

Partner DataLink  
Ellington Financial LLC  
PO Box 8447  
Hermitage, TN 37076-8447

57624

SAMPLE PARTNER A  
53 FOREST AVE  
OLD GREENWICH, CT 06870

Phone: (855) 237-3734

Fax: (215) 982-6302

Email: [EllingtonK1Help@Deloitte.com](mailto:EllingtonK1Help@Deloitte.com)

Website: [www.partnerdatalink.com/Ellington](http://www.partnerdatalink.com/Ellington)

To Ellington Financial LLC Shareholders:

Enclosed is your Schedule K-1, which reflects the activity from your investment in Ellington Financial LLC (NYSE:EFC). As a shareholder, you are required to report this activity on your federal and state income tax returns. To assist you in reporting this activity, we have prepared this 2015 Tax Package, which contains certain information relating to your ownership of EFC shares.

In the Tax Package, EFC is providing the following documents to you:

- (1) 2015 Tax Reporting Package - Frequently Asked Questions
- (2) 2015 Schedule K-1 (Form 1065)
- (3) 2015 Supplemental Information (contains details about the amounts reported on Schedule K-1)
- (4) 2015 Ownership Schedule
- (5) 2015 Sales Schedule (if applicable)

Please carefully review the information on your 2015 Ownership Schedule. This schedule contains the history of shares you bought or sold by date and number of shares as reported to EFC by your broker or our transfer agent through December 31, 2015. We rely on purchase and sale information obtained from the brokers and transfer agent to prepare the tax information reported to you. If the information provided by the brokers and transfer agent is incorrect, then the information reported to you, as well as the information reported to the Internal Revenue Service, will also be incorrect. If the information is inaccurate, please contact us as indicated on the 2015 Ownership Schedule to correct such information, and we will issue you a corrected tax package.

This package is intended to be a general guide to reporting your share of our taxable income and any gain or loss from the sale of our shares based on our understanding of existing tax laws and regulations. EFC does not provide advice on tax matters to its shareholders, and this package is not intended to provide tax advice. Therefore, before you prepare and file your income tax return, you are strongly urged to consult your tax advisor with regard to the U.S. federal income tax consequences of holding our shares and the related tax reporting requirements.

If you have any questions concerning your Schedule K-1 or this tax package, please contact Partner DataLink at (855)-237-3734 during the hours of 8:00 a.m. to 5:00 p.m., Monday through Friday, Central Time, or visit our website at [www.PartnerDataLink.com/Ellington](http://www.PartnerDataLink.com/Ellington).

Ellington Financial LLC

# 2015 Income Tax Reporting Package

## Frequently Asked Questions

### INTRODUCTION

Ellington Financial LLC (EFC) is a publicly traded limited liability company that is not subject to federal or state income tax. Instead, shareholders are required to report their allocable share of EFC's items of taxable income, gain, deduction or loss on their individual income tax returns as though each shareholder, who is treated as a partner for tax purposes, had incurred such items directly.

The enclosed tax package consists of your IRS Schedule K-1 (Form 1065), Supplemental Information Schedule, Ownership Schedule and Sales Schedule for EFC's tax year ending December 31, 2015. Please read the Partner's IRS Instruction Booklet and Ownership Schedule carefully before filing your 2015 Federal Income Tax Return. (Please read the Sales Schedule if you disposed of shares in 2015).

Individuals should proceed directly to the Ownership Schedule and confirm the accuracy of their ownership information. Please report any errors to EFC Partner DataLink at the address, phone number or website listed in the Ownership Schedule Summary.

Next, individuals should review their Federal Schedule K-1 and Supplemental Information Schedule. If any boxes of the 2015 Schedule K-1 or the Supplemental Information Schedule show an amount, then you should report the amount on the applicable box's corresponding Form or Schedule that you will attach to your Form 1040.

Finally, if you disposed of your shares prior to January 1, 2016, you should utilize the Sales Schedule and applicable summary to determine your taxable gain or loss on share dispositions. Please contact your tax advisor if you have any questions regarding the applicable tax treatment of any item on the enclosed schedules. Questions relating specifically to the Schedule K-1 Information should be directed to: **EFC Partner DataLink at (855) 237-3734**

**IMPORTANT: The amount of your taxable income will not correspond to the amount of cash distributed to you during the year.**

This Individualized Income Tax Reporting Package is being provided to Registered Owners, (i.e., shareholders who have received a numbered certificate of ownership representing their shares) and to Beneficial Owners (i.e., shareholders whose shares are held in a brokerage or other nominee account) whose ownership information was provided to EFC by their brokers or nominees.

Q. *Do I report any cash I received as my taxable income?*

A. No. You should report the income items shown on your Schedule K-1 provided to you by EFC.

Q. *Is the amount of cash I received equal to the amount I have to report on my individual income tax return?*

A. No, The cash payments you received are treated as partnership distributions (nontaxable reductions to your tax basis) for tax purposes. The amount you are required to include in your individual income tax return is your share of EFC's income and related items, allocated based on the number of shares you owned during 2015, and is reported on your Schedule K-1. The amount of your taxable income will not correspond to the amount of cash distributed to you during the year, if any.

Q. *What is a Schedule K-1?*

A. EFC is a publicly traded limited liability company taxed as a partnership. A partner's share of partnership income and expenses are reported on Schedule K-1 and flow through to EFC's shareholders to be reported on their individual tax returns. EFC is required to file a Form 1065 with the IRS that includes a Schedule K-1 for each shareholder reporting their respective tax information.

Q. *Why am I receiving a Schedule K-1 rather than a Form 1099-DIV?*

A. Forms 1099-DIV are used by corporations to report dividends paid to their shareholders. EFC is taxed as a partnership, not as a corporation. Schedules K-1 are used by partnerships to report taxable income, gain, deduction or loss to their partners. EFC shareholders are treated as partners for tax purposes, and receive Schedules K-1.

Q. *How is my basis affected by cash distributions and partnership net income?*

A. The cash distributions you receive decrease your basis in EFC. Your basis is increased by your share of EFC's taxable income or decreased by your share of EFC's taxable loss allocated to you on your Schedule K-1.

Q. *Why do you report an Unrelated Business Taxable Income (UBTI) percentage?*

A. UBTI is a tax-exempt organization's (including IRA's, Keogh and other qualified retirement plans) distributive share of our gross income and allowable deductions which is considered to be unrelated to the regular activities of the tax-exempt organization, and is generally taxable to those organizations. Tax-exempt organizations subject to this tax should multiply the appropriate K-1 income and expense items by the appropriate UBTI percentage in order to compute their share of 2015 UBTI income earned by EFC. Such income is includable in the organization's taxable income, but may be offset by a \$1,000 deduction.

Q. *What is income from Section 475(f)?*

A. EFC has made an election to have the "mark-to-market" rules apply to its securities trading under Section 475(f). Income from such securities trading is treated as ordinary income instead of capital gain. All gains and losses pursuant to this election have been included on Schedule K-1, Box 11, Code F Not all of EFC's securities qualify for the election. Income from those securities may generate capital gains and losses. Such capital gains are included on Schedule K-1, boxes 8 and 9.

Q. *What should I do if the information in my tax package is incorrect?*

A. You may make any corrections directly onto the Ownership Schedule and return it to EFC by May 15, 2016 at the address given in the instructions. You may also call (855) 237-3734 or fax corrections to (215) 982-6302. EFC will use the information on the corrected Ownership Schedule to update its records and will send you corrected tax information.

Q. *What is EFC's tax year and how does that affect my share of partnership income?*

A. EFC is on a December 31 calendar year end for income tax purposes. Therefore, the enclosed tax information should be reported in your 2015 income tax return. If you are a fiscal year taxpayer, the tax information items should be reported in your tax return for your fiscal year which includes December 31, 2015.

Schedule K-1 (Form 1065)

2015

Department of the Treasury Internal Revenue Service

For calendar year 2015, or tax year beginning ending 2015

Partner's Share of Income, Deductions, Credits, etc. See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number 26-0489289
B Partnership's name, address, city, state, and ZIP code ELLINGTON FINANCIAL LLC 53 FOREST AVE OLD GREENWICH, CT 06870
C IRS Center where partnership filed return OGDEN
D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number APPLD FOR
F Partner's name, address, city, state, and ZIP code SAMPLE PARTNER A 53 FOREST AVE OLD GREENWICH, CT 06870
G General partner or LLC member-manager Limited partner or other LLC member
H Domestic partner Foreign partner
I1 What type of entity is this partner? INDIVIDUAL
I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here
J Partner's share of profit, loss, and capital (see instructions):
Beginning Ending
Profit 0.029517 % 0.029788 %
Loss 0.029517 % 0.029788 %
Capital 0.029517 % 0.029788 %
K Partner's share of liabilities at year end:
Nonrecourse \$
Qualified nonrecourse financing \$
Recourse \$

L Partner's capital account analysis:
Beginning capital account \$ 192,259
Capital contributed during the year \$ -
Current year increase (decrease) \$ 13,137
Withdrawals & distributions \$ (24,500)
Ending capital account \$ 180,896
Tax basis GAAP Section 704(b) book
Other (explain)
M Did the partner contribute property with a built-in gain or loss?
Yes No
If "Yes," attach statement (see instructions)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

Table with 3 columns: Line number, Description, and Amount. Includes rows for Ordinary business income (loss), Net rental real estate income (loss), Other net rental income (loss), Guaranteed payments, Interest income, Ordinary dividends, Qualified dividends, Royalties, Net short-term capital gain (loss), Net long-term capital gain (loss), Collectibles (28%) gain (loss), Unrecaptured section 1250 gain, Net section 1231 gain (loss), Other income (loss), Section 179 deduction, Other deductions, Self-employment earnings (loss), Credits, Foreign transactions, Alternative minimum tax (AMT) items, Tax-exempt income and nondeductible expenses, Distributions, and Other information.

\*See attached statement for additional information.
For IRS Use Only

**This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.**

**1. Ordinary business income (loss).** Determine whether the income (loss) is passive or nonpassive and enter on your return as follows.

Passive loss	See the Partner's Instructions
Passive income	Schedule E, line 28, column (g)
Nonpassive loss	Schedule E, line 28, column (h)
Nonpassive income	Schedule E, line 28, column (j)

**2. Net rental real estate income (loss)**

**3. Other net rental income (loss)**

Net income	Schedule E, line 28, column (g)
Net loss	See the Partner's Instructions

**4. Guaranteed payments**

**5. Interest income**

**6a. Ordinary dividends**

**6b. Qualified dividends**

**7. Royalties**

**8. Net short-term capital gain (loss)**

**9a. Net long-term capital gain (loss)**

**9b. Collectibles (28%) gain (loss)**

Net loss	Schedule E, line 28, column (g)
Net income	See the Partner's Instructions
Net loss	See the Partner's Instructions
Guaranteed payments	Schedule E, line 28, column (j)
Interest income	Form 1040, line 8a
Ordinary dividends	Form 1040, line 9a
Qualified dividends	Form 1040, line 9b
Royalties	Schedule E, line 4
Net short-term capital gain (loss)	Schedule D, line 5
Net long-term capital gain (loss)	Schedule D, line 12
Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
Unrecaptured section 1250 gain	See the Partner's Instructions
Net section 1231 gain (loss)	See the Partner's Instructions
Other income (loss)	See the Partner's Instructions

**11. Other income (loss)**

<b>Code</b>	
<b>A</b> Other portfolio income (loss)	See the Partner's Instructions
<b>B</b> Involuntary conversions	See the Partner's Instructions
<b>C</b> Sec. 1256 contracts & straddles	Form 6781, line 1
<b>D</b> Mining exploration costs recapture	See Pub. 535
<b>E</b> Cancellation of debt	Form 1040, line 21 or Form 982
<b>F</b> Other income (loss)	See the Partner's Instructions

**12. Section 179 deduction**

**13. Other deductions**

<b>A</b> Cash contributions (50%)	} See the Partner's Instructions
<b>B</b> Cash contributions (30%)	
<b>C</b> Noncash contributions (50%)	
<b>D</b> Noncash contributions (30%)	
<b>E</b> Capital gain property to a 50% organization (30%)	
<b>F</b> Capital gain property (20%)	} See Form 4952, line 1
<b>G</b> Contributions (100%)	
<b>H</b> Investment interest expense	
<b>I</b> Deductions—royalty income	
<b>J</b> Section 59(e)(2) expenditures	
<b>K</b> Deductions—portfolio (2% floor)	
<b>L</b> Deductions—portfolio (other)	
<b>M</b> Amounts paid for medical insurance	
<b>N</b> Educational assistance benefits	
<b>O</b> Dependent care benefits	
<b>P</b> Preproductive period expenses	
<b>Q</b> Commercial revitalization deduction from rental real estate activities	
<b>R</b> Pensions and IRAs	
<b>S</b> Reforestation expense deduction	
<b>T</b> Domestic production activities information	
<b>U</b> Qualified production activities income	
<b>V</b> Employer's Form W-2 wages	
<b>W</b> Other deductions	

**14. Self-employment earnings (loss)**

**Note:** If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.

<b>A</b> Net earnings (loss) from self-employment	Schedule SE, Section A or B
<b>B</b> Gross farming or fishing income	See the Partner's Instructions
<b>C</b> Gross non-farm income	See the Partner's Instructions

**15. Credits**

<b>A</b> Low-income housing credit (section 42(j)(5)) from pre-2008 buildings	} See the Partner's Instructions
<b>B</b> Low-income housing credit (other) from pre-2008 buildings	
<b>C</b> Low-income housing credit (section 42(j)(5)) from post-2007 buildings	
<b>D</b> Low-income housing credit (other) from post-2007 buildings	
<b>E</b> Qualified rehabilitation expenditures (rental real estate)	
<b>F</b> Other rental real estate credits	
<b>G</b> Other rental credits	
<b>H</b> Undistributed capital gains credit	
<b>I</b> Biofuel producer credit	
<b>J</b> Work opportunity credit	
<b>K</b> Disabled access credit	Form 1040, line 73; check box a
	} See the Partner's Instructions

<b>Code</b>		<b>Report on</b>
<b>L</b> Empowerment zone employment credit	} See the Partner's Instructions	
<b>M</b> Credit for increasing research activities		
<b>N</b> Credit for employer social security and Medicare taxes		
<b>O</b> Backup withholding		
<b>P</b> Other credits		
<b>16. Foreign transactions</b>		
<b>A</b> Name of country or U.S. possession	} Form 1116, Part I	
<b>B</b> Gross income from all sources		
<b>C</b> Gross income sourced at partner level		
<i>Foreign gross income sourced at partnership level</i>		
<b>D</b> Passive category	} Form 1116, Part I	
<b>E</b> General category		
<b>F</b> Other		
<i>Deductions allocated and apportioned at partner level</i>		
<b>G</b> Interest expense	Form 1116, Part I	
<b>H</b> Other	Form 1116, Part I	
<i>Deductions allocated and apportioned at partnership level to foreign source income</i>		
<b>I</b> Passive category	} Form 1116, Part I	
<b>J</b> General category		
<b>K</b> Other		
<i>Other information</i>		
<b>L</b> Total foreign taxes paid	Form 1116, Part II	
<b>M</b> Total foreign taxes accrued	Form 1116, Part II	
<b>N</b> Reduction in taxes available for credit	Form 1116, line 12	
<b>O</b> Foreign trading gross receipts	Form 8873	
<b>P</b> Extraterritorial income exclusion	Form 8873	
<b>Q</b> Other foreign transactions	See the Partner's Instructions	
<b>17. Alternative minimum tax (AMT) items</b>		
<b>A</b> Post-1986 depreciation adjustment	} See the Partner's Instructions and the Instructions for Form 6251	
<b>B</b> Adjusted gain or loss		
<b>C</b> Depletion (other than oil & gas)		
<b>D</b> Oil, gas, & geothermal—gross income		
<b>E</b> Oil, gas, & geothermal—deductions		
<b>F</b> Other AMT items		
<b>18. Tax-exempt income and nondeductible expenses</b>		
<b>A</b> Tax-exempt interest income	Form 1040, line 8b	
<b>B</b> Other tax-exempt income	See the Partner's Instructions	
<b>C</b> Nondeductible expenses	See the Partner's Instructions	
<b>19. Distributions</b>		
<b>A</b> Cash and marketable securities	} See the Partner's Instructions	
<b>B</b> Distribution subject to section 737		
<b>C</b> Other property		
<b>20. Other information</b>		
<b>A</b> Investment income	Form 4952, line 4a	
<b>B</b> Investment expenses	Form 4952, line 5	
<b>C</b> Fuel tax credit information	Form 4136	
<b>D</b> Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions	
<b>E</b> Basis of energy property	See the Partner's Instructions	
<b>F</b> Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8	
<b>G</b> Recapture of low-income housing credit (other)	Form 8611, line 8	
<b>H</b> Recapture of investment credit	See Form 4255	
<b>I</b> Recapture of other credits	See the Partner's Instructions	
<b>J</b> Look-back interest—completed long-term contracts	See Form 8697	
<b>K</b> Look-back interest—income forecast method	See Form 8866	
<b>L</b> Dispositions of property with section 179 deductions	} See the Partner's Instructions	
<b>M</b> Recapture of section 179 deduction		
<b>N</b> Interest expense for corporate partners		
<b>O</b> Section 453(l)(3) information		
<b>P</b> Section 453A(c) information		
<b>Q</b> Section 1260(b) information		
<b>R</b> Interest allocable to production expenditures		
<b>S</b> CCF nonqualified withdrawals		
<b>T</b> Depletion information—oil and gas		
<b>U</b> Reserved		
<b>V</b> Unrelated business taxable income		
<b>W</b> Precontribution gain (loss)		
<b>X</b> Section 108(l) information		
<b>Y</b> Net investment income		
<b>Z</b> Other information		

**ELLINGTON FINANCIAL LLC**

**2015 SUPPLEMENTAL INFORMATION**

PARTNER NAME: SAMPLE PARTNER A

PARTNER FEDERAL ID & ENTITY TYPE: APPLD FOR / INDIVIDUAL

CUSTODIAN FEDERAL ID (IF APPLICABLE):

Line	Description	Amount
	<b>Ordinary business income (loss)</b>	
	U.S. Government Interest as Non-qualified Dividend Income	-
	U.S. Sourced Interest Income	28,834
	U.S. Government Interest	151
	U.S. Sourced Non-qualified Dividend Income	1,064
	Foreign Sourced Non-qualified Dividend Income	5,340
	Management Fees	(3,246)
	Incentive Fees	-
	Trade Or Business Expenses	(2,598)
	PFIC QEF Income	94
	Guaranteed Payments Received – Not Treated as Portfolio Interest	237
<b>1</b>	Total Ordinary business income (loss)	<u>29,876</u>
	<b>Other Income (Loss)</b>	
	Section 475(F) Mark-to-Market Gain (Loss)	(16,429)
	Section 475(F) Mark-to-Market Gain (Loss) – U.S. Treasuries	(636)
	Swap Income (Loss)	(1,066)
	Sub-Part F Income	3,598
	Other Income	2
	Other Loss	(7)
<b>11F</b>	Total Other Income (Loss)	<u>(14,538)</u>
	<b>Investment Interest Expense</b>	
	Investment interest related to US Treasuries	112
	Other Investment Interest expense	3,372
<b>13H</b>	Total Investment Interest Expense	<u>3,484</u>
	<b>Unrelated Business Taxable Income (UBTI, see Frequently Asked Questions page)</b>	
<b>20V1</b>	UBTI – Ordinary	19,825
<b>20V2</b>	UBTI – Capital or Section 475(F) Mark-to-Market Gain (Loss)	(16,180)

**Partner Footnotes:**

Ellington Financial LLC (“EFC”) has taken the tax return filing position that its operating partnership’s direct activities generally constitute a trade or business of trading in securities for federal income tax purposes. As such, EFC’s expenses from trader activities, other than interest, have been included on Schedule K-1, Box 1 as an element of ordinary business income / (loss). EFC’s share of expenses from investment partnerships and from its non-trader activities have been included in Box 13K. Furthermore, EFC is subject to a mark to market election as a trader in securities under IRC Section 475(f)(1). All gains and losses (which are ordinary gains) pursuant to this election have been included on Schedule K-1, Box 11, Code F. Capital gains and losses on securities not covered by the trader election have been included on Schedule K-1, Boxes 8 and 9A.

Summarized reporting information for shareholders who file Form 1040 may be found on Schedule K-1, Page 2. Please note that any income or loss included in Box 11 (Other income (loss)) should be combined (or netted) with the amount included in Box 1 and reported on Form 1040, Schedule E, Line 28, column j. The amount included in Box 13H will generally be reported as investment interest expense on Form 1040, Schedule A, Line 14, unless limited by the investment interest expense limitation on Form 4952.

Please note that income from the trading of securities is considered non-passive income. Thus, none of the distributive share items reported on this Schedule K-1 are considered as derived from a passive activity under Treasury Regulation Section 1.469-1T(e)(6). Accordingly, income allocated to you on this Schedule K-1 generally will not be able to offset passive losses you incur from other investments.

Investment income/expense items in Box 1, 8 and 11 have not been included in Boxes 20, Codes A or B per the IRS instructions. You may need to include those amounts when preparing Form 4952.

**PART III, BOX 20 OTHER INFORMATION, CODE Y – NET INVESTMENT INCOME:** The partnership is engaged in trading and investing in financial instruments. As such, all of the income/loss from these activities are subject to the net investment income tax under IRC Section 1411. Therefore, all of the amounts on this Schedule K-1 generally need to be reported by individuals, estates and trusts on Form 8960, in addition to the forms indicated on page 2 of Schedule K-1.

No amounts reported on Schedule K-1 represent income effectively connected with a U.S. trade or business. The partnership did not generate any items of income or loss that were derived from or connected with sources from within any state. However, as with any items of income or loss, these may be taxable in your state of domicile.

Please consult your tax advisor.

PARTNER NAME: SAMPLE PARTNER A

PARTNER FEDERAL ID & ENTITY TYPE: APPLD FOR / INDIVIDUAL

CUSTODIAN FEDERAL ID (IF APPLICABLE):

This schedule details your transactional history regarding shares of Ellington Financial LLC, as reported to the Partnership by your broker or our transfer agent through December 31, 2015. This schedule is limited to all shares that are reported as owned by the partner federal identification number and entity type shown above.

NOTE: A separate schedule and related Tax Package may be issued for any other entity types associated with the partner federal identification number shown above.

The transactional information contained below has been utilized to prepare this Tax Package. If this transactional information is incorrect, then the information reported in this Tax Package (as well as the information reported to the IRS) may be incorrect. **To report any errors or inaccuracies, please contact Partner DataLink by email at [EllingtonK1Help@Deloitte.com](mailto:EllingtonK1Help@Deloitte.com), by phone at (855) 237-3734 or by mail at Partner DataLink, Ellington Financial LLC, P.O. Box 8447, Hermitage, TN 37076-8447, by May 15, 2016. Alternatively, you may make changes directly on this form and return it by fax to (215) 982-6302.**

NOTE: If you submit corrections to us after that date, you may be required to file Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request, with the IRS.

***THE SCHEDULE IS NOT PROOF OF OWNERSHIP***

TRANSACTION		BROKER OR CERTIFICATE NUMBER	SHARES
DESCRIPTION	DATE		
AC BUY	12/31/2013	BROKER - MAN	10,000
<b>END OF YEAR SHARES</b>			10,000