382      | 3.80%            | 2.57% | 4.32                        |
| Reverse mortgages            | 69,813            | 6,723                          | 76,536         | 166              | (1,320)    | 75,382      | 4.52%            | 2.83% | 6.05                        |
| Interest only securities     | n/a               | n/a                            | 14,264         | 1,151            | (889)      | 14,526      | 4.46%            | 5.87% | 4.17                        |
| Total Agency RMBS            | 1,557,815         | 85,670                         | 1,657,749      | 1,743            | (41,359)   | 1,618,133   | 3.94%            | 3.01% | 7.61                        |
| Non-Agency RMBS              | 15,258            | (4,755)                        | 10,503         | 2,001            | (62)       | 12,442      | 3.94%            | 6.82% | 7.43                        |
| Total RMBS                   | \$1,573,073       | \$ 80,915                      | \$1,668,252    | \$3,744          | \$(41,421) | \$1,630,575 | 3.94%            | 3.03% | 7.61                        |

Average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the (1) contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

December 31, 2017:

(\$ in thousands)

|                              | Current Principal | Unamortized Premium (Discount) | Amortized Cost | Gross Unrealized |            |             | Weighted Average |       |                             |
|------------------------------|-------------------|--------------------------------|----------------|------------------|------------|-------------|------------------|-------|-----------------------------|
|                              |                   |                                |                | Gains            | Losses     | Fair Value  | Coupon           | Yield | Life (Years) <sup>(1)</sup> |
| Agency RMBS:                 |                   |                                |                |                  |            |             |                  |       |                             |
| 15-year fixed-rate mortgages | \$170,998         | \$ 7,553                       | \$178,551      | \$28             | \$(1,805)  | \$176,774   | 3.38%            | 2.31% | 4.75                        |
| 20-year fixed-rate mortgages | 8,712             | 682                            | 9,394          | —                | (164)      | 9,230       | 4.00%            | 2.55% | 6.02                        |
| 30-year fixed-rate mortgages | 1,303,584         | 76,681                         | 1,380,265      | 1,929            | (12,605)   | 1,369,589   | 3.96%            | 3.06% | 8.18                        |
| Adjustable rate mortgages    | 28,087            | 1,862                          | 29,949         | 30               | (421)      | 29,558      | 3.87%            | 2.58% | 4.70                        |
| Reverse mortgages            | 64,608            | 6,293                          | 70,901         | 259              | (543)      | 70,617      | 4.53%            | 2.79% | 6.09                        |
| Interest only securities     | n/a               | n/a                            | 13,197         | 382              | (1,374)    | 12,205      | 4.36%            | 5.64% | 3.28                        |
| Total Agency RMBS            | 1,575,989         | 93,071                         | 1,682,257      | 2,628            | (16,912)   | 1,667,973   | 3.95%            | 2.98% | 7.38                        |
| Non-Agency RMBS              | 21,995            | (6,717)                        | 15,278         | 2,846            | (99)       | 18,025      | 3.58%            | 8.39% | 7.94                        |
| Total RMBS                   | \$1,597,984       | \$ 86,354                      | \$1,697,535    | \$5,474          | \$(17,011) | \$1,685,998 | 3.94%            | 3.03% | 7.39                        |

Average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the (1) contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.



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By Estimated Weighted Average Life

As of March 31, 2018:

| (\$ in thousands)                                   | Agency RMBS |                |                         | Agency Interest Only Securities |                |                         | Non-Agency RMBS |                |                         |
|---|-------------|----------------|-------------------------|---------------------------------|----------------|-------------------------|-----------------|----------------|-------------------------|
|   | Fair Value  | Amortized Cost | Weighted Average Coupon | Fair Value                      | Amortized Cost | Weighted Average Coupon | Fair Value      | Amortized Cost | Weighted Average Coupon |
| Estimated Weighted Average Life <sup>(1)</sup>      |             |                |                         |                                 |                |                         |                 |                |                         |
| Less than three years                               | \$6,903     | \$6,949        | 3.59 %                  | \$1,508                         | \$1,962        | 4.08 %                  | \$—             | \$—            | — %                     |
| Greater than three years and less than seven years  | 331,586     | 339,800        | 3.87 %                  | 13,018                          | 12,302         | 4.55 %                  | 7,784           | 6,861          | 4.89 %                  |
| Greater than seven years and less than eleven years | 1,253,210   | 1,284,720      | 3.91 %                  | —                               | —              | — %                     | 2,188           | 1,111          | 2.89 %                  |
| Greater than eleven years                           | 11,908      | 12,016         | 4.05 %                  | —                               | —              | — %                     | 2,470           | 2,531          | 2.50 %                  |
| Total   | \$1,603,607 | \$1,643,485    | 3.90 %                  | \$14,526                        | \$14,264       | 4.46 %                  | \$12,442        | \$10,503       | 3.94 %                  |

(1) Average lives of RMBS are generally shorter than stated contractual maturities.

As of December 31, 2017:

| (\$ in thousands)                                   | Agency RMBS |                |                         | Agency Interest Only Securities |                |                         | Non-Agency RMBS |                |                         |
|---|-------------|----------------|-------------------------|---------------------------------|----------------|-------------------------|-----------------|----------------|-------------------------|
|   | Fair Value  | Amortized Cost | Weighted Average Coupon | Fair Value                      | Amortized Cost | Weighted Average Coupon | Fair Value      | Amortized Cost | Weighted Average Coupon |
| Estimated Weighted Average Life <sup>(1)</sup>      |             |                |                         |                                 |                |                         |                 |                |                         |
| Less than three years                               | \$7,931     | \$7,935        | 3.70 %                  | \$3,357                         | \$4,253        | 4.15 %                  | \$—             | \$—            | — %                     |
| Greater than three years and less than seven years  | 419,295     | 423,248        | 3.93 %                  | 8,848                           | 8,944          | 4.51 %                  | 9,625           | 9,062          | 5.00 %                  |
| Greater than seven years and less than eleven years | 1,221,160   | 1,230,479      | 3.92 %                  | —                               | —              | — %                     | 5,892           | 3,697          | 2.14 %                  |
| Greater than eleven years                           | 7,382       | 7,398          | 3.68 %                  | —                               | —              | — %                     | 2,508           | 2,519          | 2.18 %                  |
| Total   | \$1,655,768 | \$1,669,060    | 3.92 %                  | \$12,205                        | \$13,197       | 4.36 %                  | \$18,025        | \$15,278       | 3.58 %                  |

(1) Average lives of RMBS are generally shorter than stated contractual maturities.

The following table reflects the components of interest income on the Company's RMBS for the three month periods ended March 31, 2018 and 2017:

| (\$ in thousands) | Three Month Period Ended March 31, 2018 |                  |                 | Three Month Period Ended March 31, 2017 |                  |                 |
|-------------------|---|------------------|-----------------|---|------------------|-----------------|
|                   | Coupon Interest                         | Net Amortization | Interest Income | Coupon Interest                         | Net Amortization | Interest Income |
| Agency RMBS       | \$16,908                                | \$ (4,248 )      | \$12,660        | \$12,579                                | \$ (755 )        | \$11,824        |
| Non-Agency RMBS   | 169                                     | 86               | 255             | 253                                     | 101              | 354             |
| Total             | \$17,077                                | \$ (4,162 )      | \$12,915        | \$12,832                                | \$ (654 )        | \$12,178        |

For the three month periods ended March 31, 2018 and 2017 the Catch-up Premium Amortization Adjustment was \$(0.2) million and \$2.6 million, respectively.

## 4. Valuation

The following tables present the Company's financial instruments measured at fair value on:

March 31, 2018:

(In thousands)

| Description  | Level 1   | Level 2     | Level 3  | Total       |
|--|-----------|-------------|----------|-------------|
| Assets:  |           |             |          |             |
| Mortgage-backed securities, at fair value:   |           |             |          |             |
| Agency RMBS:   |           |             |          |             |
| 15-year fixed-rate mortgages   | \$—       | \$154,850   | \$—      | \$154,850   |
| 20-year fixed-rate mortgages   | —         | 8,773       | —        | 8,773       |
| 30-year fixed-rate mortgages   | —         | 1,341,220   | —        | 1,341,220   |
| Adjustable rate mortgages  | —         | 23,382      | —        | 23,382      |
| Reverse mortgages  | —         | 75,382      | —        | 75,382      |
| Interest only securities   | —         | 9,388       | 5,138    | 14,526      |
| Non-Agency RMBS  | —         | 7,087       | 5,355    | 12,442      |
| Mortgage-backed securities, at fair value  | —         | 1,620,082   | 10,493   | 1,630,575   |
| Financial derivatives—assets, at fair value:   |           |             |          |             |
| TBAs   | —         | 296         | —        | 296         |
| Interest rate swaps  | —         | 12,846      | —        | 12,846      |
| Swaptions  | —         | 386         | —        | 386         |
| Total financial derivatives—assets, at fair value  | —         | 13,528      | —        | 13,528      |
| Total mortgage-backed securities and financial derivatives—assets, at fair value               | \$—       | \$1,633,610 | \$10,493 | \$1,644,103 |
| Liabilities:   |           |             |          |             |
| U.S. Treasury securities sold short, at fair value   | \$—       | \$(44,377)  | \$—      | \$(44,377)  |
| Financial derivatives—liabilities, at fair value:  |           |             |          |             |
| TBAs   | —         | (2,572)     | —        | (2,572)     |
| Interest rate swaps  | —         | (1,192)     | —        | (1,192)     |
| Futures  | (2,112)   | —           | —        | (2,112)     |
| Total financial derivatives—liabilities, at fair value   | (2,112)   | (3,764)     | —        | (5,876)     |
| Total U.S. Treasury securities sold short and financial derivatives—liabilities, at fair value | \$(2,112) | \$(48,141)  | \$—      | \$(50,253)  |



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December 31, 2017:

(In thousands)

| Description  | Level 1 | Level 2     | Level 3  | Total       |
|--|---------|-------------|----------|-------------|
| <b>Assets:</b>   |         |             |          |             |
| Mortgage-backed securities, at fair value:   |         |             |          |             |
| Agency RMBS:   |         |             |          |             |
| 15-year fixed-rate mortgages   | \$—     | \$176,774   | \$—      | \$176,774   |
| 20-year fixed-rate mortgages   | —       | 9,230       | —        | 9,230       |
| 30-year fixed-rate mortgages   | —       | 1,369,589   | —        | 1,369,589   |
| Adjustable rate mortgages  | —       | 29,558      | —        | 29,558      |
| Reverse mortgages  | —       | 70,617      | —        | 70,617      |
| Interest only securities   | —       | 9,951       | 2,254    | 12,205      |
| Non-Agency RMBS  |         |             |          |             |
| Mortgage-backed securities, at fair value  | —       | 1,674,912   | 11,086   | 1,685,998   |
| Financial derivatives—assets, at fair value:   |         |             |          |             |
| TBAs   | —       | 402         | —        | 402         |
| Interest rate swaps  | —       | 8,038       | —        | 8,038       |
| Swaptions  | —       | 181         | —        | 181         |
| Futures  | 171     | —           | —        | 171         |
| Total financial derivatives—assets, at fair value  | 171     | 8,621       | —        | 8,792       |
| Total mortgage-backed securities and financial derivatives—assets, at fair value               | \$171   | \$1,683,533 | \$11,086 | \$1,694,790 |
| <b>Liabilities:</b>  |         |             |          |             |
| U.S. Treasury securities sold short, at fair value   | \$—     | \$(81,289)  | \$—      | \$(81,289)  |
| Financial derivatives—liabilities, at fair value:  |         |             |          |             |
| TBAs   | —       | (735)       | —        | (735)       |
| Interest rate swaps  | —       | (1,128)     | —        | (1,128)     |
| Total financial derivatives—liabilities, at fair value   | —       | (1,863)     | —        | (1,863)     |
| Total U.S. Treasury securities sold short and financial derivatives—liabilities, at fair value | \$—     | \$(83,152)  | \$—      | \$(83,152)  |

The following tables present additional information about the Company's investments which are measured at fair value for which the Company has utilized Level 3 inputs to determine fair value:

Three month period ended March 31, 2018:

| (In thousands)                            | Non-Agency RMBS | Agency RMBS |
|---|-----------------|-------------|
| Beginning balance as of December 31, 2017 | \$ 8,832        | \$2,254     |
| Purchases                                 | —               | 1,529       |
| Proceeds from sales                       | (3,638)         | —           |
| Principal repayments                      | (230)           | —           |
| (Amortization)/accretion, net             | 46              | (442)       |
| Net realized gains (losses)               | 1,138           | (125)       |
| Change in net unrealized gains (losses)   | (793)           | 358         |
| <b>Transfers:</b>                         |                 |             |
| Transfers into level 3                    | —               | 1,564       |
| Transfers out of level 3                  | —               | —           |
| Ending balance as of March 31, 2018       | \$ 5,355        | \$5,138     |



All amounts of net realized and changes in net unrealized gains (losses) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gains (losses) for both Level 3 financial instruments held by the Company at March 31, 2018, as well as Level 3 financial instruments disposed of by the Company during the three month period ended March 31, 2018. For Level 3 financial instruments held by the Company as of March 31, 2018, change in net unrealized gains (losses) of \$0.2 million and \$0.5 million, for the three month period ended March 31, 2018 relate to non-Agency RMBS and Agency RMBS, respectively.

As of June 30, 2017, the Company modified its procedures to determine the level within the hierarchy for certain financial instruments. Under the revised procedures, the Company examines financial instruments individually rather than in cohorts of like instruments as it had previously. At March 31, 2018, the Company transferred \$1.6 million of RMBS from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The level designation of each financial instrument is reassessed at the end of each period.

Three month period ended March 31, 2017:

| (In thousands)                            | Non-Agency<br>RMBS | Agency<br>RMBS |
|---|--------------------|----------------|
| Beginning balance as of December 31, 2016 | \$ 6,498           | \$12,347       |
| Purchases                                 | —                  | 1,287          |
| Proceeds from sales                       | (2,850 )           | —              |
| Principal repayments                      | (167 )             | —              |
| (Amortization)/accretion, net             | 44                 | (835 )         |
| Net realized gains (losses)               | 163                | (37 )          |
| Change in net unrealized gains (losses)   | 332                | (220 )         |
| Transfers:                                |                    |                |
| Transfers into level 3                    | 1,819              | —              |
| Transfers out of level 3                  | (3,337 )           | —              |
| Ending balance as of March 31, 2017       | \$ 2,502           | \$12,542       |

All amounts of net realized and changes in net unrealized gains (losses) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gains (losses) for both Level 3 financial instruments held by the Company as of March 31, 2017, as well as Level 3 financial instruments disposed of by the Company during the three month period ended March 31, 2017. For Level 3 financial instruments held by the Company as of March 31, 2017, change in net unrealized gains (losses) of \$0.2 million and \$(0.2) million, for the three month period ended March 31, 2017 relate to non-Agency RMBS and Agency RMBS, respectively.

At March 31, 2017, the Company transferred \$3.3 million of RMBS from Level 3 to Level 2. These assets were transferred from Level 3 to Level 2 based on an increased volume of observed trading of these and/or similar assets. This increase in observed trading activity led to greater price transparency for these assets, thereby making a Level 2 designation appropriate in the Company's view.

At March 31, 2017, the Company transferred \$1.8 million of RMBS from Level 2 to Level 3. Since December 31, 2016, these securities exhibited indications of a reduced level of price transparency. Examples of such indications include wider spreads and/or higher delinquencies relative to similar securities and a reduction in observable transactions or executable quotes involving these and similar securities.

There were no transfers of financial instruments between Levels 1 and 2 of the fair value hierarchy during the three month periods ended March 31, 2018 or 2017.

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The following tables identify the significant unobservable inputs that affect the valuation of the Company's Level 3 assets and liabilities as of March 31, 2018 and December 31, 2017:

March 31, 2018:

| Description                          | Fair Value<br>(In thousands) | Valuation Technique            | Significant Unobservable Input              | Range   |         | Weighted Average <sup>(1)</sup> |   |
|--------------------------------------|------------------------------|--------------------------------|---|---------|---------|---------------------------------|---|
|                                      |                              |                                |   | Min     | Max     |                                 |   |
| Non-Agency RMBS                      | \$ 1,461                     | Market quotes                  | Non-Binding Third-Party Valuation           | \$87.47 | \$90.07 | \$ 88.77                        |   |
| Agency RMBS–Interest Only Securities | 2,152                        | Market quotes                  | Non-Binding Third-Party Valuation           | 12.19   | 19.13   | 16.83                           |   |
| Non-Agency RMBS                      | 3,894                        | Discounted Cash Flows          | Yield                                       | 4.4     | % 12.3  | % 6.3                           | % |
|                                      |                              |                                | Projected Collateral Prepayments            | 19.4    | % 47.0  | % 27.9                          | % |
|                                      |                              |                                | Projected Collateral Losses                 | 4.8     | % 20.1  | % 15.7                          | % |
|                                      |                              |                                | Projected Collateral Recoveries             | 6.4     | % 13.3  | % 11.5                          | % |
|                                      |                              |                                | Projected Collateral Scheduled Amortization | 31.1    | % 47.8  | % 44.9                          | % |
|                                      |                              |                                |   |         |         |                                 |   |
| Agency RMBS–Interest Only Securities | 2,986                        | Option Adjusted Spread ("OAS") | LIBOR OAS <sup>(2)</sup>                    | 435     | 1,282   | 678                             |   |
|                                      |                              |                                | Projected Collateral Prepayments            | 35.7    | % 78.4  | % 68.0                          | % |
|                                      |                              |                                | Projected Collateral Scheduled Amortization | 21.6    | % 64.3  | % 32.0                          | % |
|                                      |                              |                                |   |         |         |                                 |   |

(1) Averages are weighted based on the fair value of the related instrument.

(2) Shown in basis points.

December 31, 2017:

| Description     | Fair Value<br>(In thousands) | Valuation Technique   | Significant Unobservable Input    | Range   |         | Weighted Average <sup>(1)</sup> |   |
|-----------------|------------------------------|-----------------------|-----------------------------------|---------|---------|---------------------------------|---|
|                 |                              |                       |                                   | Min     | Max     |                                 |   |
| Non-Agency RMBS | \$ 2,258                     | Market quotes         | Non-Binding Third-Party Valuation | \$57.84 | \$87.45 | \$ 78.02                        |   |
| Non-Agency RMBS | 6,574                        | Discounted Cash Flows | Yield                             | 4.6     | % 5.1   | % 4.8                           | % |
|                 |                              |                       | Projected Collateral Prepayments  | 19.2    | % 44.9  | % 26.5                          | % |
|                 |                              |                       | Projected Collateral Losses       | 0.9     | % 20.1  | % 9.2                           | % |
|                 |                              |                       | Projected Collateral Recoveries   | 8.8     | % 31.5  | % 22.5                          | % |
|                 |                              |                       |                                   | 33.1    | % 47.5  | % 41.8                          | % |

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|   |       |                                   |  |      |        |        |  |  |       |   |
|---|-------|-----------------------------------|--|------|--------|--------|--|--|-------|---|
|   |       |                                   | Projected Collateral<br>Scheduled Amortization |      |        |        |  |  | 100.0 | % |
| Agency RMBS–Interest<br>Only Securities | 2,254 | Option Adjusted<br>Spread ("OAS") | LIBOR OAS <sup>(2)</sup>                       | 627  | 1,408  | 781    |  |  |       |   |
|   |       |                                   | Projected Collateral<br>Prepayments            | 43.8 | % 88.1 | % 71.2 |  |  |       | % |
|   |       |                                   | Projected Collateral<br>Scheduled Amortization | 11.9 | % 56.2 | % 28.8 |  |  |       | % |
|   |       |                                   |  |      |        |        |  |  | 100.0 | % |

(1) Averages are weighted based on the fair value of the related instrument.

(2) Shown in basis points.

Third-party non-binding valuations are validated by comparing such valuations to internally generated prices based on the Company's models and to recent trading activity in the same or similar instruments. For those instruments valued using discounted cash flows, collateral prepayments, losses, recoveries, and scheduled amortization are projected over the remaining life of the collateral and expressed as a percentage of the collateral's current principal balance. For those assets valued using the LIBOR Option Adjusted Spread, or "OAS," valuation methodology, cash flows are projected using the Company's models over multiple interest rate scenarios, and these projected cash flows are then discounted using the LIBOR rates implied by each interest rate scenario. The LIBOR OAS of an asset is then computed as the unique constant yield spread that, when added to all LIBOR rates in each interest rate scenario generated by the model, will equate (a) the expected present value of the projected asset cash flows over all model scenarios to (b) the actual current market price of the asset. LIBOR OAS is therefore model-dependent. Generally speaking, LIBOR OAS measures the additional yield spread over LIBOR that an asset provides at its current market price after taking into account any interest rate options embedded in the asset.

Material changes in any of the inputs above in isolation could result in a significant change to reported fair value measurements. 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.

The following table summarizes the estimated fair value of all other financial instruments not included in the disclosures above as of March 31, 2018 and December 31, 2017:

| (In thousands)                | March 31, 2018 |                | December 31, 2017 |                |
|-------------------------------|----------------|----------------|-------------------|----------------|
|                               | Fair Value     | Carrying Value | Fair Value        | Carrying Value |
| Other financial instruments   |                |                |                   |                |
| Assets:                       |                |                |                   |                |
| Cash and cash equivalents     | \$46,025       | \$ 46,025      | \$56,117          | \$ 56,117      |
| Due from brokers              | 32,061         | 32,061         | 26,754            | 26,754         |
| Reverse repurchase agreements | 44,617         | 44,617         | 81,461            | 81,461         |
| Liabilities:                  |                |                |                   |                |
| Repurchase agreements         | 1,589,319      | 1,589,319      | 1,597,206         | 1,597,206      |
| Due to brokers                | 1,025          | 1,025          | 489               | 489            |

Cash and cash equivalents includes cash held in an interest bearing overnight account for which fair value equals the carrying value and cash held in money market accounts which are liquid in nature and for which fair value equals the carrying value; such assets are considered Level 1 assets. Due from brokers and Due to brokers include collateral transferred to or received from counterparties, along with receivables and payables for open and/or closed derivative positions. These receivables and payables are short term in nature and any collateral transferred consists primarily of cash; fair value of these items approximates carrying value and such items are considered Level 1 assets and liabilities. The Company's repurchase and reverse repurchase agreements are carried at cost, which approximates fair value due to their short term nature. Repurchase agreements and reverse repurchase agreements are classified as Level 2 assets and liabilities based on the adequacy of the collateral and their short term nature.

##### 5. Financial Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. Specifically, the Company's primary source of financing is repurchase agreements and the Company enters into financial derivative and other instruments to manage exposure to variable cash flows on portions of its borrowings under those repurchase agreements. Since the interest rates on repurchase agreements typically change with market interest rates such as LIBOR, the Company is exposed to constantly changing interest rates, which accordingly affects cash flows associated with the Company's borrowings. To mitigate the effect of changes in these interest rates and their related cash flows, the Company may enter into a variety of derivative contracts, including interest rate swaps, swaptions, and TBAs. Additionally, from time to time, the Company may use short positions in U.S. Treasury securities to mitigate its interest rate risk.



The following table details the fair value of the Company's holdings of financial derivatives as of March 31, 2018 and December 31, 2017:

|  | March<br>31,<br>2018 | December<br>31, 2017 |
|--|----------------------|----------------------|
|  | (In thousands)       |                      |
| Financial derivatives—assets, at fair value:           |                      |                      |
| TBA securities purchase contracts                      | \$295                | \$ 26                |
| TBA securities sale contracts                          | 1                    | 376                  |
| Fixed payer interest rate swaps                        | 12,652               | 7,475                |
| Fixed receiver interest rate swaps                     | 194                  | 563                  |
| Swaptions  | 386                  | 181                  |
| Futures  | —                    | 171                  |
| Total financial derivatives—assets, at fair value      | 13,528               | 8,792                |
| Financial derivatives—liabilities, at fair value:      |                      |                      |
| TBA securities purchase contracts                      | (122 )               | (266 )               |
| TBA securities sale contracts                          | (2,450 )             | (469 )               |
| Fixed payer interest rate swaps                        | (1,191 )             | (1,128 )             |
| Fixed receiver interest rate swaps                     | (1 )                 | —                    |
| Futures  | (2,112 )             | —                    |
| Total financial derivatives—liabilities, at fair value | (5,876 )             | (1,863 )             |
| Total  | \$7,652              | \$ 6,929             |

#### Interest Rate Swaps

The following tables provide information about the Company's fixed payer interest rate swaps as of March 31, 2018 and December 31, 2017:

March 31, 2018:

| Maturity | Notional<br>Amount | Fair<br>Value | Weighted Average |                 | Remaining Years to Maturity |
|----------|--------------------|---------------|------------------|-----------------|-----------------------------|
|          |                    |               | Pay<br>Rate      | Receive<br>Rate |                             |
|          | (In thousands)     |               |                  |                 |                             |
| 2020     | \$86,000           | \$1,372       | 1.60%            | 1.76%           | 2.07                        |
| 2021     | 161,400            | 2,428         | 2.03             | 1.90            | 3.14                        |
| 2022     | 68,480             | 1,511         | 2.00             | 1.80            | 4.19                        |
| 2023     | 150,466            | 1,984         | 2.38             | 1.82            | 4.99                        |
| 2024     | 8,900              | 316           | 1.99             | 1.69            | 6.01                        |
| 2025     | 57,822             | 361           | 2.62             | 1.97            | 6.93                        |
| 2026     | 40,885             | 3,423         | 1.63             | 1.87            | 8.46                        |
| 2027     | 30,000             | 934           | 2.29             | 1.79            | 9.10                        |
| 2028     | 36,663             | (397 )        | 2.89             | 2.01            | 9.93                        |
| 2043     | 12,380             | (471 )        | 2.99             | 1.83            | 25.13                       |
| Total    | \$652,996          | \$11,461      | 2.15%            | 1.86%           | 5.31                        |



December 31, 2017:

| Maturity | Notional Amount | Fair Value | Weighted Average |              | Remaining Years to Maturity |
|----------|-----------------|------------|------------------|--------------|-----------------------------|
|          |                 |            | Pay Rate         | Receive Rate |                             |
|          | (In thousands)  |            |                  |              |                             |
| 2018     | \$65,990        | \$187      | 0.97%            | 1.38%        | 0.43                        |
| 2019     | 19,540          | 165        | 1.41             | 1.60         | 1.51                        |
| 2020     | 131,900         | 1,514      | 1.60             | 1.41         | 2.39                        |
| 2021     | 131,400         | 1,194      | 1.88             | 1.40         | 3.41                        |
| 2022     | 79,044          | 736        | 1.97             | 1.39         | 4.48                        |
| 2023     | 54,200          | 873        | 1.93             | 1.37         | 5.47                        |
| 2024     | 8,900           | 142        | 1.99             | 1.34         | 6.26                        |
| 2025     | 15,322          | 196        | 2.04             | 1.37         | 7.13                        |
| 2026     | 40,885          | 2,230      | 1.63             | 1.36         | 8.71                        |
| 2027     | 48,010          | 235        | 2.30             | 1.40         | 9.38                        |
| 2043     | 12,380          | (1,125 )   | 2.99             | 1.41         | 25.38                       |
| Total    | \$607,571       | \$6,347    | 1.77%            | 1.40%        | 4.54                        |

The following tables provide information about the Company's fixed receiver interest rate swaps as of March 31, 2018 and December 31, 2017.

March 31, 2018:

| Maturity | Notional Amount | Fair Value | Weighted Average |              | Remaining Years to Maturity |
|----------|-----------------|------------|------------------|--------------|-----------------------------|
|          |                 |            | Pay Rate         | Receive Rate |                             |
|          | (In thousands)  |            |                  |              |                             |
| 2021     | \$13,000        | \$(1 )     | 2.31%            | 2.66%        | 3.01                        |
| 2025     | 9,700           | 194        | 1.72             | 3.00         | 7.30                        |
| Total    | \$22,700        | \$193      | 2.06%            | 2.80%        | 4.84                        |

December 31, 2017:

| Maturity | Notional Amount | Fair Value | Weighted Average |              | Remaining Years to Maturity |
|----------|-----------------|------------|------------------|--------------|-----------------------------|
|          |                 |            | Pay Rate         | Receive Rate |                             |
|          | (In thousands)  |            |                  |              |                             |
| 2025     | \$9,700         | \$563      | 1.36%            | 3.00%        | 7.54                        |
| Total    | \$9,700         | \$563      | 1.36%            | 3.00%        | 7.54                        |

Interest Rate Swaptions

The following table provides information about the Company's swaptions as of March 31, 2018 and December 31, 2017.

March 31, 2018:

| Option Type       | Fair Value | Months to Expiration | Underlying Swap |              |            |
|-------------------|------------|----------------------|-----------------|--------------|------------|
|                   |            |                      | Notional Amount | Term (Years) | Fixed Rate |
| (\$ in thousands) |            |                      |                 |              |            |
| Fixed Payer       | \$386      | 4.0                  | \$10,000        | 10           | 2.40%      |

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December 31, 2017:

| Option Type | Fair Value | Months to Expiration | Underlying Swap Notional Amount | Term (Years) | Fixed Rate |
|-------------|------------|----------------------|---------------------------------|--------------|------------|
| Fixed Payer | \$ 181     | 7.0                  | \$ 10,000                       | 10           | 2.40%      |

Futures

The following tables provide information about the Company's short positions in futures as of March 31, 2018 and December 31, 2017.

March 31, 2018:

| Description           | Notional Amount | Fair Value | Remaining Months to Expiration |
|-----------------------|-----------------|------------|--------------------------------|
| U.S. Treasury Futures | \$(296,100)     | \$(2,112)  | 2.84                           |

December 31, 2017:

| Description           | Notional Amount | Fair Value | Remaining Months to Expiration |
|-----------------------|-----------------|------------|--------------------------------|
| U.S. Treasury Futures | \$(25,800)      | \$ 171     | 2.63                           |

TBAs

The Company transacts in the forward settling TBA market. Pursuant to these TBA transactions, the Company agrees to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. TBAs are generally liquid, have quoted market prices, and represent the most actively traded class of MBS. The Company primarily uses TBAs to mitigate interest rate risk, typically in the form of short positions. However, from time to time, the Company also invests in TBAs as a means of acquiring additional exposure to Agency RMBS, or for speculative purposes, including holding long positions. Overall, the Company typically holds a net short position.

The Company does not generally take delivery of TBAs; rather, it settles the associated receivable and payable with its trading counterparties on a net basis. Transactions with the same counterparty for the same TBA that result in a reduction of the position are treated as extinguished.

As of March 31, 2018 and December 31, 2017, the Company had outstanding contracts to purchase ("long positions") and sell ("short positions") TBA securities as follows:

| TBA Securities            | March 31, 2018                 |                           |                             |                                   | December 31, 2017              |                           |                             |                                   |
|---------------------------|--------------------------------|---------------------------|-----------------------------|-----------------------------------|--------------------------------|---------------------------|-----------------------------|-----------------------------------|
|                           | Notional Amount <sup>(1)</sup> | Cost Basis <sup>(2)</sup> | Market Value <sup>(3)</sup> | Net Carrying Value <sup>(4)</sup> | Notional Amount <sup>(1)</sup> | Cost Basis <sup>(2)</sup> | Market Value <sup>(3)</sup> | Net Carrying Value <sup>(4)</sup> |
| (In thousands)            |                                |                           |                             |                                   |                                |                           |                             |                                   |
| Purchase contracts:       |                                |                           |                             |                                   |                                |                           |                             |                                   |
| Assets                    | \$98,555                       | \$99,949                  | \$100,244                   | \$295                             | \$37,355                       | \$38,065                  | \$38,091                    | \$26                              |
| Liabilities               | 41,149                         | 42,763                    | 42,641                      | (122)                             | 75,789                         | 79,570                    | 79,304                      | (266)                             |
|                           | 139,704                        | 142,712                   | 142,885                     | 173                               | 113,144                        | 117,635                   | 117,395                     | (240)                             |
| Sale contracts:           |                                |                           |                             |                                   |                                |                           |                             |                                   |
| Assets                    | (3,600)                        | (3,770)                   | (3,769)                     | 1                                 | (358,279)                      | (372,219)                 | (371,843)                   | 376                               |
| Liabilities               | (378,653)                      | (379,954)                 | (382,404)                   | (2,450)                           | (328,576)                      | (341,134)                 | (341,603)                   | (469)                             |
|                           | (382,253)                      | (383,724)                 | (386,173)                   | (2,449)                           | (686,855)                      | (713,353)                 | (713,446)                   | (93)                              |
| Total TBA securities, net | \$(242,549)                    | \$(241,012)               | \$(243,288)                 | \$(2,276)                         | \$(573,711)                    | \$(595,718)               | \$(596,051)                 | \$(333)                           |



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- (1) Notional amount represents the principal balance of the underlying Agency RMBS.
- (2) Cost basis represents the forward price to be paid (received) for the underlying Agency RMBS.
- (3) Market value represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of period end.
- Net carrying value represents the difference between the market value of the TBA contract as of period end and the (4) cost basis and is reported in Financial derivatives-assets at fair value and Financial derivatives-liabilities at fair value on the Consolidated Balance Sheet.

The table below details the average notional values of the Company's financial derivatives, using absolute value of month end notional values, for the three month period ended March 31, 2018 and the year ended December 31, 2017:

| Derivative Type | Three Month Period Ended March 31, 2018 | Year Ended December 31, 2017 |
|-----------------|---|------------------------------|
|                 | Interest rate swaps                     | \$630,497                    |
| TBAs            | 707,333                                 | 796,813                      |
| Futures         | 172,575                                 | 30,092                       |
| Swaptions       | 10,000                                  | 4,615                        |

Gains and losses on the Company's financial derivatives for the three month periods ended March 31, 2018 and 2017 are summarized in the tables below:

| Derivative Type     | Three Month Period Ended March 31, 2018                                    |   |  | Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps | Change in Net Unrealized Gains (Losses) on Other Than Periodic Settlements of Interest Rate Swaps | Change in Net Unrealized Gains (Losses) on Financial Derivatives |
|---------------------|--|---|--|--|---|--|
|                     | Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps | Net Realized Gains (Losses) on Other Than Periodic Settlements of Interest Rate Swaps | Net Realized Gains (Losses) on Financial Derivatives |  |   |  |
| (In thousands)      |  |   |  |  |   |  |
| Interest rate swaps | \$ 1,132   | \$ 2,441  | \$ 3,573   | \$ (1,511 )  | \$ 6,098  | \$ 4,587   |
| Swaptions           | —  | —   | —  | —  | 205   | 205  |
| TBAs                | —  | 11,303  | 11,303   | —  | (1,944 )  | (1,944 )   |
| Futures             | —  | 1,079   | 1,079  | —  | (2,283 )  | (2,283 )   |
| Total               | \$ 1,132   | \$ 14,823   | \$ 15,955  | \$ (1,511 )  | \$ 2,076  | \$ 565   |
| Derivative Type     | Three Month Period Ended March 31, 2017                                    |   |  | Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps | Change in Net Unrealized Gains (Losses) on Other Than Periodic Settlements of Interest Rate Swaps | Change in Net Unrealized Gains (Losses) on Financial Derivatives |
|                     | Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps | Net Realized Gains (Losses) on Other Than Periodic Settlements of Interest Rate Swaps | Net Realized Gains (Losses) on Financial Derivatives |  |   |  |

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|                     | Settlements<br>of Interest<br>Rate Swaps | Settlements<br>of Interest<br>Rate Swaps | Periodic<br>Settlements<br>of Interest<br>Rate Swaps | on Accrued<br>Periodic<br>Settlements<br>of Interest<br>Rate Swaps | Derivatives             |
|---------------------|--|--|--|--|-------------------------|
| (In thousands)      |  |  |  |  |                         |
| Interest rate swaps | \$(15)                                   | \$ (29 )                                 | \$ (44 )   | \$ (462 )  | \$ 756 \$ 294           |
| TBAs                |  | 1,831                                    | 1,831  |  | (2,342 ) (2,342 )       |
| Futures             |  | (134 )                                   | (134 )   |  | (94 ) (94 )             |
| Total               | \$(15)                                   | \$ 1,668                                 | \$ 1,653   | \$ (462 )  | \$ (1,680 ) \$ (2,142 ) |

From time to time, the Company uses short positions in U.S. Treasury positions as a component of its interest rate hedging portfolio. As of March 31, 2018, the Company held short positions in U.S. Treasury securities, with a principal amount of \$44.4 million and a fair value of \$44.4 million. As of December 31, 2017, the Company held short positions in U.S. Treasury securities, with a principal amount of \$82.5 million and a fair value of \$81.3 million. Such securities are included on the Company's Consolidated Balance Sheet under the caption U.S. Treasury securities sold short, at fair value.

## 6. Borrowings under Repurchase Agreements

The Company enters into repurchase agreements. A repurchase agreement involves the sale of an asset to a counterparty together with a simultaneous agreement to repurchase the transferred asset or similar asset from such counterparty at a future date. The Company accounts for its repurchase agreements as collateralized borrowings, with the transferred assets effectively serving as collateral for the related borrowing. The Company's repurchase agreements typically range in term from 30 to 180 days. The principal economic terms of each repurchase agreement—such as loan amount, interest rate, and maturity date—are typically negotiated on a transaction-by-transaction basis. Other terms and conditions, such as relating to events of default, are typically governed under the Company's master repurchase agreements. Absent an event of default, the Company maintains beneficial ownership of the transferred securities during the term of the repurchase agreement and receives the related principal and interest payments. Interest rates on these borrowings are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is paid at the termination of the repurchase agreement at which time the Company may enter into a new repurchase agreement at prevailing market rates with the same counterparty, repay that counterparty and possibly negotiate financing terms with a different counterparty, or choose to no longer finance the related asset. In response to a decline in the fair value of the transferred securities, whether as a result of changes in market conditions, security paydowns, or other factors, repurchase agreement counterparties will typically make a margin call, whereby the Company will be required to post additional securities and/or cash as collateral with the counterparty in order to re-establish the agreed-upon collateralization requirements. In the event of increases in fair value of the transferred securities, the Company generally can require the counterparty to post collateral with it in the form of cash or securities. The Company is generally permitted to sell or re-pledge any securities posted by the counterparty as collateral; however, upon termination of the repurchase agreement, or other circumstance in which the counterparty is no longer required to post such margin, the Company must return to the counterparty the same security that had been posted. The contractual amount (loan amount) of the Company's repurchase agreements approximates fair value, based on the short-term nature of the debt and the adequacy of the collateral.

At any given time, the Company seeks to have its outstanding borrowings under repurchase agreements with several different counterparties in order to reduce the exposure to any single counterparty. As of both March 31, 2018 and December 31, 2017, the Company had outstanding borrowings under repurchase agreements with 15 counterparties. The following table details the Company's outstanding borrowings under repurchase agreements as of March 31, 2018 and December 31, 2017:

| Remaining Days to Maturity | March 31, 2018         |               |   | December 31, 2017      |               |   |
|----------------------------|------------------------|---------------|---|------------------------|---------------|---|
|                            | Borrowings Outstanding | Interest Rate | Weighted Average Remaining Days to Maturity | Borrowings Outstanding | Interest Rate | Weighted Average Remaining Days to Maturity |
| 30 days or less            | \$468,222              | 1.67%         | 16  | \$410,628              | 1.41%         | 15  |
| 31-60 days                 | 818,835                | 1.76          | 45  | 906,602                | 1.46          | 46  |
| 61-90 days                 | 302,262                | 1.90          | 75  | 273,665                | 1.60          | 74  |
| 91-120 days                | —                      | —             | —   | 6,311                  | 1.61          | 120   |
| Total                      | \$1,589,319            | 1.76%         | 42  | \$1,597,206            | 1.47%         | 43  |

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

As of both March 31, 2018 and December 31, 2017, the fair value of RMBS transferred as collateral under outstanding borrowings under repurchase agreements was \$1.7 billion. Collateral transferred under outstanding borrowings as of March 31, 2018 includes RMBS in the amount of \$73.7 million that were sold prior to period end but for which such sale had not yet settled. Collateral transferred under outstanding borrowings as of December 31, 2017

includes RMBS in the amount of \$21.5 million that were sold prior to year end but for which such sale had not yet settled. In addition the Company posted net cash collateral of \$21.9 million and additional securities with a fair value of \$2.1 million as of March 31, 2018 as a result of margin calls from various counterparties. The Company posted net cash collateral of \$18.7 million and additional securities with a fair value of \$2.5 million as of December 31, 2017 as a result of margin calls from various counterparties.

Amount at risk represents the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repurchase agreements. There was no counterparty for which the amount at risk was greater than 10% of shareholders' equity as of March 31, 2018 or December 31, 2017.

7. Offsetting of Assets and Liabilities

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

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

March 31, 2018:

| Description                       | Amount of Assets (Liabilities) Presented in the Consolidated Balance Sheet <sup>(1)</sup> | Financial Instruments for Offset | Financial Instruments Available Transferred or Pledged as Collateral <sup>(2)(3)</sup> | Cash Collateral (Received) Pledged <sup>(2)(3)</sup> | Net Amount |
|-----------------------------------|---|----------------------------------|--|--|------------|
| (In thousands)                    |   |                                  |  |  |            |
| Assets:                           |   |                                  |  |  |            |
| Financial derivatives—assets      | \$ 13,528   | \$( 1,305 )                      | \$ —   | \$( 576 )  | \$ 11,647  |
| Reverse repurchase agreements     | 44,617  | (44,617 )                        | —  | —  | —          |
| Liabilities:                      |   |                                  |  |  |            |
| Financial derivatives—liabilities | (5,876 )  | 1,305                            | —  | 4,423  | (148 )     |
| Repurchase agreements             | (1,589,319 )  | 44,617                           | 1,522,756  | 21,946   | —          |

(1) In the Company's Consolidated Balance Sheet, all balances associated with the repurchase agreements and financial derivatives are presented on a gross basis.

For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative assets and liabilities. Total financial instruments transferred or pledged as collateral on the Company's repurchase agreements as of March 31, 2018 were \$1.65 billion. As of March 31, 2018 total cash collateral on financial derivative assets and liabilities excludes \$0.7 million and \$3.9 million respectively of net excess cash collateral.

(2) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a specific asset or liability. As a result, in preparing the above table, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

December 31, 2017:

| Description | Amount of Assets (Liabilities) Presented in the Consolidated Balance Sheet | Financial Instruments for Offset | Financial Instruments Available Transferred or Pledged as Collateral <sup>(2)(3)</sup> | Cash Collateral (Received) Pledged <sup>(2)(3)</sup> | Net Amount |
|-------------|--|----------------------------------|--|--|------------|
|-------------|--|----------------------------------|--|--|------------|



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Sheet<sup>(1)</sup>

(In thousands)

Assets:

|                               |          |             |      |      |      |
|-------------------------------|----------|-------------|------|------|------|
| Financial derivatives—assets  | \$ 8,792 | \$ (1,046 ) | \$ — | \$ — | \$ — |
| Reverse repurchase agreements | 81,461   | (81,461 )   | —    | —    | —    |

Liabilities:

|                                   |              |        |           |        |        |
|-----------------------------------|--------------|--------|-----------|--------|--------|
| Financial derivatives—liabilities | (1,863 )     | 1,046  | —         | 697    | (120 ) |
| Repurchase agreements             | (1,597,206 ) | 81,461 | 1,497,038 | 18,707 | —      |

(1) In the Company's Consolidated Balance Sheet, all balances associated with the repurchase agreements and financial derivatives are presented on a gross basis.

For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative assets and liabilities. Total financial instruments transferred or pledged as collateral on the Company's repurchase agreements as of December

31, 2017 were \$1.66 billion. As of December 31, 2017 total cash collateral on financial derivative assets and liabilities excludes \$5.4 million and \$1.4 million, respectively of net excess cash collateral.

(3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a specific asset or liability. As a result, in preparing the above table, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

#### 8. Earnings Per Share

Basic earnings per share, or "EPS," is calculated by dividing net income (loss) for the period by the weighted average of the Company's common shares outstanding for the period. Diluted EPS takes into account the effect of outstanding dilutive instruments, such as share options and warrants, if any, and uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted average number of shares outstanding. As of March 31, 2018 and 2017, the Company did not have any dilutive instruments outstanding. The following table presents a reconciliation of the earnings/(losses) and shares used in calculating basic EPS for the three month periods ended March 31, 2018 and 2017:

| (In thousands except for share amounts)               | Three<br>Month<br>Period<br>Ended<br>March 31,<br>2018 | Three<br>Month<br>Period<br>Ended<br>March<br>31, 2017 |
|---|--|--|
| Numerator:  |  |  |
| Net income (loss)                                     | \$ (3,953 )  | \$ 2,052   |
| Denominator:  |  |  |
| Basic and diluted weighted average shares outstanding | 13,224,214   | 9,130,897  |
| Basic and diluted earnings per share                  | \$ (0.30 )   | \$ 0.22  |

#### 9. Related Party Transactions

##### Management Agreement

The Company is party to the Management Agreement, which has a current term that expires on September 24, 2018, and has been, and will continue to be, renewed automatically each year thereafter for an additional one-year period, subject to certain termination rights. The Company is externally managed and advised by the Manager. Pursuant to the terms of the Management Agreement, the Manager provides the Company with its management team, including its officers, and appropriate support personnel. The Company does not have any employees. The Manager is responsible for the day-to-day operations of the Company.

The Manager receives an annual management fee in an amount equal to 1.50% per annum of shareholders' equity (as defined in the Management Agreement) as of the end of each fiscal quarter (before deductions for any management fee with respect to such fiscal period). The management fee is payable quarterly in arrears. For the three month periods ended March 31, 2018 and 2017, the total management fee incurred was \$0.7 million and \$0.5 million, respectively.

##### Services Agreement

The Manager and EMG are parties to a services agreement, pursuant to which EMG is required to provide to the Manager sufficient personnel, services, and resources to enable the Manager to carry out its obligations and responsibilities under the Management Agreement. The Company is a named third-party beneficiary to the services agreement and, as a result, has, as a non-exclusive remedy, a direct right of action against EMG in the event of any breach by the Manager of any of its duties, obligations, or agreements under the Management Agreement that arise out of or result from any breach by EMG of its obligations under the services agreement. The services agreement will terminate upon the termination of the Management Agreement. Pursuant to the services agreement, the Manager makes certain payments to EMG in connection with the services provided. The Manager and EMG have overlapping ownership and are under common control.

##### Expense Reimbursement

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

except that the Company will be responsible for expenses incurred by the Manager in employing certain dedicated or partially dedicated personnel as further described below.

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

For both of the three month periods ended March 31, 2018 and 2017, the Company reimbursed the Manager \$0.4 million for previously incurred operating and compensation expenses.

#### Termination Fee

The Management Agreement requires the Company to pay a termination fee to the Manager in the event of (1) the Company's termination or non-renewal of the Management Agreement without cause or (2) the Manager's termination of the Management Agreement upon a default by the Company in the performance of any material term of the Management Agreement. Such termination fee will be equal to 5% of Shareholders' Equity, as defined in the Management Agreement as of the month-end preceding the date of the notice of termination or non-renewal of the Management Agreement.

#### Registration Rights Agreement

The Company is a party to a registration rights agreement with an affiliate of EMG and with the Blackstone Tactical Opportunities Funds (the "Blackstone Funds") pursuant to which the Company has granted its initial investors and each of their permitted transferees and other holders of the Company's "registrable common shares" (as such term is defined in the registration rights agreement) who become parties to the registration rights agreement with certain demand and/or piggy-back registration and shelf takedown rights.

#### 10. Capital

The Company has authorized 500,000,000 common shares, \$0.01 par value per share, and 100,000,000 preferred shares, \$0.01 par value per share. The Board of Trustees may authorize the issuance of additional shares of either class. As of March 31, 2018 and December 31, 2017, there were 12,827,850 and 13,340,217 common shares outstanding, respectively. No preferred shares have been issued.

During the three month periods ended March 31, 2018 and 2017, the Board of Directors authorized dividends totaling \$0.37 per share and \$0.40 per share, respectively. Total dividends declared during the three month periods ended March 31, 2018 and 2017 were \$4.7 million and \$3.7 million, respectively.

Detailed below is a roll forward of the Company's common shares outstanding for the three month periods ended March 31, 2018 and 2017:

|  | Three Month Period<br>Ended<br>March 31, |           |
|--|--|-----------|
|  | 2018                                     | 2017      |
| Common Shares Outstanding (12/31/2017 and 12/31/2016, respectively)            | 13,340,217                               | 9,130,897 |
| Share Activity:  |  |           |
| Shares repurchased   | (512,367)                                | —         |
| Common Shares Outstanding (3/31/2018 and 3/31/2017, respectively)              | 12,827,850                               | 9,130,897 |
| Unvested restricted shares outstanding (3/31/2018 and 3/31/2017, respectively) | 15,945                                   | 16,395    |

The below table provides details on the Company's restricted shares granted pursuant to share award agreements which are unvested at March 31, 2018:

| Grant Recipient                | Number of Restricted Shares Granted | Grant Date         | Vesting Date <sup>(1)</sup> |
|--------------------------------|-------------------------------------|--------------------|-----------------------------|
| Independent trustees:          | 9,976                               | September 12, 2017 | September 11, 2018          |
| Partially dedicated employees: | 2,630                               | December 12, 2017  | December 12, 2018           |
|                                | 1,783                               | December 12, 2017  | December 12, 2019           |
|                                | 1,556                               | December 13, 2016  | December 13, 2018           |

(1) Date at which such restricted shares will vest and become non-forfeitable.

As of March 31, 2018, there were 340,461 shares available for future issuance under the Company's 2013 Equity Incentive Plan.

On February 6, 2018, the Company's Board of Trustees approved the adoption of a share repurchase program under which the Company is authorized to repurchase up to 1.2 million common shares. The program, which is open-ended in duration, allows the Company to make repurchases from time to time on the open market or in negotiated transactions, including through Rule 10b5-1 plans. Repurchases are at the Company's discretion, subject to applicable law, share availability, price and its financial performance, among other considerations. This program superseded the program that was previously adopted on August 13, 2013. During the three month period ended March 31, 2018, the Company purchased 512,367 of its common shares at an aggregate cost of \$5.7 million, and an average price per share of \$11.21.

#### Distribution Policy

The timing and frequency of distributions will be determined by the Board of Trustees based upon a variety of factors deemed relevant by the Company's trustees, including restrictions under applicable law, capital requirements of the Company, and the REIT requirements of the Code. Distributions to shareholders generally will be taxable as ordinary income, although a portion of such distributions may be designated as long-term capital gain or qualified dividend income, or may constitute a return of capital. The Company will furnish annually to each shareholder a statement setting forth distributions paid or deemed paid during the preceding year and their U.S. federal income tax treatment. It is the intention of the Company to distribute at least 100% of its taxable income, after application of available tax attributes, within the time limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year.

#### 11. Commitments and Contingencies

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. The Company provides current directors and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Company.

In the normal course of business the Company may also enter into contracts that contain a variety of representations, warranties, and general indemnifications. The Company's maximum exposure under these arrangements, including future claims that may be made against the Company that have not yet occurred, is unknown. The Company has not incurred any costs to defend lawsuits or settle claims related to these indemnification agreements. The Company has no liabilities recorded for these agreements as of March 31, 2018 and December 31, 2017 and management is not aware of any significant contingencies at March 31, 2018.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In this Quarterly Report on Form 10-Q, except where the context suggests otherwise, "EARN," "we," "us," and "our" refer to Ellington Residential Mortgage REIT and its subsidiaries, our "Manager" refers to Ellington Residential Mortgage Management LLC, our external manager, and "Ellington" refers to Ellington Management Group, L.L.C. and its affiliated investment advisory firms.

### Special Note Regarding Forward-Looking Statements

When used in this Quarterly Report on Form 10-Q, in future filings with the Securities and Exchange Commission, or the "SEC," or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as "believe," "expect," "anticipate," "estimate," "project," "plan," "continue," "intend," "should," "would," "could," "goal," "objective," "will," "may," "seek," or similar expressions, are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the "Securities Act," and Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act," and, as such, may involve known and unknown risks, uncertainties and assumptions.

Forward-looking statements are based on our beliefs, assumptions, and expectations of our future operations, business strategies, performance, financial condition, liquidity and prospects, taking into account all information currently available to us. These beliefs, assumptions, and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity, results of operations and strategies may vary materially from those expressed or implied in our forward-looking statements. The following factors are examples of those that could cause actual results to vary from our forward-looking statements: changes in interest rates and the market value of our securities; our use of and dependence on leverage; future changes with respect to the Federal National Mortgage Association, or "Fannie Mae," and Federal Home Loan Mortgage Corporation, or "Freddie Mac," and related events, including the lack of certainty as to the future roles of these entities and the U.S. Government in the mortgage market and changes to legislation and regulations affecting these entities; market volatility; changes in the prepayment rates on the mortgage loans underlying the securities we own and intend to acquire; changes in rates of default and/or recovery rates on our non-Agency assets; our ability to borrow to finance our assets; changes in government regulations affecting our business; our ability to maintain our exclusion from registration under the Investment Company Act of 1940, as amended, or the "Investment Company Act"; and risks associated with investing in real estate assets, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including the risk factors described under Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, could cause our actual results to differ materially from those projected or implied in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time, and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

### Executive Summary

We are a Maryland real estate investment trust, or "REIT," formed in August 2012 that specializes in acquiring, investing in, and managing residential mortgage- and real estate-related assets. Our primary objective is to generate attractive current yields and risk-adjusted total returns for our shareholders by making investments that we believe compensate us appropriately for the risks associated with them. We seek to attain this objective by constructing and actively managing a portfolio consisting primarily of residential mortgage-backed securities, or "RMBS," for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," and, to a lesser extent, RMBS that do not carry such guarantees, or "non-Agency RMBS," such as RMBS backed by prime jumbo, Alternative A-paper, manufactured housing, and subprime residential mortgage loans. We also may opportunistically acquire and manage other types of residential mortgage-related and real estate-related asset classes, such as residential mortgage loans, mortgage servicing rights, or "MSRs," and credit risk transfer securities, or "CRTs." We believe that being able to combine Agency RMBS with non-Agency RMBS and other residential mortgage- and real estate-related asset classes enables us to balance a range of mortgage-related risks.

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We were formed through an initial strategic venture among affiliates of Ellington Management Group, L.L.C., an investment management firm and registered investment adviser with a 23-year history of investing in a broad spectrum of mortgage-backed securities, or "MBS," and related derivatives, with an emphasis on the RMBS market, and the Blackstone Tactical Opportunity Funds, or the "Blackstone Funds." As of March 31, 2018, the Blackstone Funds owned approximately 22% of our outstanding common shares. We are externally managed and advised by our Manager, an affiliate of Ellington.

We use leverage in our Agency RMBS strategy and, while we have not done so meaningfully to date, we may use leverage in our non-Agency RMBS strategy as well, although we expect such leverage to be lower. We have financed our

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purchases of Agency RMBS exclusively through repurchase agreements, which we account for as collateralized borrowings. As of March 31, 2018, we had outstanding borrowings under repurchase agreements in the amount of \$1.6 billion with 15 counterparties.

We have elected to be taxed as a REIT for U.S. federal income tax purposes. Accordingly, we generally will not be subject to U.S. federal income taxes on our taxable income that we distribute currently to our shareholders as long as we maintain our qualification as a REIT. We intend to conduct our operations so that neither we nor any of our subsidiaries is required to register as an investment company under the Investment Company Act of 1940, as amended, or the "Investment Company Act."

As of March 31, 2018, our book value per share was \$13.90, as compared to \$14.45 as of December 31, 2017.

#### Trends and Recent Market Developments

In March, the U.S. Federal Reserve, or "Federal Reserve," raised the target range for the federal funds rate by 0.25%, to 1.50%–1.75%, its sixth rate increase since December 1, 2015.

In January, and then again in April, the Federal Reserve increased the amount of the tapering of its reinvestments, in line with the schedule it had laid out in September 2017. The tapering of Agency RMBS purchases increased to \$8 billion per month in January, and to \$12 billion per month in April.

Despite steepening over the first two months of the year, the yield curve finished the quarter flatter than where it started, for the fifth consecutive quarter. The 2-year U.S. Treasury yield rose 38 basis points to end the quarter at 2.27%, while the 10-year U.S. Treasury yield increased 33 basis points to 2.74%; the spread between the 2-year and 10-year tightened to just 47 basis points, as compared to 52 basis points at year-end.

One-month LIBOR increased 32 basis points to end the first quarter at 1.88%, while three-month LIBOR increased 62 basis points to 2.31%. Both of these levels were the highest in over nine years.

Mortgage rates increased in the first quarter, with the Freddie Mac survey 30-year mortgage rate rising 45 basis points to end the quarter at 4.44%.

Overall Agency RMBS prepayment rates continued to be muted during the quarter. The Mortgage Bankers Association's Refinance Index, which measures refinancing application volumes, was unchanged quarter over quarter. Data released by S&P Dow Jones Indices for its S&P CoreLogic Case-Shiller Indices for February 2018 showed, on average, a continuation of mid-single-digit home price appreciation nationally, with home prices posting a 6.8% year-over-year increase for its 20-City Composite and a 6.5% year-over-year increase for its 10-City Composite, after seasonal adjustments.

Data from the Federal Reserve Bank of New York's Quarterly Report on Household Debt and Credit indicated that aggregate household debt balances increased 4.5% year over year to \$13.15 trillion in 2017, which is \$473 billion higher than the previous peak of \$12.68 trillion reached in the third quarter of 2008. The University of Michigan's Index of Consumer Sentiment increased 1.9% year over year in April 2018, indicating consumers hold a favorable assessment of the economy and their current financial condition.

The beginning of 2018 started much like 2017 finished, with equities reaching new highs in January. However, toward the end of January, the relative stability of 2017 suddenly reversed course. Equities sold off violently, driven in part by concerns over inflation and rising interest rates. The Dow Jones Industrial Average moved more than 2% in four of the first six trading sessions of February, as compared to no such days during 2017. By February 8th, just nine trading days after reaching its all-time high, the S&P 500 Index entered correction territory. At the same time, long-term interest rates rose steadily and finally broke out of their 2017 ranges, with the 10-year U.S. Treasury yield reaching 2.95% on February 21st, marking the highest daily close in more than four years and 91 basis points higher than the 2017 lows reached just last September. The Chicago Board Options Exchange Volatility Index, known as the VIX, jumped 282% between January 1st and February 5th, with a 20-point surge occurring on February 5th, its largest one-day movement on record. On February 9th, the Merrill Lynch Option Volatility Estimate Index, or MOVE Index, closed 54% above its year-end level, reaching its highest level since April 2017.

In March, equity volatility remained elevated amidst new concerns of an international trade war, while long-term interest rates leveled off and the yield curve flattened. Despite all of the volatility, the S&P 500 Index finished the quarter down only 1.2%.

During the quarter, yield spreads across many credit products widened in sympathy with the interest rate and equity market volatility. Corporate credit spreads tightened slightly during January but then widened dramatically. The



Markit North America High Yield Index widened 63 basis points during the quarter—and in March reached its highest level since December 2016—while the Bloomberg Barclays U.S. Corporate Investment Grade Index registered a negative return of (79) basis points

for the first quarter. Meanwhile, LIBOR continued its rapid rise, with 3-month LIBOR climbing 62 basis points from the end of last year. This increase in LIBOR boosted coupons in floating rate debt instruments and benefited the structured credit sector, including CLOs, leveraged loans, and legacy Non-Agency RMBS.

Agency RMBS prices came under substantial pressure during the first quarter, with interest rates materially higher and many coupons experiencing significant duration extension. These price movements were further compounded by a significant widening in Agency RMBS yield spreads, caused primarily by increased interest rate volatility and the technical drag created by the escalation of the Federal Reserve's tapering program. As measured by the Bloomberg Barclays U.S. MBS Agency Fixed Rate Index, Agency RMBS generated a negative return of (1.19%) for the quarter, underperforming (on a duration-adjusted basis) the Bloomberg Barclays U.S. Treasury Index by 39 basis points.

#### Portfolio Overview and Outlook

As of March 31, 2018, our mortgage-backed securities portfolio consisted of \$1.505 billion of fixed-rate Agency "specified pools," \$23.4 million of Agency RMBS backed by adjustable rate mortgages, or "Agency ARMs," \$75.4 million of Agency reverse mortgage pools, \$14.5 million of Agency interest only securities, or "Agency IOs," and \$12.4 million of non-Agency RMBS. Specified pools are fixed-rate Agency pools consisting of mortgages with special characteristics, such as mortgages with low loan balances, mortgages backed by investor properties, mortgages originated through the government-sponsored "Making Homes Affordable" refinancing programs, and mortgages with various other characteristics.

Our overall RMBS portfolio decreased by 3.3% to \$1.631 billion as of March 31, 2018, as compared to \$1.686 billion as of December 31, 2017. Although our portfolio was slightly smaller by quarter end, our equity base was also smaller, with the result that our overall debt-to-equity ratio, adjusted for unsettled purchases and sales, increased to 8.6:1 as of March 31, 2018, up from 8.2:1 as of December 31, 2017. Our debt-to-equity ratio may fluctuate period over period based on portfolio management decisions, market conditions, and the timing of security purchase and sale transactions.

We capitalized on the widening in Agency RMBS yield spreads by covering a portion of the short TBA positions that we use for hedging purposes, as well as by increasing our long TBA portfolio held for investment purposes. These portfolio maneuvers increased our net mortgage assets-to-equity ratio—which we define as the net aggregate market value of our mortgage-backed securities (including the underlying market values of our long and short TBA positions) divided by total shareholders' equity—to 7.8:1 as of March 31, 2018, from 5.7:1 as of December 31, 2017. As of March 31, 2018, we had short TBAs of \$386.2 million, as compared to \$713.4 million as of December 31, 2017. Also as of March 31, 2018, we had \$142.9 million of long TBAs held for investment purposes, as compared to \$117.4 million as of December 31, 2017. TBAs are forward-settling Agency RMBS where the mortgage pass-through certificates to be delivered are "To-Be-Announced."

With Agency RMBS prices dropping during the quarter, our portfolio had significant unrealized losses. While this was partially offset by significant gains on our interest rate swaps and TBA short positions, strong TBA dollar rolls and muted prepayments caused TBAs to outperform specified pools, which in turn dampened our results. Even though we covered a portion of our TBA short positions during the quarter, short positions in TBAs continued to represent a significant portion of our interest rate hedging portfolio. Average pay-ups on our specified pools decreased to 0.59% as of March 31, 2018, as compared to 0.68% as of December 31, 2017. Pay-ups are price premiums for specified pools relative to their TBA counterparts.

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

Our non-Agency RMBS performed well during the quarter, driven by strong net interest income and net realized and unrealized gains. Fundamentals underlying non-Agency RMBS continue to remain strong, led by a stable housing market. During the quarter we net sold assets at gains. Our total investment in non-Agency RMBS decreased to \$12.4 million as of March 31, 2018, as compared to \$18.0 million as of December 31, 2017. To the extent that more attractive entry points develop in non-Agency RMBS, we may increase our capital allocation to this sector.



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The following table summarizes prepayment rates for our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) for the three month periods ended March 31, 2018, December 31, 2017, September 30, 2017, June 30, 2017, and March 31, 2017.

|  | Three Month Period Ended |                   |                    |               |                |
|--|--------------------------|-------------------|--------------------|---------------|----------------|
|  | March 31, 2018           | December 31, 2017 | September 30, 2017 | June 30, 2017 | March 31, 2017 |
| Three Month Constant Prepayment Rates <sup>(1)</sup> | 8.0%                     | 9.6%              | 9.6%               | 8.2%          | 12.7%          |

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

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

|                                    | March 31, 2018 |                      |             | Weighted<br>Average<br>Loan<br>Age<br>(Months) | December 31, 2017    |             |  |
|------------------------------------|----------------|----------------------|-------------|--|----------------------|-------------|--|
|                                    | Coupon         | Current<br>Principal | Fair Value  |  | Current<br>Principal | Fair Value  | Weighted<br>Average<br>Loan<br>Age<br>(Months) |
|                                    | (In thousands) |                      |             |  | (In thousands)       |             |  |
| Fixed-rate Agency RMBS:            |                |                      |             |  |                      |             |  |
| 15-year fixed-rate mortgages:      |                |                      |             |  |                      |             |  |
|                                    | 2.50           | \$587                | \$576       | 55   | \$612                | \$613       | 52   |
|                                    | 3.00           | 35,411               | 35,457      | 27   | 50,391               | 51,453      | 21   |
|                                    | 3.50           | 107,052              | 109,568     | 26   | 110,748              | 115,001     | 24   |
|                                    | 4.00           | 8,919                | 9,249       | 39   | 9,247                | 9,707       | 36   |
| Total 15-year fixed-rate mortgages |                | 151,969              | 154,850     | 28   | 170,998              | 176,774     | 24   |
| 20-year fixed-rate mortgages       | 4.00           | 8,432                | 8,773       | 39   | 8,712                | 9,230       | 36   |
| 30-year fixed-rate mortgages:      |                |                      |             |  |                      |             |  |
|                                    | 3.00           | 30,585               | 29,929      | 24   | 15,580               | 15,612      | 29   |
|                                    | 3.03           | 452                  | 445         | 69   | 456                  | 457         | 66   |
|                                    | 3.25           | 1,095                | 1,106       | 15   | 1,100                | 1,115       | 12   |
|                                    | 3.28           | 370                  | 361         | 69   | 373                  | 373         | 66   |
|                                    | 3.50           | 439,135              | 442,453     | 22   | 433,348              | 447,904     | 22   |
|                                    | 3.75           | 3,297                | 3,345       | 8  | 3,319                | 3,455       | 5  |
|                                    | 4.00           | 544,625              | 562,482     | 18   | 522,981              | 551,217     | 18   |
|                                    | 4.25           | —                    | —           | —  | 5,672                | 5,992       | 5  |
|                                    | 4.50           | 249,213              | 262,208     | 25   | 281,412              | 300,833     | 20   |
|                                    | 5.00           | 35,048               | 37,621      | 51   | 37,379               | 40,451      | 48   |
|                                    | 5.50           | 1,168                | 1,270       | 134  | 1,228                | 1,347       | 131  |
|                                    | 6.00           | —                    | —           | —  | 736                  | 833         | 135  |
| Total 30-year fixed-rate mortgages |                | 1,304,988            | 1,341,220   | 22   | 1,303,584            | 1,369,589   | 21   |
| Total fixed-rate Agency RMBS       |                | \$1,465,389          | \$1,504,843 | 23   | \$1,483,294          | \$1,555,593 | 21   |

For the three month period ended March 31, 2018, we had total net realized and unrealized losses of \$(29.7) million, or \$(2.24) per share, on our aggregate Agency RMBS portfolio. Prices on our Agency RMBS portfolio dropped, leading to significant unrealized losses for the quarter. Our Agency RMBS portfolio turnover was 15% for the three month period ended March 31, 2018, which was slightly higher than the three month period ended December 31, 2017. In addition, we had total net realized and unrealized gains for the three month period ended March 31, 2018, of \$0.5 million, or \$0.04 per share, on our non-Agency RMBS portfolio as underlying fundamentals remained strong.

During the three month period ended March 31, 2018 we continued to hedge interest rate risk, primarily through the use of interest rate swaps, and short positions in TBAs, U.S. Treasury securities, and futures. For the quarter, we had total net realized and unrealized gains of \$20.6 million, or \$1.56 per share, on our interest rate hedging portfolio. In our hedging portfolio, the relative proportion (based on 10-year equivalents<sup>1</sup>) of short positions in TBAs decreased quarter over quarter relative to our other interest rate hedges, as we increased our exposure to Agency RMBS to take advantage of the widening in Agency RMBS yield spreads. The relative makeup of our interest rate hedging portfolio can change materially from quarter to quarter.

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

After giving effect to a first quarter dividend of \$0.37 per share, our book value per share decreased to \$13.90 as of March 31, 2018, from \$14.45 as of December 31, 2017, and we had an economic return of (1.2)% for the quarter. Economic return is computed by adding back dividends declared to ending book value per share, and comparing that amount to book value per share as of the beginning of the quarter.

Our net Agency premium as a percentage of the fair value of our specified pool holdings is one metric that we use to measure the overall prepayment risk of our specified pool portfolio. Net Agency premium represents the total premium (excess of market value over outstanding principal balance) on our specified pool holdings less the total premium on related net short TBA positions. The lower our net Agency premium, the less we believe that our specified pool portfolio is exposed to market-wide increases in Agency RMBS prepayments. As of March 31, 2018, our net Agency premium as a percentage of fair value of our specified pool holdings was approximately 2.8%, as compared to 3.5% as of December 31, 2017. Excluding TBA positions used to hedge our specified pool holdings, our Agency premium as a percentage of fair value was approximately 2.9% and 4.8% as of March 31, 2018 and December 31, 2017, respectively. Our Agency premium percentage and net Agency premium percentage may fluctuate from period to period based on a variety of factors, including market factors such as interest rates and mortgage rates, and, in the case of our net Agency premium percentage, based on the degree to which we hedge prepayment risk with short TBAs. We believe that our focus on purchasing pools with specific prepayment characteristics provides a measure of protection against prepayments.

We believe that our adaptive and active style of portfolio management is well suited to the current MBS market environment, which continues to be shaped by prepayment risk, shifting central bank and government policies, regulatory changes, and developing technologies.

#### Financing

Over the course of the three month period ended March 31, 2018 our cost of borrowing through repurchase agreements, or "repos," increased as LIBOR increased. Our average borrowing cost for the three month period ended March 31, 2018 was 1.63%, as compared to 1.40% for the three month period ended December 31, 2017.

While large banks still dominate the repo market, non-bank firms, not subject to the same regulations as banks, are more active in providing repo financing. Most of our outstanding repo financing is still provided by banks and bank affiliates; however, in limited amounts, we have also entered into repo agreements with non-bank dealers. In general, we continue to see strong appetite and competitive terms from both types of lenders.

Our debt-to-equity ratio was to 8.9:1 as of March 31, 2018, as compared to 8.3:1 as of December 31, 2017. Adjusted for unsettled security purchases and sales, our debt-to-equity ratio was 8.6:1 as of March 31, 2018 and 8.2:1 as of December 31, 2017. Our leverage ratio may fluctuate period over period based on portfolio management decisions, market conditions, and the timing of security purchase and sale transactions.

#### Critical Accounting Policies

Our unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, or "U.S. GAAP." Entities in which we have a controlling financial interest, through ownership of the majority of the entities' voting equity interests, or through other contractual rights that give us control, are consolidated by us. All inter-company balances and transactions have been eliminated.

Certain of our critical accounting policies require 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. We believe that all of the decisions and assessments upon which our consolidated financial statements are based were reasonable at the

time made based upon information available to us at that time. We rely on our Manager and Ellington's experience and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. See Note 2 of the notes to our consolidated

financial statements included in this Quarterly Report on Form 10-Q for a complete discussion of our significant accounting policies. We have identified our most critical accounting policies to be the following:

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

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

**Accounting for Securities:** Investments in mortgage-backed securities are recorded on trade date. We have chosen to make a fair value election pursuant to ASC 825-10, Financial Instruments, for our mortgage-backed securities portfolio. Electing the fair value option allows us to record changes in fair value in our Consolidated Statement of Operations, which, in our view, more appropriately reflects the results of our operations for a particular reporting period as all securities activities will be recorded in a similar manner. As such, the mortgage-backed securities are recorded at fair value on our Consolidated Balance Sheet and the period change in fair value is recorded in current period earnings on our Consolidated Statement of Operations as a component of Change in net unrealized gains (losses) on securities.

Realized gains or losses on sales of mortgage-backed securities are included in Net realized gains (losses) on securities on the Consolidated Statement of Operations, and are recorded at the time of disposition. The cost of positions sold is calculated based on identified cost. Principal write-offs are generally treated as realized losses.

**Interest Income:** Coupon interest income on investment securities is accrued based on the outstanding principal balance and the current coupon rate on each security. We amortize purchase premiums and accrete purchase discounts on our fixed income investments using the effective interest method.

Our accretion of discounts and amortization of premiums on securities for U.S. federal and other tax purposes is likely to differ from the accounting treatment under U.S. GAAP of these items as described above.

See the Note 2 of the notes to our consolidated financial statements for more information on the assumptions and methods that we use to amortize purchase premiums and accrete purchase discounts.

**Income Taxes:** We made an election to be taxed as a REIT for U.S. federal income tax purposes. As a REIT, we generally are not subject to corporate-level federal and state income tax on net income we distribute to our shareholders. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement to distribute at least 90% of our taxable income to our shareholders. Even if we qualify as a REIT, we may be subject to certain federal, state, local and foreign taxes on our income and property and to federal income and excise taxes on our undistributed taxable income. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state, and local income taxes and may be precluded from qualifying as a REIT for the four taxable years following the year in which the Company fails to qualify as a REIT.

We follow the authoritative guidance on accounting for and disclosure of uncertainty on tax positions, which requires management to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For uncertain tax positions, the tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company did not have any unrecognized tax benefits resulting from tax positions related to the current period or to 2017, 2016, 2015, and 2014 (its open tax years). In the normal course of business, we may be subject to examination by federal, state, local, and foreign jurisdictions, where applicable, for the current period, 2017, 2016, 2015, and 2014 (our open tax years). We 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; we might be found to have a

tax liability that has not been recorded in the accompanying consolidated financial statements. Also, management's conclusions regarding the authoritative guidance may be subject to review and adjustment at a later date based on changing tax laws, regulations, and interpretations thereof. There were no amounts accrued for penalties or interest as of or during the periods presented in the consolidated financial statements included in this Quarterly Report on Form 10-Q.

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Recent Accounting Pronouncements

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

Financial Condition

Investment portfolio

The following tables summarize our mortgage-backed securities portfolio of as of March 31, 2018 and December 31, 2017:

| (In thousands)                      | March 31, 2018    |             |                              |             | December 31, 2017           |                   |             |                              | Average Cost |          |
|-------------------------------------|-------------------|-------------|------------------------------|-------------|-----------------------------|-------------------|-------------|------------------------------|--------------|----------|
|                                     | Current Principal | Fair Value  | Average Price <sup>(1)</sup> | Cost        | Average Cost <sup>(1)</sup> | Current Principal | Fair Value  | Average Price <sup>(1)</sup> |              |          |
| Agency RMBS <sup>(2)</sup>          |                   |             |                              |             |                             |                   |             |                              |              |          |
| 15-year fixed-rate mortgages        | \$151,969         | \$154,850   | \$101.90                     | \$158,690   | \$104.42                    | \$170,998         | \$176,774   | \$103.38                     | \$178,551    | \$104.42 |
| 20-year fixed-rate mortgages        | 8,432             | 8,773       | 104.04                       | 9,078       | 107.66                      | 8,712             | 9,230       | 105.95                       | 9,394        | 107.66   |
| 30-year fixed-rate mortgages        | 1,304,988         | 1,341,220   | 102.78                       | 1,375,171   | 105.38                      | 1,303,584         | 1,369,589   | 105.06                       | 1,380,265    | 105.38   |
| ARMs                                | 22,613            | 23,382      | 103.40                       | 24,010      | 106.18                      | 28,087            | 29,558      | 105.24                       | 29,949       | 106.18   |
| Reverse mortgages                   | 69,813            | 75,382      | 107.98                       | 76,536      | 109.63                      | 64,608            | 70,617      | 109.30                       | 70,901       | 109.63   |
| Total Agency RMBS                   | 1,557,815         | 1,603,607   | 102.94                       | 1,643,485   | 105.50                      | 1,575,989         | 1,655,768   | 105.06                       | 1,669,060    | 105.50   |
| Non-Agency RMBS                     | 15,258            | 12,442      | 81.54                        | 10,503      | 68.84                       | 21,995            | 18,025      | 81.95                        | 15,278       | 68.84    |
| Total RMBS <sup>(2)</sup>           | 1,573,073         | 1,616,049   | 102.73                       | 1,653,988   | 105.14                      | 1,597,984         | 1,673,793   | 104.74                       | 1,684,338    | 105.14   |
| Agency IOs                          | n/a               | 14,526      | n/a                          | 14,264      | n/a                         | n/a               | 12,205      | n/a                          | 13,197       | n/a      |
| Total mortgage-backed securities    |                   | 1,630,575   |                              | 1,668,252   |                             |                   | 1,685,998   |                              | 1,697,535    |          |
| U.S. Treasury securities sold short | (44,350)          | (44,377)    | 100.06                       | (44,002)    | 99.22                       | (82,492)          | (81,289)    | 98.54                        | (81,836)     | 99.22    |
| Reverse repurchase agreements       | 44,617            | 44,617      | 100.00                       | 44,617      | 100.00                      | 81,461            | 81,461      | 100.00                       | 81,461       | 100.00   |
| Total                               |                   | \$1,630,815 |                              | \$1,668,867 |                             |                   | \$1,686,170 |                              | \$1,697,160  |          |

(1) Represents the dollar amount (not shown in thousands) per \$100 of current principal of the price or cost for the security.

(2) Excludes Agency IOs.

The vast majority of our capital is allocated to our Agency RMBS strategy, which includes investments in Agency pools and Agency CMOs. Within this strategy, we generally target Agency RMBS pools that, taking into account their particular composition and based on our prepayment projections, should: (1) generate attractive yields relative to other Agency RMBS and U.S. Treasury securities, (2) have less prepayment sensitivity to government policy shocks and/or (3) create opportunities for trading gains once the market recognizes their value, which for newer pools may come only after several months when actual prepayment experience can be observed. As of both March 31, 2018 and December 31, 2017, investments in non-Agency RMBS constituted a relatively small portion of our total investments. Our most prevalent method of financing RMBS is through short-term repos, which generally have maturities of 180 days or less. The weighted average lives of the RMBS that we own are generally much longer. Consequently, the weighted average term of our repurchase agreement financings will almost always be substantially shorter than the expected average maturity of our RMBS. This mismatch in maturities, together with the uncertainty of RMBS

prepayments, and other potential changes in timing and/or amount of cash flows on our RMBS assets, creates the risk that changes in interest rates will cause our financing costs with respect to our RMBS to increase relative to the income on our RMBS over the term of our investments.

## Financial Derivatives

The following table summarizes our portfolio of financial derivative holdings as of March 31, 2018 and December 31, 2017:

| (In thousands)   | March<br>31,<br>2018 | December<br>31, 2017 |
|--|----------------------|----------------------|
| Financial derivatives—assets, at fair value:           |                      |                      |
| TBA securities purchase contracts                      | \$295                | \$ 26                |
| TBA securities sale contracts                          | 1                    | 376                  |
| Fixed payer interest rate swaps                        | 12,652               | 7,475                |
| Fixed receiver interest rate swaps                     | 194                  | 563                  |
| Swaptions  | 386                  | 181                  |
| Futures  | —                    | 171                  |
| Total financial derivatives—assets, at fair value      | 13,528               | 8,792                |
| Financial derivatives—liabilities, at fair value:      |                      |                      |
| TBA securities purchase contracts                      | (122 )               | (266 )               |
| TBA securities sale contracts                          | (2,450 )             | (469 )               |
| Fixed payer interest rate swaps                        | (1,191 )             | (1,128 )             |
| Fixed receiver interest rate swaps                     | (1 )                 | —                    |
| Futures  | (2,112 )             | —                    |
| Total financial derivatives—liabilities, at fair value | (5,876 )             | (1,863 )             |
| Total  | \$7,652              | \$ 6,929             |

Pursuant to our hedging program, we engage in a variety of interest rate hedging activities that are designed to reduce the interest rate risk with respect to the liabilities incurred to acquire or hold RMBS. These interest rate hedges generally seek to reduce the interest rate sensitivity of our liabilities or, in other words, reduce the volatility of our financing cost over time attributable to interest rate changes. Our interest rate hedging transactions may include:

- Interest rate swaps (a contract exchanging a variable rate for a fixed rate, or vice versa);
- Interest rate swaptions (options to enter into interest rate swaps at a future date);
- TBA forward contracts on Agency pass-through certificates;
- Short sales of U.S. Treasury securities;
- Eurodollar and U.S. Treasury futures; and
- Other derivatives.

We generally enter into these transactions to offset the potential adverse effects of rising interest rates on short-term repurchase agreements. Our repurchase agreements generally have maturities of up to 180 days and carry interest rates that are determined by reference to LIBOR or correlated benchmark rates for those same periods. As each then-existing fixed-rate repo borrowing matures, it will generally be replaced with a new fixed-rate repo borrowing based on market interest rates established at that future date.

In the case of interest rate swaps, most of our agreements are structured such that we receive payments based on a variable interest rate and make payments based on a fixed interest rate. The variable interest rate on which payments are received is generally calculated based on various reset mechanisms for LIBOR. To the extent that our future repo borrowing costs continue to be highly correlated with LIBOR, our swap agreements help to reduce the variability of our overall repo borrowing costs, thus reducing risk to the extent we hold fixed-rate assets that are financed with repo borrowings.

In the case of TBAs, most of our positions are short TBA positions with a negative duration, meaning that as interest rates rise, the value of the short position increases, so these positions serve as a hedge against increases in interest rates. In the event that interest rates rise, the increase in value of the short TBA position serves to offset corollary increases in our current and/or future borrowing costs under our repurchase agreements. While we primarily use TBAs to hedge interest rate risk, from time to time we also hold net long positions in certain TBA securities as a means of acquiring exposure to Agency RMBS. Our ability to engage in TBA transactions may be limited by our intention to remain qualified as a REIT.



As of March 31, 2018, as part of our interest rate hedging program, we also held short positions in U.S. Treasury securities, with a total principal amount of \$44.4 million and a fair value of \$44.4 million. As of December 31, 2017, we also held short positions in U.S. Treasury securities, with a total principal amount of \$82.5 million and a fair value of \$81.3 million.

The composition and relative mix of our hedging instruments may vary from period to period given the amount of our liabilities outstanding or anticipated to be entered into, the overall market environment and our view as to which instruments best enable us to execute our hedging goals.

#### Leverage

The following table summarizes our outstanding liabilities under repurchase agreements as of March 31, 2018 and December 31, 2017. We had no other borrowings outstanding.

| Remaining Days to Maturity | March 31, 2018         |               |   | December 31, 2017      |               |   |
|----------------------------|------------------------|---------------|---|------------------------|---------------|---|
|                            | Borrowings Outstanding | Interest Rate | Weighted Average Remaining Days to Maturity | Borrowings Outstanding | Interest Rate | Weighted Average Remaining Days to Maturity |
|                            | (In thousands)         |               |   |                        |               |   |
| 30 days or less            | \$468,222              | 1.67%         | 16  | \$410,628              | 1.41%         | 15  |
| 31-60 days                 | 818,835                | 1.76          | 45  | 906,602                | 1.46          | 46  |
| 61-90 days                 | 302,262                | 1.90          | 75  | 273,665                | 1.60          | 74  |
| 91-120 days                | —                      | —             | —   | 6,311                  | 1.61          | 120   |
| Total                      | \$1,589,319            | 1.76%         | 42  | \$1,597,206            | 1.47%         | 43  |

We finance our assets with what we believe to be a prudent amount of leverage, which will vary from time to time based upon the particular characteristics of our portfolio, availability of financing, and market conditions. As of March 31, 2018 and December 31, 2017, our total debt-to-equity ratio was 8.9:1 and 8.3:1, respectively. Collateral transferred with respect to our outstanding repo borrowings as of both March 31, 2018 and December 31, 2017 had an aggregate fair value of \$1.7 billion. Adjusted for unsettled security purchases and sales, our debt-to-equity ratio was 8.6:1 and 8.2:1 as of March 31, 2018 and December 31, 2017, respectively. Our leverage ratio may fluctuate period over period based on portfolio management decisions, market conditions, and the timing of security purchase and sale transactions.

#### Shareholders' Equity

As of March 31, 2018, our shareholders' equity decreased to \$178.3 million from \$192.7 million as of December 31, 2017. This decrease principally consisted of net loss of \$(4.0) million, dividends declared of \$(4.7) million, and common shares repurchased of \$(5.7) million. As of March 31, 2018, our book value per share was \$13.90, as compared to \$14.45 as of December 31, 2017.

## Results of Operations for the Three Month Periods Ended March 31, 2018 and 2017

The following table summarizes our results of operations for the three month periods ended March 31, 2018 and 2017:

| (In thousands except for per share amounts)                                       | Three Month<br>Period Ended<br>March 31, |           |
|---|--|-----------|
|   | 2018                                     | 2017      |
| Interest Income (Expense)   |  |           |
| Interest income   | \$ 13,426                                | \$ 12,329 |
| Interest expense  | (7,248 )                                 | (3,179 )  |
| Net interest income   | 6,178                                    | 9,150     |
| Expenses  |  |           |
| Management fees to affiliate  | 671                                      | 527       |
| Other operating expenses  | 846                                      | 745       |
| Total expenses  | 1,517                                    | 1,272     |
| Other Income (Loss)   |  |           |
| Net realized and change in net unrealized gains (losses) on securities            | (25,134 )                                | (5,337 )  |
| Net realized and change in net unrealized gains (losses) on financial derivatives | 16,520                                   | (489 )    |
| Total Other Income (Loss)   | (8,614 )                                 | (5,826 )  |
| Net Income (Loss)   | \$(3,953 )                               | \$2,052   |
| Net Income (Loss) Per Common Share  | \$(0.30 )                                | \$0.22    |

## Core Earnings

Core Earnings consists of net income (loss), excluding realized and change in net unrealized gains and (losses) on securities and financial derivatives, and, if applicable, items of income or loss that are of a non-recurring nature. Core Earnings includes net realized and change in net unrealized gains (losses) associated with payments and accruals of periodic payments on interest rate swaps. Our interest income is subject to fluctuations based on adjustments to premium amortization as a result of changes in prepayments of our Agency RMBS (accompanied by a corresponding offsetting adjustment to realized and unrealized gains and losses). We refer to this adjustment as a "Catch-up Premium Amortization Adjustment." Adjusted Core Earnings represents Core Earnings excluding the effect of the Catch-up Premium Amortization Adjustment on interest income. Core Earnings and Adjusted Core Earnings are supplemental non-GAAP financial measures. We believe that Core Earnings and Adjusted Core Earnings provide information useful to investors because they are metrics that we use to assess our performance and to evaluate the effective net yield provided by the portfolio. Moreover, one of our objectives is to generate income from the net interest margin on the portfolio, and Core Earnings and Adjusted Core Earnings are used to help measure the extent to which this objective is being achieved. However, because Core Earnings and Adjusted Core Earnings are incomplete measures of our financial results and differ from net income (loss) computed in accordance with U.S. GAAP, they should be considered as supplementary to, and not as substitutes for, net income (loss) computed in accordance with U.S. GAAP.

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The table below reconciles Core Earnings and Adjusted Core Earnings for the three month periods ended March 31, 2018 and 2017 to the line, Net Income (Loss), on our Consolidated Statement of Operations, which we believe is the most directly comparable U.S. GAAP measure:

|  | Three Month<br>Period Ended<br>March 31, |            |
|--|--|------------|
| (In thousands except for share amounts)  | 2018                                     | 2017       |
| Net Income (Loss)  | \$(3,953)                                | \$ 2,052   |
| Less:  |  |            |
| Net realized gains (losses) on securities  | 1,927                                    | (2,990 )   |
| Net realized gains (losses) on financial derivatives, excluding periodic payments <sup>(1)</sup>                     | 14,823                                   | 1,668      |
| Change in net unrealized gains (losses) on securities  | (27,061 )                                | (2,347 )   |
| Change in net unrealized gains (losses) on financial derivatives, excluding accrued periodic payments <sup>(2)</sup> | 2,076                                    | (1,680 )   |
| Subtotal   | (8,235 )                                 | (5,349 )   |
| Core Earnings  | \$4,282                                  | \$ 7,401   |
| Less: Catch-up Premium Amortization Adjustment   | (150 )                                   | 2,584      |
| Adjusted Core Earnings   | \$4,432                                  | \$ 4,817   |
| Weighted Average Shares Outstanding  | 13,224,219                               | 13,130,897 |
| Core Earnings Per Share  | \$0.32                                   | \$ 0.81    |
| Adjusted Core Earnings Per Share   | \$0.34                                   | \$ 0.53    |

For the three month period ended March 31, 2018, represents Net realized gains (losses) on financial derivatives of \$16.0 million less Net realized gains (losses) on periodic settlements of interest rate swaps of \$1.1 million. For the (1) three month period ended March 31, 2017, represents Net realized gains (losses) on financial derivatives of \$1.7 million less Net realized gains (losses) on periodic settlements of interest rate swaps of \$(15) thousand.

For the three month period ended March 31, 2018, represents Change in net unrealized gains (losses) on financial derivatives of \$0.6 million less Change in net unrealized gains (losses) on accrued periodic settlements of interest (2) rate swaps of \$(1.5) million. For the three month period ended March 31, 2017, represents Change in net unrealized gains (losses) on financial derivatives of \$(2.1) million less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of \$(0.5) million.

Net Income (Loss)

Net loss for the three month period ended March 31, 2018 was \$(4.0) million as compared to net income of \$2.1 million for the three month period ended March 31, 2017. The period-over-period reversal in our results of operations was principally due to an increase in Total Other Loss combined with a decrease in net interest income.

Interest Income

Our portfolio as of both March 31, 2018 and 2017 consisted primarily of Agency RMBS, and to a lesser extent, non-Agency RMBS. Before interest expense, we earned approximately \$12.9 million and \$12.2 million in interest income on these securities for the three month periods ended March 31, 2018 and 2017, respectively. The slight period-over-period increase in interest income resulted primarily from higher average holdings. Our average holdings increased following the leveraged deployment, in Agency RMBS, of capital raised through our equity offering and ATM program subsequent to the first quarter of 2017. Some of the variability in our interest income and portfolio yields is due to the Catch-up Premium Amortization Adjustment. For the three month period ended March 31, 2018, we had a negative Catch-up Premium Amortization Adjustment of approximately \$(0.2) million, which decreased our interest income. Excluding the Catch-up Premium Amortization Adjustment, the weighted average yield of our overall portfolio was 3.02% for the three month period ended March 31, 2018. By comparison, for the three month period ended March 31, 2017 the Catch-up Premium Amortization Adjustment increased interest income by approximately \$2.6 million. Excluding this Catch-up Premium Amortization Adjustment, the weighted average yield on our overall portfolio for the three month period ended March 31, 2017 would have been 2.99%.





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

| (In thousands)                          | Non-Agency <sup>(1)</sup> |                  |       | Agency <sup>(1)</sup> |                  |       | Total <sup>(1)</sup> |                  |       |
|---|---------------------------|------------------|-------|-----------------------|------------------|-------|----------------------|------------------|-------|
|   | Interest Income           | Average Holdings | Yield | Interest Income       | Average Holdings | Yield | Interest Income      | Average Holdings | Yield |
| Three month period ended March 31, 2018 | \$255                     | \$13,469         | 7.56% | \$12,660              | \$1,714,153      | 2.95% | \$12,915             | \$1,727,622      | 2.99% |
| Three month period ended March 31, 2017 | \$354                     | \$15,912         | 8.89% | \$11,824              | \$1,267,777      | 3.73% | \$12,178             | \$1,283,689      | 3.79% |

(1) Amounts exclude interest income on cash and cash equivalents (including when posted as margin) and long U.S. Treasury securities.

Interest Expense

For the three month periods ended March 31, 2018 and 2017, the majority of interest expense that we incurred was related to our repo borrowings, which we use to finance our assets. We also incur interest expense in connection with our short positions in U.S. Treasury securities as well as on our counterparties' cash collateral held by us. Our total interest expense for the three month period ended March 31, 2018 was \$7.2 million, of which \$6.4 million represented interest expense on our repo borrowings and approximately \$0.8 million represented interest expense related primarily to our short positions in U.S. Treasury securities. Our total interest expense for the three month period ended March 31, 2017 was \$3.2 million, of which \$2.8 million represented interest expense on our repo borrowings and approximately \$0.4 million represented interest expense related primarily to our short positions in U.S. Treasury securities. The period-over-period increase in our total interest expense resulted mainly from higher rates on our repo borrowings stemming from the increase in short-term interest rates, as well as an increase in average borrowings as a result of a larger asset base. Our average outstanding repo borrowings for the three month period ended March 31, 2018 was \$1.59 billion, and we had an average cost of funds on repo borrowings of 1.63%. Our average outstanding repo borrowings for the three month period ended March 31, 2017 was \$1.19 billion, and we had an average cost of funds on repo borrowings of 0.94%.

The following table shows information related to our average cost of funds<sup>(1)</sup> for the three month periods ended March 31, 2018 and 2017.

| (In thousands)                                  | Repurchase Agreements  |                  | Interest Rate Swaps <sup>(2)</sup> | Short U.S. Treasury Securities <sup>(2)</sup> |                  | Total <sup>(2)</sup> |                       |         |       |
|---|------------------------|------------------|------------------------------------|---|------------------|----------------------|-----------------------|---------|-------|
|   | Average Borrowed Funds | Interest Expense |                                    | Average Cost of Funds                         | Interest Expense |                      | Average Cost of Funds |         |       |
| For the three month period ended March 31, 2018 | \$1,588,515            | \$6,412          | 1.63%                              | \$386   | 0.10%            | \$777                | 0.20%                 | \$7,575 | 1.93% |
| For the three month period ended March 31, 2017 | \$1,194,321            | \$2,782          | 0.94%                              | \$476   | 0.16%            | \$375                | 0.13%                 | \$3,633 | 1.23% |

(1) This metric does not take into account other instruments that we use to hedge interest rate risk, such as TBAs, swaptions, and futures.

As an alternative cost of funds measure, we add to our repo borrowing cost the net periodic amounts paid or payable by us on our interest rate swaps and the interest expense we incur on our short positions in U.S. Treasury securities, and express the total as a percentage of our average outstanding repurchase agreement borrowings. For the three month periods ended March 31, 2018 and 2017, average one-month LIBOR was 1.65% and 0.83%, respectively. For the three month periods ended March 31, 2018 and 2017, average six-month LIBOR was 2.11% and 1.37%, respectively. For the three month period ended March 31, 2018, the weighted average yield of our portfolio of

Agency and non-Agency RMBS was 2.99%, while our total average cost of funds, including interest rate swaps and short U.S. Treasury securities, was 1.93%, resulting in a net interest margin of 1.06%. By comparison, for the three month period ended March 31, 2017, the weighted average yield of our Agency and non-Agency RMBS was 3.79%, while our average cost of funds, including interest rate swaps and short U.S. Treasury securities, was 1.23%, resulting in a net interest margin of 2.56%. For the three month periods ended March 31, 2018 and 2017, excluding the impact of the Catch-up Premium Amortization Adjustment, the

weighted average yield of our portfolio was 3.02% and 2.99%, respectively and our adjusted net interest margin was 1.09% and 1.76%, respectively.

#### Management Fees

For the three month periods ended March 31, 2018 and 2017, our management fee expense was approximately \$0.7 million and \$0.5 million, respectively. The period-over-period increase was due to our higher capital base in the three month period ended March 31, 2018. Management fees are calculated based on our shareholders' equity at the end of each quarter.

#### Other Operating Expenses

Other operating expenses, as presented above, include professional fees, compensation expense, insurance expense, and various other expenses incurred in connection with the operation of our business. Other operating expenses for the three month periods ended March 31, 2018 and 2017 were approximately \$0.8 million and \$0.7 million, respectively. The slight increase in other operating expenses was a result of an increase in professional fees and compensation expense for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017, partially offset by a decrease to insurance expense for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017. Our expense ratio, which represents our annualized management fees and other operating expenses as a percentage of our average shareholders' equity, decreased to 3.3% for the three month period ended March 31, 2018, as compared to 3.6% for the three month period ended March 31, 2017. The decrease in our expense ratio was due to an increase in our average shareholders' equity for the three month period ended March 31, 2018, as compared to the three month period ended March 31, 2017.

#### Other Income (Loss)

Other income (loss) consists of net realized and net change in unrealized gain (losses) on securities and financial derivatives. For the three month period ended March 31, 2018, other loss was \$(8.6) million, consisting of net realized and change in net unrealized losses of \$(25.1) million on our securities, primarily our Agency RMBS, partially offset by net realized and change in net unrealized gains of \$16.5 million on our financial derivatives. Interest rates increased and Agency RMBS yield spreads widened during the quarter ended March 31, 2018, leading to significant unrealized losses on our portfolio. The net realized and unrealized gains on our financial derivatives included \$17.8 million of net realized and unrealized gains primarily from our net TBA short positions and interest rate swaps, which was only partially offset by \$1.2 million of net realized and unrealized losses on our U.S. Treasury futures. The decline in mortgage prices and increase in interest rates positively affected the results for our TBA short positions and interest rate swaps. For the three month period ended March 31, 2018, as measured by sales and excluding paydowns, we turned over approximately 15% of our Agency RMBS portfolio and, as a result of these sales, we generated net realized losses of \$(4.3) million on our Agency RMBS portfolio.

Other income (loss) for the three month period ended March 31, 2017 was \$(5.8) million and consisted of net realized and change in net unrealized losses of \$(0.5) million on our financial derivatives and \$(5.3) million on our securities, primarily our Agency RMBS. The three month period ended March 31, 2017 included slight declines in asset valuations, mainly on our Agency RMBS as yield spreads widened. For the three month period ended March 31, 2017, as measured by sales and excluding paydowns, we turned over approximately 21% of our Agency RMBS portfolio and, as a result, we generated net realized losses of \$(2.5) million on our Agency RMBS portfolio. During the period, we took advantage of the slight drop in pay-ups for specified pools by rotating a portion of our portfolio into what we believed were higher quality specified pools at attractive valuations. Within our hedging portfolio, our interest rate swaps generated net gains as swap rates increased across the yield curve, but those gains were offset by losses on our short positions in TBAs, U.S. Treasury securities, and futures. During the quarter, TBA roll prices increased and longer maturity U.S. Treasury yields declined, most notably in March, thereby leading to losses. Additionally, as we use short TBAs as a major component of our interest rate hedging portfolio, the relative underperformance of specified pools in comparison to TBAs dampened our results for the first quarter of 2017.

#### Liquidity and Capital Resources

Liquidity refers to our ability to meet our cash needs, including repaying our borrowings, funding and maintaining RMBS and other assets, paying dividends, and other general business needs. Our short-term (one year or less) and long-term liquidity requirements include acquisition costs for assets we acquire, payment of our management fee, compliance with margin requirements under our repurchase agreements, TBA and other financial derivative contracts,

repayment of repurchase agreement borrowings to the extent we are unable or unwilling to extend our repurchase agreements, the payment of dividends, and payment of our general operating expenses. Our capital resources primarily include cash on hand, cash flow from our investments (including monthly principal and interest payments received on our RMBS and proceeds from the sale of RMBS), borrowings under repurchase agreements, and proceeds from equity offerings. We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs.

We borrow funds in the form of repurchase agreements. The terms of our repo borrowings are predominantly governed by Master Repurchase Agreements, or "MRAs," which generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association as to repayment and margin requirements. In addition, each lender may require that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions include the addition of or changes to provisions relating to margin calls, net asset value requirements, cross default provisions, certain key person events, changes in corporate structure, and requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction. These provisions may differ for each of our lenders. As of both March 31, 2018 and December 31, 2017, we had \$1.6 billion outstanding under our repurchase agreements. As of March 31, 2018, our outstanding repurchase agreements were with 15 counterparties.

The amounts borrowed under our repurchase agreements are generally subject to the application of "haircuts." A haircut is the percentage discount that a repo lender applies to the market value of an asset serving as collateral for a repo borrowing, for the purpose of determining whether such repo borrowing is adequately collateralized. As of both March 31, 2018 and December 31, 2017, the weighted average contractual haircut applicable to the assets that serve as collateral for our outstanding repo borrowings was 4.9%.

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

| Quarter Ended                | Borrowings                 |                                | Maximum                                 |
|------------------------------|----------------------------|--------------------------------|---|
|                              | Outstanding at Quarter End | Average Borrowings Outstanding | Borrowings Outstanding at Any Month End |
|                              | (In thousands)             |                                |   |
| March 31, 2018               | \$1,589,319                | \$1,588,515                    | \$1,590,790                             |
| December 31, 2017            | 1,597,206                  | 1,614,096                      | 1,643,683                               |
| September 30, 2017           | 1,642,313                  | 1,633,746                      | 1,650,729                               |
| June 30, 2017 <sup>(1)</sup> | 1,628,450                  | 1,339,806                      | 1,628,450                               |
| March 31, 2017               | 1,178,285                  | 1,194,321                      | 1,199,860                               |
| December 31, 2016            | 1,197,973                  | 1,170,091                      | 1,197,973                               |
| September 30, 2016           | 1,158,962                  | 1,138,439                      | 1,158,962                               |
| June 30, 2016                | 1,205,987                  | 1,132,184                      | 1,205,987                               |
| March 31, 2016               | 1,133,841                  | 1,142,501                      | 1,175,531                               |
| December 31, 2015            | 1,222,719                  | 1,228,964                      | 1,286,274                               |
| September 30, 2015           | 1,225,905                  | 1,242,650                      | 1,248,604                               |
| June 30, 2015                | 1,264,479                  | 1,247,617                      | 1,269,551                               |

For the quarter ended June 30, 2017 the significant increase between average borrowings outstanding and total borrowings as of June 30, 2017 was the result of our deployment of the proceeds from our follow-on offering of common shares during the quarter. Based on our higher equity base, we increased our repo borrowings so as to maintain our desired debt-to-equity ratio.

As of March 31, 2018 and December 31, 2017, we had an aggregate amount at risk under our repurchase agreements with 15 counterparties of approximately \$85.5 million and \$84.1 million, respectively. Amounts at risk represent the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repurchase agreements. If the amounts outstanding under repurchase agreements with a particular counterparty are greater than the collateral held by the counterparty, there is no amount at risk for the particular counterparty. Amounts at risk under our repurchase agreements as of March 31, 2018 and December 31, 2017 does not include approximately \$1.7 million and \$2.2 million, respectively, of net accrued interest receivable, which is defined as accrued interest on securities held as collateral less interest payable on cash borrowed.

Our derivatives, excluding TBAs, are predominantly subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Act. We may be required to deliver or receive cash or securities as collateral upon entering into derivative transactions. Changes in the relative value of derivative transactions may require us or the

counterparty to post or receive additional collateral. Entering into derivative contracts involves market risk in excess of amounts recorded on our balance sheet. In the case of cleared derivatives, the clearinghouse becomes our counterparty and the future commission merchant acts as an intermediary between us and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral.

As of March 31, 2018, we had an aggregate amount at risk under our derivative contracts, excluding TBAs, with four counterparties of approximately \$15.1 million. We also had \$11.4 million of initial margin for cleared over-the-counter, or "OTC," derivatives posted to central clearinghouses as of that date. As of December 31, 2017, we had an aggregate amount at risk under our derivatives contracts, excluding TBAs, with five counterparties of approximately \$11.9 million. We also had \$8.3 million of initial margin for cleared OTC derivatives posted to central clearinghouses as of that date. Amounts at risk under our derivatives contracts represent the excess, if any, for each counterparty of the fair value of our derivative contracts plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the financial derivatives plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We purchase and sell TBAs and Agency pass-through certificates on a when-issued or delayed delivery basis. The delayed delivery for these securities means that these transactions are more prone to market fluctuations between the trade date and the ultimate settlement date, and therefore are more vulnerable, especially in the absence of margining arrangements with respect to these transactions, to increasing amounts at risk with the applicable counterparties. As of March 31, 2018, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with seven counterparties of approximately \$2.6 million. As of December 31, 2017, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with 12 counterparties of approximately \$3.5 million. Amounts at risk in connection with our forward settling TBA and Agency pass-through certificates represent the excess, if any, for each counterparty of the net fair value of the forward settling securities plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the forward settling securities plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We held cash and cash equivalents of approximately \$46.0 million and \$56.1 million as of March 31, 2018 and December 31, 2017, respectively.

We may declare dividends based on, among other things, our earnings, our financial condition, the REIT qualification requirements of the Internal Revenue Code of 1986, as amended, our working capital needs and new opportunities. The declaration of dividends to our shareholders and the amount of such dividends are at the discretion of our Board of Trustees. The following table sets forth the dividend distributions authorized by the Board of Trustees for the periods indicated below:

Three Month Period Ended March 31, 2018

| Dividend<br>Per<br>Share | Dividend<br>Amount | Declaration Date | Record Date    | Payment Date   |
|--------------------------|--------------------|------------------|----------------|----------------|
|                          | (In<br>thousands)  |                  |                |                |
| First Quarter \$ 0.37    | \$ 4,746           | March 7, 2018    | March 29, 2018 | April 25, 2018 |

Three Month Period Ended March 31, 2017

| Dividend<br>Per<br>Share | Dividend<br>Amount | Declaration Date | Record Date    | Payment Date   |
|--------------------------|--------------------|------------------|----------------|----------------|
|                          | (In<br>thousands)  |                  |                |                |
| First Quarter \$ 0.40    | \$ 3,652           | March 6, 2017    | March 31, 2017 | April 25, 2017 |

For the three month period ended March 31, 2018, our operating activities provided net cash of \$4.8 million and our investing activities provided net cash of \$3.6 million. Our repo activity used to finance our purchase of securities (including repayments, in conjunction with the sales of securities, of amounts borrowed under our repurchase agreements) used net cash of \$7.9 million. Thus our operating and investing activities, when combined with our net repo financing activities, provided net cash of \$0.6 million. We used \$4.9 million to pay dividends and \$5.7 million to repurchase common shares. As a result of these activities, there was a decrease in our cash holdings of \$10.1 million,

from \$56.1 million as of December 31, 2017 to \$46.0 million as of March 31, 2018.

For the three month period ended March 31, 2017, our operating activities provided net cash of \$30.6 million and our investing activities used net cash of \$3.3 million. Our repo activity used to finance our purchase of securities (including repayments, in conjunction with the sales of securities, of amounts borrowed under our repurchase agreements) used net cash of \$19.7 million. Thus our operating and investing activities, when combined with our net repo financing activities, provided net cash of \$7.7 million. We used \$3.7 million to pay dividends. As a result of these activities, there was an increase in our cash holdings of \$4.0 million, from \$33.5 million as of December 31, 2016 to \$37.5 million as of March 31, 2017.



On February 6, 2018, our Board of Trustees approved the adoption of a share repurchase program under which we are authorized to repurchase up to 1.2 million common shares. The program, which is open-ended in duration, allows us to make repurchases from time to time on the open market or in negotiated transactions, including through Rule 10b5-1 plans. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations. This program superseded the program that was previously adopted on August 13, 2013. For the three month period ended March 31, 2018, we repurchased 512,367 common shares at an average price per share of \$11.21 and a total cost of \$5.7 million. Through May 3, 2018, we have repurchased 628,167 shares for an aggregate cost of \$7.0 million under the current repurchase program adopted on February 6, 2018. Based on our current portfolio, amount of free cash on hand, debt-to-equity ratio and current and anticipated availability of credit, we believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements.

We are not required by our investment guidelines to maintain any specific debt-to-equity ratio, and we believe that the appropriate leverage for the particular assets we hold depends on the credit quality and risk of those assets, as well as the general availability and terms of stable and reliable financing for those assets.

#### Contractual Obligations and Commitments

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

We enter into repurchase agreements with third-party broker-dealers whereby we sell securities to such broker-dealers at agreed-upon purchase prices at the initiation of the repurchase agreements and agree to repurchase such securities at predetermined repurchase prices and termination dates, thus providing the broker-dealers with an implied interest rate on the funds initially transferred to us by the broker-dealers. We may enter into reverse repurchase agreements with third-party broker-dealers whereby we purchase securities under agreements to resell at an agreed-upon price and date. In general, we most often will enter into reverse repurchase agreement transactions in order to effectively borrow securities that we can then deliver to counterparties to whom we have made short sales of the same securities. The implied interest rates on the repurchase agreements and reverse repurchase agreements we enter into are based upon competitive market rates at the time of initiation. Repurchase agreements 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. As of both March 31, 2018 and December 31, 2017, there were no repurchase agreements and reverse repurchase agreements reported on a net basis on the Consolidated Balance Sheet.

As of March 31, 2018 we had \$1.6 billion of outstanding borrowings with 15 counterparties.

#### Off-Balance Sheet Arrangements

As of March 31, 2018, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity, or financing risk that could arise if we had engaged in such relationships.

#### Inflation

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

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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



## Interest Rate Risk

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. We are subject to interest rate risk in connection with most of our assets and liabilities. For some securities in our portfolio, the coupon interest rates on, and therefore also the values of, such securities are highly sensitive to interest rate movements, such as inverse floating rate RMBS, which benefit from falling interest rates. Our repurchase agreements generally have maturities of up to 180 days and carry interest rates that are determined by reference to LIBOR or similar short-term benchmark rates for those same periods. Whenever one of our fixed-rate repo borrowings matures, it will generally be replaced with a new fixed-rate repo borrowing based on market interest rates prevailing at such time. Subject to qualifying and maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we opportunistically hedge our interest rate risk by entering into interest rate swaps, TBAs, U.S. Treasury securities, Eurodollar and U.S. Treasury futures, and other instruments. In general, such hedging instruments are used to offset the large majority of the interest rate risk we estimate to arise from our repurchase agreement indebtedness generally associated with our Agency RMBS positions. Hedging instruments may also be used to offset a portion of the interest rate risk arising from our repurchase agreement liabilities associated with non-Agency RMBS positions, if any.

In addition to measuring and mitigating the risk related to changes in interest rates with respect to the generally shorter-term liabilities we incur to acquire and hold generally longer-lived RMBS, we also monitor the effect of changes in interest rates on the discounted present value of our portfolio of assets and liabilities. The following sensitivity analysis table shows the estimated impact on the fair value of our portfolio segregated by certain identified categories as of March 31, 2018, assuming a static portfolio and immediate and parallel shifts in interest rates from current levels as indicated below.

| (In thousands)  | Estimated Change for a Decrease in Interest Rates by |                   |                  |                   | Estimated Change for an Increase in Interest Rates by |                   |                  |                   |
|---|--|-------------------|------------------|-------------------|---|-------------------|------------------|-------------------|
|   | 50 Basis Points                                      |                   | 100 Basis Points |                   | 50 Basis Points                                       |                   | 100 Basis Points |                   |
|   | Market Value   | % of Total Equity | Market Value     | % of Total Equity | Market Value  | % of Total Equity | Market Value     | % of Total Equity |
| Agency RMBS, excluding TBAs   | \$29,258   | 16.41 %           | \$50,237         | 28.17 %           | \$(37,540)  | (21.06)%          | \$(83,360)       | (46.75)%          |
| TBAs  | (5,740 )   | (3.22 )%          | (10,217 )        | (5.73 )%          | 7,004   | 3.93 %            | 15,271           | 8.56 %            |
| Non-Agency RMBS   | 295  | 0.17 %            | 602              | 0.34 %            | (283 )  | (0.16 )%          | (555 )           | (0.31 )%          |
| U.S. Treasury Securities, Interest Rate Swaps, Swaptions, and Futures | (26,734 )  | (15.00)%          | (54,300 )        | (30.45)%          | 25,903  | 14.53 %           | 50,974           | 28.59 %           |
| Repurchase and Reverse Repurchase Agreements                          | (942 )   | (0.53 )%          | (1,884 )         | (1.06 )%          | 942   | 0.53 %            | 1,884            | 1.06 %            |
| Total   | \$(3,863 )   | (2.17 )%          | \$(15,562 )      | (8.73 )%          | \$(3,974 )  | (2.23 )%          | \$(15,786 )      | (8.85 )%          |

Our analysis of interest rate risk is derived from Ellington's proprietary models as well as third-party information and analytics. Many assumptions have been made in connection with the calculations set forth in the table above and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. For example, for each hypothetical immediate shift in interest rates, assumptions have been made as to the response of mortgage prepayment rates, the shape of the yield curve, and market volatilities of interest rates; each of the foregoing factors can significantly and adversely affect the fair value of our interest rate sensitive instruments. The above analysis utilizes assumptions and estimates based on management's judgment and experience, and relies on financial models, which are inherently imperfect; in fact, different models can produce different results for the same securities. While the table above reflects the estimated impacts of immediate parallel interest rate increases and decreases on specific categories of instruments in our portfolio, we intend to actively trade many of the instruments in our portfolio and intend to diversify our portfolio to reflect a portfolio comprised primarily of Agency RMBS, and, to a lesser extent, non-Agency RMBS and mortgage-related assets. Therefore, our current or future portfolios may have

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

Looking Statements."

#### Prepayment Risk

Prepayment risk is the risk of change, whether an increase or a decrease, in the rate at which principal is returned in respect to mortgage loans underlying RMBS, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Changes in prepayment rates will have varying effects on the different types of securities in our portfolio, and we attempt to take these effects into account in making asset management decisions. Additionally, increases in prepayment rates may cause us to experience losses on our investment in interest-only securities, or "IOs," and inverse interest only securities, or "IIOs," as these securities are extremely sensitive to prepayment rates. Finally, prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation.

#### Credit Risk

We are subject to credit risk in connection with certain of our assets, especially our non-Agency RMBS. Credit losses on real estate loans underlying our non-Agency RMBS can occur for many reasons, including, but not limited to, poor origination practices, fraud, faulty appraisals, documentation errors, poor underwriting, legal errors, poor servicing practices, weak economic conditions, decline in the value of homes, special hazards, earthquakes and other natural events, over-leveraging of the borrower on the property, reduction in market rents and occupancies and poor property management services in the case of rented homes, changes in legal protections for lenders, reduction in personal income, job loss, and personal events such as divorce or health problems. Property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional, and local economic conditions (which may be adversely affected by industry slowdowns and other factors), local real estate conditions (such as an oversupply of housing), changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors, and retroactive changes to building or similar codes. For mortgage-related instruments, the two primary components of credit risk are default risk and severity risk.

#### Default Risk

Default risk is the risk that borrowers will fail to make principal and interest payments on their mortgage loans. Subject to qualifying and maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we may selectively attempt to mitigate our default risk by, among other things, opportunistically entering into credit default swaps and total return swaps. These instruments can reference various RMBS indices, corporate bond indices, or corporate entities, such as publicly traded REITs. We also rely on third-party mortgage servicers to mitigate our default risk, but such third-party mortgage servicers may have little or no economic incentive to mitigate loan default rates.

#### Severity Risk

Severity risk is the risk of loss upon a borrower default on a mortgage loan underlying our RMBS. Severity risk includes the risk of loss of value of the property underlying the mortgage loan as well as the risk of loss associated with taking over the property, including foreclosure costs. We rely on third-party mortgage servicers to mitigate our severity risk, but such third-party mortgage servicers may have little or no economic incentive to mitigate loan loss severities. Such mitigation efforts may include loan modification programs and prompt foreclosure and property liquidation following a default.

#### Item 4. Controls and Procedures

##### Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of March 31, 2018. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2018.

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three month period ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

Neither we nor Ellington nor its affiliates (including our Manager) are currently subject to any legal proceedings that we or our Manager consider material. Nevertheless, we and Ellington and its affiliates operate in highly regulated markets that currently are under regulatory scrutiny, and Ellington and its affiliates have received, and we expect in the future that we and they may receive, inquiries and requests for documents and information from various federal, state and foreign regulators. For example, in January 2017, an affiliate of Ellington received a subpoena from the SEC requesting documents, communications, and other information relating primarily to a loan originator and the loans originated by such originator, such affiliate's analyses of such loans, the purchases and securitizations of such loans by such affiliate and by certain third parties, and the servicing of such loans. Ellington's affiliate has responded to the subpoena and intends to continue to cooperate with any further requests. Ellington has advised us that, at the present time, it is not aware that any material legal proceeding against us or Ellington or its affiliates is contemplated in connection with any such inquiries or requests. We and Ellington cannot provide any assurance that these or any future such inquiries and requests will not result in further investigation of or the initiation of a proceeding against us or Ellington or its affiliates or that, if any such investigation or proceeding were to arise, it would not materially adversely affect us. For a discussion of certain risks to which we or Ellington or its affiliates could be exposed as a result of inquiries or requests for documents and information received by us or Ellington or its affiliates, see "Risk Factors—We or Ellington or its affiliates may be subject to regulatory inquiries or proceedings" included in Part 1A of our Annual Report on Form 10-K for the year ended December 31, 2017.

## Item 1A. Risk Factors

For information regarding factors that could affect our results of operations, financial condition, and liquidity, see the risk factors discussed under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes from these previously disclosed risk factors. See also "Special Note Regarding Forward-Looking Statements," included in Part I, Item 2 of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Purchases of Equity Securities

|                                      | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar Value<br>of Shares<br>/Number of<br>Shares that<br>May Yet be<br>Purchased<br>Under the<br>Plans or<br>Programs <sup>(1)</sup> |
|--------------------------------------|---|--------------------------|--|--|
| January 1, 2018 – January 31, 2018   | —   | \$ —                     | —  | \$ 9,429   |
| February 1, 2018 – February 28, 2018 | 123,789                                   | 10.99                    | 123,789  | 1,076,211  |
| March 1, 2018 – March 31, 2018       | 388,578                                   | 11.27                    | 388,578  | 687,633  |
| Total                                | 512,367                                   | \$ 11.21                 | 512,367  | 687,633  |

For the period from January 1, 2018 through January 31, 2018, represents approximate dollar value, in thousands, of shares that may yet be purchased under the share repurchase program adopted on August 13, 2013. For the periods subsequent to January 31, 2018, represents number of shares that may yet be purchased under the share repurchase program adopted on February 6, 2018.

On August 13, 2013, our Board of Trustees approved the adoption of a \$10 million share repurchase program. The program, which is open-ended in duration, allows us to make repurchases from time to time on the open market or in negotiated transactions. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations.

On February 6, 2018, our Board of Trustees approved the adoption of a share repurchase program under which we are authorized to repurchase up to 1.2 million common shares. The program, which is open-ended in duration, allows us to make repurchases from time to time on the open market or in negotiated transactions, including through Rule 10b5-1 plans. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations. This program superseded the program that was previously adopted on August 13, 2013.



Item 6. Exhibits

Exhibit Description

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
- 32.1\* Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002
- 32.2\* Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002

101 The following financial information from Ellington Residential Mortgage REIT's Quarterly Report on Form 10-Q for the three month period ended March 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheet, (ii) Consolidated Statement of Operations, (iii) Consolidated Statement of Shareholders' Equity, (iv) Consolidated Statement of Cash Flows and (v) Notes to Consolidated Financial Statements.

\*Furnished herewith. These certifications are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELLINGTON RESIDENTIAL MORTGAGE  
REIT

Date: May 4, 2018 By: /s/ LAURENCE PENN  
Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)

ELLINGTON RESIDENTIAL MORTGAGE  
REIT

Date: May 4, 2018 By: /s/ CHRISTOPHER SMERNOFF  
Christopher Smernoff  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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