Ellington Financial

JMP Securities Research Conference 2011

Ellington Financial LLC (NYSE: EFC)

May 11, 2011

Important Notice

Ellington Financial

Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on management's current expectations and beliefs, as well as a number of assumptions concerning future events. Such statements, including information relating to the Company's expectations for future financial performance, are not considered historical facts and are considered forward-looking information under the federal securities laws. This information may contain words such as "believes," "plans," "expects," "intends," "estimates" or similar expressions.

These statements are subject to risks, uncertainties, assumptions and other important factors, many of which are outside the Company's control, that could cause actual results to differ materially from the results discussed or implied in the forward-looking statements. These risks and uncertainties include, without limitation, changes in the market value and yield of our assets, changes in interest rates and the yield curve, net interest margin, return on equity, availability and terms of financing and hedging, credit risk associated with certain of our assets, and various other risks and uncertainties related to our business and the economy, some of which are described in our filings with the SEC. You are cautioned not to place undue reliance on such forward-looking statements because actual results may vary materially from those expressed or implied. All forward-looking statements are based on information available to the Company on this date and the Company assumes no obligation to, and expressly disclaims any obligation to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Modeling

Some statements in this presentation may be derived from proprietary models developed by Ellington Management Group, L.L.C. ("Ellington"). Some examples provided may be based upon the hypothetical performance of such models. Models, however, are inherently imperfect and subject to a number of risks, including that the underlying data used by the models is incorrect, inaccurate, or incomplete, or that the models rely upon assumptions that may prove to be incorrect. The utility of model-based information is highly limited. The information is designed to illustrate Ellington's current view and expectations and is based on a number of assumptions and limitations, including those specified herein. Certain models make use of discretionary settings or parameters which can have a material effect on the output of the model. Ellington exercises discretion as to which settings or parameters to use in different situations, including using different settings or parameters to model different securities. Actual results and events may differ materially from those described by such models.

Example Analyses

The example analyses included herein are for illustrative purpose only and are intended to illustrate Ellington's analytic approach. They are not and should not be considered a recommendation to purchase or sell any security or a projection of the Company's future results or performance. The example analyses are only as of the date specified and do not reflect changes since that time.

Projected Yields and Spreads

Projected yields and spreads discussed herein are based upon Ellington models and rely on a number of assumptions, including as to prepayment, default and interest rates and changes in home prices. Such models are inherently imperfect and there is no assurance that any particular investment will perform as predicted by the models, or that any such investment will be profitable. Projected yields are presented for the purposes of (i) providing insight into the strategy's objectives, (ii) detailing anticipated risk and reward characteristics in order to facilitate comparisons with other investments, (iii) illustrating Ellington's current views and expectations, and (iv) aiding future evaluations of performance. They are not a guarantee of future performance. They are based upon assumptions regarding current and future events and conditions, which may not prove to be accurate. There can be no assurance that the projected yields will be achieved. Investments involve risk of loss.

Indices

Various indices are included in this presentation material to show the general trend in applicable markets in the periods indicated and are not intended to imply that the Company or its strategy is similar to any index in composition or element of risk.

The 2006-2 AAA ABX index, an index widely used and cited by investors and market participants tracking the subprime non-Agency RMBS market, is composed of 20 credit default swaps referencing mortgage-backed securities, originally rated AAA by Standard & Poor's, Inc., or Standard & Poor's, and Aaa by Moody's Investors Service, Inc., or Moody's, issued during the first six months of 2006 and backed by subprime mortgage loans originated in late 2005 and early 2006.

Financial Information

All financial information included in this presentation is as of March 31, 2011 unless indicated as being as of a different specific date.

Ellington Financial:
Experience, Infrastructure and Performance

Ellington Financial

Ellington Financial LLC ("EFC") is a specialty finance company formed in August 2007 that acquires and manages mortgage-related securities, including non-Agency and Agency RMBS and other mortgage-related assets

Ellington has over 16-year Track Record/
EFC has over 3-year Track Record

The Right Structure to Capture Upside <u>and</u> Protect Against Downside

Extensive Infrastructure: Over 100 Employees and Industry-leading Proprietary Analytics

Compelling Market Opportunity

EFC is Well Positioned to Take Advantage of Market Opportunities and Perform Across Market Cycles

Ellington Financial: Strong Momentum

Ellington Financial

- **Ellington Management Group ("Ellington") was founded in 1994 and specializes primarily in fixed income strategies, with an emphasis on mortgage-backed securities**
- **EFC was formed in August of 2007 just before the credit crisis**
- **EFC successfully priced its IPO in October 2010, making it the only mortgage-focused specialty finance company to go public during the year**
- **EFC paid a Q4 2010 dividend of $1.31 and will pay a Q1 2011 dividend of $0.40 per share[1]**
  - EFC intends to distribute approximately 100% of net income for the calendar year
  - We expect to continue to recommend dividends of $0.40 per common share each quarter together with any potential special dividends to meet the targeted 100% payout ratio
- **EFC seeks to buy high-yielding non-Agency mortgage assets at a discount; assets produce significant carry**
- **EFC life-to-date total return from inception in August 2007 through Q1 2011 is over 59%[2]**
- **Current environment is extremely favorable for EFC**
  - Banks, CDOs, SIVs, U.S. Treasury and Fed are shedding high risk-weighted assets

(1) We cannot assure you that we will pay any future dividends to our shareholders and dividends paid historically are not intended to be indicative of the amount and timing of future dividends, if any. Periodically, management may adjust its quarterly dividend recommendation base on the Company's actual earnings, management's assessment of the Company's long-term earnings prospects and other factors. The declaration and amount of future dividends remain in the discretion of the Board of Directors.
(2) Life-to-date total return based on $19.17 net book value per share at inception in August 2007 and is calculated assuming the reinvestment of dividends.

Experience Matters

Ellington Financial

Senior management has an average of over 23 years of trading and risk management experience in the mortgage market

	Years of Experience[2]	Years at Ellington[2]	
Michael Vranos Co-Chief Investment Officer[1]	28	16	■ Founder and CEO of Ellington ■ Former head of RMBS trading and origination at Kidder Peabody ■ B.A. in Mathematics from Harvard University (magna cum laude, Phi Beta Kappa)
Laurence Penn Chief Executive Officer[1]	27	16	■ Vice Chairman of Ellington, CEO of EFC ■ Former Co-head of CMO origination and trading at Lehman Brothers ■ B.A. in Mathematics from Harvard University (summa cum laude, Phi Beta Kappa)
Mark Tecotzky Co-Chief Investment Officer	24	4	■ Head of Ellington's ABS/RMBS credit investing ■ Former senior mortgage trader at Credit Suisse ■ B.S. from Yale University; received a National Science Foundation fellowship to study at MIT
Robert Kinderman Head Portfolio Manager for RMBS and ABS Credit	12	12	■ Senior portfolio manager for Ellington mortgage credit investing ■ Directs development of analytics to support mortgage credit trading ■ B.A in Mathematics and Economics from Yale University

Ellington employs over 100 people; more than 20% are dedicated to research and systems

(1) Holds a seat on the Board of Directors of EFC.
(2) As of April 2011.

Why Ellington Financial: The Right Structure

Ellington Financial

	EFC's Publicly-traded Partnership ("PTP") structure	REIT structure
Investment strategy	■ **Flexibility to protect against the downside** – We were hedged in 2008 ■ **Opportunity to capture the upside** – PTP structure allows us to fundamentally and quickly re-orient the portfolio	■ **Generally buy and hold strategies** ■ **"Long-only" investment strategy** – REITs have limited ability to hedge and typically do NOT hedge credit risk
Accounting and tax	■ **Investor-friendly: mark-to-market GAAP and tax accounting creates transparency** – Full portfolio MTM with third-party valuation input on the vast majority of assets – Management decisions based upon maximum risk-adjusted return and not accounting impact	■ **GAAP income, mark-to-market income, and taxable income are typically all different from one another** – Unrealized gains and losses placed in OCI instead of net income – Taxable income often significantly exceeds GAAP income
Dividends	■ **Target 100% dividend payout[(1)]**	■ **Must pay out 90% of taxable income to maintain REIT status**

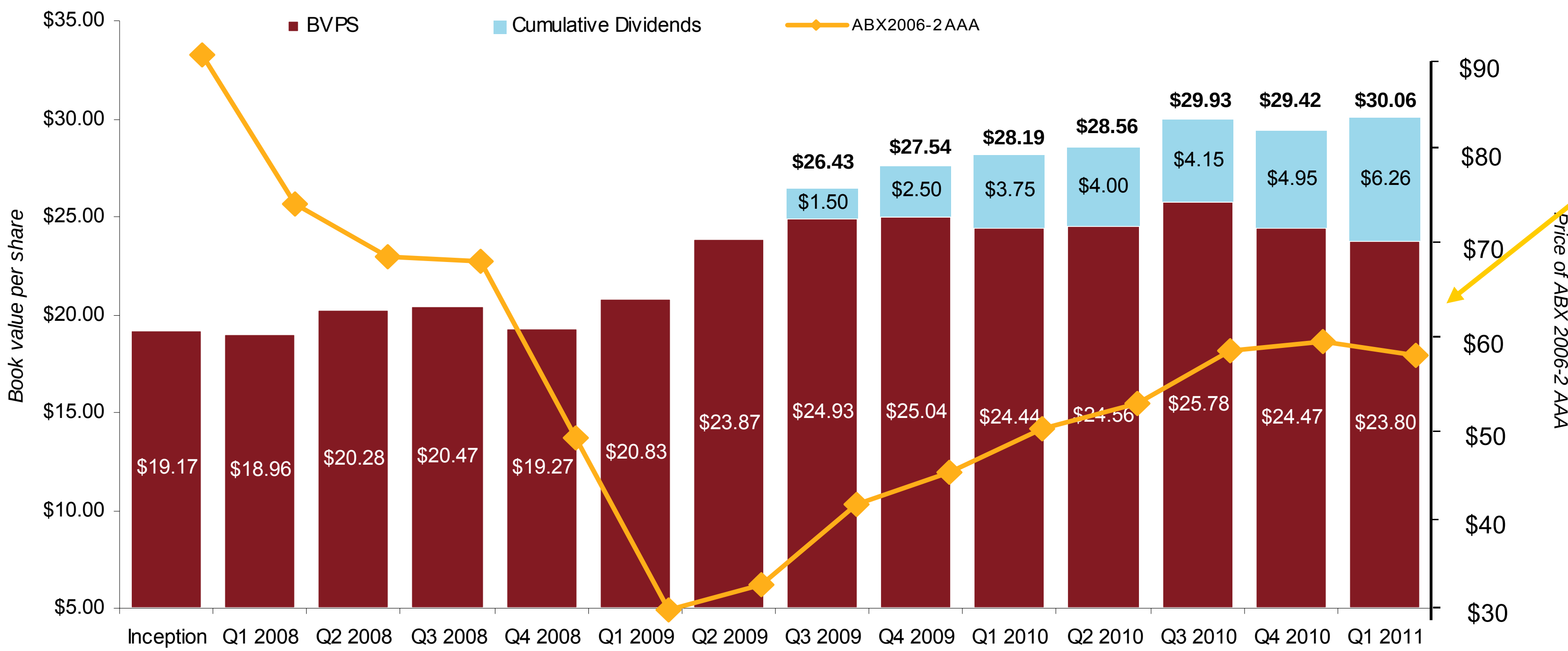
(1) Our present intention is to pay quarterly and special dividends so that approximately 100% of our net income attributable to our common shares each calendar year has been distributed prior to April of the subsequent calendar year, subject to potential adjustments for changes in common shares outstanding.

Why Ellington Financial:
Strong Results and Preservation of Book Value

Ellington Financial

- **Ellington Financial has successfully preserved book value through market cycles, while producing strong results for investors**

Price of ABX 2006-2 AAA has been extremely volatile in comparison to EFC's stable book value



EFC protects Book Value while most Non-Agency Mortgage REITS lose 50%-80% of their value	EFC Total Return is greater than 40% in 2009	EFC continues solid performance while paying dividends: LTD Total Return is 59.3%

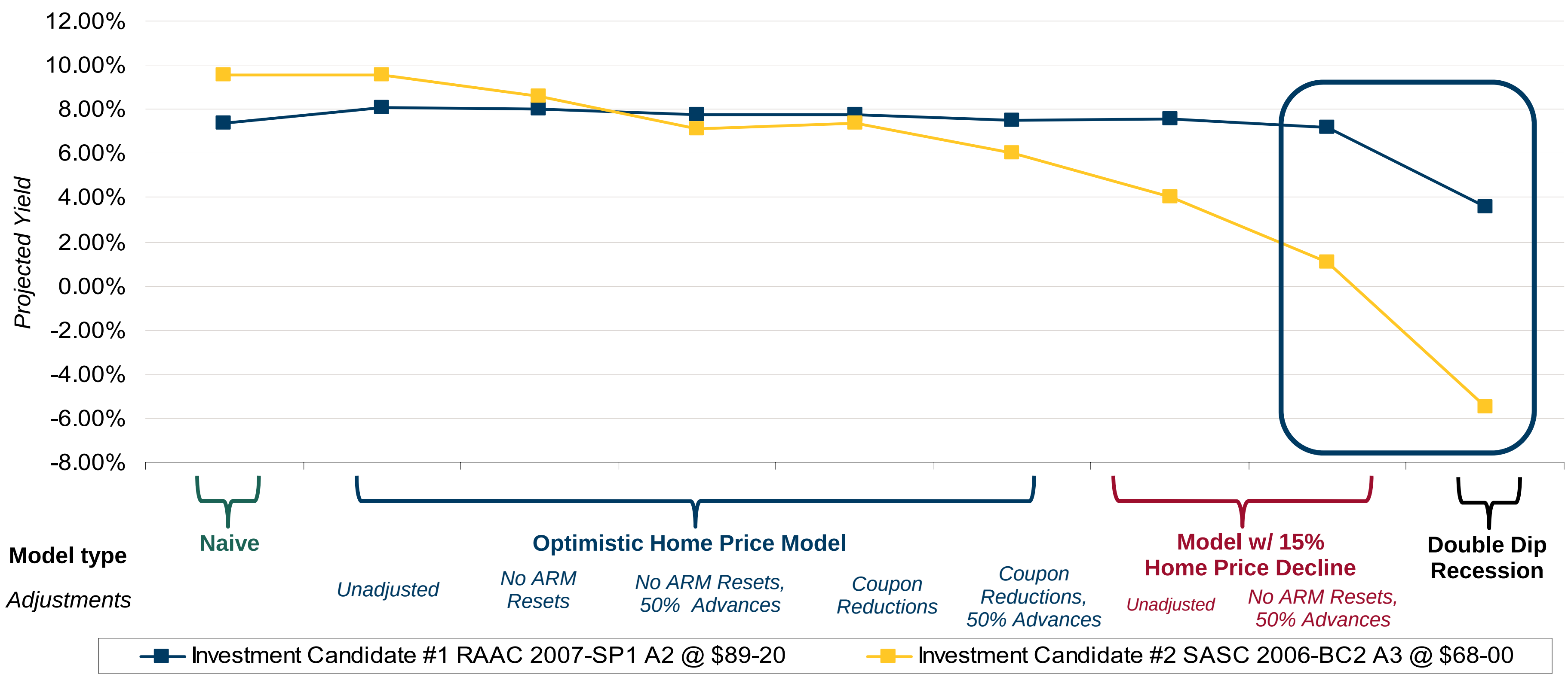
Source: Company filings, Bloomberg, Markit

Note: Total Return is based on $19.17 net book value per share at inception in August 2007 and is calculated assuming the reinvestment of dividends. Total Return from inception using the 3/31/2011 Book Value Per Share is 59.3%. Dividends were paid in the quarter following the period related to such performance.

Compelling Opportunity: Superficially Similar Bonds May Look Quite Different Under the Hood

Ellington Financial

Projected yield under various stress scenarios



RAAC is stable across scenarios while SASC collapses under realistic stress

Naive: based on 3 month historical performance (prepayment, default, and severity).
Optimistic Model: uses CLTV-based performance projections assuming (i) home prices are flat in year 1, and increase 2% per year thereafter, and (ii) a 50% reduction in the projected default rates.
No ARM Reset: assume ARMS are converted to fixed rate loans.
Coupon Reduction: assume coupons are reduced for delinquent loans.
50% Advances: assume servicers advance only 50% of payments that would otherwise be advanced.
Model with home prices down 15%: uses CLTV-based performance projections assuming home prices decrease 15% in year 1, and are flat thereafter.
Double Dip Recession: uses CLTV-based performance projections assuming: (i) home prices fall 30% in year 1, and are flat thereafter, (ii) a 50% increase in the projected default rates, (iii) ARMs are converted to fixed rate loans, and (iv) servicers advance only 50% of payments that would otherwise be advanced.
Note: Projected yields are based on Ellington proprietary model results and rely on a number of assumptions. Realized yields may differ materially. The above analysis is for illustrative purposes only. The information presented should not be considered a recommendation to purchase or sell any security or class of securities.
Source: Ellington Proprietary Models, LoanPerfomance, Intex. Data as of March 15, 2011.
There is no assurance that Ellington will be able to identify or secure investment in securities substantially like those discussed.

Compelling Opportunity: Very Strong Outlook for 2011

Ellington Financial

- **Supply / Demand Imbalance Creates Opportunities**

  Supply:

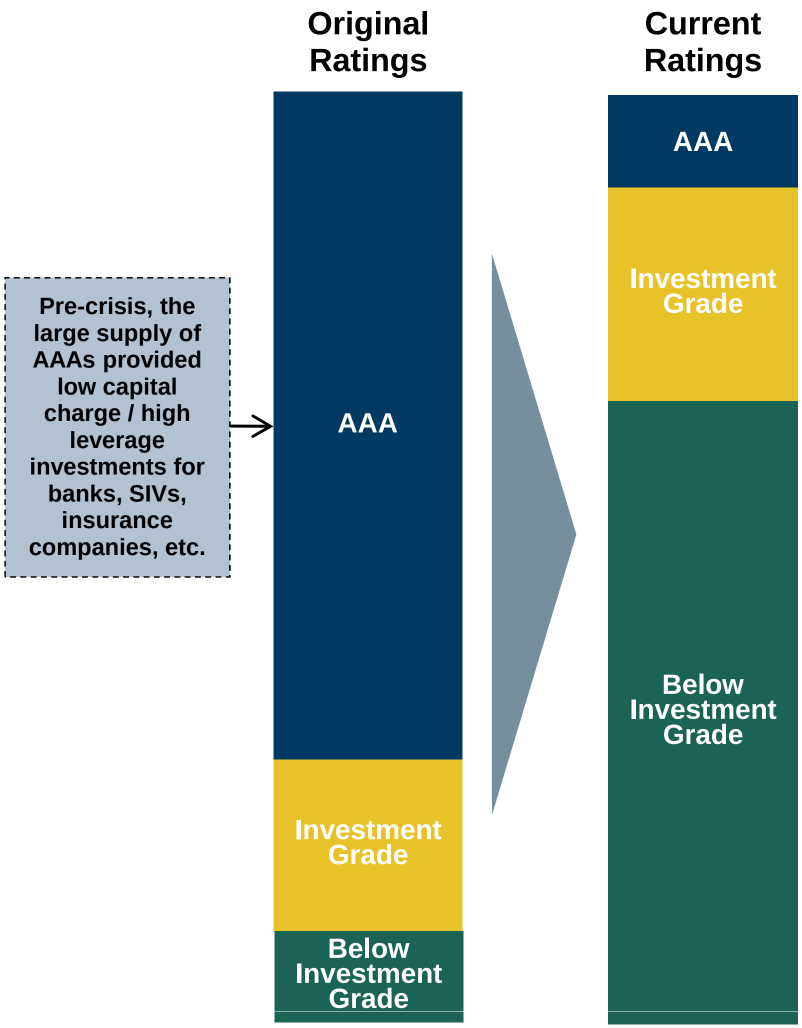
  - Non-Agency market is a $1.3 trillion market
  - We've seen over $800mm of non-Agency bonds offered per day[1], allowing us to remain extremely selective and still find attractive investments
  - CDOs/SIVs/Banks/Fed & U.S. Treasury selling MBS
    - Certain MBS sectors have cheapened substantially as a result of increased supply

  Demand:

  - Severe downgrades on most non-Agency RMBS have excluded a broad range of traditional buyers

- **EFC is able to take advantage of smaller tranches that are below other larger market participants' radar**

Large-scale ratings downgrades have excluded traditional buyers



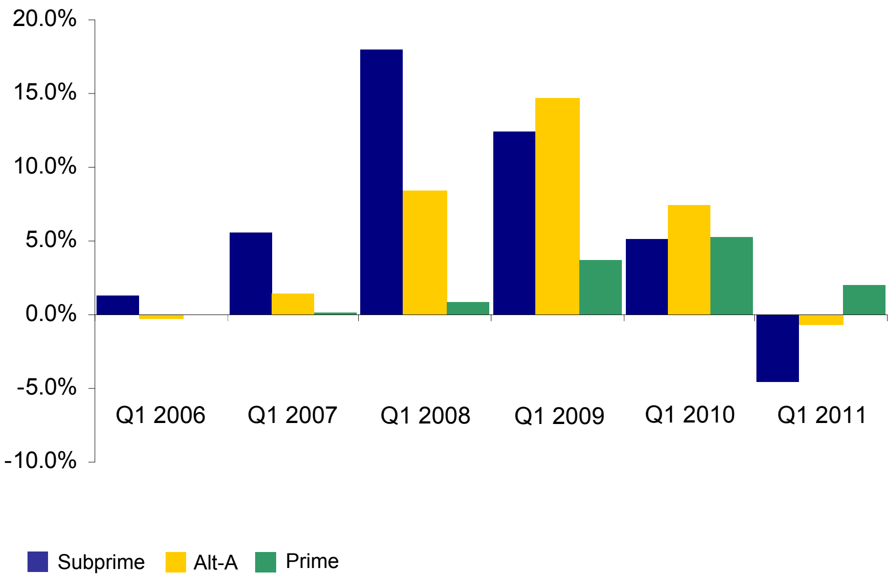
Source: Loan Performance, Intex, Moody's, Ellington. Includes all non-Agency RMBS with relevant publicly available data. Bars not drawn to scale.

(1) Approximate amount represents average daily current face of positions on bid lists of non-Agency RMBS received through Deutsche Bank, January 4 through August 16, 2010. Actual current face of positions on bid lists may vary widely and there is no assurance that any particular amount of non-Agency RMBS will be available on bid lists or may be purchased at any time.

Compelling Opportunity:
Very Strong Outlook for 2011

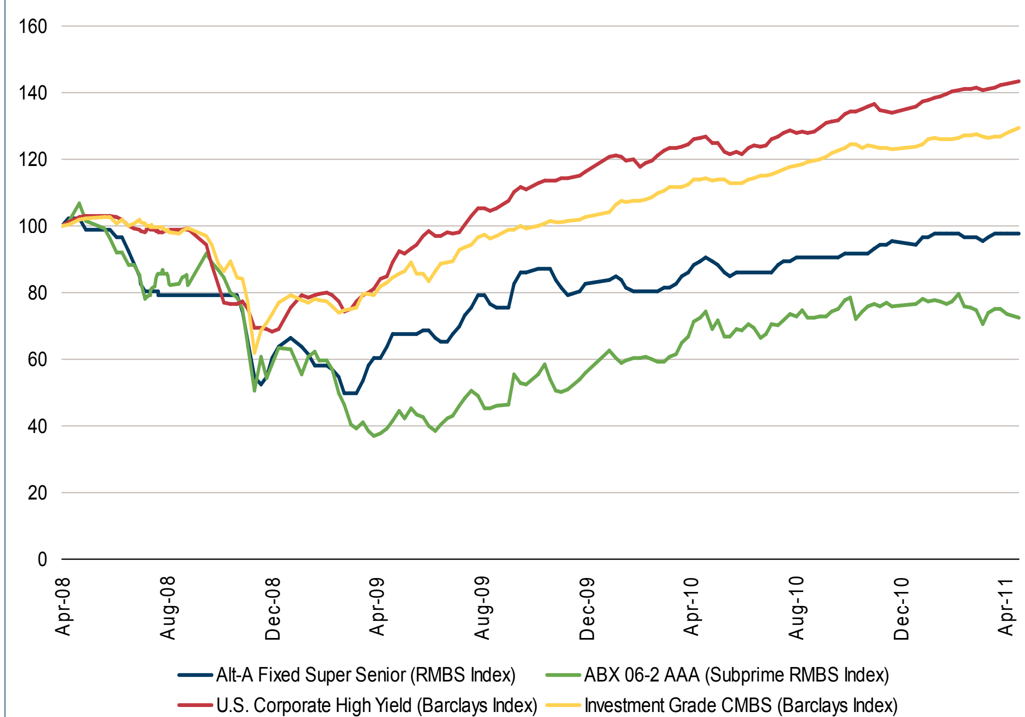
Ellington Financial

Year over Year Change in Delinquencies[1]



Source: Loan Performance
(1) Includes 30, 60, 90 day delinquencies plus foreclosure and REO. Data as of March 2011.

Comparison of Price Recovery Between Sectors



Sources: Barclays, Markit

- **Delinquency data in Q1 2011 shows great improvement since 2006-2007**
- **Other recent performance data is encouraging**
  - Sectors that Fed is selling are down materially in price in last 6 months
  - Underlying borrower performance has improved substantially
  - We believe home prices are much closer to the bottom than the top

EFC: March 31, 2011 Portfolio Snapshot

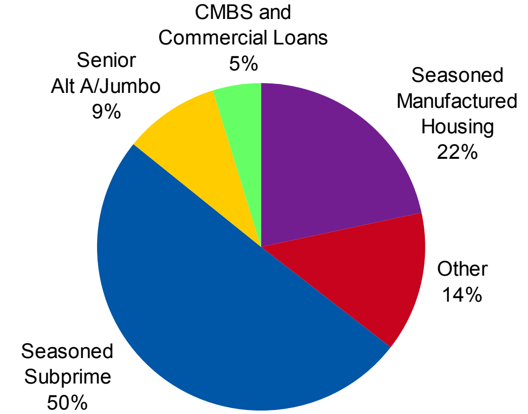
Ellington Financial

- Non-Agency Portfolio: $379 MM[1] / Agency Portfolio: $938MM
- Short Derivatives Portfolio: $119 MM[1]
- EFC is poised to capture upside through its long portfolio and protect against downside through its derivative portfolio
- 3/31/2011 Shareholders' Equity: $393 MM; Book Value per Share: $23.80; Diluted Book Value per Share: $23.26
- 4/30/2011 Estimated Book Value per Share: $23.88; Estimated Diluted Book Value per Share: $23.34 (net of Q1 dividend)

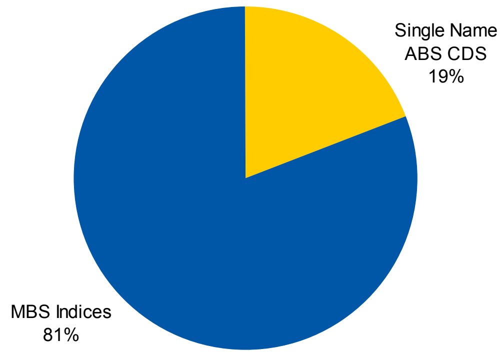
As of 3/31/2011	Agency	Non-Agency
Portfolio Yield[2]	4.0%	8.8%
Cost of Funds	0.3%	2.0%
Net Spread	3.7%	6.9%

- Leverage (Debt to Equity): 2.29x

Long Non-Agency Portfolio[1]



Short Derivatives Portfolio[1]



(1) Includes PrimeX and other synthetic credit positions, based on their respective bond equivalent values. Bond equivalent values represent the investment amount of a corresponding position in the reference obligation or index constituents, calculated assuming a price equal to the difference between (i) par, and (ii) the tear up price ("points up front"). This information does not include interest rate swaps, TBA positions, corporate CDS and other hedge positions. The bond equivalent value of derivatives included in the non-Agency portfolio is $6.9 million. Under GAAP, the net value of derivatives included in the long non-Agency portfolio is $0.4 million. Under GAAP, the net value of short derivatives is $150.8 million.

(2) Portfolio yields are based on Q1 2011 interest income and amortized cost and may not be reflective of current market levels. Future yields and actual performance may differ materially. The above analysis is for illustrative purposes only. The information presented should not be considered a recommendation to purchase or sell any security or class of securities.

Cash Flow May Contribute Significantly to Return: High Current Carry

Ellington Financial

JMP Securities Research Conference 2011

Ellington Financial LLC (NYSE: EFC)

May 11, 2011