

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2024  
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 Credit Company**

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization)

46-0687599

(I.R.S. Employer Identification No.)

53 Forest Avenue

Old Greenwich, Connecticut 06870

(Address of Principal Executive Offices) (Zip Code)

(203) 698-1200

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Shares of Beneficial Interest, \$0.01 par value per share	EARN	The New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the 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

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

Number of the Registrant's common shares outstanding as of August 9, 2024: 25,326,991

## ELLINGTON CREDIT COMPANY

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PART I—FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (unaudited)

ELLINGTON CREDIT COMPANY  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

<i>(In thousands except for share amounts)</i>	June 30, 2024	December 31, 2023
<b>ASSETS</b>		
Cash and cash equivalents	\$ 118,763	\$ 38,533
Securities, at fair value <sup>(1)</sup>	636,368	773,548
Due from brokers	4,892	3,245
Financial derivatives—assets, at fair value	80,834	74,279
Reverse repurchase agreements	16,405	—
Receivable for securities sold	71,673	51,132
Interest receivable	3,983	4,522
Other assets	539	431
<b>Total Assets</b>	<b>\$ 933,457</b>	<b>\$ 945,690</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Repurchase agreements	\$ 578,503	\$ 729,543
Payable for securities purchased	33,866	12,139
Due to brokers	146,010	54,476
Financial derivatives—liabilities, at fair value	6,720	7,329
U.S. Treasury securities sold short, at fair value	16,199	—
Dividend payable	1,691	1,488
Accrued expenses	1,688	1,153
Management fee payable to affiliate	550	513
Interest payable	2,101	2,811
<b>Total Liabilities</b>	<b>787,328</b>	<b>809,452</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred shares, par value \$0.01 per share, 100,000,000 shares authorized; (0 shares issued and outstanding, respectively)	—	—
Common shares, par value \$0.01 per share, 500,000,000 shares authorized; (21,134,976 and 18,601,464 shares issued and outstanding, respectively)	211	186
Additional paid-in-capital	291,114	274,698
Accumulated deficit	(145,196)	(138,646)
<b>Total Shareholders' Equity</b>	<b>146,129</b>	<b>136,238</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 933,457</b>	<b>\$ 945,690</b>

(1) Includes assets pledged as collateral to counterparties. See Note 6 for additional details on the Company's borrowings and related collateral.

See Notes to Consolidated Financial Statements

**ELLINGTON CREDIT COMPANY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Three-Month Period Ended		Six-Month Period Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
<i>(In thousands except for per share amounts)</i>				
<b>INTEREST INCOME (EXPENSE)</b>				
Interest income	\$ 14,132	\$ 10,070	\$ 24,511	\$ 19,408
Interest expense	(10,235)	(11,686)	(20,335)	(21,396)
<b>Total net interest income (expense)</b>	<b>3,897</b>	<b>(1,616)</b>	<b>4,176</b>	<b>(1,988)</b>
<b>EXPENSES</b>				
Management fees to affiliate	550	439	1,088	872
Professional fees	690	407	1,029	649
Compensation expense	431	187	701	368
Insurance expense	93	95	187	194
Other operating expenses	400	372	786	722
<b>Total expenses</b>	<b>2,164</b>	<b>1,500</b>	<b>3,791</b>	<b>2,805</b>
<b>OTHER INCOME (LOSS)</b>				
Net realized gains (losses) on securities	(7,985)	(11,580)	(17,808)	(26,706)
Net realized gains (losses) on financial derivatives	6,565	24,227	10,024	25,970
Change in net unrealized gains (losses) on securities	1,180	(1,780)	2,940	26,168
Change in net unrealized gains (losses) on financial derivatives	(2,367)	(6,548)	7,849	(17,099)
Other, net	(16)	—	(16)	—
<b>Total other income (loss)</b>	<b>(2,623)</b>	<b>4,319</b>	<b>2,989</b>	<b>8,333</b>
<b>Net income (loss) before income taxes</b>	<b>(890)</b>	<b>1,203</b>	<b>3,374</b>	<b>3,540</b>
Income tax expense (benefit)	(75)	—	228	—
<b>NET INCOME (LOSS)</b>	<b>\$ (815)</b>	<b>\$ 1,203</b>	<b>\$ 3,146</b>	<b>\$ 3,540</b>
<b>NET INCOME (LOSS) PER COMMON SHARE:</b>				
Basic and Diluted	\$ (0.04)	\$ 0.09	\$ 0.16	\$ 0.26

See Notes to Consolidated Financial Statements

**ELLINGTON CREDIT COMPANY**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**

<i>(In thousands except for share amounts)</i>	Common Shares	Common Shares, par value	Preferred Shares	Preferred Shares, par value	Additional Paid-in-Capital	Accumulated (Deficit) Earnings	Total
<b>BALANCE, December 31, 2023</b>	18,601,464	\$ 186	—	\$ —	\$ 274,698	\$ (138,646)	\$ 136,238
Common shares issued <sup>(1)</sup>	1,218,146	12			7,391		7,403
Share based compensation					72		72
Dividends declared <sup>(2)</sup>						(4,757)	(4,757)
Net income (loss)						3,961	3,961
<b>BALANCE, March 31, 2024</b>	19,819,610	198	—	—	282,161	(139,442)	142,917
Common shares issued <sup>(1)</sup>	1,315,366	13			8,882		8,895
Share based compensation					71		71
Dividends declared <sup>(2)</sup>						(4,939)	(4,939)
Net income (loss)						(815)	(815)
<b>BALANCE, June 30, 2024</b>	<u>21,134,976</u>	<u>\$ 211</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 291,114</u>	<u>\$ (145,196)</u>	<u>\$ 146,129</u>
<b>BALANCE, December 31, 2022</b>	13,377,840	\$ 134	—	\$ —	\$ 240,940	\$ (128,665)	\$ 112,409
Common shares issued <sup>(1)</sup>	455,671	4			3,487		3,491
Share based compensation					45		45
Forfeiture of common shares to satisfy tax withholding obligations	(3,108)	—			—		—
Dividends declared <sup>(2)</sup>						(3,305)	(3,305)
Net income (loss)						2,337	2,337
<b>BALANCE, March 31, 2023</b>	13,830,403	138	—	—	244,472	(129,633)	114,977
Common shares issued <sup>(1)</sup>	547,790	6			3,802		3,808
Share based compensation					81		81
Dividends declared <sup>(2)</sup>						(3,372)	(3,372)
Net income (loss)						1,203	1,203
<b>BALANCE, June 30, 2023</b>	<u>14,378,193</u>	<u>\$ 144</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 248,355</u>	<u>\$ (131,802)</u>	<u>\$ 116,697</u>

(1) Net of discounts and commissions and offering costs.

(2) For each of the three-month periods ended June 30, 2024 and 2023, dividends totaling \$0.24, per common share outstanding, were declared. For each of the six-month periods ended June 30, 2024 and 2023, dividends totaling \$0.48, per common share outstanding, were declared.

See Notes to Consolidated Financial Statements

**ELLINGTON CREDIT COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

<i>(In thousands)</i>	Six-Month Period Ended	
	June 30, 2024	June 30, 2023
<b>Cash flows provided by (used in) operating activities:</b>		
Net income (loss)	\$ 3,146	\$ 3,540
<b>Reconciliation of net income (loss) to net cash provided by (used in) operating activities:</b>		
Net realized (gains) losses on securities	17,808	26,706
Change in net unrealized (gains) losses on securities	(2,940)	(26,168)
Net realized (gains) losses on financial derivatives	(10,024)	(25,970)
Change in net unrealized (gains) losses on financial derivatives	(7,849)	17,099
Change in net unrealized (gains) losses Other (net)—foreign currency translation	49	—
Amortization of premiums and accretion of discounts, net	900	1,382
Share based compensation	143	126
<b>(Increase) decrease in operating assets:</b>		
Interest receivable	539	(812)
Other assets	(190)	(171)
<b>Increase (decrease) in operating liabilities:</b>		
Accrued expenses	556	230
Interest payable	(710)	(359)
Management fees payable to affiliate	37	16
Net cash provided by (used in) operating activities	1,465	(4,381)
<b>Cash flows provided by (used in) investing activities:</b>		
Purchases of securities	(798,500)	(1,088,817)
Proceeds from sale of securities	874,496	1,019,477
Principal repayments of securities	46,216	46,618
Proceeds from investments sold short	151,020	339,797
Repurchase of investments sold short	(134,483)	(337,801)
Proceeds from disposition of financial derivatives	26,048	18,816
Purchase of financial derivatives	(15,313)	(12,163)
Payments made on reverse repurchase agreements	(1,172,949)	(1,977,897)
Proceeds from reverse repurchase agreements	1,156,544	1,966,205
Due from brokers, net	(987)	(98)
Due to brokers, net	11,981	7,317
Net cash provided by (used in) investing activities	144,073	(18,546)

See Notes to Consolidated Financial Statements

**ELLINGTON CREDIT COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**(UNAUDITED)**

	Six-Month Period Ended	
	June 30, 2024	June 30, 2023
<b>Cash flows provided by (used in) financing activities:</b>		
Net proceeds from the issuance of common shares <sup>(1)</sup>	\$ 16,495	\$ 7,360
Offering costs paid	(138)	(41)
Dividends paid	(9,493)	(6,597)
Borrowings under repurchase agreements	5,541,177	2,735,552
Repayments of repurchase agreements	(5,692,217)	(2,702,977)
Due from brokers, net	(960)	1,413
Due to brokers, net	79,828	(2,886)
Cash provided by (used in) financing activities	(65,308)	31,824
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>80,230</b>	<b>8,897</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>38,533</b>	<b>34,816</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 118,763</b>	<b>\$ 43,713</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 21,045	\$ 21,755
Income tax paid	170	—
Dividends payable	1,691	1,150

(1) Net of discount and commissions.

See Notes to Consolidated Financial Statements

**ELLINGTON CREDIT COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2024**  
**(UNAUDITED)**

**1. Organization and Investment Objective**

Ellington Credit Company, or "EARN," (formerly Ellington Residential Mortgage REIT) was initially formed as a Maryland real estate investment trust, or "REIT," on August 2, 2012, and commenced operations on September 25, 2012, with a focus on acquiring, investing in, and managing residential mortgage- and real estate-related assets through its wholly owned subsidiaries. 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 targeted assets through its wholly owned subsidiaries. EARN, the General Partner, the Operating Partnership, and their consolidated subsidiaries are hereafter defined as the "Company."

On March 29, 2024, the Company's Board of Trustees approved a strategic transformation, the "CLO Strategic Transformation," of the Company's investment strategy to focus on corporate collateralized loan obligations, or "CLOs." In connection with the CLO Strategic Transformation, the Company revoked its status as a REIT under the Internal Revenue Code of 1986, as amended, or "the Code," and, effective January 1, 2024, conducts its operations as a taxable C-Corp and maintains its exclusion from registration under the Investment Company Act of 1940, as amended, or the "Investment Company Act." On April 19, 2024, the Company changed its name and amended its declaration of trust and bylaws accordingly. Later in 2024, the Company intends to convert to a closed-end fund to be treated as a regulated investment company, or "RIC," subject to shareholder approval of certain matters. After such conversion to a closed-end fund, the Company would be required to comply with the rules and regulations of the Investment Company Act.

The Company began acquiring and actively managing a portfolio of CLOs during the year ended December 31, 2023. The Company's targeted investments may range from unrated first loss securities to AAA senior securities.

Prior to the CLO Strategic Transformation, the Company focused on acquiring and managing 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. As a result of the CLO Strategic Transformation, the Company intends to gradually liquidate its portfolio of mortgage-related assets and invest its capital in CLOs.

Ellington Credit Company Management LLC, formerly known as Ellington Residential Mortgage Management LLC, or the "Manager," serves as the Manager of the Company pursuant to the terms of a management agreement, as described in Note 9. 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 longstanding history of investing in CLOs across a wide variety of market conditions. In accordance with the terms of the Management Agreement, the New Management Agreement, and the Services Agreement (each as defined and 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.

**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," and Regulation S-X. 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, 2023.



(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 and equities;
- 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, CLOs, and actively traded derivatives such as TBAs, interest rate swaps, swaptions, credit default swaps, or "CDS", foreign currency forwards, and other over-the-counter derivatives; and
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement. Currently, this category generally includes certain CLOs, CDS, and RMBS, such as certain non-Agency RMBS and certain Agency interest only securities, or "IOs," where there is less price transparency.

For certain financial instruments, the various inputs that management uses to measure fair value may fall into different levels of the fair value hierarchy. For each such financial instrument, the determination of which category within the fair value hierarchy is appropriate 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 given to inputs that are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets (Level 1), and the lowest priority given 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 fair value (the estimated price that, in an orderly transaction at the valuation date, would be received to sell an asset, or paid to transfer a liability, as the case may be) to each such financial instrument.

For the Company's investments in securities 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, management may adjust the valuations it receives (e.g., downward adjustments for odd lots), and 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, CLOs, 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, swaptions, and foreign currency forwards are typically valued based on internal models that use observable market data, including applicable interest rates and foreign currency rates in effect as of the measurement date; the model-generated valuations are then typically compared to counterparty valuations for reasonableness; These financial derivatives are generally designated as Level 2 instruments.

For financial derivatives with greater price transparency, such as CDS on corporate indices, market-standard pricing sources are used to obtain valuations; these financial derivatives are generally classified as Level 2.

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 reverse repurchase agreements and repurchase agreements are carried at cost, which approximates fair value. Reverse repurchase agreements and 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 directed by the Manager's Valuation Committee ("Valuation Committee") and overseen by the Company's audit 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 securities 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, or "FVO," 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.

The Company evaluates the cost basis of its securities on at least a quarterly basis under ASC 326-30, *Financial Instruments—Credit Losses: Available-for-Sale Debt Securities* ("ASC 326-30"). When the fair value of a security is less than its amortized cost basis as of the balance sheet date, the security's cost basis is considered impaired. The Company must evaluate the decline in the fair value of the impaired security and determine whether such decline resulted from a credit loss or non-credit related factors. In its assessment of whether a credit loss exists, the Company compares the present value of estimated future cash flows of the impaired security with the amortized cost basis of such security. The estimated future cash flows reflect those that a "market participant" would use and typically include assumptions related to fluctuations in interest rates, prepayment speeds, default rates, collateral performance, and the timing and amount of projected credit losses, as well as incorporating observations of current market developments and events. Cash flows are discounted at an interest rate equal to the current yield used to accrete interest income. If the present value of estimated future cash flows is less than the amortized cost basis of the security, an expected credit loss exists and is included in Unrealized gains (losses) on securities and loans, net, on the Consolidated Statement of Operations. If it is determined as of the financial reporting date that all or a portion of a security's cost basis is not collectible, then the Company will recognize a realized loss to the extent of the adjustment to the security's cost basis. This adjustment to the amortized cost basis of the security is reflected in Net realized gains (losses) on securities, on the Consolidated Statement of Operations.

*(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. For such RMBS whose cash flows vary depending on prepayments, an effective yield retroactive to the time of purchase is periodically recomputed based on actual prepayments and changes in projected prepayment activity, and a catch-up adjustment, or "Catch-up Amortization Adjustment," is made to amortization to reflect the cumulative impact of the change in effective yield.

For debt securities (generally RMBS and CLOs) 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 estimating future expected cash flows, management uses 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. Changes in estimated future 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.

Certain of the Company's debt securities, at the date of acquisition, have experienced or are expected to experience more-than-insignificant deterioration in credit quality since origination. If at the date of acquisition for a particular asset the Company projects a significant difference between contractual cash flows and expected cash flows, it establishes an initial estimate for credit losses as an upward adjustment to the acquisition cost of the asset for the purpose of calculating interest income using the effective yield method.

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 interest bearing overnight accounts 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. The Company's financial derivatives are predominantly subject to bilateral master trade agreements 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 include interest rate swaps, TBAs, swaptions, and futures.

*Swaps:* The Company enters into various types of swaps including interest rate swaps and credit default swaps. The primary risk associated with the Company's interest rate swap activity is interest rate risk. The primary risk associated with the Company's credit default swaps and total return swaps is credit risk. The Company is subject to interest rate risk exposure in the normal course of pursuing its investment objectives.

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.

A credit default swap is a contract under which one party agrees to compensate another party for the financial loss associated with the occurrence of a "credit event" in relation to a "reference amount" or notional value of a "reference asset" (usually a bond, loan, or an index or basket of bonds or loans). The definition of a credit event may vary from contract to contract. A credit event may occur (i) when the reference asset (or underlying asset, in the case of a reference asset that is an index or basket) fails to make scheduled principal or interest payments to its holders, (ii) with respect to credit default swaps referencing mortgage/asset-backed securities and indices, when the reference asset (or underlying asset, in the case of a

reference asset that is an index or basket) is downgraded below a certain rating level, or (iii) with respect to credit default swaps referencing corporate entities and indices, upon an event of default of the obligor of the reference asset (or underlying obligor, in the case of a reference asset that is an index).

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 uses TBAs to mitigate interest rate risk, usually by taking short positions. The Company also invests in TBAs as a means of acquiring additional exposure to Agency RMBS, or for speculative purposes, including holding long positions.

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 Net realized gains (losses) on financial derivatives on the Consolidated Statement of Operations.

*Futures Contracts:* The Company enters into futures contract, typically 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 Net realized gains (losses) on financial derivatives on the Consolidated Statement of Operations.

*Forward Currency Contracts:* A forward currency contract is an agreement between two parties to purchase or sell a specific quantity of currency with the delivery and settlement at a specific future date and exchange rate. During the period the forward currency contract is open, changes in the value of the contract are recognized as unrealized gains or losses. When the

contract is settled, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

Financial 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. The Company has chosen to elect the FVO for its financial derivatives. Electing the FVO 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. Changes in unrealized gains and losses on financial derivatives are included in Change in net unrealized gains (losses) on financial derivatives, on the Consolidated Statement of Operations. Realized gains and losses on financial derivatives are included in Net realized gains (losses) on financial derivatives on the Consolidated Statement of Operations.

*(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 borrowing or purchasing the security sold short from the same or a different counterparty. When borrowing a security sold short from a counterparty, the Company generally is required to deliver cash or securities to such counterparty as collateral for the Company's obligation to return the borrowed security.

The Company has chosen to make the fair value election pursuant to ASC 825-10, *Financial Instruments*, for its securities sold short. Electing the FVO 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 original sale price. 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 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 trustees 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 trustees and partially dedicated personnel are subject to tax withholding upon vesting. The Company's independent trustees 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) Foreign Currency:* The functional currency of the Company is U.S. dollars. Assets and liabilities denominated in foreign currencies are remeasured into U.S. dollars at current exchange rates at the following dates: (i) assets, liabilities, and unrealized gains/losses—at the valuation date; and (ii) income, expenses, and realized gains/losses—at the accrual/transaction date. For investments and financial derivatives denominated in a foreign currency, the Company isolates the portion of realized and change in unrealized gain (loss) resulting from changes in the foreign currency exchange rate from the fluctuations arising from changes in fair value (as measured in such foreign currency). Changes in realized and change in unrealized gain (loss) due to foreign currency are included in Other, net, on the Consolidated Statement of Operations.

The Company's reporting currency is U.S. Dollars. If the Company has investments in unconsolidated entities that have a functional currency other than U.S. Dollars, the fair value is translated to U.S. dollars using the current exchange rate at the valuation date. The cumulative translation adjustment, if any, associated with the Company's investments in unconsolidated entities is recorded in accumulated other comprehensive income (loss), a component of consolidated shareholders' equity.

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

*(R) Income Taxes:* The Company has revoked its previous election to be taxed as a REIT under Sections 856 through 860 of the Code and will operate as a C-Corp subject to U.S. federal, state, and local corporate income taxes for the tax year beginning January 1, 2024. The Company's financial results reflect provisions for any current or deferred income taxes.

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 its open tax years (2020, 2021, 2022, and 2023). 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 and 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. The Company recognizes interest and penalties, if any, related to uncertain tax positions, as income tax expense included in Income tax expense (benefit) on the Consolidated Statement of Operations. See Note 11 for additional details on income taxes.

*(S) Recent Accounting Pronouncements:* In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures* ("ASU 2023-09") which requires disaggregated information about a reporting entities effective tax rate reconciliation as well as information on income taxes paid. ASU 2023-09 is effective for annual periods beginning after December 15, 2024, with early adoption permitted. ASU 2023-09 will be applied on a prospective basis with the option to apply ASU 2023-09 retrospectively. The Company is still assessing the impact of ASU 2023-09 on the Company's consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting—Improvements to Reportable Segment Disclosures* ("ASU 2023-07") which requires incremental disclosures related to an entity's reportable segments, including identifying significant segment expense categories and any multiple measures of segment profit or loss used by the CODM.

Additionally, ASU 2023-07 provides further guidance on interim reporting, disclosures required by entities with a single reportable segment, and recasting of previously reported segment information. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods in fiscal years beginning after December 15, 2024, with early adoption permitted. ASU 2023-07 will be applied on a retrospective basis unless it is impracticable to do so. While the Company is still assessing the impact of ASU 2023-07, it is not expected to have a material impact on the Company's consolidated financial statements.

### 3. Investment in Securities

The Company's securities portfolio primarily consists of Agency and non-Agency RMBS and corporate CLOs, and may also include U.S. Treasury securities and corporate debt and equity securities. 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 government-sponsored enterprise, or "GSE." The securities in the Company's non-Agency RMBS and CLO portfolios are not issued or guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or any agency of the U.S. Government and are therefore subject to greater credit risk.

The following tables present details of the Company's investments in securities as of June 30, 2024 and December 31, 2023.

#### June 30, 2024:

(\$ in thousands)	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		Life (Years) <sup>(3)</sup>
				Gains	Losses		Coupon <sup>(1)(2)</sup>	Yield	
Long:									
RMBS:									
Agency:									
15-year fixed-rate mortgages	\$ 4,115	\$ 43	\$ 4,158	\$ 4	\$ (78)	\$ 4,084	4.74%	4.27%	3.30
30-year fixed-rate mortgages	548,497	(10,046)	538,451	2,454	(13,920)	526,985	4.89%	5.04%	6.27
Reverse mortgages	34	3	37	—	(4)	33	4.70%	3.19%	6.16
Interest only securities <sup>(4)</sup>	n/a	n/a	1,985	461	(91)	2,355	4.29%	7.95%	5.86
Non-Agency:									
Principal and interest securities	9,461	(1,518)	7,943	1,529	(9)	9,463	9.54%	11.49%	5.64
Interest only securities <sup>(4)</sup>	n/a	n/a	6,182	2,146	—	8,328	0.26%	15.95%	8.89
CLO Notes	54,186	(9,278)	44,908	1,027	(836)	45,099	12.48%	16.71%	5.53
CLO Equity	n/a	n/a	41,835	167	(2,013)	39,989	n/a	15.95%	7.72
Corporate equity	n/a	n/a	43	—	(11)	32	n/a	n/a	n/a
<b>Total Long</b>	<b>616,293</b>	<b>(20,796)</b>	<b>645,542</b>	<b>7,788</b>	<b>(16,962)</b>	<b>636,368</b>	<b>5.63%</b>	<b>6.75%</b>	<b>6.31</b>
Short:									
U.S. Treasury securities	(16,350)	246	(16,104)	—	(95)	(16,199)	4.23%	4.38%	9.92
<b>Total Short</b>	<b>(16,350)</b>	<b>246</b>	<b>(16,104)</b>	<b>—</b>	<b>(95)</b>	<b>(16,199)</b>	<b>4.23%</b>	<b>4.38%</b>	<b>9.92</b>
<b>Total</b>	<b>\$ 599,943</b>	<b>\$ (20,550)</b>	<b>\$ 629,438</b>	<b>\$ 7,788</b>	<b>\$ (17,057)</b>	<b>\$ 620,169</b>	<b>5.59%</b>	<b>6.69%</b>	<b>6.40</b>

- (1) Weighted average coupon represents the weighted average coupons of the securities, rather than, in the case of collateralized securities, the weighted average coupon rates on the underlying collateral.
- (2) Total long and total weighted average coupon excludes CLO equity securities, corporate equity, and interest only RMBS.
- (3) Expected average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.
- (4) Weighted average coupon is based on a notional principal amount of \$18.0 million and \$616.7 million, for Agency and non-Agency interest only securities, respectively.

**December 31, 2023:**

(\$ in thousands)	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		Life (Years) <sup>(3)</sup>
				Gains	Losses		Coupon <sup>(1)(2)</sup>	Yield	
<b>RMBS:</b>									
Agency:									
15-year fixed-rate mortgages	\$ 28,647	\$ 118	\$ 28,765	\$ 32	\$ (950)	\$ 27,847	3.46%	3.20%	2.90
20-year fixed-rate mortgages	8,524	509	9,033	4	(1,174)	7,863	3.30%	2.21%	5.68
30-year fixed-rate mortgages	697,510	(15,131)	682,379	8,180	(20,265)	670,294	4.26%	4.42%	6.51
Adjustable rate mortgages	7,127	933	8,060	—	(941)	7,119	4.68%	2.74%	4.45
Reverse mortgages	14,406	2,183	16,589	—	(1,715)	14,874	5.92%	2.94%	4.50
Interest only securities <sup>(4)</sup>	n/a	n/a	6,607	971	(163)	7,415	2.77%	15.64%	6.10
Non-Agency:									
Principal and interest securities	9,953	(1,764)	8,189	1,231	(11)	9,409	9.39%	10.72%	5.80
Interest only securities <sup>(4)</sup>	n/a	n/a	8,700	2,610	—	11,310	0.22%	16.69%	9.03
CLO Notes	16,876	(2,435)	14,441	123	(73)	14,491	12.16%	15.26%	5.66
CLO Equity	n/a	n/a	2,947	51	(72)	2,926	n/a	35.84%	5.87
<b>Total</b>	<b>\$ 783,043</b>	<b>\$ (15,587)</b>	<b>\$ 785,710</b>	<b>\$ 13,202</b>	<b>\$ (25,364)</b>	<b>\$ 773,548</b>	<b>4.49%</b>	<b>4.92%</b>	<b>6.32</b>

- (1) Weighted average coupon represents the weighted average coupons of the securities, rather than, in the case of collateralized securities, the coupon rates on the underlying collateral.
- (2) Total weighted average coupon excludes CLO equity securities and interest only RMBS.
- (3) Expected average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.
- (4) Weighted average coupon is based on a notional principal amount of \$83.8 million and \$1.05 billion, for Agency and non-Agency interest only securities, respectively.

**By Estimated Weighted Average Life**
**As of June 30, 2024:**

(\$ in thousands)	Agency RMBS			Agency IOs		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>
<b>Estimated Weighted Average Life<sup>(1)</sup></b>						
Less than three years	\$ 35,035	\$ 35,055	6.33 %	\$ 332	\$ 341	4.04 %
Greater than three years and less than seven years	278,519	279,827	5.55 %	807	580	4.50 %
Greater than seven years and less than eleven years	217,548	227,764	3.91 %	1,216	1,064	4.30 %
<b>Total</b>	<b>\$ 531,102</b>	<b>\$ 542,646</b>	<b>4.89 %</b>	<b>\$ 2,355</b>	<b>\$ 1,985</b>	<b>4.29 %</b>

- (1) Expected average lives of RMBS and Agency IOs are generally shorter than stated contractual maturities.
- (2) Weighted average coupon represents the weighted average coupons of the securities rather than the coupon rates on the underlying collateral.



(\$ in thousands)

Estimated Weighted Average Life <sup>(1)</sup>	Non-Agency RMBS			Non-Agency IOs			CLOs <sup>(3)</sup>		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>
Less than three years	\$ 1,752	\$ 1,731	7.45 %	\$ —	\$ —	— %	\$ 1,514	\$ 1,759	11.80 %
Greater than three years and less than seven years	5,995	5,082	11.79 %	—	—	— %	35,890	35,477	12.30 %
Greater than seven years and less than eleven years	1,716	1,130	5.94 %	8,328	6,182	0.26 %	7,695	7,672	13.66 %
<b>Total</b>	<b>\$ 9,463</b>	<b>\$ 7,943</b>	<b>9.54 %</b>	<b>\$ 8,328</b>	<b>\$ 6,182</b>	<b>0.26 %</b>	<b>\$ 45,099</b>	<b>\$ 44,908</b>	<b>12.48 %</b>

(1) Expected average lives of RMBS and CLOs are generally shorter than stated contractual maturities.

(2) Weighted average coupon represents the weighted average coupons of the securities rather than the coupon rates on the underlying collateral.

(3) CLOs excludes CLO Equity.

**As of December 31, 2023:**

(\$ in thousands)

Estimated Weighted Average Life <sup>(1)</sup>	Agency RMBS			Agency IOs		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>
Less than three years	\$ 85,958	\$ 85,990	5.67 %	\$ 1,774	\$ 1,566	2.10 %
Greater than three years and less than seven years	297,251	303,424	4.67 %	1,796	1,570	3.72 %
Greater than seven years and less than eleven years	344,788	355,412	3.58 %	3,845	3,471	3.53 %
<b>Total</b>	<b>\$ 727,997</b>	<b>\$ 744,826</b>	<b>4.25 %</b>	<b>\$ 7,415</b>	<b>\$ 6,607</b>	<b>2.77 %</b>

(1) Expected average lives of RMBS and Agency IOs are generally shorter than stated contractual maturities.

(2) Weighted average coupon represents the weighted average coupons of the securities rather than the coupon rates on the underlying collateral.

(\$ in thousands)

Estimated Weighted Average Life <sup>(1)</sup>	Non-Agency RMBS			Non-Agency IOs			CLOs <sup>(3)</sup>		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>
Less than three years	\$ 1,764	\$ 1,749	7.45 %	\$ —	\$ —	— %	\$ —	\$ —	— %
Greater than three years and less than seven years	5,834	5,271	11.39 %	—	—	— %	13,114	13,078	11.99 %
Greater than seven years and less than eleven years	1,217	1,169	6.07 %	11,310	8,700	0.22 %	1,377	1,363	14.06 %
Greater than eleven years	594	—	5.79 %	—	—	— %	—	—	— %
<b>Total</b>	<b>\$ 9,409</b>	<b>\$ 8,189</b>	<b>9.39 %</b>	<b>\$ 11,310</b>	<b>\$ 8,700</b>	<b>0.22 %</b>	<b>\$ 14,491</b>	<b>\$ 14,441</b>	<b>12.16 %</b>

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

(2) Weighted average coupon represents the weighted average coupons of the securities rather than the coupon rates on the underlying collateral.

(3) CLOs excludes CLO Equity.

The following tables reflect the components of net interest income (expense) by security type for the three- and six-month period ended June 30, 2024 and 2023:

	Three-Month Period Ended June 30, 2024			Three-Month Period Ended June 30, 2023		
	Net Coupon Interest	Net Amortization	Net Interest Income (Expense)	Net Coupon Interest	Net Amortization	Net Interest Income (Expense)
<i>(\$ in thousands)</i>						
Agency RMBS	\$ 8,139	\$ 199	\$ 8,338	\$ 9,587	\$ (846)	\$ 8,741
Non-Agency RMBS	729	(201)	528	735	(130)	605
CLOs	3,579	(59)	3,520	—	—	—
U.S. Treasury securities	519	19	538	—	—	—
<b>Total</b>	<b>\$ 12,966</b>	<b>\$ (42)</b>	<b>\$ 12,924</b>	<b>\$ 10,322</b>	<b>\$ (976)</b>	<b>\$ 9,346</b>

	Six-Month Period Ended June 30, 2024			Six-Month Period Ended June 30, 2023		
	Net Coupon Interest	Net Amortization	Net Interest Income (Expense)	Net Coupon Interest	Net Amortization	Net Interest Income (Expense)
<i>(\$ in thousands)</i>						
Agency RMBS	\$ 16,596	\$ (855)	\$ 15,741	\$ 18,861	\$ (1,930)	\$ 16,931
Non-Agency RMBS	1,626	(534)	1,092	1,394	(212)	1,182
CLOs	4,867	(103)	4,764	—	—	—
U.S. Treasury securities	451	49	500	—	—	—
<b>Total</b>	<b>\$ 23,540</b>	<b>\$ (1,443)</b>	<b>\$ 22,097</b>	<b>\$ 20,255</b>	<b>\$ (2,142)</b>	<b>\$ 18,113</b>

For the three-month periods ended June 30, 2024 and 2023, the Catch-up Amortization Adjustment was \$0.2 million and \$(0.4) million, respectively. For each of the six-month periods ended June 30, 2024 and 2023, the Catch-up Amortization Adjustment was \$(0.7) million.

At June 30, 2024, the Company had gross unrealized losses on securities of \$(17.1) million, of which \$(1.5) million relates primarily to adverse changes in estimated future cash flows on CLOs and Agency IOs. At December 31, 2023, the Company had gross unrealized losses on securities of \$(25.4) million, of which \$(0.2) million relates primarily to adverse changes in estimated future cash flows on CLOs and Agency IOs.

The Company determined for certain securities that a portion of such securities' cost basis is not collectible; for the three-month period ended June 30, 2023, the Company recognized realized losses on such securities of \$(0.2) million. For the six-month periods ended June 30, 2024 and 2023, the Company recognized realized losses on such securities of \$(13) thousand and \$(0.4) million, respectively. Such realized losses are reflected in Net realized gains (losses) on securities, on the Consolidated Statement of Operations.

#### 4. Valuation

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

**June 30, 2024:**

(In thousands)

Description	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash equivalents:				
U.S. Treasury bills	\$ 89,930	\$ —	\$ —	\$ 89,930
Securities:				
Agency RMBS:				
15-year fixed-rate mortgages	—	4,084	—	4,084
20-year fixed-rate mortgages	—	—	—	—
30-year fixed-rate mortgages	—	526,985	—	526,985
Adjustable rate mortgages	—	—	—	—
Reverse mortgages	—	33	—	33
Interest only securities	—	1,280	1,075	2,355
Non-Agency RMBS	—	9,358	8,433	17,791
CLOs	—	37,201	47,887	85,088
Corporate equity	—	—	32	32
Total securities, at fair value	—	578,941	57,427	636,368
Financial derivatives—assets, at fair value:				
TBAs	—	780	—	780
Interest rate swaps	—	79,456	—	79,456
Futures	598	—	—	598
Total financial derivatives—assets, at fair value	598	80,236	—	80,834
Total cash equivalents, securities, and financial derivatives—assets, at fair value	\$ 90,528	\$ 659,177	\$ 57,427	\$ 807,132
<b>Liabilities:</b>				
Securities sold short:				
U.S. Treasury securities sold short, at fair value	\$ —	\$ (16,199)	\$ —	\$ (16,199)
Financial derivatives—liabilities, at fair value:				
TBAs	\$ —	\$ (1,019)	\$ —	\$ (1,019)
Interest rate swaps	—	(5,061)	—	(5,061)
Futures	(22)	—	—	(22)
Credit default swaps	—	(618)	—	(618)
Total financial derivatives—liabilities, at fair value	\$ (22)	\$ (6,698)	\$ —	\$ (6,720)
Total U.S. Treasury securities sold short and financial derivatives—liabilities, at fair value	\$ (22)	\$ (22,897)	\$ —	\$ (22,919)

**December 31, 2023:***(In thousands)*

<b>Description</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Securities:				
Agency RMBS:				
15-year fixed-rate mortgages	\$ —	\$ 27,847	\$ —	\$ 27,847
20-year fixed-rate mortgages	—	7,863	—	7,863
30-year fixed-rate mortgages	—	670,294	—	670,294
Adjustable rate mortgages	—	7,119	—	7,119
Reverse mortgages	—	14,874	—	14,874
Interest only securities	—	4,253	3,162	7,415
Non-Agency RMBS	—	10,443	10,276	20,719
CLOs	—	11,816	5,601	17,417
Total securities, at fair value	—	754,509	19,039	773,548
Financial derivatives—assets, at fair value:				
TBAs	—	654	—	654
Interest rate swaps	—	71,341	—	71,341
Futures	2,284	—	—	2,284
Total financial derivatives—assets, at fair value	2,284	71,995	—	74,279
Total securities and financial derivatives—assets, at fair value	\$ 2,284	\$ 826,504	\$ 19,039	\$ 847,827
<b>Liabilities:</b>				
Financial derivatives—liabilities, at fair value:				
TBAs	\$ —	\$ (1,876)	\$ —	\$ (1,876)
Interest rate swaps	—	(4,758)	—	(4,758)
Futures	(63)	—	—	(63)
Credit default swaps	—	(632)	—	(632)
Total financial derivatives—liabilities, at fair value	\$ (63)	\$ (7,266)	\$ —	\$ (7,329)

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 June 30, 2024:**

<i>(In thousands)</i>	<b>Non-Agency RMBS</b>	<b>Agency RMBS</b>	<b>CLOs</b>	<b>Corporate equity</b>
<b>Beginning balance as of March 31, 2024</b>	\$ 5,828	\$ 3,920	\$ 25,596	\$ —
Purchases	—	—	31,434	43
Proceeds from sales	(853)	(2,848)	(9,321)	—
(Amortization)/accretion, net	(25)	(161)	(2)	—
Net realized gains (losses)	249	677	(18)	—
Change in net unrealized gains (losses)	(225)	(513)	(2,360)	(11)
Transfers:				
Transfers into level 3	3,459	—	4,013	—
Transfers out of level 3	—	—	(1,455)	—
<b>Ending balance as of June 30, 2024</b>	<u>\$ 8,433</u>	<u>\$ 1,075</u>	<u>\$ 47,887</u>	<u>\$ 32</u>

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 June 30, 2024, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended June 30, 2024. For Level 3 financial instruments held by the Company as of June 30, 2024, change in net unrealized gains (losses) of \$0.1 million, \$19 thousand, \$(1.3) million, and \$(11) thousand for the three-month period ended June 30, 2024 relate to non-Agency RMBS, Agency RMBS, CLOs, and corporate equity, respectively.

At June 30, 2024, the Company transferred \$1.5 million of assets from Level 3 to Level 2 and \$7.5 million of assets from Level 2 to Level 3. Transfers between hierarchy levels are 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, and is based on pricing information received from third party pricing sources.

**Three-Month Period Ended June 30, 2023:**

<i>(In thousands)</i>	<b>Non-Agency RMBS</b>	<b>Agency RMBS</b>
<b>Beginning balance as of March 31, 2023</b>	\$ 15,500	\$ 2,551
Purchases	1,158	—
Proceeds from sales	(4,208)	—
Principal repayments	(42)	(337)
(Amortization)/accretion, net	(45)	(174)
Net realized gains (losses)	(108)	(91)
Change in net unrealized gains (losses)	347	179
Transfers:		
Transfers into level 3	3,735	817
Transfers out of level 3	—	—
<b>Ending balance as of June 30, 2023</b>	<u>\$ 16,337</u>	<u>\$ 2,945</u>

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 June 30, 2023, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended June 30, 2023. For Level 3 financial instruments held by the Company as of June 30, 2023, change in net unrealized gains (losses) of \$0.3 million and \$0.2 million, for the three-month period ended June 30, 2023 relate to non-Agency RMBS and Agency RMBS, respectively.

At June 30, 2023, the Company transferred \$4.6 million of assets from Level 2 to Level 3. Transfers between hierarchy levels are 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, and is based on pricing information received from third party pricing sources.

**Six-Month Period Ended June 30, 2024:**

<i>(In thousands)</i>	<u>Non-Agency RMBS</u>	<u>Agency RMBS</u>	<u>CLOs</u>	<u>Corporate equity</u>
<b>Beginning balance as of December 31, 2023</b>	\$ 10,276	\$ 3,162	\$ 5,601	\$ —
Purchases	—	—	51,040	43
Proceeds from sales	(182)	(2,030)	(10,776)	—
Principal repayments	—	—	—	—
(Amortization)/accretion, net	(398)	(333)	(455)	—
Net realized gains (losses)	70	500	163	—
Change in net unrealized gains (losses)	573	(224)	(2,050)	(11)
Transfers:				
Transfers into level 3	1,127	—	4,986	—
Transfers out of level 3	(3,033)	—	(622)	—
<b>Ending balance as of June 30, 2024</b>	<u>\$ 8,433</u>	<u>\$ 1,075</u>	<u>\$ 47,887</u>	<u>\$ 32</u>

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 June 30, 2024, as well as Level 3 financial instruments disposed of by the Company during the six-month period ended June 30, 2024. For Level 3 financial instruments held by the Company as of June 30, 2024, change in net unrealized gains (losses) of \$0.4 million, \$0.1 million, \$(1.9) million, and \$(11) thousand for the six-month period ended June 30, 2024 relate to non-Agency RMBS, Agency RMBS, CLOs, and corporate equity, respectively.

At June 30, 2024, the Company transferred \$3.7 million of assets from Level 3 to Level 2 and \$6.1 million of assets from Level 2 to Level 3. Transfers between hierarchy levels are 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, and is based on pricing information received from third party pricing sources.

**Six-Month Period Ended June 30, 2023:**

<i>(In thousands)</i>	<u>Non-Agency RMBS</u>	<u>Agency RMBS</u>
<b>Beginning balance as of December 31, 2022</b>	\$ 11,834	\$ 4,085
Purchases	10,378	—
Proceeds from sales	(1,461)	(1,484)
Principal repayments	(173)	(382)
(Amortization)/accretion, net	(160)	(384)
Net realized gains (losses)	162	(216)
Change in net unrealized gains (losses)	248	200
Transfers:		
Transfers into level 3	1,751	1,331
Transfers out of level 3	(6,242)	(205)
<b>Ending balance as of June 30, 2023</b>	<u>\$ 16,337</u>	<u>\$ 2,945</u>

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 June 30, 2023, as well as Level 3 financial instruments disposed of by the Company during the six-month period ended June 30, 2023. For Level 3 financial instruments held by the Company as of June 30, 2023, change in net unrealized gains (losses) of \$0.4 million and \$0.3 million, for the six-month period ended June 30, 2023 relate to non-Agency RMBS and Agency RMBS, respectively.

At June 30, 2023, the Company transferred \$6.4 million of assets from Level 3 to Level 2 and \$3.1 million of assets from Level 2 to Level 3. Transfers between these hierarchy levels are 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, and is based on pricing information received from third party pricing sources.

The following table identifies the significant unobservable inputs that affect the valuation of the Company's Level 3 assets and liabilities as of June 30, 2024:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range		Weighted Average <sup>(1)</sup>
				Min	Max	
	(In thousands)					
Non-Agency RMBS	\$ 7,442	Market quotes	Non-Binding Third-Party Valuation	\$0.39	\$106.53	\$37.21
	991	Discounted Cash Flows				
	<u>\$ 8,433</u>		Yield	6.2%	15.0%	9.3%
			Projected Collateral Prepayments	34.7%	37.2%	35.6%
			Projected Collateral Losses	0.7%	7.5%	4.9%
			Projected Collateral Recoveries	6.5%	13.8%	11.0%
Agency RMBS—Interest Only Securities	1,075	Option Adjusted Spread ("OAS")	LIBOR OAS <sup>(2)</sup>	32	5,062	902
			Projected Collateral Prepayments	28.9%	62.2%	41.2%
CLOs	\$ 35,312	Market quotes	Non-Binding Third-Party Valuation	\$5.00	\$100.94	\$66.46
	12,575	Discounted Cash Flows				
	<u>\$ 47,887</u>		Yield	9.1%	148.0%	19.4%
Corporate equity	32	Discounted Cash Flows	Yield	22.6%	22.6%	22.6%

(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, when available, 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 management's models over multiple interest rate scenarios, and these projected cash flows are then discounted using the LIBOR rates (which are calculated by using an assumed spread over projected Secured Overnight Financing Rates, or "SOFR" 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. Losses and recoveries do not represent a significant input for the Company's Agency RMBS interest only securities, given the guarantee of the issuing GSE.

The following table summarizes the estimated fair value of all other financial instruments not included in the disclosures above as of June 30, 2024 and December 31, 2023:

<i>(In thousands)</i>	June 30, 2024		December 31, 2023	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 28,833	\$ 28,833	\$ 38,533	\$ 38,533
Due from brokers	4,862	4,892	3,245	3,245
Reverse repurchase agreements	16,405	16,405	—	—
<b>Liabilities:</b>				
Repurchase agreements	578,503	578,503	729,543	729,543
Due to brokers	146,010	146,010	54,476	54,476

Cash and cash equivalents includes cash held in interest bearing overnight accounts, 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 manages certain risks associated with its investments and borrowings, including interest rate, credit, liquidity, and foreign exchange rate risk primarily by managing the amount, sources, and duration of its investments and borrowings, and through the use of derivative financial instruments. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of its known or expected cash receipts and its known or expected cash payments principally related to its investments and borrowings, as well as to mitigate changes in the fair value of its investments that are caused by changes in overall market conditions.

The following table details the fair value of the Company's holdings of financial derivatives as of June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
	<i>(In thousands)</i>	
<b>Financial derivatives—assets, at fair value:</b>		
TBA securities purchase contracts	\$ 99	\$ 654
TBA securities sale contracts	681	—
Fixed payer interest rate swaps	78,674	67,719
Fixed receiver interest rate swaps	782	3,622
Futures	598	2,284
<b>Total financial derivatives—assets, at fair value</b>	<b>80,834</b>	<b>74,279</b>
<b>Financial derivatives—liabilities, at fair value:</b>		
TBA securities purchase contracts	(956)	(13)
TBA securities sale contracts	(63)	(1,863)
Fixed payer interest rate swaps	(426)	(4,182)
Fixed receiver interest rate swaps	(4,635)	(576)
Futures	(22)	(63)
Credit default swaps	(618)	(632)
<b>Total financial derivatives—liabilities, at fair value</b>	<b>(6,720)</b>	<b>(7,329)</b>
<b>Total, net</b>	<b>\$ 74,114</b>	<b>\$ 66,950</b>



### Interest Rate Swaps

The following tables provide information about the Company's fixed payer interest rate swaps as of June 30, 2024 and December 31, 2023.

#### June 30, 2024:

Maturity	Notional Amount	Fair Value	Weighted Average		Remaining Years to Maturity
			Pay Rate	Receive Rate	
<i>(In thousands)</i>					
2025	\$ 100,268	\$ 3,982	2.98 %	5.34 %	1.23
2027	40,545	2,202	3.01	5.33	3.22
2028	104,647	7,375	2.74	5.34	4.02
2029	79,000	6,292	2.40	5.33	4.73
2030	97,200	7,890	2.50	5.33	5.92
2031	123,515	18,371	1.81	5.33	6.98
2032	104,377	16,539	1.74	5.33	7.63
2033	76,900	1,984	3.69	5.33	8.75
2034	10,148	1	4.02	5.34	9.78
2037	35,000	4,697	2.85	5.33	13.07
2038	39,500	166	4.01	5.34	14.16
2040	500	194	0.90	5.33	16.32
2041	10,961	3,931	1.33	5.34	17.10
2049	3,564	1,338	1.63	5.34	25.33
2050	780	438	0.64	5.34	26.04
2052	10,000	2,848	2.28	5.33	27.81
<b>Total</b>	<b>\$ 836,905</b>	<b>\$ 78,248</b>	<b>2.60 %</b>	<b>5.33 %</b>	<b>6.76</b>

#### December 31, 2023:

Maturity	Notional Amount	Fair Value	Weighted Average		Remaining Years to Maturity
			Pay Rate	Receive Rate	
<i>(In thousands)</i>					
2024	\$ 73,693	\$ 2,161	2.27 %	5.38 %	0.33
2025	100,268	2,960	2.98	5.39	1.72
2027	40,545	1,164	3.01	5.38	3.71
2028	104,647	5,264	2.74	5.39	4.51
2029	65,987	5,528	2.17	5.38	5.25
2030	97,200	7,141	2.50	5.38	6.42
2031	123,515	16,138	1.81	5.38	7.48
2032	104,377	15,932	1.74	5.38	8.13
2033	76,900	(782)	3.69	5.38	9.25
2037	35,000	2,842	2.85	5.38	13.56
2038	39,500	(2,072)	4.01	5.39	14.66
2040	500	165	0.90	5.33	16.82
2041	10,961	3,395	1.33	5.39	17.60
2049	3,564	1,156	1.63	5.39	25.83
2050	780	394	0.64	5.39	26.54
2052	10,000	2,151	2.28	5.38	28.31
<b>Total</b>	<b>\$ 887,437</b>	<b>\$ 63,537</b>	<b>2.54 %</b>	<b>5.38 %</b>	<b>6.68</b>

The following tables provide information about the Company's fixed receiver interest rate swaps as of June 30, 2024 and December 31, 2023.

**June 30, 2024:**

Maturity	Notional Amount	Fair Value	Weighted Average		Remaining Years to Maturity
			Pay Rate	Receive Rate	
<i>(In thousands)</i>					
2026	\$ 4,787	\$ (8)	5.34 %	4.72 %	1.77
2028	26,070	(780)	5.34	3.57	3.95
2029	72,354	174	5.34	4.27	4.80
2030	13,000	(536)	5.33	3.31	5.76
2031	40,700	(858)	5.34	3.78	6.62
2033	95,829	(497)	5.34	3.96	9.12
2034	25,401	(1,147)	5.34	3.48	9.54
2040	500	(201)	5.33	0.84	16.32
<b>Total</b>	<b>\$ 278,641</b>	<b>\$ (3,853)</b>	<b>5.34 %</b>	<b>3.91 %</b>	<b>6.92</b>

**December 31, 2023:**

Maturity	Notional Amount	Fair Value	Weighted Average		Remaining Years to Maturity
			Pay Rate	Receive Rate	
<i>(In thousands)</i>					
2026	\$ 61	\$ —	5.38 %	4.06 %	2.45
2028	10,070	(19)	5.39	3.50	5.00
2029	20,000	19	5.38	3.55	5.01
2030	13,000	(330)	5.38	3.31	6.26
2031	25,700	31	5.38	3.49	7.01
2033	95,829	3,572	5.39	3.96	9.62
2034	23,000	(54)	5.38	3.44	10.01
2040	500	(173)	5.38	0.84	16.82
<b>Total</b>	<b>\$ 188,160</b>	<b>\$ 3,046</b>	<b>5.38 %</b>	<b>3.71 %</b>	<b>8.36</b>

**Futures**

The following tables provide information about the Company's futures as of June 30, 2024 and December 31, 2023.

**June 30, 2024:**

Description	Notional Amount	Fair Value	Remaining Months to Expiration
<i>(\$ in thousands)</i>			
<b>Assets:</b>			
<b>Long Contracts:</b>			
U.S. Treasury Futures	\$ 104,700	\$ 428	3.01
<b>Short Contracts:</b>			
Euro FX Futures	(12,375)	170	2.60
<b>Liabilities:</b>			
<b>Short Contracts:</b>			
U.S. Treasury Futures	(5,400)	(22)	3.07
<b>Total, net</b>	<b>\$ 86,925</b>	<b>\$ 576</b>	<b>2.97</b>

December 31, 2023:

Description	Notional Amount	Fair Value	Remaining Months to Expiration
<i>(\$ in thousands)</i>			
<b>Assets:</b>			
<b>Long Contracts:</b>			
U.S. Treasury Futures	\$ 84,600	\$ 2,284	2.69
<b>Liabilities:</b>			
<b>Short Contracts:</b>			
U.S. Treasury Futures	(5,400)	(63)	2.93
<b>Total, net</b>	<b>\$ 79,200</b>	<b>\$ 2,221</b>	<b>2.70</b>

**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 uses TBAs to mitigate interest rate risk, usually by taking short positions. The Company also invests in TBAs as a means of acquiring additional exposure to Agency RMBS, or for speculative purposes, including holding long positions.

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 June 30, 2024 and December 31, 2023, the Company had outstanding contracts to purchase ("long positions") and sell ("short positions") TBA securities as follows:

TBA Securities	June 30, 2024				December 31, 2023			
	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>
<i>(In thousands)</i>								
<b>Purchase contracts:</b>								
Assets	\$ 39,586	\$ 35,486	\$ 35,585	\$ 99	\$ 79,722	\$ 78,709	\$ 79,363	\$ 6
Liabilities	177,142	164,378	163,422	(956)	27,700	28,398	28,385	(
	216,728	199,864	199,007	(857)	107,422	107,107	107,748	6
<b>Sale contracts:</b>								
Assets	(166,856)	(165,357)	(164,676)	681	—	—	—	
Liabilities	(6,218)	(5,026)	(5,089)	(63)	(78,285)	(69,206)	(71,069)	(1,8
	(173,074)	(170,383)	(169,765)	618	(78,285)	(69,206)	(71,069)	(1,8
<b>Total TBA securities, net</b>	<b>\$ 43,654</b>	<b>\$ 29,481</b>	<b>\$ 29,242</b>	<b>\$ (239)</b>	<b>\$ 29,137</b>	<b>\$ 37,901</b>	<b>\$ 36,679</b>	<b>\$ (1,2</b>

(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.

(4) Net carrying value represents the difference between the market value of the TBA contract as of period end and the 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 six-month period ended June 30, 2024 and the year ended December 31, 2023:

Derivative Type	Six-Month Period Ended June 30, 2024		Year Ended December 31, 2023	
	<i>(In thousands)</i>			
Interest rate swaps	\$	1,091,539	\$	861,689
TBAs		245,622		289,786
Futures		66,989		67,592
Credit default swaps		24,763		14,989

Gains and losses on the Company's financial derivatives for the three- and six-month periods ended June 30, 2024 and 2023 are summarized in the tables below:

Derivative Type	Three-Month Period Ended June 30, 2024					
	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives
<i>(In thousands)</i>						
Interest rate swaps	\$ 9,524	\$ (1,673)	\$ 7,851	\$ (4,211)	\$ 1,506	\$ (2,705)
TBAs		(515)	(515)		(165)	(165)
Futures		(622)	(622)		373	373
Credit Default Swaps		(149)	(149)		130	130
Total	\$ 9,524	\$ (2,959)	\$ 6,565	\$ (4,211)	\$ 1,844	\$ (2,367)

Derivative Type	Three-Month Period Ended June 30, 2023					
	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives
<i>(In thousands)</i>						
Interest rate swaps	\$ 3,942	\$ 19,703	\$ 23,645	\$ 1,118	\$ (7,476)	\$ (6,358)
TBAs		266	266		2,137	2,137
Futures		334	334		(2,209)	(2,209)
Credit Default Swaps		(18)	(18)		(118)	(118)
Total	\$ 3,942	\$ 20,285	\$ 24,227	\$ 1,118	\$ (7,666)	\$ (6,548)

**Six-Month Period Ended June 30, 2024**

<b>Derivative Type</b>	<b>Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps</b>	<b>Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps</b>	<b>Net Realized Gains (Losses) on Financial Derivatives</b>	<b>Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps</b>	<b>Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps</b>	<b>Change in Net Unrealized Gains (Losses) on Financial Derivatives</b>
<i>(In thousands)</i>						
Interest rate swaps	\$ 15,336	\$ (2,840)	\$ 12,496	\$ (4,322)	\$ 12,617	\$ 8,295
TBAs		(1,223)	(1,223)		983	983
Futures		(796)	(796)		(1,645)	(1,645)
Credit Default Swaps		(453)	(453)		216	216
<b>Total</b>	<b>\$ 15,336</b>	<b>\$ (5,312)</b>	<b>\$ 10,024</b>	<b>\$ (4,322)</b>	<b>\$ 12,171</b>	<b>\$ 7,849</b>

**Six-Month Period Ended June 30, 2023**

<b>Derivative Type</b>	<b>Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps</b>	<b>Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps</b>	<b>Net Realized Gains (Losses) on Financial Derivatives</b>	<b>Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps</b>	<b>Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps</b>	<b>Change in Net Unrealized Gains (Losses) on Financial Derivatives</b>
<i>(In thousands)</i>						
Interest rate swaps	\$ 5,711	\$ 16,643	\$ 22,354	\$ 3,550	\$ (17,433)	\$ (13,883)
TBAs		3,799	3,799		(2,613)	(2,613)
Futures		(165)	(165)		(485)	(485)
Credit Default Swaps		(18)	(18)		(118)	(118)
<b>Total</b>	<b>\$ 5,711</b>	<b>\$ 20,259</b>	<b>\$ 25,970</b>	<b>\$ 3,550</b>	<b>\$ (20,649)</b>	<b>\$ (17,099)</b>

At June 30, 2024, the Company held credit default swaps representing purchased protection on corporate bond indices with a notional value of \$23.8 million and a fair value of \$(0.6) million; the weighted average remaining maturity on such contracts was 5.0 years. At December 31, 2023, the Company held credit default swaps representing purchased protection on corporate bond indices with a notional value of \$25.9 million and a fair value of \$(0.6) million; the weighted average remaining maturity on such contracts was 5.0 years.

## 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 364 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 June 30, 2024 and December 31, 2023, the Company had outstanding borrowings under repurchase agreements with 18 and 19 counterparties, respectively.

The following table details the Company's outstanding borrowings under repurchase agreements as of June 30, 2024 and December 31, 2023:

Remaining Days to Maturity	June 30, 2024			December 31, 2023		
	Borrowings Outstanding	Weighted Average Interest Rate	Remaining Days to Maturity	Borrowings Outstanding	Weighted Average Interest Rate	Remaining Days to Maturity
Agency RMBS:	<i>(In thousands)</i>			<i>(In thousands)</i>		
30 days or less	\$ 469,856	5.46 %	16	\$ 676,074	5.54 %	
31-60 days	19,262	5.45	44	1,256	6.23	
61-90 days	603	6.15	68	2,933	6.23	
181-360 days	45,911	5.50	185	—	—	
Total Agency RMBS	535,632	5.46	32	680,263	5.55	
Non-Agency RMBS and CLOs:						
30 days or less	13,801	6.64	17	6,782	6.89	
31-60 days	27,342	6.43	45	4,875	6.80	
61-90 days	1,728	6.54	68	6,801	6.58	
Total Non-Agency RMBS and CLOs	42,871	6.50	37	18,458	6.75	
U.S. Treasury Securities						
30 days or less	—	—	—	30,822	5.53	
Total U.S. Treasury Securities	—	—	—	30,822	5.53	
Total	\$ 578,503	5.54 %	32	\$ 729,543	5.58 %	

Repurchase agreements involving underlying investments that the Company sold prior to period end, for settlement following period end, are shown using their contractual 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 June 30, 2024 and December 31, 2023, the fair value of securities transferred as collateral under outstanding borrowings under repurchase agreements was \$622.8 million and \$791.5 million, respectively. Collateral transferred under outstanding borrowings under repurchase agreements as of June 30, 2024 and December 31, 2023, includes investments in the amount of \$56.6 million and \$51.0 million, respectively, that were sold prior to period end but for which such sale had not yet settled. In addition as of June 30, 2024 and December 31, 2023, the Company posted to/(received from) repurchase agreement counterparties net cash collateral of \$(2.2) million and \$(11.2) million, respectively, as a result of margin calls with various repurchase agreement counterparties. Additionally, as of June 30, 2024 and December 31, 2023, repurchase agreement counterparties posted/(received) RMBS of \$(0.5) million and \$0.8 million, respectively, to/(from) the Company as a result of margin calls.

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 either June 30, 2024 or December 31, 2023.

## 7. Offsetting of Assets and Liabilities

The Company records certain financial instruments at fair value as described in Note 2. 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 June 30, 2024 and December 31, 2023. 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 net settlement, as well as a right of offset in the event of default or in the event of a bankruptcy of either party to the transaction.

### June 30, 2024:

Description	Amount of Assets (Liabilities) Presented in the Consolidated Balance Sheet <sup>(1)</sup>	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral <sup>(2)(3)</sup>	Cash Collateral (Received) Pledged <sup>(2)(3)</sup>	Net Amount
<i>(In thousands)</i>					
<b>Assets:</b>					
Financial derivatives—assets	\$ 80,834	\$ (6,262)	\$ —	\$ (54,445)	\$ 20,127
Reverse repurchase agreements	16,405	—	(16,405)	—	—
<b>Liabilities:</b>					
Financial derivatives—liabilities	(6,720)	6,262	—	375	(83)
Repurchase agreements	(578,503)	—	580,654	(2,151)	—

- (1) In the Company's Consolidated Balance Sheet, all balances associated with repurchase and reverse repurchase agreements and financial derivatives are presented on a gross basis.
- (2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative assets and liabilities. As of June 30, 2024, the fair value of financial instruments transferred or pledged as collateral on the Company's repurchase agreements, net of the fair value of any financial instruments received by the Company as the result of margin calls, were \$623.2 million. As of June 30, 2024, total cash collateral (received) pledged on financial derivative assets and financial derivative liabilities excludes \$2.0 million and \$0.6 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 particular 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, 2023:**

Description	Amount of Assets (Liabilities) Presented in the Consolidated Balance Sheet <sup>(1)</sup>	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral <sup>(2)(3)</sup>	Cash Collateral (Received) Pledged <sup>(2)(3)</sup>	Net Amount
<i>(In thousands)</i>					
<b>Assets:</b>					
Financial derivatives—assets	\$ 74,279	\$ (6,851)	\$ —	\$ (42,344)	\$ 25,084
<b>Liabilities:</b>					
Financial derivatives—liabilities	(7,329)	6,851	—	374	(104)
Repurchase agreements	(729,543)	—	740,748	(11,205)	—

- (1) In the Company's Consolidated Balance Sheet, all balances associated with repurchase and reverse repurchase agreements and financial derivatives are presented on a gross basis.
- (2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative assets and liabilities. As of December 31, 2023, the fair value of financial instruments transferred or pledged as collateral on the Company's repurchase agreements, net of the fair value of any financial instruments received by the Company as a result of margin calls, were \$790.6 million. As of December 31, 2023, total cash collateral (received) pledged on financial derivative assets and financial derivative liabilities excludes \$1.4 million and \$0.1 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 particular 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 June 30, 2024 and December 31, 2023, 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- and six-month periods ended June 30, 2024 and 2023:

(In thousands except for share amounts)	Three-Month Period Ended		Six-Month Period Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
<b>Numerator:</b>				
Net income (loss)	\$ (815)	\$ 1,203	\$ 3,146	\$ 3,540
<b>Denominator:</b>				
Basic and diluted weighted average shares outstanding	20,354,062	13,935,821	19,951,235	13,802,007
Basic and diluted earnings per share	\$ (0.04)	\$ 0.09	\$ 0.16	\$ 0.26

**9. Related Party Transactions**

**Management Agreement**

The Company is party to the Fifth Amended and Restated Management Agreement, (the "Management Agreement"). On June 25, 2024, the Company Board of Trustees unanimously approved the Sixth Amended and Restated Management Agreement, (the "New Management Agreement") which replaces the Management Agreement. The New Management Agreement is effective beginning July 1, 2024. The Company is externally managed and advised by the Manager. Pursuant to the terms of the Management Agreement and the New 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.

For periods prior to July 1, 2024, under the terms of the Management Agreement, the Manager received 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 June 30, 2024 and 2023, the total



management fee incurred was \$0.6 million and \$0.4 million, respectively. For the six-month periods ended June 30, 2024 and 2023, the total management fee incurred was \$1.1 million and \$0.9 million, respectively.

Under the terms of the New Management Agreement, for periods beginning after June 30, 2024, the Manager receives an annual management fee in an amount equal to 1.50% per annum of the Company's Net Asset Value, calculated as the Company's total assets minus its total liabilities (the "Base Management Fee"). The Base Management Fee is payable quarterly in arrears.

In addition to the Base Management Fee, pursuant to the New Management Agreement, the Company will pay the Manager a performance fee (the "Performance Fee"). The Performance Fee is calculated and payable quarterly in arrears based upon the Company's Pre-Performance Fee Net Investment Income, with respect to each fiscal quarter. Pre-Performance Fee Net Investment Income for any fiscal quarter means, interest income (including accretions of discounts, amortization of premiums, and payment-in-kind income), dividend income, and any other income (including any fee income) earned or accrued by the Company during such fiscal quarter, minus the Company's operating expenses for such quarter (which, for this purpose, will not include any litigation-related expenses, any extraordinary expenses, or Performance Fee). Pre-Performance Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. For purposes of computing Pre-Performance Fee Net Investment Income, the calculation methodology will look through total return swaps as if the Company owned the referenced assets directly. As a result, Pre-Performance Fee Net Investment Income includes net interest (whether positive or negative) associated with a total return swap, which is the difference between (a) the interest income and transaction fees related to the reference assets and (b) all interest and other expenses paid by the Company to the total return swap counterparty. In the case of an interest rate swap, Pre-Performance Fee Net Investment Income includes the net payments and net accruals of periodic payments. The Performance Fee is subject to a hurdle rate of 2.00% per quarter, or 8.00% per annum (the "Hurdle Rate"), and is subject to a "catch-up" feature. Specifically:

- If the Company's Pre-Performance Fee Net Investment Income for a fiscal quarter does not exceed the result obtained by multiplying the Net Asset Value attributable to common equity at the end of the immediately preceding fiscal quarter by the Hurdle Rate (the "Hurdle Amount") for such quarter, then no Performance Fee is payable to the Manager with respect to such quarter;
- If the Company's Pre-Performance Fee Net Investment Income for a fiscal quarter exceeds the Hurdle Amount for such quarter but is less than or equal to 121.21% of the Hurdle Amount, then 100% of the portion of the Company's Pre-Performance Fee Net Investment Income that exceeds the Hurdle Amount (the "Catch-Up") is payable to the Manager as the Performance Fee with respect to such quarter. Therefore, once the Company's Pre-Performance Fee Net Investment Income for such quarter exactly reaches 121.21% of the Hurdle Amount, the Manager will have accrued a Performance Fee with respect to such quarter that is exactly equal to 17.5% of the Pre-Performance Fee Net Investment Income (because 21.21% of the Hurdle Amount (which is the Pre-Performance Fee Net Investment Income captured by the Manager during the Catch-Up phase) is equal to 17.5% of 121.21% of the Hurdle Amount (which is the entire Pre-Performance Fee Net Investment Income at the end of the Catch-Up phase)); and
- If the Company's Pre-Performance Fee Net Investment Income for a fiscal quarter exceeds 121.21% of the Hurdle Amount for such quarter, then 17.5% of the Company's Pre-Performance Fee Net Investment Income is payable to the Manager as the Performance Fee with respect to such quarter.

With respect to the Performance Fee, there will be no accumulation of the Hurdle Amount from quarter to quarter, no claw back of amounts previously paid if the Pre-Performance Fee Net Investment Income in any subsequent quarter is below the Hurdle Amount for such subsequent quarter, and no delay or adjustment of payment if the Pre-Performance Fee Net Investment Income in any prior quarter was below the Hurdle Amount for such prior quarter.

The Manager has agreed to waive all of the Performance Fees payable under the New Management Agreement for all fiscal periods through December 31, 2024.

The New Management Agreement has an initial term expiring on June 25, 2025, unless terminated earlier in accordance with its terms. Thereafter, the New Management Agreement will continue to renew automatically each year for an additional one-year period, unless the Company or the Manager exercise its respective termination rights.

### **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 the six-month periods ended June 30, 2024 and 2023, the Company reimbursed the Manager \$2.0 million and \$1.4 million, respectively, for previously incurred operating and compensation expenses. As of both June 30, 2024 and December 31, 2023, the outstanding payable to the Manager for operating and compensation expenses was \$0.7 million and \$0.4 million, respectively, and is included in Accrued expenses on the Consolidated Balance Sheet.

### 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.

## 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 June 30, 2024 and December 31, 2023, there were 21,134,976 and 18,601,464 common shares outstanding, respectively. No preferred shares have been issued.

Detailed below is a roll forward of the Company's common shares outstanding for the three- and six-month periods ended June 30, 2024 and 2023:

	Three-Month Period Ended		Six-Month Period Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Common Shares Outstanding (3/31/2024, 3/31/2023, 12/31/2023 and 12/31/2022, respectively)	19,819,610	13,830,403	18,601,464	13,377,840
Share Activity:				
Common shares issued	1,315,366	547,790	2,533,512	1,003,461
Forfeiture of common shares to satisfy tax withholding obligations	—	—	—	(3,108)
Common Shares Outstanding (6/30/2024, 6/30/2023, 6/30/2024 and 6/30/2023, respectively)	21,134,976	14,378,193	21,134,976	14,378,193
Unvested restricted shares outstanding (6/30/2024, 6/30/2023, 6/30/2024, and 6/30/2023, respectively)	53,448	44,804	53,448	44,804

The below table provides details on the Company's restricted shares granted pursuant to share award agreements which are invested at June 30, 2024:

Grant Recipient	Number of Restricted Shares Granted	Grant Date	Vesting Date <sup>(1)</sup>
Independent trustees:	32,920	September 13, 2023	September 12, 2024
Partially dedicated employees:	6,055	December 15, 2022	December 15, 2024
	7,237	December 14, 2023	December 14, 2024
	7,236	December 14, 2023	December 14, 2025

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

On May 16, 2023, the Company's 2023 Equity Incentive Plan became effective and replaced the Company's 2013 Equity Incentive Plan. Awards previously granted under the 2013 Equity Incentive Plan remain outstanding and valid in accordance with their terms, but no new awards will be granted under the 2013 Equity Incentive Plan. As of June 30, 2024, there were 1,214,938 shares available for future issuance under the Company's 2023 Equity Incentive Plan.

On June 13, 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. From inception of the current share repurchase program adopted on June 13, 2018 through June 30, 2024, the Company repurchased 474,192 of its common shares at an aggregate cost of \$4.4 million, and an average price per share of \$9.21. The Company did not repurchase any shares during either of the three- or six-month periods ended June 30, 2024 and 2023.

On November 14, 2023, the Company implemented an "at the market" offering program, or the "2023 ATM program," by entering into equity distribution agreements with third party sales agents under which it was authorized to offer and sell up to \$100.0 million of common shares from time to time. During the three-month period ended June 30, 2024, the Company issued 1,315,366 common shares, which provided \$9.0 million of net proceeds after \$0.2 million of commissions and offering costs. During the six-month period ended June 30, 2024, the Company issued 2,533,512 common shares, which provided \$16.4 million of net proceeds after \$0.3 million of commissions and offering costs. As of June 30, 2024, the Company's remaining authorization under the 2023 ATM program was \$69.3 million.

#### 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 and capital requirements of the Company. 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.

#### 11. Income Taxes

The Company has revoked its prior REIT election and is operating as a taxable C-Corp, subject to applicable U.S. federal, state, and local income tax, effective for the tax year beginning January 1, 2024. The Company had a pre-tax U.S. federal net operating loss carryforward ("NOL Carryforward") of approximately \$36.9 million and \$38.9 million as of June 30, 2024 and December 31, 2023, respectively. As a result of the change from a REIT to a taxable C-Corp, as of January 1, 2024, the Company is establishing a deferred tax asset related to its NOL Carryforward, which it plans to utilize to offset a majority of its U.S. federal taxable income and a portion of its state and local taxable income, as discussed in more detail below.

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*, or "ASC 740." Deferred income taxes reflect the net tax effects of temporary differences that may exist between the carrying amounts of assets and liabilities under U.S. GAAP and the carrying amounts used for income tax purposes. For the three-month period ended June 30, 2024, the Company recorded an income tax expense (benefit) of \$(0.1) million. For the six-month period ended June 30, 2024, the Company recorded an income tax expense (benefit) of \$0.2 million. No such expense was recorded for the three- or six-month periods ended June 30, 2023, during which time the Company was operating as a REIT and generally not subject to income tax.

The Company evaluates its deferred tax assets for recoverability using an approach which considers the relative impact of negative and positive evidence, including historical profitability and projections of future taxable income. As of June 30, 2024, the Company anticipates utilizing deferred tax assets of approximately \$0.6 million, to offset a portion of its taxable income for its 2024 fiscal year; the Company has recorded a valuation allowance of \$11.3 million to fully reserve against the remaining deferred tax assets.

The Company is subject to a federal tax rate of 21%, and expected state and local taxes with a combined estimated rate of 9.52%. The establishment of the deferred benefit has reduced our estimated effective federal tax rate to 3.2% and combined state and local tax rate to 3.6%.

Based on its analysis of any potential uncertain income tax positions, the Company concluded that it did not have any uncertain tax positions that meet the recognition or measurement criteria of ASC 740 as of June 30, 2024 or December 31, 2023. Tax authorities in the relevant jurisdictions may select the Company's tax returns for audit and propose adjustments before the expiration of the statute of limitations. Tax returns filed for the Company's open tax years or any ongoing audits remain open to adjustment in the major tax jurisdictions.

## **12. 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 trustees 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 June 30, 2024 and December 31, 2023 and management is not aware of any significant contingencies at June 30, 2024.

## **13. Subsequent Events**

### *Dividends*

On July 8, 2024, the Board of Trustees approved a monthly dividend in the amount of \$0.08 per share payable on August 26, 2024 to shareholders of record as of July 31, 2024.

On August 7, 2024, the Board of Trustees approved a monthly dividend in the amount of \$0.08 per share payable on September 25, 2024 to shareholders of record as of August 30, 2024.

## 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 Credit Company and its subsidiaries, our "Manager" refers to Ellington Credit Company 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 or their negative forms or references to strategy, plans or intentions, 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. Actual results may differ from our beliefs, expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events.

Forward-looking statements are based on our beliefs, assumptions, and expectations of our future operations, business strategies, performance, financial condition, liquidity and prospects, taking into account information currently available to us. These beliefs, assumptions, and expectations are subject to numerous 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 or from our beliefs, expectations, estimates and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. The following factors are examples of those that could cause actual results to vary from those stated or implied by our forward-looking statements: changes in interest rates and the market value of our securities or our investments; 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; our ability to pivot our investment strategy to focus on CLOs; a deterioration in the CLO market, our ability to utilize our NOLs; our ability to convert to a closed end fund/RIC, including our ability to obtain shareholder approval of our conversion to a closed end fund/RIC; our ability to exit investments in a timely manner; changes in our investment objectives and strategy; changes in the prepayment rates on the mortgage loans underlying the securities we own; changes in rates of default and/or recovery rates; our ability to borrow to finance our assets and the available terms for such borrowings; 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"; risks associated with investing in real estate assets, including changes in business conditions; and other changes in markets conditions and trends, such as changes to fiscal or monetary policy, heightened inflation, slower growth or recession, and currency fluctuations. 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, 2023, the risk factors described under Part II Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, and the risk factors described under Part II, Item 1A of this Quarterly Report on Form 10-Q, 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 were initially formed in August 2012 as a Maryland real estate investment trust, or "REIT," that specialized in acquiring, investing in, and managing residential mortgage- and real estate-related assets 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 RMBS that do not carry such guarantees, or "non-Agency RMBS," such as RMBS backed by prime jumbo, Alternative A-paper, mortgage loans that are not deemed "qualified mortgage," or "QM," loans under the rules of the Consumer Financial Protection Bureau, or "non-QM loans," mortgages on single-family-rental properties, manufactured housing, and subprime residential mortgage loans.

On March 29, 2024, our Board of Trustees approved a strategic transformation, the "CLO Strategic Transformation," of our investment strategy to focus on corporate collateralized loan obligations, or "CLOs." CLOs are a form of asset-backed security collateralized by syndicated corporate loans which receive interest and principal cash flows from these underlying loans. Senior debt tranches are paid first, then mezzanine debt tranches, and finally, equity. In connection with the CLO

Strategic Transformation, we revoked our REIT election for tax year 2024, rebranded as Ellington Credit Company, and currently operate as a taxable C-Corp. While operating as a taxable C-Corp, we intend to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act of 1940 (the "1940 Act"). This includes continuing to hold a core portfolio of liquid Agency MBS pools in order to maintain our exemption from the 1940 Act. During this time, we also plan to take advantage of our significant existing net operating loss carryforwards to offset the majority of our U.S. federal taxable income.

On July 2, 2024, we filed our preliminary proxy statement in anticipation of a shareholder vote at our annual meeting later this year. We intend to convert to a closed-end fund to be treated as a regulated investment company, or "RIC," subject to shareholder approval of certain matters. In the interim, we intend to continue gradually liquidating our portfolio of mortgage-related assets and invest the proceeds in CLOs. Just prior to the conversion, we intend to liquidate the vast majority of our remaining mortgage- and real estate-related assets and upon the effectiveness of the conversion we would intend to operate so as to qualify to be taxed as a RIC under subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), for federal income tax purposes. After our conversion to a closed-end fund/RIC, we would generally not be subject to corporate tax.

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. Following the CLO Strategic Transformation, we now seek to attain this objective by constructing and actively managing a portfolio of corporate CLOs, primarily mezzanine debt and equity tranches, which are typically collateralized by portfolios consisting primarily of below-investment-grade senior secured loans with a large number of discrete underlying borrowers across various industry sectors. Additionally, we may also invest in CLO loan accumulation facilities, which are entities that acquire corporate loans and other similar corporate credit-related assets in anticipation of ultimately collateralizing a CLO transaction.

We are externally managed and advised by our Manager, an affiliate of Ellington. Ellington has a longstanding and successful track record of investing in the CLO sector. In connection with the CLO Strategic Transformation, on June 25, 2024, our Board of Trustees unanimously approved the Sixth Amended and Restated Management Agreement (the "New Management Agreement") where, in addition to carrying over the removal of certain provisions related to the maintenance of our REIT status (which had been made in the prior amendment), our Board of Trustees determined to more closely align the management fee arrangement between us and our Manager with the advisory fee structures of CLO-focused registered closed-end funds.

Under the terms of the New Management Agreement, which became effective July 1, 2024, our Manager will receive an annual management fee in an amount equal to 1.50% per annum of our Net Asset Value, calculated as our total assets minus our total liabilities (the "Base Management Fee").

In addition to the Base Management Fee, pursuant to the New Management Agreement, we will pay our Manager a performance fee (the "Performance Fee"), calculated and payable quarterly in arrears based upon our Pre-Performance Fee Net Investment Income, with respect to each fiscal quarter. "Pre-Performance Fee Net Investment Income" for any fiscal quarter means, interest income (including accretions of discounts, amortization of premiums, and payment-in-kind income), dividend income, and any other income (including any fee income) earned or accrued by us during such fiscal quarter, minus our operating expenses for such quarter (which, for this purpose, will not include any litigation-related expenses, any extraordinary expenses, or Performance Fee). Pre-Performance Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. For purposes of computing Pre-Performance Fee Net Investment Income, the calculation methodology will look through total return swaps as if we owned the referenced assets directly. As a result, Pre-Performance Fee Net Investment Income includes net interest (whether positive or negative) associated with a total return swap, which is the difference between (a) the interest income and transaction fees related to the reference assets and (b) all interest and other expenses paid by us to the total return swap counterparty. In the case of an interest rate swap, Pre-Performance Fee Net Investment Income includes the net payments and net accruals of periodic payments. The Performance Fee is subject to a hurdle rate of 2.00% per quarter, or 8.00% per annum (the "Hurdle Rate"), and is subject to a "catch-up" feature. Specifically:

- If our Pre-Performance Fee Net Investment Income for a fiscal quarter does not exceed the result obtained by multiplying our Net Asset Value attributable to our common equity at the end of the immediately preceding fiscal quarter by the Hurdle Rate (the "Hurdle Amount") for such quarter, then no Performance Fee is payable to our Manager with respect to such quarter;
- If our Pre-Performance Fee Net Investment Income for a fiscal quarter exceeds the Hurdle Amount for such quarter but is less than or equal to 121.21% of the Hurdle Amount, then 100% of the portion of our Pre-Performance Fee Net Investment Income that exceeds the Hurdle Amount (the "Catch-Up") is payable to our Manager as the Performance

Fee with respect to such quarter. Therefore, once our Pre-Performance Fee Net Investment Income for such quarter exactly reaches 121.21% of the Hurdle Amount, our Manager will have accrued a Performance Fee with respect to such quarter that is exactly equal to 17.5% of the Pre-Performance Fee Net Investment Income (because 21.21% of the Hurdle Amount (which is the Pre-Performance Fee Net Investment Income captured by our Manager during the Catch-Up phase) is equal to 17.5% of 121.21% of the Hurdle Amount (which is the entire Pre-Performance Fee Net Investment Income at the end of the Catch-Up phase)); and

- If our Pre-Performance Fee Net Investment Income for a fiscal quarter exceeds 121.21% of the Hurdle Amount for such quarter, then 17.5% of the our Pre-Performance Fee Net Investment Income is payable to our Manager as the Performance Fee with respect to such quarter.

With respect to the Performance Fee, there will be no accumulation of the Hurdle Amount from quarter to quarter, no claw back of amounts previously paid if the Pre-Performance Fee Net Investment Income in any subsequent quarter is below the Hurdle Amount for such subsequent quarter, and no delay or adjustment of payment if the Pre-Performance Fee Net Investment Income in any prior quarter was below the Hurdle Amount for such prior quarter.

Our Manager has agreed to waive all of the Performance Fees payable under the New Management Agreement for all fiscal periods through December 31, 2024.

The New Management Agreement has an initial term expiring on June 25, 2025, unless terminated earlier in accordance with its terms and, thereafter, will continue to renew automatically each year for an additional one-year period, unless we or our Manager exercise our respective termination rights.

We currently use leverage in our strategies and to date have financed our assets exclusively through repurchase agreements, which we account for as collateralized borrowings. As of June 30, 2024, we had outstanding borrowings under repurchase agreements in the amount of \$578.5 million with 18 counterparties; 93% of such borrowings were collateralized by Agency RMBS. Just prior to conversion to a RIC, we intend to reduce our leverage to levels permitted under the Investment Company Act, and expect the vast majority of our borrowings to be collateralized by CLOs.

As of June 30, 2024, our book value per share was \$6.91 as compared to \$7.21 and \$7.32 as of March 31, 2024 and December 31, 2023, respectively.

## **Trends and Recent Market Developments**

### *Market Overview*

- The U.S. Federal Reserve, or the "Federal Reserve," maintained its target range for the federal funds rate of 5.25%–5.50% at both its April/May and June 2024 meetings. In its June press release, the Federal Reserve observed that "there has been some further progress toward the Committee's 2 percent inflation objective," but also noted that it "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent." The Summary of Economic Projections released by the Federal Reserve in June implied just one interest rate cut by the end of 2024, as compared to three cuts in the previously released projections in March.

In addition, as announced in May and implemented in June, the Federal Reserve slowed the pace of decline of its securities holdings by reducing the monthly reinvestment cap on U.S. Treasury securities from \$60 billion to \$25 billion (meaning the Federal Reserve will reinvest principal payments that exceed \$25 billion per month, rather than \$60 billion per month), while maintaining the monthly cap of \$35 billion on Agency RMBS.

- After rising in the prior quarter, interest rates continued to increase in April, with the yield on the 2-year U.S. Treasury increasing by 42 basis points and the 10-year U.S. Treasury up 48 basis points on the month. Interest rates then declined for much of May and June, but finished up slightly overall for the quarter—the yield on the 2-year U.S. Treasury increased by 13 basis points quarter over quarter to 4.75%, while the yield on the 10-year U.S. Treasury increased by 20 basis points to 4.40%. Meanwhile, interest rate volatility, as measured by the MOVE index, increased in mid-April before declining over the remainder of the second quarter.
- Secured Overnight Financing Rates, or "SOFR" rates, rose modestly in the second quarter with one-month SOFR increasing by 1 basis point to 5.34% and three-month SOFR rising by 3 basis points to 5.32%. SOFR rates drive many of our financing costs.
- Mortgage rates moved in sympathy with long-term interest rates during the second quarter. The Freddie Mac survey 30-year mortgage rate increased from 6.79% at the end of March to 7.22% on May 2<sup>nd</sup>, before declining to 6.86% at June 27<sup>th</sup>. The Mortgage Bankers Association's Refinance Index increased by 20% over the course of the quarter, but

remained at depressed levels on an historical basis, with current mortgage rates still much higher than the rates on the vast majority of outstanding Agency mortgages. Similarly, overall prepayment speeds remained low, with Fannie Mae 30-year RMBS registering CPRs of 6.0 in April, 6.6 in May, and 6.0 in June.

After rising 5.5% in 2023, the S&P CoreLogic Case-Shiller US National Home Price NSA Index increased by another 4.1% year-to-date through May 2024. Meanwhile, after decreasing by 6.5% in 2023, the National Association of Realtors Housing Affordability Index declined by an additional 8.9% year-to-date through May 2024, as high mortgage rates and elevated home prices continued to stress housing affordability.

- U.S. real GDP increased at an estimated annualized rate of 2.8% in the second quarter of 2024, as compared to 1.4% in the prior quarter. Meanwhile, the unemployment rate increased during the quarter, registering 3.9% in April, 4.0% in May, and 4.1% in June.
- After increasing in the first quarter, inflation reversed course and moderately declined in the second quarter. The 12-month percentage change in the Consumer Price Index for All Urban Consumers ("CPI-U"), not seasonally adjusted, registered 3.4% in April, 3.3% in May, and 3.0% in June 2024. This compared to 12-month percentage changes of 3.1% in January, 3.2% in February, and 3.5% in March 2024.
- For the second quarter, the Bloomberg U.S. MBS Index posted a positive return of 0.07% but a negative excess return (on a duration-adjusted basis) of (0.09%) relative to the Bloomberg U.S. Treasury Index, driven by underperformance of the mortgage basis in April. Meanwhile, the Bloomberg U.S. Corporate Bond Index generated a negative return of (0.09%) and a negative excess return of (0.04%), while the Bloomberg U.S. Corporate High Yield Bond Index generated a positive return of 1.11% and an excess return of 0.38%, for the quarter.
- Corporate credit spreads widened during the second quarter, with spreads on the Markit CDX North America Investment Grade and High Yield Indices increasing by 2 and 14 basis points quarter over quarter, respectively. Additionally, according to PitchBook/LCD, default rates on U.S. leveraged loans declined further, with the twelve-month trailing default rate on the Morningstar LSTA Leveraged Loan Index decreasing to 0.92% at quarter end, as compared to 1.14% at March 31st, and well below the 10-year historical average of 1.76%. After rising for six consecutive quarters, Morningstar LSTA US Leveraged Loan Index prices fell slightly in the second quarter to \$96.50 at June 30th, compared to \$96.70 at the end of the first quarter.
- U.S. CLO issuance activity remained elevated during the second quarter. According to PitchBook/LCD, the U.S. CLO market saw \$53 billion of new CLO issuance in the second quarter, which was the second highest quarter of CLO issuance dating back to 2011, and up from \$49 billion in the first quarter.
- In the second quarter, the NASDAQ rose by 8.3% and the S&P 500 increased by 3.9%, with both indices setting record highs during the quarter. The Dow Jones Industrial Average, on the other hand, fell by 1.7% quarter over quarter, despite also reaching a record high intra-quarter. The VIX volatility index spiked in mid-April before reversing course and ending the quarter modestly lower overall. Meanwhile, London's FTSE 100 index increased by 2.7% and the MSCI World global equity index rose by 2.2%, quarter over quarter.

#### *Portfolio Overview and Outlook*

As of June 30, 2024, our CLO portfolio consisted of \$45.1 million of CLO notes, specifically mezzanine debt tranches, of which \$37.2 million were dollar-denominated and \$7.9 million were non-dollar denominated; and \$40.0 million of CLO equity, of which \$33.2 million were dollar-denominated and \$6.8 million were non-dollar denominated. We intend to continue to invest in both dollar-denominated and non-dollar denominated CLO investments, based on relative value opportunities, but expect the large majority of our CLO investments will continue to be dollar-denominated.

During the second quarter, the size of our CLO portfolio increased to \$85.1 million as of June 30, 2024, compared to \$45.1 million as of March 31, 2024, driven primarily by a larger CLO equity portfolio, and to a lesser degree, a larger CLO mezzanine portfolio. During the quarter, rising CLO prepayment rates and tightening mezzanine spreads had a few notable impacts on our holdings. First, several of our CLO mezzanine positions were called, which contributed positively to earnings but removed these positions from our holdings. Second, we capitalized on trading opportunities by selling several CLO mezzanine positions at net gains, further decreasing our holdings. And third, tighter new issue CLO debt spreads enhanced the attractiveness of new issue CLO equity due to lower implied financing costs, prompting new purchases by us. Tighter new issue CLO debt spreads also enabled certain CLO equity holders to refinance existing deals, thereby further increasing the relative appeal of CLO equity. While we also added attractive incremental CLO mezzanine investments in the quarter, the size of our CLO equity holdings increased disproportionately as a result of these effects. Going forward, we expect to continue increasing the size of our CLO portfolio in conjunction with the CLO Strategic Transformation.



As of June 30, 2024, our mortgage-backed securities portfolio consisted of \$531.1 million of fixed-rate Agency "specified pools," \$33 thousand of Agency reverse mortgage pools, \$2.4 million of Agency interest-only securities, or "Agency IOs", \$9.5 million of non-Agency RMBS, and \$8.3 million of non-Agency interest-only securities, or "non-Agency IOs". 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 government-sponsored refinancing programs, and mortgages with various other characteristics.

The size of our Agency RMBS holdings decreased by 28% to \$531.1 million as of June 30, 2024, compared to \$739.3 million as of March 31, 2024, as we continued to net sell Agency RMBS and rotate the investment capital into CLOs. Costs to liquidate our Agency RMBS continue to be low. Meanwhile, our aggregate holdings of interest-only securities and non-Agency RMBS decreased by 27% quarter over quarter. Going forward, we intend to continue to decrease the size of our mortgage-backed securities portfolio, also in conjunction with the CLO Strategic Transformation.

Our debt-to-equity ratio, adjusted for unsettled purchases and sales, decreased to 3.7:1 as of June 30, 2024, as compared to 4.9:1 as of March 31, 2024. The decline was driven by higher shareholder's equity and less leverage on our CLO investments, which constituted a significantly larger proportion of our overall portfolio as of June 30, 2024, compared to March 31, 2024. Our debt-to-equity ratio may fluctuate period over period based on portfolio management decisions, market conditions, capital markets activities, and the timing of security purchase and sale transactions. As of June 30, 2024, 93% of our borrowings were secured by Agency RMBS.

During the quarter, we continued to hedge interest rate risk through the use of interest rate swaps and short positions in U.S. Treasury securities and futures. We ended the quarter with a net long TBA position. We also selectively hedge our corporate CLO and non-Agency RMBS investments; as of June 30, 2024, our credit hedge portfolio was relatively small.

As of June 30, 2024, we had cash and cash equivalents of \$118.8 million, which included \$89.9 million of U.S. Treasury Bills held on margin, in addition to other unencumbered assets of \$43.9 million. Excluding such U.S. Treasury Bills, cash and cash equivalents were \$28.8 million. This compares to cash and cash equivalents of \$22.4 million and other unencumbered assets of \$57.1 million as of March 31, 2024.

#### *CLO Performance*

In the second quarter, the CLO market continued to benefit from strengthening fundamentals, robust demand for leveraged loans, and continued capital inflows, despite periods of elevated market volatility. Net demand for leveraged loans remained strong as a result of strong capital inflows into retail loan funds, significant primary CLO issuance volumes, and rapid repayments of existing leveraged loan facilities as corporate borrowers continued to lower their financing costs. Loan prepayment rates increased further, reaching their highest level on a trailing-twelve-month basis since February 2022. These higher prepayments, and generally broader access to capital markets, contributed to a lower trailing-twelve-month default rate for the Morningstar LSTA US Leveraged Loan Index, and led to substantial deleveraging in seasoned CLOs.

Investment-grade CLO spreads generally tightened throughout the quarter, while CLO mezzanine tranches showed mixed performance, with higher-quality tranches tightening and lower-quality tranches widening. The European CLO market also experienced tightening spreads, particularly in high-quality tranches.

For CLO equity, tightening debt spreads allowed some deals to refinance their debt or reset their debt (which also includes an extension of reinvestment period), which drove strong returns for CLO equity in deals with more optionality (namely, those with better-performing portfolios and higher debt costs). However, higher prepayment speeds in the loan market led to both overall declines in loan prices and compression in loan floating rate spreads, as large volumes of loans trading at premiums to par were refinanced at par and replaced with lower-spread loans; these effects triggered mark-to-market losses in some CLO equity profiles as both their interest payments (due to lower excess interest in the CLO) and underlying asset values declined in tandem.

Our CLO strategy had positive performance for the quarter, led by strong interest income, which increased sequentially due to the resolution of several discounted positions. Further, net gains on our CLO mezzanine portfolio were supported by both opportunistic sales and discount positions being called. These gains were partially offset by mark-to-market losses on certain CLO equity positions, where rapid prepayments drove mark-to-market losses and reduced floating rate spreads on the underlying loan collateral as described above.

#### *Non-Agency Performance*

Our non-Agency RMBS portfolio and interest-only securities generated strong results for the quarter, driven by net interest income and net gains associated with several profitable sales.

### Agency Performance

In April, interest rates and volatility increased over renewed concerns about inflation and a more hawkish Federal Reserve, which pushed Agency RMBS yield spreads wider. In May and June, however, interest rates and volatility generally declined, and Agency RMBS yield spreads reversed most of their April widening. Overall for the second quarter, the U.S. Agency MBS Index generated a negative excess return of (0.09)%. Against this backdrop, EARN's Agency portfolio generated a small net loss for the quarter, as net losses on our Agency RMBS exceeded net gains on our interest rate hedges.

Average pay-ups on our specified pool portfolio decreased to 0.63% as of June 30, 2024, as compared to 0.85% as of March 31, 2024.

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—declined during the quarter. The decrease was driven by an increase in shareholders' equity and a smaller Agency RMBS portfolio, partially offset by a net long TBA position as of June 30, 2024 as compared to a net short TBA position as of March 31, 2024. From time to time, in response to market opportunities and other factors, we increase or decrease our net mortgage assets-to-equity ratio by varying the sizes of our net short TBA position and/or our long RMBS portfolio in relation to the portion of our overall shareholders' equity employed in our mortgage-related strategies. The following table summarizes our net mortgage assets-to-equity ratio and provides additional details, for the last five quarters, to illustrate this fluctuation.

	<u>Notional Amount of Long TBAs</u>	<u>Notional Amount of Short TBAs</u>	<u>Fair Value of Mortgage- backed Securities</u>	<u>Net Long (Short) TBA Underlying Market Value<sup>(1)</sup></u>	<u>Net Mortgage Assets-to- Equity Ratio</u>
<i>(\$ In thousands)</i>					
June 30, 2024	\$ 216,728	\$ (173,074)	\$ 551,248	\$ 29,242	4.0:1
March 31, 2024	66,220	(66,830)	766,954	(3)	5.4:1
December 31, 2023 <sup>(2)</sup>	107,422	(78,285)	756,131	36,679	5.8:1
September 30, 2023	68,064	(116,747)	822,718	(36,149)	7.2:1
June 30, 2023	117,009	(243,532)	920,714	(102,485)	7.0:1

(1) Market value represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of period end.

(2) Conformed to current period presentation.

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 June 30, 2024, March 31, 2024, December 31, 2023, September 30, 2023, and June 30, 2023.

	<u>Three-Month Period Ended</u>				
	<u>June 30, 2024</u>	<u>March 31, 2024</u>	<u>December 31, 2023</u>	<u>September 30, 2023</u>	<u>June 30, 2023</u>
Three-Month Constant Prepayment Rates <sup>(1)</sup>	6.7	5.2	6.8	7.3	7.4

(1) Excludes recent purchases of fixed rate Agency specified pools with no 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 June 30, 2024 and March 31, 2024.

	June 30, 2024			March 31, 2024			
	Coupon (%)	Current Principal	Fair Value	Weighted Average Loan Age (Months)	Current Principal	Fair Value	Weighted Average Loan Age (Months)
		<i>(In thousands)</i>			<i>(In thousands)</i>		
<b>Fixed-rate Agency RMBS:</b>							
15-year fixed-rate mortgages:							
2.50–2.99	\$ 1,503	\$ 1,428	63	\$ 1,932	\$ 1,813	58	
3.00–3.49	—	—	—	4,550	4,356	106	
3.50–3.99	—	—	—	9,387	9,046	95	
4.00–4.49	—	—	—	9,506	9,307	62	
4.50–4.99	—	—	—	34	33	166	
6.00–6.49	2,612	2,656	6	2,764	2,818	3	
<b>Total 15-year fixed-rate mortgages</b>	<b>4,115</b>	<b>4,084</b>	<b>27</b>	<b>28,173</b>	<b>27,373</b>	<b>74</b>	
20-year fixed-rate mortgages:							
2.00–2.49	—	—	—	—	—	—	
3.00–3.49	—	—	—	1,132	1,016	49	
4.00–4.49	—	—	—	1,241	1,192	44	
4.50–4.99	—	—	—	461	451	66	
5.00–5.49	—	—	—	568	567	67	
6.50–6.99	—	—	—	985	1,008	9	
<b>Total 20-year fixed-rate mortgages</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,387</b>	<b>4,234</b>	<b>43</b>	
30-year fixed-rate mortgages:							
2.00–2.49	4,145	3,177	44	4,211	3,249	41	
2.50–2.99	18,632	15,452	44	19,035	15,963	41	
3.00–3.49	42,030	36,278	80	69,274	60,220	63	
3.50–3.99	22,047	19,741	50	89,852	82,119	74	
4.00–4.49	75,305	70,540	87	113,288	106,642	67	
4.50–4.99	33,683	31,943	28	145,311	139,640	38	
5.00–5.49	135,608	131,680	21	126,239	123,676	22	
5.50–5.99	89,401	88,489	12	70,049	69,965	12	
6.00–6.49	54,019	54,392	7	23,447	23,839	16	
6.50–6.99	73,627	75,293	10	59,601	61,093	8	
<b>Total 30-year fixed-rate mortgages</b>	<b>548,497</b>	<b>526,985</b>	<b>33</b>	<b>720,307</b>	<b>686,406</b>	<b>41</b>	
<b>Total fixed-rate Agency RMBS</b>	<b>\$ 552,612</b>	<b>\$ 531,069</b>	<b>33</b>	<b>\$ 752,867</b>	<b>\$ 718,013</b>	<b>42</b>	

For the three-month period ended June 30, 2024, we had total net realized and unrealized losses on our Agency securities of \$(5.0) million, or \$(0.24) per share. Our Agency portfolio turnover was approximately 49% for the three-month period ended June 30, 2024 and we recognized net realized losses of \$(9.9) million.

For the three-month period ended June 30, 2024, we continued to hedge interest rate risk through the use of interest rate swaps and short positions in TBAs, U.S. Treasury securities, and futures. We had total net realized and unrealized gains of \$4.8 million, or \$0.23 per share, on our interest rate hedging portfolio, driven by the increase in interest rates quarter over quarter. These gains exclude net realized and unrealized losses of \$(0.7) million, or \$(0.04) per share, on our long TBAs held for investment.

We ended the quarter with a net long TBA position on a notional basis and as measured by 10-year equivalents. Ten-year equivalents for a group of positions represent the amount of 10-year U.S. Treasury securities that would be expected to experience a similar change in market value under a standard parallel move in interest rates. The relative makeup of our interest rate hedging portfolio can change materially from period to period. We also selectively hedge our corporate CLO and non-

Agency RMBS investments; as of June 30, 2024, we had a small credit hedge position in place. We may also enter into foreign currency forward and futures contracts in order to hedge risks associated with foreign currency fluctuations.

After giving effect to dividends declared during the three-month period ended June 30, 2024 of \$0.24 per share, our book value per share decreased to \$6.91 as of June 30, 2024, from \$7.21 as of March 31, 2024, and we had a negative economic return of (0.8)% for the three-month period ended June 30, 2024. Economic return for a period is computed by adding back dividends declared during the period to ending book value per share, and comparing that amount to book value per share as of the beginning of the period.

#### *Financing*

For each of the three-month periods ended June 30, 2024 and March 31, 2024, our average repo borrowing cost was 5.60%. As of June 30, 2024 and March 31, 2024, the weighted average borrowing rate on our repurchase agreements was 5.54% and 5.47%, respectively.

While large banks still dominate the repo market, non-bank firms, not subject to the same regulations as banks, are active in providing repo financing. Most of our outstanding repo financing is still provided by banks and bank affiliates; however, we have also entered into repo agreements with non-bank dealers.

Our debt-to-equity ratio was 4.0:1 as of June 30, 2024, as compared to 4.8:1 as of March 31, 2024. Adjusted for unsettled purchases and sales, our debt-to-equity ratio was 3.7:1 as of June 30, 2024, as compared to 4.9:1 as of March 31, 2024. The decline was driven by higher shareholders' equity and less leverage on our CLO investments, which constituted a significantly larger proportion of our overall portfolio as of June 30, 2024, compared to March 31, 2024. Our debt-to-equity ratio may fluctuate period over period based on portfolio management decisions, market conditions, capital markets activities, and the timing of security purchase and sale transactions.

#### **Critical Accounting Estimates**

Our consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, or "U.S. GAAP," and Regulation S-X. 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.

The preparation of our consolidated financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Our critical accounting estimates are those which require assumptions to be made about matters that are highly uncertain. Actual results could differ from those estimates and such differences could have a material impact on our financial condition and/or results of operations. We believe that all of the decisions and assessments upon which our consolidated financial statements are based were reasonable at the time made based upon information available to us at that time. We rely on the experience of our Manager and Ellington and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. See Note 2 of the notes to our consolidated financial statements for a complete discussion of our significant accounting policies. We have identified our most critical accounting estimates to be the following:

*Valuation:* We have elected the fair value option for the vast majority of our assets and liabilities for which such election is permitted, as provided for under ASC 825, *Financial Instruments* ("ASC 825"). 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. Purchase and sales transactions are generally recorded on trade date. Realized and unrealized gains and losses are calculated based on identified cost.

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.

Because of the inherent uncertainty of valuation, the estimated fair value of our 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 our consolidated financial statements.

The determination of estimated fair value of those of our financial instruments that are not traded in an active market requires the use of both macroeconomic and microeconomic assumptions and/or inputs, which are generally based on current market and economic conditions. Changes in market and/or economic conditions could have a significant adverse effect on the estimated fair value of our financial instruments. Changes to assumptions, including assumed market yields, may significantly impact the estimated fair value of our investments. Our valuations are sensitive to changes in interest rates; see the interest rate sensitivity analysis included in Item 3. Quantitative and Qualitative Disclosures about Market Risk in this Quarterly Report on Form 10-Q for further information.

*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 generally amortize premiums and accrete discounts on our fixed-income investments using the effective interest method. For certain of our securities, for purposes of estimating future expected cash flows, management uses assumptions including, but not limited to, assumptions for future prepayment rates, default rates, and loss severities (each of which may in turn incorporate various macroeconomic assumptions, such as future housing prices, GDP growth rates, and unemployment rates). These assumptions require the use of a significant amount of judgment. Any resulting changes in effective yield are recognized prospectively based on the current amortized cost of the investment as adjusted for credit impairment, if any.

The effective yield on our debt securities that are deemed to be of high credit quality (including Agency RMBS, exclusive of interest only securities) can be significantly impacted by our estimate of future prepayments. Future prepayment rates are difficult to predict. We estimate prepayment rates over the remaining life of our securities using models that generally incorporate the forward yield curve, current mortgage rates, mortgage rates on the outstanding loans, age and size of the outstanding loans, and other factors. We compare estimated prepayments to actual prepayments on a quarterly basis, and effective yields are recalculated retroactive to the time of purchase. When differences arise between our previously calculated effective yields and our current calculated effective yields, a catch-up adjustment, or "Catch-up Amortization Adjustment," is made to interest income to reflect the cumulative impact of the changes in effective yields. For the three-month periods ended June 30, 2024 and 2023, we recognized a Catch-up Amortization Adjustment of \$0.2 million and \$(0.4) million, respectively. For each of the six-month periods ended June 30, 2024 and 2023, we recognized a Catch-up Amortization Adjustment of \$(0.7) million. The Catch-up Amortization Adjustment is reflected as an increase (decrease) to interest income on the Consolidated Statement of Operations. 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 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 revoked our REIT election for tax year 2024 and currently operate as a taxable C-Corp. We are subject to U.S. federal, state, and local income tax. 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. See Note 2 to our consolidated financial statements for additional details on income taxes.

#### **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 securities portfolio as of June 30, 2024 and December 31, 2023:

(\$ In thousands)	June 30, 2024					December 31, 2023				
	Current Principal	Fair Value	Average Price <sup>(1)</sup>	Cost	Average Cost <sup>(1)</sup>	Current Principal	Fair Value	Average Price <sup>(1)</sup>	Cost	Average Cost <sup>(1)</sup>
<b>Credit Portfolio:</b>										
Dollar Denominated:										
CLOs										
CLO Notes	\$ 46,314	\$ 37,225	\$ 80.38	\$ 37,108	\$ 80.12	\$ 16,876	\$ 14,491	\$ 85.87	\$ 14,441	\$ 85.57
CLO Equity	n/a	33,228	n/a	34,779	n/a	n/a	2,926	n/a	2,947	n/a
Total		<u>70,453</u>		<u>71,887</u>			<u>17,417</u>		<u>17,388</u>	
Non-Agency RMBS <sup>(2)</sup>	9,461	9,463	100.02	7,943	83.96	9,953	9,409	94.53	8,189	82.28
Non-Agency IOs	n/a	8,328	n/a	6,182	n/a	n/a	11,310	n/a	8,700	n/a
Corporate equity	n/a	32	n/a	43	n/a	n/a	—	n/a	—	n/a
Non-Dollar Denominated:										
CLOs										
CLO Notes	7,872	7,874	100.03	7,800	99.09	—	—	—	—	—
CLO Equity	n/a	6,761	n/a	7,056	n/a	n/a	—	n/a	—	n/a
Total		<u>14,635</u>		<u>14,856</u>			<u>—</u>		<u>—</u>	
<b>Total Credit</b>		<u>\$ 102,911</u>		<u>\$ 100,911</u>			<u>\$ 38,136</u>		<u>\$ 34,277</u>	
<b>Agency Portfolio:</b>										
Dollar Denominated:										
Agency RMBS <sup>(2)</sup>										
15-year fixed-rate mortgages	4,115	4,084	99.25	4,158	101.04	28,647	27,847	97.21	28,765	100.41
20-year fixed-rate mortgages	—	—	—	—	—	8,524	7,863	92.25	9,033	105.97
30-year fixed-rate mortgages	548,497	526,985	96.08	538,451	98.17	697,510	670,294	96.10	682,379	97.83
ARMs	—	—	—	—	—	7,127	7,119	99.89	8,060	113.09
Reverse mortgages	34	33	97.06	37	108.82	14,406	14,874	103.25	16,589	115.15
Total	<u>552,646</u>	<u>531,102</u>	<u>96.10</u>	<u>542,646</u>	<u>98.19</u>	<u>756,214</u>	<u>727,997</u>	<u>96.27</u>	<u>744,826</u>	<u>98.49</u>
Agency IOs	n/a	2,355	n/a	1,985	n/a	n/a	7,415	n/a	6,607	n/a
<b>Total Agency</b>		<u>\$ 533,457</u>		<u>\$ 544,631</u>			<u>\$ 735,412</u>		<u>\$ 751,433</u>	
Dollar Denominated:										
U.S. Treasury securities sold short	(16,350)	(16,199)	99.08	(16,104)	98.50	—	—	—	—	—
Reverse repurchase agreements	16,405	16,405	100.00	16,405	100.00	—	—	—	—	—
<b>Total, net</b>		<u>\$ 636,574</u>		<u>\$ 645,843</u>			<u>\$ 773,548</u>		<u>\$ 785,710</u>	

(1) Expressed as a percentage of the current principal balance.

(2) Excludes IOs.

As of June 30, 2024, 55% of our invested capital was allocated to mortgage-related securities and 45% was allocated to corporate CLOs. The majority of our mortgage-related securities are Agency RMBS, which include investments in Agency pools and Agency collateralized mortgage obligations, or "CMOs."

Our most prevalent method of financing RMBS and CLOs is through short-term repos, which generally have maturities of 364 days or less. The weighted average lives of the RMBS and CLOs 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 and CLOs. This mismatch in maturities, together with the uncertainty of prepayments on the underlying mortgage or corporate loans, and other potential changes in the timing and/or amount of cash flows, creates the risk that changes in interest rates will cause our financing costs with respect to our RMBS and CLOs to increase relative to the income on these assets over the term of our investments. In addition, changes in the fair value of our RMBS and CLO investments, whether as a result of changes in market conditions, prepayments, or other factors, may trigger changes in margin

requirements, in which counterparties to our repurchase agreements may require us post additional collateral to re-establish the agreed-upon collateralization requirements.

### Financial Derivatives

The following table summarizes our portfolio of financial derivative holdings as of June 30, 2024 and December 31, 2023:

<i>(In thousands)</i>	<b>June 30, 2024</b>	<b>December 31, 2023</b>
<b>Financial derivatives—assets, at fair value:</b>		
TBA securities purchase contracts	\$ 99	\$ 654
TBA securities sale contracts	681	—
Fixed payer interest rate swaps	78,674	67,719
Fixed receiver interest rate swaps	782	3,622
Futures	598	2,284
<b>Total financial derivatives—assets, at fair value</b>	<b>80,834</b>	<b>74,279</b>
<b>Financial derivatives—liabilities, at fair value:</b>		
TBA securities purchase contracts	(956)	(13)
TBA securities sale contracts	(63)	(1,863)
Fixed payer interest rate swaps	(426)	(4,182)
Fixed receiver interest rate swaps	(4,635)	(576)
Futures	(22)	(63)
Credit default swaps	(618)	(632)
<b>Total financial derivatives—liabilities, at fair value</b>	<b>(6,720)</b>	<b>(7,329)</b>
<b>Total</b>	<b>\$ 74,114</b>	<b>\$ 66,950</b>

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 364 days and carry interest rates that are determined by reference to a benchmark rate such as SOFR 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 contracts 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 a benchmark rate such as SOFR. To the extent that the benchmark rates used to calculate the payments we receive on our interest rate swaps continue to be highly correlated with our repo borrowing costs, our interest rate swap contracts should 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, many of our positions are short TBA positions with negative duration, meaning that should interest rates rise, the value of the short position would be expected to increase. This expected increase in value would then serve to offset corollary expected increases in our current and/or future borrowing costs under our repurchase agreements, and so in this manner our short TBA positions serve as a hedge against potential increases in interest rates. While we use TBAs to hedge

interest rate risk and certain other risks, we also hold net long positions in certain TBA securities as a means of acquiring exposure to Agency RMBS.

CLOs, on the other hand, generally have less interest rate risk than fixed-rate RMBS, because they are primarily backed by floating-rate loans. As a result, we currently have limited interest rate hedges in place with respect to our CLO portfolio.

#### *Credit Risk Hedging*

We also selectively enter into credit-hedging positions in order to protect against adverse credit events with respect to our CLO and/or non-Agency RMBS investments. Our credit hedging portfolio can vary significantly from period to period, and can encompass a wide variety of financial instruments, including corporate debt or equity-related instruments, RMBS- or CMBS-related instruments, or instruments involving other markets. Our hedging instruments can include both "single-name" instruments (i.e., instruments referencing one underlying entity or security) and hedging instruments referencing indices. Currently, our credit hedges consist of CDS on corporate bond indices, although there are periods of time where we have no credit hedges in place.

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.

#### *Foreign Currency Hedging*

To the extent that we hold instruments denominated in currencies other than U.S. dollars, we may enter into transactions to offset the potential adverse effects of changes in currency exchange rates. In particular, we may use currency forward contracts and other currency-related derivatives to mitigate this risk.

#### *Leverage*

The following table summarizes our outstanding liabilities under repurchase agreements as of June 30, 2024 and December 31, 2023. We had no other borrowings outstanding.

Remaining Days to Maturity	June 30, 2024				December 31, 2023			
	Borrowings Outstanding	Weighted Average		Remaining Days to Maturity	Borrowings Outstanding	Weighted Average		Remaining Days to Maturity
		(In thousands)	Interest Rate			Interest Rate	(In thousands)	
30 days or less	\$ 483,657	5.49 %	16	\$ 713,678	5.56 %			
31-60 days	46,604	6.03	45	6,131	6.69			
61-90 days	2,331	6.44	68	9,734	6.47			
181-364 days	45,911	5.50	185	—	—			
Total	\$ 578,503	5.54 %	32	\$ 729,543	5.58 %			

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 June 30, 2024 and December 31, 2023, our total debt-to-equity ratio was 4.0:1 and 5.4:1, respectively. Collateral transferred with respect to our outstanding repo borrowings, including net cash collateral posted or (received), had an aggregate fair value of \$0.6 billion and \$0.8 billion, as of June 30, 2024 and December 31, 2023, respectively. Our debt-to-equity ratio may fluctuate period over period based on portfolio management decisions, market conditions, capital markets conditions, and the timing of security purchase and sale transactions.

#### *Shareholders' Equity*

As of June 30, 2024, our shareholders' equity increased to \$146.1 million from \$136.2 million as of December 31, 2023. This increase principally consisted of net proceeds from the issuance of shares of \$16.3 million and a net gain of \$3.1 million, partially offset by dividends declared of \$9.7 million. As of June 30, 2024, our book value per share was \$6.91, as compared to \$7.32 as of December 31, 2023.



## Results of Operations

The following table summarizes our results of operations for the three- and six-month periods ended June 30, 2024 and 2023:

(In thousands except for per share amounts)	Three-Month Period Ended		Six-Month Period Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
<b>Interest Income (Expense)</b>				
Interest income	\$ 14,132	\$ 10,070	\$ 24,511	\$ 19,408
Interest expense	(10,235)	(11,686)	(20,335)	(21,396)
<b>Net interest income (expense)</b>	<b>3,897</b>	<b>(1,616)</b>	<b>4,176</b>	<b>(1,988)</b>
<b>Expenses</b>				
Management fees to affiliate	550	439	1,088	872
Other operating expenses	1,614	1,061	2,703	1,933
<b>Total expenses</b>	<b>2,164</b>	<b>1,500</b>	<b>3,791</b>	<b>2,805</b>
<b>Other Income (Loss)</b>				
Net realized and change in net unrealized gains (losses) on securities	(6,805)	(13,360)	(14,868)	(538)
Net realized and change in net unrealized gains (losses) on financial derivatives	4,198	17,679	17,873	8,871
Other, net	(16)	—	(16)	—
<b>Total Other Income (Loss)</b>	<b>(2,623)</b>	<b>4,319</b>	<b>2,989</b>	<b>8,333</b>
<b>Net Income (Loss) before income taxes</b>	<b>(890)</b>	<b>1,203</b>	<b>3,374</b>	<b>3,540</b>
Income tax expense (benefit)	(75)	—	228	—
<b>Net Income (Loss)</b>	<b>\$ (815)</b>	<b>\$ 1,203</b>	<b>\$ 3,146</b>	<b>\$ 3,540</b>
<b>Net Income (Loss) Per Common Share</b>	<b>\$ (0.04)</b>	<b>\$ 0.09</b>	<b>\$ 0.16</b>	<b>\$ 0.26</b>

## Results of Operations for the Three-Month Periods Ended June 30, 2024 and 2023

### Net Income (Loss)

Net income (loss) for the three-month period ended June 30, 2024 was \$(0.8) million, as compared to \$1.2 million for the three-month period ended June 30, 2023. The period-over-period decline in our results of operations was primarily due to total other loss in the current period as compared to total other income in the prior period, as well as an increase in total expenses. These current period items were by partially offset by positive net interest income in the current period, as compared to negative net interest income in the prior period.

### Interest Income

Our portfolio as of both June 30, 2024 and 2023 consisted of Agency RMBS and non-Agency RMBS, and, as of June 30, 2024, CLO investments. Before interest expense, we earned approximately \$12.4 million and \$9.3 million in interest income on these securities for the three-month periods ended June 30, 2024 and 2023, respectively. The period-over-period increase in interest income was driven by higher asset yields in both our Agency and credit portfolios, along with higher average holdings in our credit portfolio resulting from the growth of our CLO portfolio. The increase in interest income was partially offset by lower average holdings in our Agency RMBS portfolio.

The Catch-up Amortization Adjustment causes variability in our interest income and portfolio yields. For the three-month period ended June 30, 2024, we had a positive Catch-up Amortization Adjustment of approximately \$0.2 million, which increased interest income. For the three-month period ended June 30, 2023, we had a negative Catch-up Amortization Adjustment of \$(0.4) million, which decreased interest income. Excluding the Catch-up Amortization Adjustments, the weighted average yield of our overall portfolio was 6.55% and 3.95% for the three-month periods ended June 30, 2024 and 2023, respectively.

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 June 30, 2024 and 2023:

(In thousands)	Agency <sup>(1)</sup>			Credit <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 June 30, 2024	\$ 8,337	\$ 662,127	5.04 %	\$ 4,048	\$ 80,818	20.03 %	\$ 12,385	\$ 742,945	6.67 %
Three-month period ended June 30, 2023	\$ 8,741	\$ 962,801	3.63 %	\$ 605	\$ 22,101	10.95 %	\$ 9,346	\$ 984,902	3.80 %

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

### Interest Expense

For the three-month periods ended June 30, 2024 and 2023, 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 periods ended June 30, 2024 and 2023 was \$10.2 million and \$11.7 million, respectively, which primarily consisted of interest expense on our repo borrowings. The period-over-period decrease in total interest expense primarily resulted from lower overall borrowings driven by growth of the CLO portfolio, which carries significantly less leverage compared to Agency RMBS. The decline in our total interest expense was partially offset by higher financing costs stemming from the rise in short-term interest rates.

The following table provides details of our borrowings under repurchase agreements for the three-months period ended June 30, 2024 and 2023:

(\$ In thousands)	Three-Month Period Ended June 30, 2024			Three-Month Period Ended June 30, 2023		
	Average Borrowed Funds	Interest Expense	Average Cost of Funds	Average Borrowed Funds	Interest Expense	Average Cost of Funds
Repurchase Agreements:						
Credit:						
CLO	\$ 21,410	\$ 350	6.58 %	\$ —	\$ —	— %
Non-Agency RMBS	13,338	225	6.79 %	14,093	226	6.43 %
Total Credit	34,748	575	6.66 %	14,093	226	6.43 %
Agency RMBS	595,639	8,216	5.55 %	857,627	11,108	5.20 %
Subtotal <sup>(1)</sup>	630,387	8,791	5.61 %	871,720	11,334	5.22 %
U.S. Treasury securities	57,046	780	5.50 %	9,237	120	5.20 %
Total	\$ 687,433	\$ 9,571	5.60 %	\$ 880,957	\$ 11,454	5.22 %

(1) Excludes U.S. Treasury securities.

### Adjusted Cost of Funds

Among other instruments, we use interest rate swaps and U.S. Treasury securities to hedge against the risk to our borrowings of rising interest rates. 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 net interest (income) expense we incur on our positions in U.S. Treasury securities, and express the total as a percentage of our average outstanding repurchase agreement borrowings on yield-bearing assets (excluding U.S. Treasury securities).

The following table details the components of our adjusted cost of funds<sup>(1)(2)</sup> for the three-month periods ended June 30, 2024 and 2023:

	Three-Month Period Ended June 30, 2024			Three-Month Period Ended June 30, 2023		
	Average Borrowed Funds <sup>(3)</sup>	Interest Expense (Benefit)	Average Cost of Funds	Average Borrowed Funds <sup>(3)</sup>	Interest Expense (Benefit)	Average Cost of Funds
<i>(\$ In thousands)</i>						
<b>Repurchase Agreements:</b>						
Credit:						
CLO	\$ 21,410	\$ 350	6.58 %	\$ —	\$ —	— %
Non-Agency RMBS	13,338	225	6.79 %	14,093	226	6.43 %
<b>Total Credit</b>	<b>34,748</b>	<b>575</b>	<b>6.66 %</b>	<b>14,093</b>	<b>226</b>	<b>6.43 %</b>
Agency RMBS	595,639	8,216	5.55 %	857,627	11,108	5.20 %
<b>Subtotal<sup>(4)</sup></b>	<b>630,387</b>	<b>8,791</b>	<b>5.61 %</b>	<b>871,720</b>	<b>11,334</b>	<b>5.22 %</b>
Adjustments:						
Net interest (income) expense related to U.S. Treasury securities <sup>(5)</sup>		138	0.09 %		(34)	(0.02)%
Net periodic expense (benefit) paid or payable on interest rate swaps		(5,312)	(3.39)%		(5,060)	(2.33)%
<b>Total Adjusted Cost of Funds</b>	<b>\$ 630,387</b>	<b>\$ 3,617</b>	<b>2.31 %</b>	<b>\$ 871,720</b>	<b>\$ 6,240</b>	<b>2.87 %</b>

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

(2) Conformed to current period presentation.

(3) Excludes average borrowed funds related to repurchase agreements collateralized by U.S. Treasury securities.

(4) Excludes U.S. Treasury securities.

(5) Includes interest expense from repurchase agreements collateralized by U.S. Treasury securities and from positions in short U.S. Treasury securities and interest income from reverse repurchase agreements collateralized by U.S. Treasury securities and from positions in long U.S. Treasury securities.

For the three-month period ended June 30, 2024, the weighted average yield on our Agency RMBS and credit portfolios excluding the impact of the Catch-up Amortization Adjustment was 6.55%, while our total adjusted average cost of funds, including interest rate swaps and net short U.S. Treasury securities, was 2.31%, resulting in a net interest margin of 4.24%. By comparison, for the three-month period ended June 30, 2023, the weighted average yield of our portfolio of Agency and non-Agency RMBS excluding the impact of the Catch-up Amortization Adjustment was 3.95%, while our total adjusted average cost of funds, including interest rate swaps and short U.S. Treasury securities, was 2.87%, resulting in a net interest margin of 1.08%.

#### Management Fees

For the three-month periods ended June 30, 2024 and 2023, our management fee expense was approximately \$0.6 million and \$0.4 million, respectively. Management fees are calculated based on our shareholders' equity at the end of each quarter. The increase in the management fee period over period was due to a larger capital base as of June 30, 2024.

#### Other Operating Expenses

Other operating expenses, as presented above, include professional fees, compensation expense, insurance expense, and various other operating expenses included on the Consolidated Statement of Operations incurred in connection with the operation of our business. For the three-month periods ended June 30, 2024 and 2023, our other operating expenses were approximately \$1.6 million and \$1.1 million, respectively. The increase in other operating expenses for the three-month period ended June 30, 2024 was primarily due to an increase in professional fees and compensation expense related to the strategic transformation.

#### Other Income (Loss)

Other income (loss) consists of net realized and net change in unrealized gains (losses) on securities and financial derivatives. For the three-month period ended June 30, 2024, Other income (loss) was \$(2.6) million, consisting primarily of net realized and unrealized losses of \$(6.8) million on our securities, which were partially offset by net realized and unrealized gains of \$4.2 million on our financial derivatives. Net realized and unrealized losses of \$(6.8) million on our securities consisted primarily of net realized and unrealized losses of \$(5.0) million on our Agency RMBS, \$(2.2) million on our corporate CLOs, and \$(0.1) million on our U.S. Treasury securities, partially offset by net realized and unrealized gains of \$0.5 million on our non-Agency RMBS. The net loss on our securities was primarily due to lower Agency RMBS prices quarter over

quarter driven by higher interest rates and, in the case of our corporate CLOs, elevated loan prepayment rates which drove mark-to-market losses on certain of our CLO equity positions. Net realized and unrealized gains of \$4.2 million on our financial derivatives consisted of net realized and unrealized gains of \$5.1 million on our interest rate swaps and \$0.1 million on our Euro FX futures, partially offset primarily by net realized and unrealized losses of \$(0.7) million on our TBAs, and \$(0.3) million on our U.S. Treasury futures. The net gain on our financial derivatives was primarily the result of higher interest rates during the quarter.

For the three-month period ended June 30, 2023, Other income (loss) was \$4.3 million, consisting primarily of net realized and unrealized gains of \$17.7 million on our financial derivatives, which were partially offset by the net realized and unrealized losses of \$(13.4) million on our securities. The net realized and unrealized gains on our financial derivatives of \$17.7 million consisted of net realized and unrealized gains of \$17.3 million on our interest rate swaps and \$2.4 million on our net short positions in TBAs, partially offset by net realized and unrealized losses of \$(1.9) million on our U.S. Treasury futures. The net gain on our financial derivatives was primarily the result of the increase in interest rates during the quarter. Net realized and unrealized losses of \$(13.4) million on our securities consisted primarily of net realized and unrealized losses of \$(14.2) million on our Agency RMBS, offset by the net realized and unrealized gains of \$0.4 million in Non-Agency RMBS and \$0.4 million in U.S. Treasury securities. The net loss on our securities were caused by lower asset prices quarter over quarter, also driven by higher interest rates.

#### Income Tax Expense (Benefit)

For the three-month period ended June 30, 2024, income tax expense (benefit) was \$(0.1) million. No such expense (benefit) was recorded for the three-month period ended June 30, 2023, during which time the Company was operating as a REIT and generally not subject to income tax.

#### Results of Operations for the Six-Month Periods Ended June 30, 2024 and 2023

##### Net Income (Loss)

Net income (loss) for the six-month period ended June 30, 2024 was \$3.1 million, as compared to \$3.5 million for the six-month period ended June 30, 2023. The period-over-period change in our results of operations was primarily due to a decrease in total other income (loss) and an increase in total expense, partially offset by positive net interest income in the current period, as compared to negative net interest income in the prior period.

##### Interest Income

Our portfolio as of both June 30, 2024 and 2023 consisted of Agency RMBS and non-Agency RMBS, and as of June 30, 2024, CLO investments. Before interest expense, we earned approximately \$21.6 million and \$18.1 million in interest income on these securities for the six-month periods ended June 30, 2024 and 2023, respectively. The period-over-period increase in interest income was driven by higher asset yields in both our Agency and credit portfolios, along with higher average holdings in our credit portfolio resulting from the growth of our CLO portfolio. The increase in interest income was partially offset by lower average holdings in our Agency RMBS portfolio.

The Catch-up Amortization Adjustment causes variability in our interest income and portfolio yields. For each of the six-month periods ended June 30, 2024 and 2023, we had a negative Catch-up Amortization Adjustments of approximately \$(0.7) million, which decreased interest income. Excluding the Catch-up Amortization Adjustments, the weighted average yield of our overall portfolio was 5.87% and 3.81% for the six-month periods ended June 30, 2024 and 2023, respectively.

The following table details our interest income, average holdings of yield-bearing assets, and weighted average yield based on amortized cost for the six-month periods ended June 30, 2024 and 2023:

	Agency <sup>(1)</sup>			Credit <sup>(1)</sup>			Total <sup>(1)</sup>		
	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield
(In thousands)									
Six-month period ended June 30, 2024	\$ 15,741	\$ 695,537	4.53 %	\$ 5,856	\$ 62,522	18.73 %	\$ 21,597	\$ 758,059	5.70 %
Six-month period ended June 30, 2023	\$ 16,931	\$ 965,375	3.51 %	\$ 1,182	\$ 21,388	11.05 %	\$ 18,113	\$ 986,763	3.67 %

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

## Interest Expense

For the six-month periods ended June 30, 2024 and 2023, 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 six-month periods ended June 30, 2024 and 2023 was \$20.3 million and \$21.4 million, respectively, which primarily consisted of interest expense on our repo borrowings. The period-over-period decrease in total interest expense primarily resulted from lower overall borrowings driven by growth of the CLO portfolio, which carries significantly less leverage compared to Agency RMBS. The decline in our total interest expense was partially offset by higher financing costs stemming from the rise in short-term interest rates.

The following table provides details of our borrowings under repurchase agreements for the six-months period ended June 30, 2024 and 2023:

	Six-Month Period Ended June 30, 2024			Six-Month Period Ended June 30, 2023		
	Average Borrowed Funds	Interest Expense	Average Cost of Funds	Average Borrowed Funds	Interest Expense	Average Cost of Funds
<i>(\$ In thousands)</i>						
<b>Repurchase Agreements:</b>						
Credit:						
CLO	\$ 12,675	\$ 417	6.62 %	\$ —	\$ —	— %
Non-Agency RMBS	13,443	456	6.82 %	14,334	441	6.20 %
<b>Total Credit</b>	<b>26,118</b>	<b>873</b>	<b>6.72 %</b>	<b>14,334</b>	<b>441</b>	<b>6.20 %</b>
Agency RMBS	623,948	17,255	5.56 %	854,578	20,411	4.82 %
Subtotal <sup>(1)</sup>	650,066	18,128	5.61 %	868,912	20,852	4.84 %
U.S. Treasury securities	31,263	853	5.48 %	10,000	244	4.93 %
<b>Total</b>	<b>\$ 681,329</b>	<b>\$ 18,981</b>	<b>5.60 %</b>	<b>\$ 878,912</b>	<b>\$ 21,096</b>	<b>4.84 %</b>

(1) Excludes U.S. Treasury securities.

### *Adjusted Cost of Funds*

Among other instruments, we use interest rate swaps and U.S. Treasury securities to hedge against the risk to our borrowings of rising interest rates. 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 net interest (income) expense we incur on our positions in U.S. Treasury securities, and express the total as a percentage of our average outstanding repurchase agreement borrowings on yield-bearing assets (excluding U.S. Treasury securities).

The following table details the components of our adjusted cost of funds<sup>(1)(2)</sup> for the six-month periods ended June 30, 2024 and 2023:

	Six-Month Period Ended June 30, 2024			Six-Month Period Ended June 30, 2023		
	Average Borrowed Funds <sup>(3)</sup>	Interest Expense (Benefit)	Average Cost of Funds	Average Borrowed Funds <sup>(3)</sup>	Interest Expense (Benefit)	Average Cost of Funds
<i>(\$ In thousands)</i>						
<b>Repurchase Agreements:</b>						
Credit:						
CLO	\$ 12,675	\$ 417	6.62 %	\$ —	\$ —	— %
Non-Agency RMBS	13,443	456	6.82 %	14,334	441	6.20 %
<b>Total Credit</b>	<b>26,118</b>	<b>873</b>	<b>6.72 %</b>	<b>14,334</b>	<b>441</b>	<b>6.20 %</b>
Agency RMBS	623,948	17,255	5.56 %	854,578	20,411	4.82 %
<b>Subtotal<sup>(4)</sup></b>	<b>650,066</b>	<b>18,128</b>	<b>5.61 %</b>	<b>868,912</b>	<b>20,852</b>	<b>4.84 %</b>
Adjustments:						
Net interest (income) expense related to U.S. Treasury securities <sup>(5)</sup>		98	0.03 %		(19)	— %
Net periodic expense (benefit) paid or payable on interest rate swaps		(11,014)	(3.41)%		(9,261)	(2.15)%
<b>Total Adjusted Cost of Funds</b>	<b>\$ 650,066</b>	<b>\$ 7,212</b>	<b>2.23 %</b>	<b>\$ 868,912</b>	<b>\$ 11,572</b>	<b>2.69 %</b>

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

(2) Conformed to current period presentation.

(3) Excludes average borrowed funds related to repurchase agreements collateralized by U.S. Treasury securities.

(4) Excludes U.S. Treasury securities.

(5) Includes interest expense from repurchase agreements collateralized by U.S. Treasury securities and from positions in short U.S. Treasury securities and interest income from reverse repurchase agreements collateralized by U.S. Treasury securities and from positions in long U.S. Treasury securities.

For the six-month period ended June 30, 2024, the weighted average yield on our Agency RMBS and credit portfolios excluding the impact of the Catch-up Amortization Adjustment was 5.87%, while our total adjusted average cost of funds, including interest rate swaps and net short U.S. Treasury securities, was 2.23%, resulting in a net interest margin of 3.64%. By comparison, for the six-month period ended June 30, 2023, the weighted average yield of our portfolio of Agency and non-Agency RMBS excluding the impact of the Catch-up Amortization Adjustment was 3.81%, while our total adjusted average cost of funds, including interest rate swaps and short U.S. Treasury securities, was 2.69%, resulting in a net interest margin of 1.12%.

#### Management Fees

For the six-month periods ended June 30, 2024 and 2023, our management fee expense was approximately \$1.1 million and \$0.9 million, respectively. Management fees are calculated based on our shareholders' equity at the end of each quarter. The increase in the management fee period over period was due to a larger capital base as of June 30, 2024.

#### Other Operating Expenses

Other operating expenses, as presented above, includes professional fees, compensation expense, insurance expense, and various other operating expenses included on the Consolidated Statement of Operations incurred in connection with the operation of our business. For the six-month periods ended June 30, 2024 and 2023, our other operating expenses were approximately \$2.7 million and \$1.9 million, respectively. The increase in other operating expenses for the six-month period ended June 30, 2024 was primarily due to an increase in professional fees and compensation expense.

#### Other Income (Loss)

Other income (loss) consists of net realized and net change in unrealized gains (losses) on securities and financial derivatives. For the six-month period ended June 30, 2024, Other income (loss) was \$3.0 million, consisting primarily of net realized and unrealized gains of \$17.9 million on our financial derivatives, which were partially offset by net realized and unrealized losses of \$(14.9) million on our securities. Net realized and unrealized gains of \$17.9 million on our financial derivatives consisted of net realized and unrealized gains of \$20.8 million on our interest rate swaps, driven by higher interest rates, and \$0.1 million on our Euro FX futures, partially offset by net realized and unrealized losses of \$(2.5) million on our U.S. Treasury futures, and \$(0.2) million on both our credit default swaps and TBAs. The net gain on our financial derivatives was primarily the result of rising interest rates during the six-month period ended June 30, 2024. Net realized and unrealized

losses of \$(14.9) million on our securities consisted primarily of net realized and unrealized losses of \$(15.7) million on our Agency RMBS, also driven by higher interest rates, and \$(1.0) million on our corporate CLOs, partially offset by net realized and unrealized gains of \$1.3 million on our non-Agency RMBS, and \$0.6 million on our U.S. Treasury securities.

For the six-month period ended June 30, 2023, Other income (loss) was \$8.3 million, consisting primarily of net realized and unrealized gains of \$8.9 million on our financial derivatives, which were partially offset by net realized and unrealized losses of \$(0.5) million on our securities. The net realized and unrealized gains on our financial derivatives of \$8.9 million consisted of net realized and unrealized gains of \$8.5 million on our interest rate swaps and \$1.2 million on our net short positions in TBAs, partially offset by net realized and unrealized losses of \$(0.7) million on our U.S. Treasury futures. The net gain on our financial derivatives was primarily the result of the increase in interest rates during the quarter. Net realized and unrealized losses of \$(0.5) million on our securities consisted primarily of net realized and unrealized losses of \$(1.8) million on our Agency RMBS, partially offset by net realized and unrealized gains of \$0.9 million in non-agency RMBS and \$0.4 million in U.S Treasury securities, respectively. The net loss on our securities was caused by lower asset prices period over period, also driven by higher interest rates.

#### **Income Tax Expense (Benefit)**

For the six-month period ended June 30, 2024, income tax expense (benefit) was \$0.2 million. No such expense was recorded for the six-month period ended June 30, 2023, during which time the Company was operating as a REIT and generally not subject to income tax.

#### **Adjusted Distributable Earnings**

We calculate Adjusted Distributable Earnings as net income (loss) adjusted for: (i) net realized and change in net unrealized gains and (losses) on securities, financial derivatives, and foreign currency transactions; (ii) net realized and change in net unrealized gains (losses) associated with periodic settlements on interest rate swaps; (iii) other income or loss items that are of a non-recurring nature, if any; (iv) Catch-up Amortization Adjustment (as defined below); and (v) provision for income taxes. The Catch-up Amortization Adjustment is a quarterly adjustment to premium amortization or discount accretion triggered by changes in actual and projected prepayments on our Agency RMBS (accompanied by a corresponding offsetting adjustment to realized and unrealized gains and losses). The adjustment is calculated as of the beginning of each quarter based on our then-current assumptions about cashflows and prepayments, and can vary significantly from quarter to quarter.

Adjusted Distributable Earnings is a supplemental non-GAAP financial measure. We believe that the presentation of Adjusted Distributable Earnings provides information useful to investors, because: (i) we believe that it is a useful indicator of both current and projected long-term financial performance, in that it excludes the impact of certain current period earnings components that we believe are less useful in forecasting long-term performance and dividend-paying ability; (ii) we use it to evaluate the effective net yield provided by our portfolio, after the effects of financial leverage; and (iii), we believe that presenting Adjusted Distributable Earnings assists investors in measuring and evaluating our operating performance, and comparing our operating performance to that of our peers. Our calculation of Adjusted Distributable Earnings may differ from the calculation of similarly titled non-GAAP financial measures by our peers, with the result that these non-GAAP financial measures might not be directly comparable; Adjusted Distributable Earnings excludes certain items, such as most realized and unrealized gains and losses, that may impact the amount of cash that is actually available for distribution.

In addition, because Adjusted Distributable Earnings is an incomplete measure of our financial results and differs from net income (loss) computed in accordance with U.S. GAAP, it should be considered supplementary to, and not as a substitute for, net income (loss) computed in accordance with U.S. GAAP.

In setting our dividends, our Board of Trustees considers our earnings, liquidity, financial condition, distribution requirements, and financial covenants, along with other factors that the Board of Trustees may deem relevant from time to time.

The following table reconciles, for the three- and six-month periods ended June 30, 2024 and 2023, Adjusted Distributable Earnings to the line on the Consolidated Statement of Operations entitled Net Income (Loss), which we believe is the most directly comparable U.S. GAAP measure:

	Three-Month Period Ended		Six-Month Period Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
<i>(In thousands except for share amounts and per share amounts)</i>				
<b>Net Income (Loss)</b>	\$ (815)	\$ 1,203	\$ 3,146	\$ 3,540
Income tax expense (benefit)	(75)	—	228	—
<b>Net Income (Loss) before income taxes</b>	\$ (890)	\$ 1,203	\$ 3,374	\$ 3,540
<b>Adjustments:</b>				
Net realized (gains) losses on securities	7,985	11,580	17,808	26,706
Change in net unrealized (gains) losses on securities	(1,180)	1,780	(2,940)	(26,168)
Net realized (gains) losses on financial derivatives	(6,565)	(24,227)	(10,024)	(25,970)
Change in net unrealized (gains) losses on financial derivatives	2,367	6,548	(7,849)	17,099
Net realized gains (losses) on periodic settlements of interest rate swaps	9,524	3,942	15,336	5,711
Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps	(4,211)	1,118	(4,322)	3,550
Strategic Transformation costs and other adjustments <sup>(1)</sup>	464	60	540	60
Negative (positive) component of interest income represented by Catch-up Amortization Adjustment	(221)	376	663	675
Subtotal	8,163	1,177	9,212	1,663
<b>Adjusted Distributable Earnings</b>	\$ 7,273	\$ 2,380	\$ 12,586	\$ 5,203
<b>Weighted Average Shares Outstanding</b>	20,354,062	13,935,821	19,951,235	13,802,007
<b>Adjusted Distributable Earnings Per Share</b>	\$ 0.36	\$ 0.17	\$ 0.63	\$ 0.38

(1) For the three- and six month periods ended June 30, 2024, includes \$0.5 million of non-capitalized expenses incurred in connection with our strategic transformation. For the three- and six-month periods ended June 30, 2023, includes \$0.1 million of non-recurring transaction-related expenses.

## Liquidity and Capital Resources

Liquidity refers to our ability to generate and obtain adequate amounts of cash to meet our requirements, including repaying our borrowings, funding and maintaining RMBS and other assets, paying dividends, and other general business needs. Our short-term (the 12 months following period end) and long-term (beyond 12 months from period end) 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 securities and proceeds from the sale of securities), 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 June 30, 2024 and December 31, 2023, we had \$578.5 million and \$729.5 million outstanding under our repurchase agreements, respectively. As of June 30, 2024, our outstanding repurchase agreements were with 18 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 June 30, 2024 and December 31, 2023, the weighted average contractual haircut applicable to the assets that serve as collateral for our outstanding repo borrowings was 7.4% and 5.7%, respectively.

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 Outstanding at Quarter End	Average Borrowings Outstanding <i>(In thousands)</i>	Maximum Borrowings Outstanding at Any Month End
June 30, 2024 <sup>(1)</sup>	\$ 578,503	\$ 687,433	\$ 700,152
March 31, 2024	683,171	675,226	683,171
December 31, 2023	729,543	781,615	787,217
September 30, 2023	811,180	877,620	900,511
June 30, 2023	875,030	880,957	883,043
March 31, 2023	875,670	876,846	897,629
December 31, 2022	842,455	899,752	881,401
September 30, 2022	938,046	928,942	940,321
June 30, 2022	950,339	1,070,229	1,087,826
March 31, 2022	1,211,163	1,133,738	1,211,163
December 31, 2021	1,064,835	1,068,384	1,088,712
September 30, 2021	1,062,197	1,114,820	1,140,182

(1) During this quarter, our borrowings decreased as we continue to transition our portfolio, in connection with our strategic transformation, out of highly leveraged positions such as Agency RMBS to a higher concentration of CLOs, which are typically leveraged at lower levels.

As of June 30, 2024, we had an aggregate amount at risk under our repurchase agreements with 18 counterparties of \$42.6 million. As of December 31, 2023, we had an aggregate amount at risk under our repurchase agreements with 19 counterparties of \$50.1 million. Amounts at risk represent the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under 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 June 30, 2024 and December 31, 2023 does not include \$2.1 million and \$0.5 million, respectively, of net accrued interest receivable, which is defined as accrued interest on securities held as collateral less interest payable on cash borrowed.

Our derivatives are predominantly subject to bilateral master trade agreements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act, or 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 June 30, 2024, we had an aggregate amount at risk under our derivative contracts, excluding TBAs, with three counterparties of approximately \$21.6 million. As of December 31, 2023, we had an aggregate amount at risk under our derivatives contracts, excluding TBAs, with three counterparties of approximately \$26.0 million. 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 June 30, 2024, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with six counterparties of approximately \$2.5 million. As of December 31, 2023, in connection with our forward settling TBA and

Agency pass-through certificates, we had an aggregate amount at risk with seven counterparties of approximately \$1.7 million. Amounts at risk in connection with our forward settling TBA and Agency pass-through certificates represent the excess, if any, for each counterparty of the net fair value of the forward settling 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 forward settling contracts plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

As of June 30, 2024, we had cash and cash equivalents of \$118.8 million, which included \$89.9 million of U.S. Treasury Bills, held on margin.

The timing and frequency of distributions will be determined by our Board of Trustees based upon a variety of factors deemed relevant by our trustees, including restrictions under applicable law and our capital requirements. 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:

*Six-Month Period Ended June 30, 2024:*

<b>Dividend Per Share</b>	<b>Dividend Amount</b>	<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>
	<i>(In thousands)</i>			
\$ 0.08	\$ 1,691	June 10, 2024	June 28, 2024	July 25, 2024
0.08	1,638	May 7, 2024	May 31, 2024	June 25, 2024
0.08	1,610	April 8, 2024	April 30, 2024	May 28, 2024
0.08	1,586	March 7, 2024	March 29, 2024	April 25, 2024
0.08	1,586	February 7, 2024	February 29, 2024	March 25, 2024
0.08	1,585	January 8, 2024	January 31, 2024	February 26, 2024

*Six-Month Period Ended June 30, 2023:*

<b>Dividend Per Share</b>	<b>Dividend Amount</b>	<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>
	<i>(In thousands)</i>			
\$ 0.08	\$ 1,150	June 7, 2023	June 30, 2023	July 25, 2023
0.08	1,115	May 8, 2023	May 31, 2023	June 26, 2023
0.08	1,106	April 10, 2023	April 28, 2023	May 25, 2023
0.08	1,106	March 7, 2023	March 31, 2023	April 25, 2023
0.08	1,103	February 7, 2023	February 28, 2023	March 27, 2023
0.08	1,096	January 9, 2023	January 31, 2023	February 27, 2023

On July 8, 2024, the Board of Trustees approved a monthly dividend in the amount of \$0.08 per share payable on August 26, 2024 to shareholders of record as of July 31, 2024.

On August 7, 2024, the Board of Trustees approved a monthly dividend in the amount of \$0.08 per share payable on September 25, 2024 to shareholders of record as of August 30, 2024.

At those times when cash flows from our operating activities are insufficient to fund our dividend payments, we fund such dividend payments through cash flows from our investing and/or financing activities, and in some cases from additional cash on hand. The following paragraphs summarize our cash flows for the six-month periods ended June 30, 2024 and 2023.

For the six-month period ended June 30, 2024, our operating activities provided net cash of \$1.5 million and our investing activities provided net cash of \$144.1 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 as well as collateral posted in connection with our repo activity) and the purchase of U.S. Treasury bills on margin at a prime broker used net cash of \$72.2 million. Thus our operating and investing activities, when combined with such net financing activities, provided net cash of \$73.4 million. We also received proceeds from the issuance of common shares, net of commissions and offering costs paid of \$16.4 million. We also used \$9.5 million to pay dividends. As a result of these activities, there was an increase in our holdings of cash and cash equivalents of \$80.2 million, from \$38.5 million as of December 31, 2023 to \$118.8

million as of June 30, 2024. As of June 30, 2024, cash and cash equivalents included \$89.9 million of U.S. Treasury bills held on margin.

For the six-month period ended June 30, 2023, our operating activities used net cash of \$4.4 million and our investing activities used net cash of \$18.5 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 as well as collateral posted in connection with our repo activity) provided net cash of \$31.1 million. Thus our operating and investing activities, when combined with our net repo financing activities, provided net cash of \$8.2 million. We also received proceeds from the issuance of common shares, net of agent commissions and offering costs paid of \$7.3 million. We also used \$6.6 million to pay dividends. As a result of these activities, there was a increase in our cash holdings of \$8.9 million, from \$34.8 million as of December 31, 2022 to \$43.7 million as of June 30, 2023.

We have implemented an "at-the-market" offering program, or "ATM program," by entering into equity distribution agreements with third party sales agents. On November 14, 2023, we implemented an "at the market" offering program, or the "2023 ATM program," by entering into equity distribution agreements with third party sales agents under which we are authorized to offer and sell up to \$100.0 million of common shares from time to time. During the three-month period ended June 30, 2024, we issued 1,315,366 common shares which provided \$9.0 million of net proceeds after \$0.1 million of commissions and \$0.1 million of offering costs. During the six-month period ended June 30, 2024, we issued 2,533,512 common shares which provided \$16.4 million of net proceeds after \$0.2 million of commissions and \$0.1 million of offering costs. As of June 30, 2024, we had \$69.3 million of common shares available to be issued remaining under the 2023 ATM program. Subsequent to June 30, 2024, we have issued 4,192,015 common shares which provided \$28.6 million of net proceeds after \$0.2 million of commissions and \$0.2 million of offering costs; as of August 9, 2024, we had \$40.2 million of common shares available to be issued remaining under the 2023 ATM program.

On June 13, 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. Under the current repurchase program adopted on June 13, 2018, we have repurchased 474,192 common shares through August 9, 2024 at an average price per share of \$9.21 and an aggregate cost of \$4.4 million, and have authorization to repurchase an additional 725,808 common shares. We did not purchase any shares under this program during the three- or six-month periods ended June 30, 2024 and 2023.

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 June 30, 2024 and December 31, 2023, there were no repurchase agreements and reverse repurchase agreements reported on a net basis on the Consolidated Balance Sheet.

As of June 30, 2024, we had \$578.5 million of outstanding borrowings with 18 counterparties.

### **Off-Balance Sheet Arrangements**

As of June 30, 2024, 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 generally influence our performance more than does inflation. Our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

However, elevated long-term inflation could adversely impact the performance of our investment portfolio, or the prices of our investments, or both. For example, if higher inflation is not matched by an increase in wages, inflation could cause the real income of the borrowers whose loans underlie our non-Agency RMBS to decline. A decline in the real income of consumers could also cause a decline in consumer spending, which could negatively impact the profitability of many of the corporate borrowers whose loans underlie our corporate CLOs.

### **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.

#### ***Credit Risk***

We are subject to credit risk in connection with certain of our assets, especially our non-Agency RMBS and our corporate CLOs. 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 occupancy rates 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.

Credit losses can occur on our CLO investments. The corporate loans and other corporate credit assets underlying our CLO investments will typically be rated below investment grade and, as a result, involve greater credit and liquidity risk than investment grade corporate credit obligations and hence may carry a greater risk of default, especially during recessionary environments. These underlying assets will generally be floating rate in nature, and as a result, can suffer from weaker abilities to service debt costs in higher interest rate environments, increasing credit risks on the CLO investments.

While most of the assets underlying our CLO investments are expected to be senior secured and first lien in nature, CLOs also invest, in some cases, in subordinated obligations that do not have first priority claims in the event of a default by their related obligors. Our CLO investments will typically be in subordinated positions within the CLO capital structure with respect to realized losses, and the leveraged nature of the CLO vehicle amplifies the negative impact of any collateral losses.

For our non-Agency RMBS and other mortgage-related instruments with credit risk, the two primary components of such 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 a mortgage loan or other debt obligation. Subject to maintaining 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. These instruments can reference various MBS indices, corporate bond indices, or corporate entities, such as publicly traded REITs. We also rely on third-party servicers to mitigate our default risk, but such third-party servicers may have little or no economic incentive to mitigate loan default rates.

#### ***Severity Risk***

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

#### ***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 364 days and carry interest rates that are determined by reference to a benchmark rate such SOFR 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 maintaining 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 mitigate the interest rate risk arising from the mismatch between the duration of our financed Agency RMBS and the duration of the liabilities used to finance such assets.

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 and CLOs, 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 June 30, 2024, assuming a static portfolio and immediate and parallel shifts in interest rates from current levels as indicated below.

(\$ In thousands)

Category of Instruments	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, and CMBS excluding TBAs	\$ 11,101	7.60 %	\$ 20,770	14.21 %	\$ (12,533)	(8.58)%	\$ (26,499)	(18.13)%
Long TBAs	5,651	3.87 %	11,009	7.53 %	(5,944)	(4.07)%	(12,181)	(8.34)%
Short TBAs	(3,001)	(2.05)%	(5,386)	(3.69)%	3,616	2.48 %	7,848	5.37 %
Non-Agency RMBS	(201)	(0.14)%	(532)	(0.36)%	71	0.05 %	10	0.01 %
CLOs	189	0.13 %	356	0.24 %	(212)	(0.15)%	(446)	(0.31)%
U.S. Treasury Securities, Interest Rate Swaps, Options, and Futures	(13,736)	(9.41)%	(28,105)	(19.23)%	13,102	8.97 %	25,571	17.50 %
Corporate Securities and Derivatives on Corporate Securities	(7)	— %	(15)	(0.01)%	7	— %	15	0.01 %
Repurchase and Reverse Repurchase Agreements	(155)	(0.11)%	(311)	(0.21)%	155	0.11 %	311	0.21 %
Total	\$ (159)	(0.11)%	\$ (2,214)	(1.52)%	\$ (1,738)	(1.19)%	\$ (5,371)	(3.68)%

The preceding analysis does not show sensitivity to changes in interest rates for instruments for which we believe that the effect of a change in interest rates is not material to the value of the overall portfolio and/or cannot be accurately estimated. In particular, this analysis excludes certain of our holdings of CLOs, corporate securities, and derivatives on corporate securities, and reflects only sensitivity to U.S. interest rates.

Our analysis of interest rate risk is derived from Ellington's proprietary models as well as third-party information and analytics. Many assumptions have been made in connection with the calculations set forth in the table above and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. For example, for each hypothetical immediate shift in interest rates, assumptions have been made as to many important factors that can significantly and/or adversely affect the fair value of the instruments in our portfolio, including the response of mortgage prepayment rates, the shape of the yield curve, and market volatilities of interest rates. Furthermore, the fair value of each of the instruments comprising our portfolio is impacted by many other factors, each of which may or may not be correlated, or may only be loosely correlated, with interest rates. Depending on the nature of the instrument, these additional factors may include credit spreads, yield spreads, option-adjusted spreads, real estate prices, collateral adequacy, borrower creditworthiness, inflation, unemployment, general macroeconomic conditions, and other factors. For each instrument, our analysis makes many simplifying assumptions as to the response of these additional factors to shifts in interest rates, including that many if not most such factors are unaffected by such shifts.

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 instruments. While the table above reflects the estimated impacts of immediate parallel interest rate increases and decreases on specific categories of instruments in our portfolio, we actively trade many of the instruments in our portfolio, and therefore our current or future portfolios may have risks that differ significantly from those of our June 30, 2024 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.

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 "—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 of our RMBS and CLOs, including both through voluntary prepayments by the underlying mortgage or corporate borrowers, through liquidations or other accelerations due to defaults and foreclosures, or through the optional redemptions of such securities by the issuers. Most significantly, our RMBS portfolio is exposed to the risk of changes in prepayment rates of the mortgage loans underlying our RMBS, and our CLO portfolio is exposed to the changes in prepayment rates of the underlying corporate loans. These prepayment rates are affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Mortgage prepayment rates can be highly sensitive to changes in interest rates, but they are also affected by housing turnover, which can be driven by factors other than interest rates, including worker mobility and home price appreciation. 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. Increases in prepayment rates may cause us to experience both realized and unrealized losses on our interest-only securities, or "IOs," and inverse interest only securities, or "IIOs," as these securities are extremely sensitive to prepayment rates. Conversely, decreases in prepayment rates on our securities with below-market interest rates may cause the duration of such securities to extend, which may cause us to experience unrealized losses on such securities. Prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation. For example, mortgage prepayment rates are generally lower in states with substantially higher mortgage recording taxes.

### ***Liquidity Risk***

To fund our assets, in addition to using equity capital, we may use a variety of debt alternatives, each of which may present us with liquidity risks. Certain of our assets are long-term fixed-rate assets, and we become exposed to liquidity by funding these assets with shorter-term variable rate borrowings. We seek to manage these risks, including by maintaining a prudent level of leverage, implementing interest rate hedges, maintaining sources of long-term financing, monitoring our liquidity position on a daily basis, monitoring the ongoing financial stability and future business plans of our financing counterparties, and maintaining a reasonable cushion of cash and unpledged securities in our portfolio in order to meet future margin calls.

We pledge assets, including MBS and CLOs, as collateral to secure most of our financing arrangements. However, should the value of our collateral or the value of our derivative instruments suddenly decrease, or margin requirements increase, we may be required to post additional collateral for certain of these arrangements, causing an adverse change in our liquidity position. Furthermore, there is no assurance that we will always be able to renew (or roll) our short-term funding liabilities at their scheduled maturities, which could materially harm our liquidity position and result in substantial losses. In addition, in some cases our counterparties have the option to increase our haircuts (margin requirements) on the assets we pledge against our funding liabilities, thereby reducing the amount that can be borrowed against an asset even if they agree to renew or roll our funding liabilities. Significantly higher haircuts would require us to post additional collateral and could reduce our ability to leverage our portfolio or may even force us to sell assets, especially if correlated with asset price declines or faster prepayment rates on our assets.

## **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) under the Exchange Act) as of June 30, 2024. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2024.

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Management's Annual Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and trustees; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting using the criteria set forth in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment and those criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2023.



## PART II

### 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 over the years, 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.

We and Ellington cannot provide any assurance that, whether the result of regulatory inquiries or otherwise, neither we nor Ellington nor its affiliates will become subject to investigations, enforcement actions, fines, penalties or the assertion of private litigation claims or that, if any such events were to occur, they would not materially adversely affect us. For a discussion of these and other related risks, see "Risk Factors—General Risk Factors—We, Ellington, or its affiliates may be subject to regulatory inquiries and proceedings, or other legal proceedings" included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023 (the "Form 10-K").

### 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, 2023 filed with the SEC on March 12, 2024 (the "Form 10-K") and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 filed with the SEC on May 15, 2024 (the "First Quarter 10-Q"). Also see "*Special Note Regarding Forward-Looking Statements*," included in Part I, Item 2 of this Quarterly Report on Form 10-Q. Except as set forth below, as of the date of this Quarterly Report on Form 10-Q, there have been no material changes to the risk factors disclosed in the Form 10-K and the First Quarter 10-Q. The risks and uncertainties described below, in the Form 10-K and in the First Quarter 10-Q are not the only ones we face. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance.

### Risks Related to the Performance Fee

***There are risks and conflicts of interests associated with the Performance Fee we are obligated to pay our Manager.***

In addition to its Base Management Fee, our Manager is entitled to receive the Performance Fee based, in large part, upon our achievement of targeted levels of Pre-Performance Fee Net Investment Income. The Performance Fee payable to our Manager is based on our Pre-Performance Fee Net Investment Income, without considering any realized or unrealized gains or losses on our investments. As a result, (i) for quarters in which a Performance Fee is payable, such Performance Fee will exceed 17.5% of our GAAP net income if we generated net realized and unrealized losses on our investments during such quarter, (ii) our Manager could earn a Performance Fee for fiscal quarters during which we generate a GAAP net loss, and (iii) our Manager might be incentivized to manage our portfolio using higher risk assets, using assets with deferred interest features, or using more financial leverage through indebtedness, to generate more income than would be the case if there were no Performance Fee, both of which could result in higher investment losses, especially during economic downturns.

The Performance Fee is calculated quarterly, treating each quarter in isolation. As a result, the Hurdle Amount does not accumulate from quarter to quarter, and decreases in our Net Asset Value of Common Equity, such as those due to unrealized losses, will reduce the Hurdle Amount, potentially making it easier for our Manager to earn a Performance Fee. We will not have the ability to claw back, delay, or adjust the payment of any Performance Fee based on financial results in prior or subsequent quarters. In addition, over a series of quarters, if our Pre-Performance Fee Net Investment Income is positive in some quarters but negative in others, it is likely, when viewing the series of quarters as a whole, for the aggregate Performance Fee payable to our Manager to exceed 17.5% of our aggregate Pre-Performance Fee Net Investment Income.

There is also a conflict of interest related to management's involvement in many accounting determinations (including but not limited to valuations and calculations of interest income) that can affect our Performance Fee.

Finally, because the Hurdle Rate does not float with overall interest rates, an increase in interest rates will likely make it easier for Pre-Performance Fee Net Investment Income to exceed the Hurdle Amount. The Performance Fee Catch-Up feature (which provides that if the Company's Pre-Performance Fee Net Investment Income for a quarter exceeds the Hurdle Amount for such quarter but is less than or equal to 121.21% of the Hurdle Amount, then 100% of the portion of the Company's Pre-Performance Fee Net Investment Income that exceeds the Hurdle Amount is payable to the Manager with respect to such quarter) may also cause our Manager to capture a disproportionate share of any increase in our investment income resulting from higher interest rates.

## Item 6. Exhibits and Financial Statement Schedules

<u>Exhibit</u>	<u>Description</u>
3.1	<a href="#"><u>Articles Supplementary, dated April 23, 2024, to the Company's Declaration of Trust creating a new series of Preferred Shares designated as Series A Junior Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K filed with the SEC on April 23, 2024).</u></a>
3.2	<a href="#"><u>Articles of Amendment, dated April 18, 2024, to the Company's Declaration of Trust amending the name of the Company (incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K filed with the SEC on April 18, 2024).</u></a>
3.3	<a href="#"><u>Third Amended and Restated Bylaws of Ellington Credit Company (incorporated by reference to Exhibit 3.2 to the Company's current report on Form 8-K filed with the SEC on April 18, 2024).</u></a>
4.1	<a href="#"><u>Rights Agreement, dated as of April 23, 2024, by and between Ellington Credit Company and Equiniti Trust Company, LLC, as rights agent (incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K filed with the SEC on April 23, 2024).</u></a>
10.1	<a href="#"><u>Amendment No. 1 to the Fifth Amended and Restated Management Agreement, dated as of April 1, 2024, by and between Ellington Residential Mortgage REIT, a Maryland real estate investment trust, and Ellington Residential Mortgage Management LLC, a Delaware limited liability company (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed with the SEC on April 1, 2024).</u></a>
10.2	<a href="#"><u>Sixth Amended and Restated Management Agreement, dated June 25, 2024, by and between Ellington Credit Company, a Maryland real estate investment trust and Ellington Credit Company Management LLC, a Delaware limited liability company (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed with the SEC on June 25, 2024).</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002</u></a>
32.1*	<a href="#"><u>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</u></a>
32.2*	<a href="#"><u>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</u></a>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* 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.

Date: August 14, 2024

ELLINGTON CREDIT COMPANY  
By: /s/ LAURENCE PENN  
\_\_\_\_\_  
Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 14, 2024

ELLINGTON CREDIT COMPANY  
By: /s/ CHRIS SMERNOFF  
\_\_\_\_\_  
Christopher Smernoff  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Laurence Penn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ellington Credit Company (the "registrant") for the period ended June 30, 2024;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2024

/s/ Laurence Penn

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Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher Smernoff, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ellington Credit Company (the "registrant") for the period ended June 30, 2024;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2024

/s/ Christopher Smernoff  
\_\_\_\_\_  
Christopher Smernoff  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Ellington Credit Company (the "Company") on Form 10-Q for the quarter ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurence Penn, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2024

/s/ Laurence Penn

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Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Ellington Credit Company (the "Company") on Form 10-Q for the quarter ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher Smernoff, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2024

/s/ Christopher Smernoff

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Christopher Smernoff  
Chief Financial Officer  
(Principal Financial and Accounting Officer)