

Ellington Financial

**EARN**

---

---

*Ellington Financial LLC (NYSE: EFC)*

*Ellington Residential Mortgage REIT (NYSE: EARN)*

---

---

# Important Notice: Ellington Financial LLC

## Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Our 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 not historical in nature and can be identified by 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 by references to strategy, plans, or intentions. Examples of forward-looking statements in this presentation include projections regarding our operating expense ratio, our dividend policy, and home price appreciation, among others.

The Company's results can fluctuate from month to month and from quarter to quarter depending on a variety of factors, some of which are beyond the Company's control and/or are difficult to predict, including, without limitation, changes in interest rates and the market value of the Company's securities, changes in mortgage default rates and prepayment rates, the Company's ability to borrow to finance its assets, changes in government regulations affecting the Company's business, the Company's ability to maintain its exemption from registration under the Investment Company Act of 1940 and other changes in market conditions and economic trends. Furthermore, forward-looking statements are subject to risks and uncertainties, including, among other things, those described under Item 1A of our Annual Report on Form 10-K filed on March 14, 2014 which can be accessed through the Company's website at [www.ellingtonfinancial.com](http://www.ellingtonfinancial.com) or at the SEC's website ([www.sec.gov](http://www.sec.gov)). Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected may be described from time to time in reports we file with the SEC, including reports on Form 10-Q, 10-K and 8-K. We undertake no 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 purposes 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.

## Financial Information

All financial information included in this presentation is as of March 31, 2014 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

# Important Notice: Ellington Residential Mortgage REIT

## Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Actual results may differ from the Company's 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 not historical in nature and can be identified by 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 by references to strategy, plans, or intentions.

The Company's results can fluctuate from month to month and from quarter to quarter depending on a variety of factors, some of which are beyond the Company's control and/or are difficult to predict, including, without limitation, changes in interest rates and the market value of the Company's securities, changes in mortgage default rates and prepayment rates, the Company's ability to borrow to finance its assets, changes in government regulations affecting the Company's business, the Company's ability to maintain its exemption from registration under the Investment Company Act of 1940 and other changes in market conditions and economic trends. Furthermore, forward-looking statements are subject to risks and uncertainties, including, among other things, those described under Item 1A of our Annual Report on Form 10-K filed on March 21, 2014 which can be accessed through the link to our SEC filings under "For Our Shareholders" on our website ([www.earnreit.com](http://www.earnreit.com)) or at the SEC's website ([www.sec.gov](http://www.sec.gov)). Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected may be described from time to time in reports we file with the SEC, including reports on Forms 10-Q, 10-K and 8-K. The Company undertakes no 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.

## 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.

## Financial Information

All financial information included in this presentation is as of March 31, 2014 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

# OVERVIEW

# About Ellington

## Management

- Ellington Financial LLC (“EFC”) and Ellington Residential Mortgage REIT (“EARN”) are managed by affiliates of Ellington Management Group, L.L.C. (“Ellington”)

## Proven Infrastructure

- Ellington was founded in 1994 by Michael Vranos and five partners; currently has over 130 employees, giving EFC and EARN access to time-tested infrastructure and industry-leading resources in trading, research, risk management, and operational support
  - Ellington has approximately \$5.7 billion in assets under management as of March 31, 2014

## Deep Securities Experience

- Ellington’s portfolio managers are among the most experienced in the MBS sector and the firm’s analytics have been developed over a 19-year history
  - Prior to forming Ellington, five of the founding partners constituted the core of Kidder Peabody’s MBS trading and research group, while one spent ten years at Lehman Brothers where he ran collateralized mortgage (“CMO”) trading
  - Many of the firm’s founding partners have degrees in mathematics or engineering from top universities, including a number of advanced degrees
  - Senior management has an average of 25 years of trading and risk management experience in the mortgage market
  - Approximately 20% of employees are dedicated to research and systems

# Introduction

## Ellington Financial LLC (NYSE: EFC)

Ellington Financial LLC ("EFC") is a specialty finance company that acquires and manages mortgage-related assets, including residential mortgage-backed securities backed by prime jumbo, Alt-A, manufactured housing and subprime residential mortgage loans, residential mortgage-backed securities for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored enterprise, residential mortgage loans, mortgage-related derivatives, commercial mortgage-backed securities, commercial mortgage loans and other commercial real estate debt, as well as corporate debt and equity securities and derivatives. Ellington Financial LLC is externally managed and advised by Ellington Financial Management LLC, an affiliate of Ellington Management Group, L.L.C.

**Market Capitalization**  
as of May 29, 2014

**Approx. \$611MM\***

**Total Equity**  
as of March 31, 2014

**\$610MM\***

**Dividend Yield**  
as of May 29, 2014

**12.8%\***

## Ellington Residential Mortgage REIT (NYSE: EARN)

Ellington Residential Mortgage REIT ("EARN") is a mortgage real estate investment trust or "REIT" that specializes in acquiring, investing in and managing residential mortgage- and real estate-related assets, with a primary focus on residential mortgage-backed securities for which the principal and interest payments are guaranteed by a U.S. Government agency or a U.S. Government-sponsored enterprise. EARN is externally managed and advised by Ellington Residential Mortgage Management LLC, an affiliate of Ellington Management Group, L.L.C.

**Market Capitalization**  
as of May 29, 2014

**Approx. \$158MM\*\***

**Total Equity**  
as of March 31, 2014

**\$165MM**

**Dividend Yield**  
as of May 29, 2014

**12.7%\*\***

\* EFC market capitalization and dividend yield based on May 29, 2014 closing price of \$24.01. Total equity as of March 31, 2014 adjusted to reflect first quarter dividend of \$0.77 per share, or \$20.1 million declared on May 6, 2014 with an ex-dividend date of May 28, 2014 and payable on June 16, 2014.

\*\* EARN market capitalization and dividend yield based on May 29, 2014 closing price of \$17.33

## EARN and EFC Contrasted

	<b>EFC</b>	<b>EARN</b>
Indicative Capital Allocation	85% Non-Agency & Diversified Structured Credit 15% Agency	85% Agency 15% Non-Agency
Tax Structure	Publicly Traded Partnership	REIT
Interest Rate Hedges	Yes	Yes
Credit Hedge	Yes	Opportunistically
Primary Risk Exposures	Credit Risk	Prepayment Risk Mortgage Basis Risk

# Ellington Financial: Overview

<p><b>High-Yielding Non-Agency Strategy</b></p>	<ul style="list-style-type: none"> <li>■ Seeks to buy high-yielding non-Agency mortgage assets at a discount; assets produce significant carry</li> </ul>
<p><b>Strong Risk-Adjusted Agency RMBS Returns</b></p>	<ul style="list-style-type: none"> <li>■ Leveraged Agency RMBS strategy has also generated strong returns</li> </ul>
<p><b>Active Trading</b></p>	<ul style="list-style-type: none"> <li>■ Active trading style augments returns in both non-Agency and Agency strategies</li> </ul>
<p><b>Interest Rate AND Credit Hedging Ability</b></p>	<ul style="list-style-type: none"> <li>■ Utilizes interest rate AND credit hedging instruments to insulate portfolio</li> </ul>
<p><b>Lower Leverage</b></p>	<ul style="list-style-type: none"> <li>■ Utilizes lower leverage relative to its mortgage REIT peers – 1.87:1 debt to equity ratio as of March 31, 2014</li> </ul>
<p><b>Attractive Dividend Yield</b></p>	<ul style="list-style-type: none"> <li>■ Dividend yield—12.8% based on closing price as of May 29, 2014 of \$24.01             <ul style="list-style-type: none"> <li>■ Management expects to continue to recommend quarterly dividends of \$0.77 per share* until conditions warrant otherwise</li> <li>■ Board of Directors will consider, at the end of any year, whether to declare a special dividend, taking into account earnings and other factors</li> </ul> </li> </ul>
<p><b>Strong Returns</b></p>	<ul style="list-style-type: none"> <li>■ Life-to-date total return from inception in August 2007 through April 30, 2014 is an estimated 132%**</li> </ul>
<p><b>Aligned Interests</b></p>	<ul style="list-style-type: none"> <li>■ Management owns over 13% of EFC; interests are aligned with shareholders***</li> </ul>

\* We cannot assure you that we will pay any future dividends to our shareholders. The declaration and amount of future dividends remains at the discretion of the Board of Directors.

\*\* 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.

\*\*\* Management ownership includes shares held by principals of EMG and their family trusts, and operating partnership units attributable to non-controlling interests.



# Ellington Residential: Overview

## Strong Risk-Adjusted Agency RMBS Returns

- Primary focus on Agency RMBS
- Leveraged Agency RMBS strategy seeks to generate strong returns
- Employs active hedging strategy to protect against interest rate volatility

## High-Yielding Non-Agency Strategy

- Seeks to buy high-yielding non-Agency mortgage assets at a discount; assets produce significant carry

## Shareholders' Equity

- Shareholders' equity of \$165.0 million as of March 31, 2014

## Portfolio

- Agency RMBS Portfolio: Approximately \$1.3 billion as of March 31, 2014
- Non-Agency RMBS Portfolio: \$32.0 million as of March 31, 2014

## Leverage

- Debt to equity ratio: 7.8:1 as of March 31, 2014
- Average cost of funds 0.37% for the first quarter 2014 or 1.14% including interest rate swaps

## Dividend

- Declared first quarter dividend of \$0.55 per share (paid April 2014), representing an annualized dividend yield of 12.7% based on May 29, 2014 closing price of \$17.33

Ellington Financial

EARN

**Investor Contact:**

Lisa Mumford  
Chief Financial Officer  
EFC: (203) 409-3575  
EARN: (203) 409-3773

**Media Contact:**

Steve Bruce or Taylor Ingraham  
ASC Advisors  
(203) 992-1230

---

---

Ellington Financial LLC  
53 Forest Ave  
Old Greenwich, CT 06870  
[www.ellingtonfinancial.com](http://www.ellingtonfinancial.com)

---

---

Ellington Residential Mortgage REIT  
53 Forest Ave  
Old Greenwich, CT 06870  
[www.earnreit.com](http://www.earnreit.com)

---

---