Ellington Financial

*Ellington Financial LLC (NYSE: EFC)*

# Fourth Quarter 2016 Earnings Conference Call

February 14, 2017

# Important Notice

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**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 exclusion 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 11, 2016, which can be accessed through the Company’s website at www.ellingtonfinancial.com or at the SEC’s website (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 December 31, 2016 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

# Fourth Quarter 2016

# Operating Results

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| (In thousands, except per share amounts) | | Quarter Ended December 31, 2016 | | Per Share | % of Average Equity | | Quarter Ended September 30, 2016 | | Per Share | % of Average Equity | | Year Ended December 31, 2016 | | Per Share | % of Average Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Credit: | | | | | | | | | | | | | | | |
| Interest income and other income | $ | 11,902 | $ | 0.36 | 1.82% | $ | 11,822 | $ | 0.35 | 1.77% | $ | 51,408 | $ | 1.54 | 7.51% |
| Net realized gain (loss) | | (3,964) | | (0.12) | -0.60% | | 1,999 | | 0.06 | 0.30% | | 5,600 | | 0.17 | 0.82% |
| Change in net unrealized gain (loss) | | (1,354) | | (0.04) | -0.21% | | 7,182 | | 0.22 | 1.07% | | (6,256) | | (0.19) | -0.91% |
| Net interest rate hedges [(1)] | | 1,801 | | 0.05 | 0.27% | | 508 | | 0.02 | 0.08% | | (371) | | (0.01) | -0.05% |
| Net credit hedges and other activities[(2)] | | 257 | | 0.01 | 0.04% | | (16,722) | | (0.50) | -2.50% | | (40,548) | | (1.21) | -5.92% |
| Interest expense | | (1,894) | | (0.06) | -0.29% | | (1,875) | | (0.06) | -0.28% | | (7,665) | | (0.23) | -1.12% |
| Other investment related expenses | | (1,736) | | (0.05) | -0.27% | | (1,576) | | (0.05) | -0.24% | | (6,884) | | (0.21) | -1.01% |
| Total Credit profit (loss) | | 5,012 | | 0.15 | 0.76% | | 1,338 | | 0.04 | 0.20% | | (4,716) | | (0.14) | -0.68% |
| Agency RMBS: | | | | | | | | | | | | | | | |
| Interest income | | 6,485 | | 0.19 | 0.99% | | 4,659 | | 0.14 | 0.70% | | 24,022 | | 0.72 | 3.51% |
| Net realized gain (loss) | | (1,328) | | (0.04) | -0.20% | | 763 | | 0.02 | 0.11% | | 2,257 | | 0.07 | 0.33% |
| Change in net unrealized gain (loss) | | (17,216) | | (0.52) | -2.63% | | 67 | | — | 0.01% | | (3,177) | | (0.10) | -0.46% |
| Net interest rate hedges and other activities [(1)] | | 15,480 | | 0.47 | 2.36% | | 59 | | — | 0.01% | | (8,226) | | (0.25) | -1.20% |
| Interest expense | | (1,597) | | (0.05) | -0.24% | | (1,413) | | (0.04) | -0.21% | | (5,936) | | (0.18) | -0.87% |
| Total Agency RMBS profit (loss) | | 1,824 | | 0.05 | 0.28% | | 4,135 | | 0.12 | 0.62% | | 8,940 | | 0.26 | 1.31% |
| Total Credit and Agency RMBS profit (loss) | | 6,836 | | 0.20 | 1.04% | | 5,473 | | 0.16 | 0.82% | | 4,224 | | 0.12 | 0.63% |
| Other interest income (expense), net | | 150 | | — | 0.02% | | (60) | | — | -0.01% | | 116 | | — | 0.02% |
| Other expenses | | (5,055) | | (0.15) | -0.77% | | (4,863) | | (0.14) | -0.73% | | (20,043) | | (0.60) | -2.93% |
| Net increase (decrease) in equity resulting from operations | $ | 1,931 | $ | 0.05 | 0.29% | $ | 550 | $ | 0.02 | 0.08% | $ | (15,703) | $ | (0.48) | -2.28% |
| Less: Net increase in equity resulting from operations attributable to non-controlling interests | | 239 | | | | | 34 | | | | | 304 | | | |
| **Net increase (decrease) in shareholders' equity resulting from operations [(6)]** | **$** | **1,692** | **$** | **0.05** | **0.26%** | **$** | **516** | **$** | **0.02** | **0.08%** | **$** | **(16,007)** | **$** | **(0.48)** | **-2.36%** |
| Weighted average shares and convertible units [(3)] outstanding | | 33,140 | | | | | 33,306 | | | | | 33,422 | | | |
| Average equity (includes non-controlling interests) [(4)] | $ | 654,979 | | | | $ | 669,935 | | | | $ | 684,754 | | | |
| Ending equity (includes non-controlling interests) | $ | 644,777 | | | | $ | 664,753 | | | | $ | 644,777 | | | |
| Diluted book value per share | $ | 19.46 | | | | $ | 19.83 | | | | $ | 19.46 | | | |
| Weighted average shares and LTIP units outstanding [(5)] | | 32,928 | | | | | 33,094 | | | | | 33,210 | | | |
| Average shareholders' equity (excludes non-controlling interests) [(4)] | $ | 647,832 | | | | $ | 659,205 | | | | $ | 678,226 | | | |

(1) Includes TBAs and U.S. Treasuries, if applicable.
(2) Includes equity and other relative value trading strategies and related hedges.
(3) Convertible units include Operating Partnership units attributable to non-controlling interests and LTIP units.
(4) Average equity and average shareholders' equity are calculated using month end values.
(5) Excludes Operating Partnership units attributable to non-controlling interests.
(6) Per share information is calculated using weighted average shares and LTIP units outstanding. Percentage of average equity is calculated using average shareholders' equity, which excludes non-controlling interests.

# Ellington Financial: Fourth Quarter Highlights

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| **Overall Results** | ■ Net income of $1.7 million, or $0.05 per share<br>■ Continued to shrink our high yield credit hedges during the quarter<br>  ■ We estimate that in our structured credit portfolios we've reduced our corporate credit hedges by over 98% as compared to 12/31/15.<br>■ Increased invested assets in Credit and Agency RMBS strategies as well as leverage<br>  ■ Credit portfolio increased from $490mm to $552mm (including certain synthetic positions) |
| **Credit Strategy** | ■ Credit strategy gross income of $5.0 million(1), or $0.15 per share<br>  ■ Relative to the third quarter, credit hedges tied to high-yield corporate credit produced much less of a drag on earnings<br>  ■ As interest rates rose, interest rate hedges generated net gains<br>  ■ Net carry on assets partially offset by net realized and unrealized losses<br>    ■ Strong performance during the quarter from non-Agency RMBS and small balance commercial mortgage loans<br>    ■ Weak performance from consumer loans during the quarter<br>      ■ Valuation decline recognized on one underperforming consumer loan flow agreement; terminated that flow agreement<br>      ■ Losses on high-yield corporate credit hedges; no longer hold any high-yield corporate credit hedges against our consumer loan portfolio<br>    ■ Weak performance from CMBS during the quarter<br>      ■ CMBX hedges, while performing well for the full year, generated losses in the fourth quarter |
| **Agency RMBS Strategy** | ■ Agency RMBS strategy gross income of $1.8 million(1), or $0.05 per share<br>  ■ Declines in asset prices offset by gains on interest rate hedges<br>  ■ Performance was especially noteworthy given the large interest rate increase in the quarter |

(1) Gross income includes interest income, other income, net realized and change in net unrealized gains (losses), net interest rate hedges, net credit hedges and other activities, interest expense, and other investment related expenses, if applicable. It excludes other interest income (expense), management fees, and other expenses.

# Ellington Financial: Fourth Quarter Highlights (continued)

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| **Operating Expenses** | ■ Core expenses of $5.1 million–includes base management fees and other operating expenses<br>    ■ Expense ratio of 3.1% for the fourth quarter |
| **Leverage** | ■ Debt to equity ratio (excluding U.S. Treasury securities): 1.63:1 as of December 31, 2016 |
| **Portfolios** | ■ Total Long Credit Portfolio: $552(1) million as of December 31, 2016 as compared to $490(1) million as of September 30, 2016<br>■ Agency Long Portfolio: $827 million as of December 31, 2016, as compared to $808 million as of September 30, 2016 |
| **Book Value and Shareholders' Equity** | ■ December 31, 2016 diluted book value per share of $19.46, after a $0.45 third quarter dividend paid in December, as compared to $19.83 per share as of September 30, 2016<br>    ■ During the fourth quarter repurchased approximately 324,000 shares at an average price per share of $16.13; accretive impact: $0.04 per share<br>    ■ For the year, accretive impact of share repurchases: $0.09 per share<br>    ■ Total equity of $644.8 million as of December 31, 2016, as compared to $664.8 million as of September 30, 2016 |
| **Dividends and Share Buybacks** | ■ 4th quarter dividend of $0.45 per share announced on February 8, 2017<br>■ Annualized dividend yield of 11.1% based on the February 10, 2017 closing price of $16.15<br>    ■ We continue to expect to recommend to our Board of Directors a quarterly dividend amount of $0.45 per share(2) until conditions warrant otherwise |

(1) Credit portfolio includes loan equivalent value related to long total return swaps on distressed corporate debt, which is based on the value of the underlying loans.

(2) We cannot assure you that we will pay any future dividends to our shareholders. The declaration and amount of future dividends remain at the discretion of the Company's Board of Directors.

# Ellington Financial: Credit Strategy

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| **Overall Market Conditions** | ■ Fourth quarter of 2016 was characterized by sharply higher interest rates and increased market volatility<br>■ Rise in long-term interest rates during the fourth quarter was one of the largest quarterly increases ever<br>■ Speculation of market participants around policy goals of the new administration and Congress such as a lowering of corporate income tax rates, increased infrastructure spending, and a roll-back in regulation, contributed to market volatility<br>■ Within the broader fixed-income sector, credit sensitive securities, (including non-Agency MBS) rallied strongly during the quarter, in sympathy with the equity markets and other sectors<br>■ Fundamentals underlying non-Agency RMBS continue to be strong, led by a stable housing market<br>■ The combination of very low or even negative yields on many high quality sovereign bonds, together with persistent central bank buying of corporate bonds, drove yields on global high quality corporate bonds to record low levels, and pushed more overseas institutional investors into the U.S. corporate bond markets, including the high-yield corporate bond market |
| **Portfolio Trends** | ■ During the fourth quarter, we increased holdings in our loan portfolios<br>■ Small balance commercial mortgage—opportunities expected to accelerate in both distressed loans and bridge loans, as many commercial mortgage loans reach their maturity but are unable to be refinanced<br>■ Resi NPLs—closed two purchases of mixed NPL pools during the quarter and began financing NPLs through a new repo facility<br>■ Non-QM mortgage loans— Loan performance has been excellent and the number of states where our origination partner is producing loans for us has increased according to expectations<br>■ Consumer loans—Terminated one underperforming flow agreement and continued to purchase consumer loans under three existing flow agreements that collectively have outperformed expectations; in active negotiations to add a new flow agreement<br>■ Continued to net sell down our U.S. non-Agency RMBS, although we did so at a reduced pace relative to prior periods<br>■ Increased holdings of other credit sectors, including CMBS, CLOs, distressed debt |

# Ellington Financial: Agency Strategy

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| **Overall Market Conditions** | ▪ The yield curve steepened substantially during the quarter<br>  ▪ 10-year Treasury yield increased 85 basis points to end the fourth quarter at 2.44%<br>  ▪ 2-year U.S. Treasury yield increased 43 basis points to 1.19%<br>  ▪ 30-year mortgage rate increased 90 basis points over the course of the quarter, ending the fourth quarter at 4.32%<br>▪ Market for Agency RMBS changed dramatically during the fourth quarter<br>  ▪ At the beginning of the quarter, low mortgage rates provided the potential for ongoing increases in refinancing activity<br>  ▪ By the end of the quarter markedly higher mortgage rates eliminated the incentive for many borrowers to refinance<br>  ▪ As the quarter progressed, Agency RMBS declined substantially in price and their durations extended, exacerbating further price declines<br>▪ Agency RMBS prepayment rates slowed over the course of the fourth quarter as mortgage rates increased<br>▪ In light of the increase in interest rates over the course of the fourth quarter, pay-ups on specified pools fell |
| **Portfolio Trends** | ▪ Agency RMBS principally comprised of specified pools; average pay-ups on our specified pools decreased to 0.76% as of December 31, 2016 from 1.12% as of September 30, 2016<br>▪ On a quarter-over-quarter basis, the relative proportion of our short TBAs increased and our interest rate swaps decreased<br>▪ Continued to focus our Agency RMBS purchasing activity primarily on specified pools, especially those with higher coupons |

# Ellington Financial: Outlook

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| **Credit** | ■ We expect to continue to hold a diversified Credit portfolio, primarily consisting of:<br>  ■ Loans, including:<br>    ■ Consumer Loans and ABS, with an emphasis on establishing a steady pipeline through flow agreements<br>    ■ Small Balance Commercial Mortgage Loans, especially distressed loans<br>    ■ Non-QM Mortgage Loans<br>    ■ European MBS and NPLs (mortgage and consumer)<br>    ■ Residential NPLs, especially smaller, off-the-run packages<br>  ■ Securities, including<br>    ■ Non-Agency RMBS, with continued focus on legacy securities, opportunistically buying and selling as yield spreads fluctuate<br>    ■ CMBS, especially "B-pieces" where the new issue market provides opportunities to "manufacture" risk efficiently<br>    ■ CLOs and distressed debt, as attractive market opportunities arise<br>  ■ Other strategic investments, such as direct investments in Mortgage Originators<br>■ We expect to continue to opportunistically hedge credit risk, tailored to the evolving risks of our portfolio |
| **Agency** | ■ Technological advances in the mortgage origination and servicing industry have tended to have a much greater impact on non-specified pools as compared to specified pools. We believe that this trend will continue, driving greater investor interest in specified pools relative to TBAs<br>■ Focus on purchasing pools with specific prepayment characteristics provides a measure of protection against prepayments |

# Credit Portfolio

# EFC: Long Credit Portfolio

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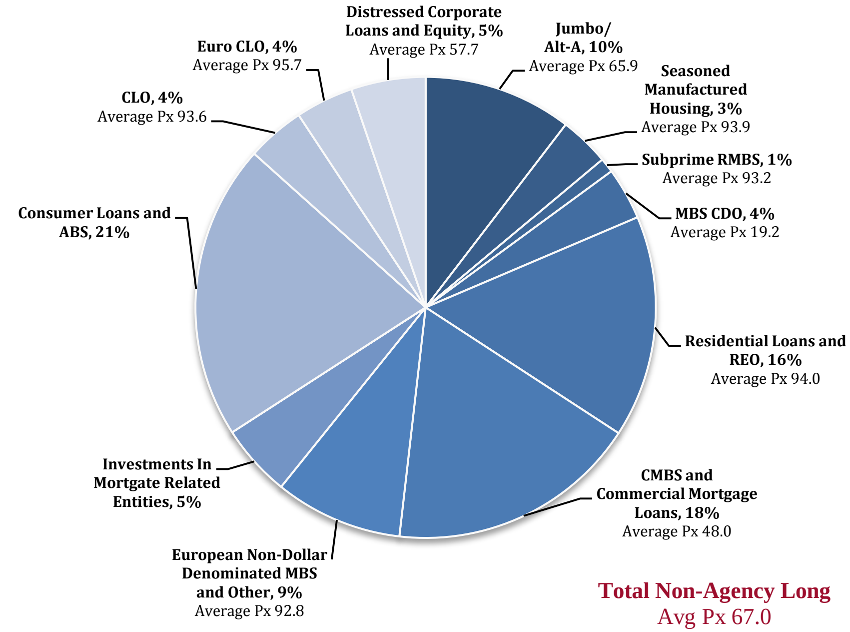
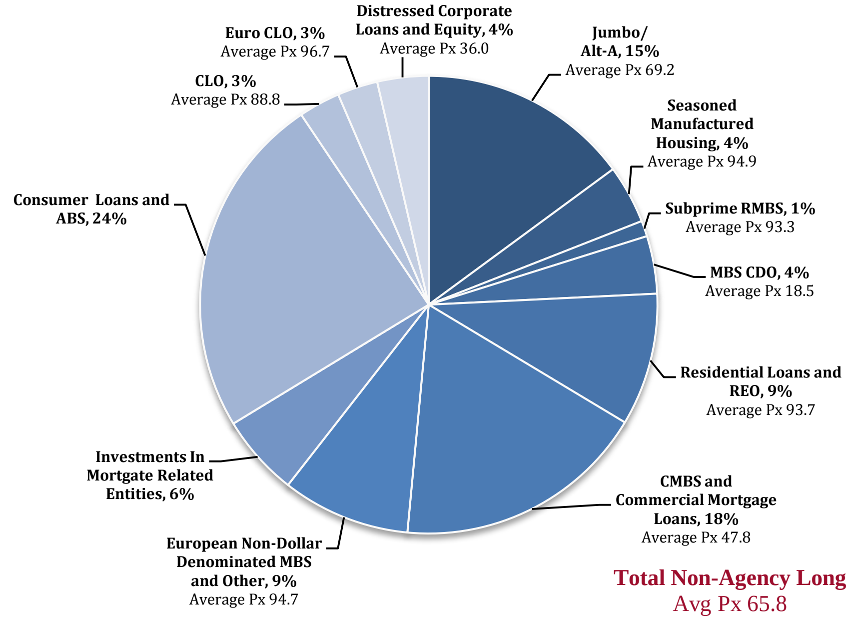
| Current Quarter<br>Long Credit Portfolio 12/31/16: $552MM(1)(2) | Previous Quarter<br>Long Credit Portfolio 9/30/16: $490MM(1)(2) |
|---|---|




**Total Non-Agency Long**
Avg Px 67.0




**Total Non-Agency Long**
Avg Px 65.8

- **During the fourth quarter:**
  - Continued to sell non-Agency RMBS
  - Increased pace of purchases of non-QM residential mortgage loans (included above in “Residential Loans and REO”)

(1) This information does not include interest rate swaps, TBA positions, corporate CDS, common stock and equity swaps, or other hedge positions. Credit portfolio includes loan equivalent value related to long total return swaps on distressed corporate debt, which is based on the value of the underlying loans. The loan equivalent value of long total return swaps included in the long credit portfolio was $5.0 million as of December 31, 2016 and $11.3 million as of September 30, 2016. The corresponding value of the related total return swaps on distressed corporate debt was $(94) thousand as of December 31, 2016 and $(1.0) million as of September 30, 2016.

(2) Average price excludes interest only, principal only, equity tranches and other similar investments, and REO at December 31, 2016 and September 30, 2016.

# EFC: Long Credit Portfolio (continued)

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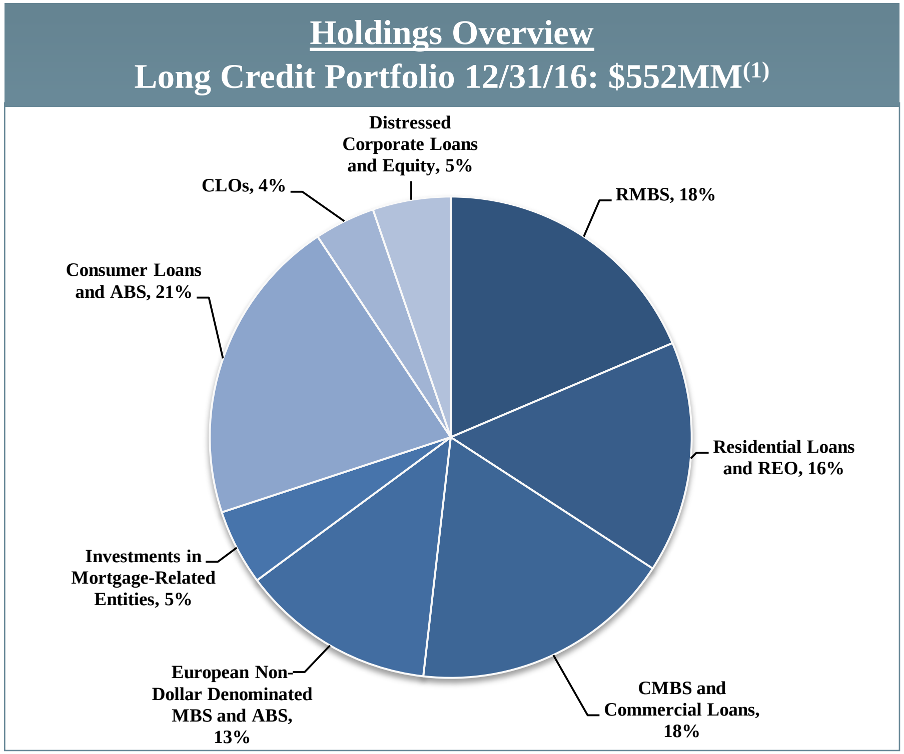


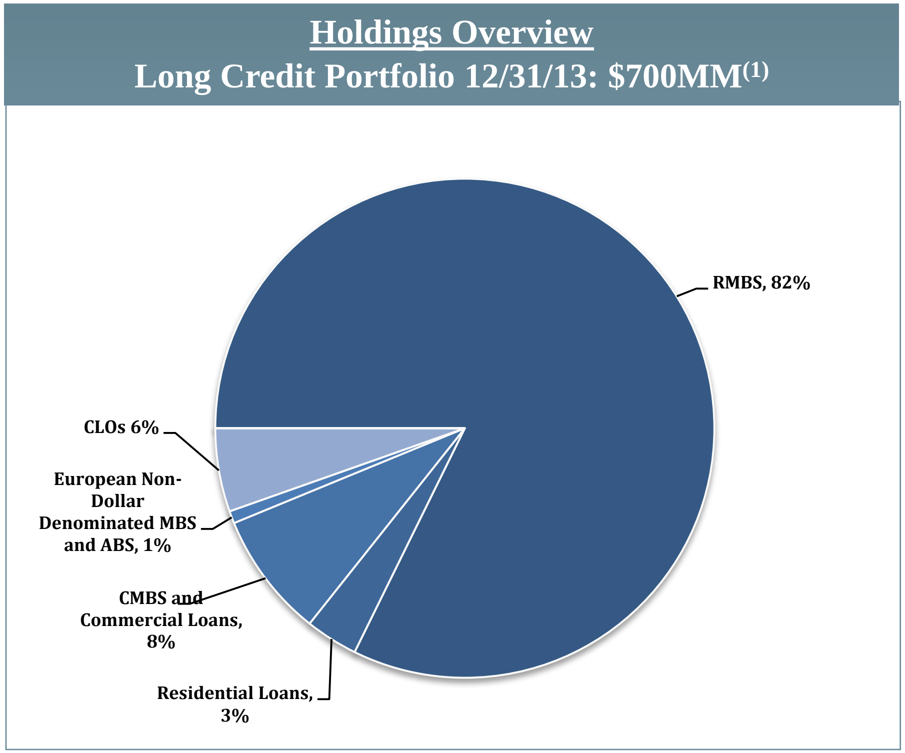


- As the above charts demonstrate, we have significantly altered and diversified our sources of return in our Credit portfolio since the end of 2013
- We continue to allocate capital in sectors where we believe our analytical expertise, research and systems provide an edge that will allow us to generate attractive loss-adjusted returns
- We expect to opportunistically vary the size of non-Agency RMBS, CMBS, CLOs and distressed debt portfolios as market conditions change

(1) This information does not include interest rate swaps, TBA positions, corporate CDS, common stock and equity swaps, or other hedge positions. As of December 31, 2016, credit portfolio includes loan equivalent value in the amount of $5.0 million related to long total return swaps on distressed corporate debt. The corresponding value of the related total return swaps on distressed corporate debt was $(94) thousand.

# EFC: Long Credit Portfolio as of December 31, 2016

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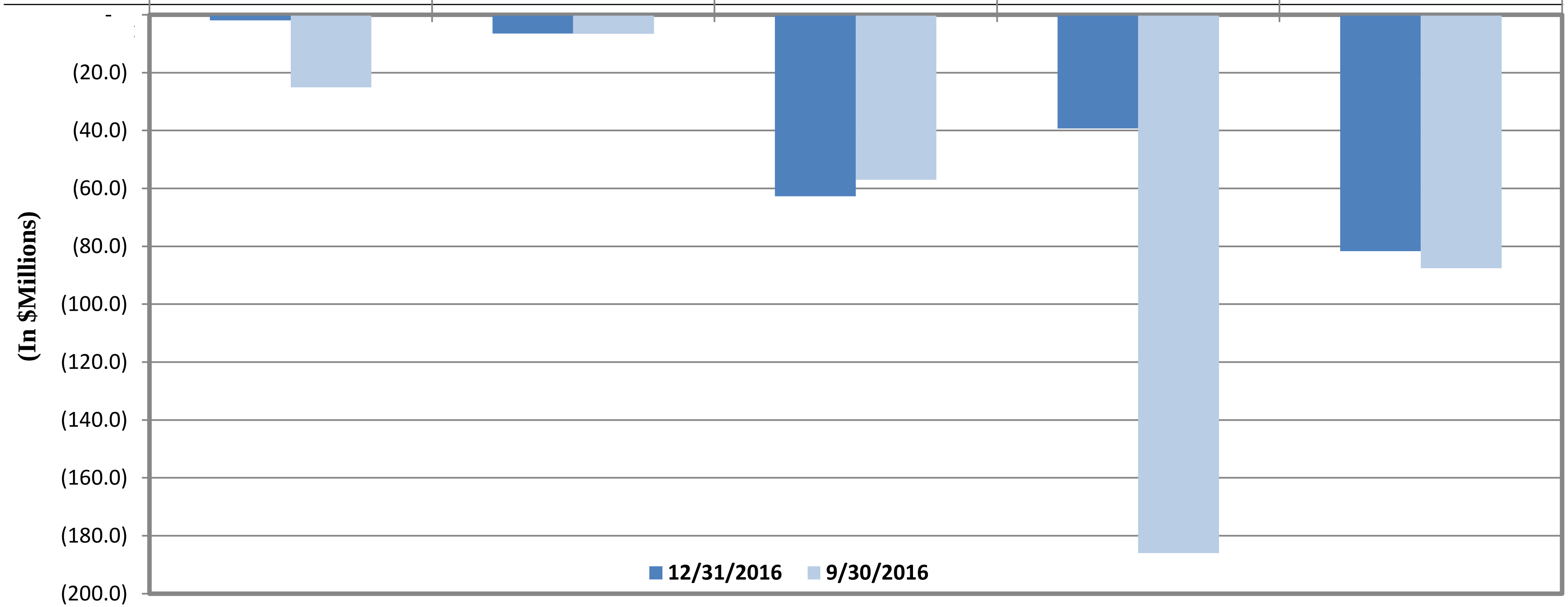
- Credit strategy is the main driver of earnings
- Long Credit securities and loan portfolio value: $526.6 million—excludes REO and equity investments in mortgage related entities

| Credit Sector | Fair Value (millions) | Average Price [1] | Weighted Average Life [2] | Est. Yield at Market Price at Ellington HPA Forecast [3] |
|---|---|---|---|---|
| Non-Agency RMBS | $102.7 | 47.1% | 5.4 | 6.09% |
| Residential Loans | 84.3 | 94.0 | 17.8 | 7.07 |
| CMBS and Commercial Mortgage Loans | 95.7 | 48.0 | 4.3 | 16.22 |
| European Non-Dollar Denominated MBS and Other | 49.6 | 92.8 | 4.6 | 12.28 |
| CLO | 45.0 | 94.7 | 3.2 | 11.49 |
| Consumer Loans and ABS | 114.4 | N/A | 1.0 | 10.82 |
| Distressed Corporate Loans | 24.9 | 57.7 | 3.0 | 11.00 |
| Other | 10.0 | 95.0 | 3.2 | 16.93 |
| **Total** | **$526.6** | **67.0** | **6.0** | **10.66** |

(1) Average price excludes interest only, principal only, equity tranches and other similar securities and non-exchange traded corporate equity. All averages in this table are weighted averages using fair value, except for average price which uses current principal balance.
(2) Weighted average life assumes "projected" cashflows using Ellington's proprietary models. Excludes interest only, principal only, equity tranches .
(3) Estimated yields at market prices are management's estimates derived from Ellington's proprietary models based on prices and market environment as of 12/31/2016 and include the effects of future estimated losses. The above analysis should not be considered a recommendation to purchase or sell any security or class of securities. Results are based on forward-looking models, which are inherently imperfect, and incorporate various simplifying assumptions. Therefore, the table above is for illustrative purposes only and the actual performance of our portfolio may differ from the data presented above, and such differences might be significant and adverse.

# EFC: Credit Hedging Portfolio[(1)(2)]

| Instrument Category | Corporate CDS Indices / Tranches / Options / Single Names | Single Name ABS CDS and ABX Indices | European Sovereign Debt | Corporate Bonds/Corporate Bond ETFs/Equities | CMBX |
|---|---|---|---|---|---|
| Units | HY CDX OTR Bond Equivalent Value[(3)(4)] | Bond Equivalent Value[(4)] | Market Value | Market Value | Bond Equivalent Value[(4)] |




(1) The Credit Hedging Portfolio excludes both legs of certain relative value trades which we believe do not affect the overall hedging position of the portfolio. Consequently, the amounts shown here may differ materially (i) from those that would be shown were all positions in the included instruments displayed and (ii) from those presented in the Company's Schedule of Investments.

(2) There can be no assurance that instruments in the Credit Hedging Portfolio will be effective portfolio hedges.

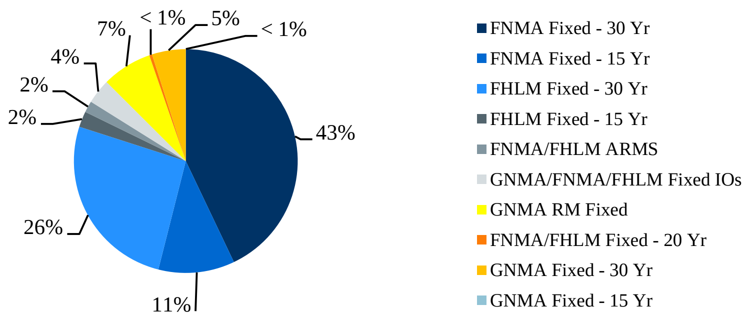
(3) Corporate derivatives displayed in HY CDX OTR Equivalents represent the net, on-the-run notional equivalents of Markit CDX North American High Yield Index (the "HY Index") of those derivatives converted to equivalents based on techniques used by the Company for estimating the price relationships between them and the HY Index. These include estimations of the relationships between different credits and even different sectors (such as the US high yield, European high yield, and US investment grade debt markets). The Company's estimations of price relationships between instruments may change over time. Actual price relationships experienced may differ from those previously estimated.

(4) Bond Equivalent Value represents 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. Corporate CDS Indices, Tranches, Options and Single Names are converted to HY CDX OTR Equivalents prior to being displayed as Bond Equivalent Values.

# Agency Portfolio

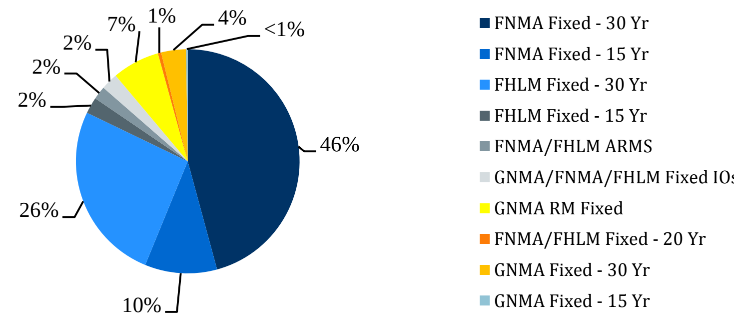
# EFC: Agency Long Portfolio

## Current Quarter
## Agency Long Portfolio 12/31/16: $827MM(1)



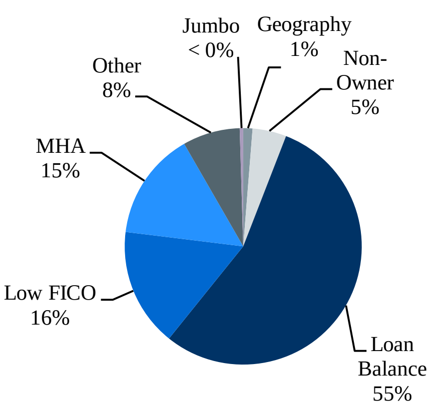

**Weighted Average Coupon: 4.01%(6)**

## Previous Quarter
## Agency Long Portfolio 9/30/16: $808MM(1)



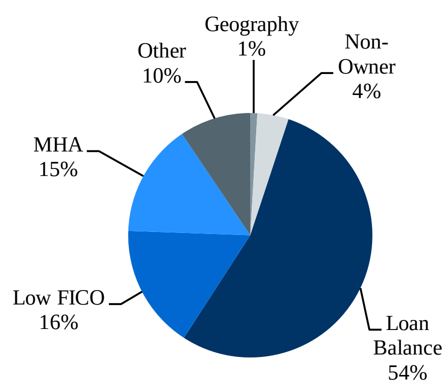

**Weighted Average Coupon: 4.09%(6)**

## Collateral Characteristics and Historical 3-month CPR
## For the Quarter Ended December 31, 2016(2)




| Characteristic(3) | Fair Value(2)(4) | 3-Month Historical CPR(3) |
|---|---|---|
| **Geography** | **$8.8** | **0.2** |
| **Non-Owner** | **32.4** | **18.0** |
| **Low Loan Bal** | **384.6** | **12.6** |
| **Low FICO** | **113.4** | **12.4** |
| **MHA(5)** | **103.4** | **11.2** |
| **Other** | **54.8** | **20.2** |
| **Jumbo** | **3.3** | **44.7** |
| **Totals** | **$700.7** | **15.0** |

## Collateral Characteristics and Historical 3-month CPR
## For the Quarter Ended September 30, 2016(2)



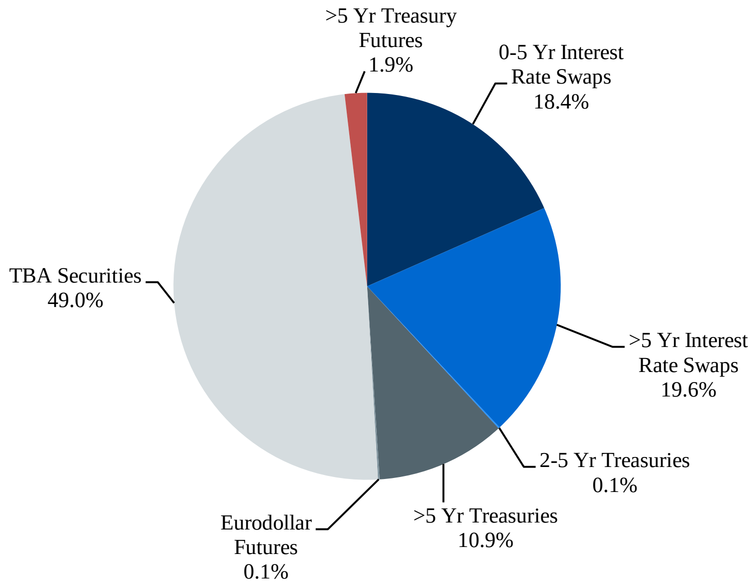

| Characteristic(3) | Fair Value(2)(4) | 3-Month Historical CPR(3) |
|---|---|---|
| **Geography** | **$6.6** | **5.4** |
| **Non-Owner** | **29.5** | **9.3** |
| **Low Loan Bal** | **384.5** | **10.1** |
| **Low FICO** | **116.8** | **15.3** |
| **MHA(5)** | **106.5** | **13.6** |
| **Other** | **67.2** | **19.9** |
| **Jumbo** | **-** | **-** |
| **Totals** | **$711.1** | **12.2** |

(1) Does not include long TBA positions with a notional value of $67.7 million and a fair value of $70.5 million as of December 31, 2016 and a notional value of $160.5 million and a fair value of $170.2 million as of September 30, 2016. Agency long portfolio includes $797.8 million of long Agency securities at December 31, 2016 and $788.0 million of long Agency securities at September 30, 2016. Additionally, the long Agency portfolio includes $29.6 million of interest only securities at December 31, 2016 and $19.8 million of interest only securities at September 30, 2016.
(2) Excludes reverse mortgage pools.
(3) Classification methodology may change over time as market practices change.
(4) Fair values are shown in millions.
(5) "MHA" indicates those pools where underlying borrowers have participated in the Making Homes Affordable program.
(6) Represents weighted average net pass-through rate. Excludes interest only securities.

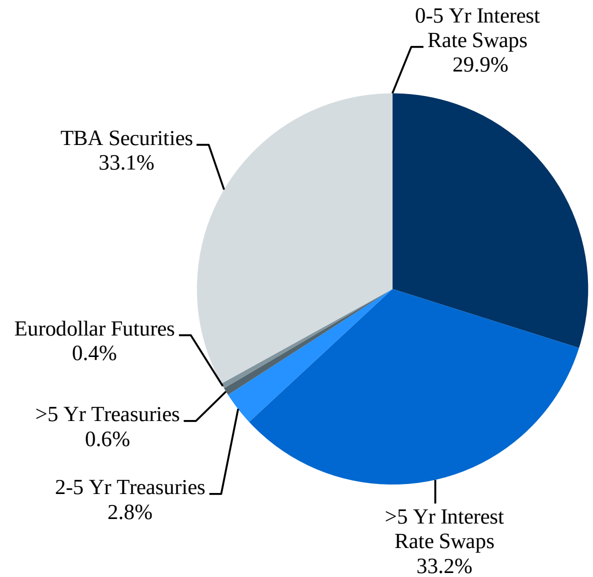
# EFC: Agency Interest Rate Hedging Portfolio

Ellington Financial

**Current Quarter**
**Agency Interest Rate Hedging Portfolio 12/31/16: Short $331 MM 10-year equivalents**




**Previous Quarter**
**Agency Interest Rate Hedging Portfolio 9/30/16: Short $201 MM 10-year equivalents**




- Agency interest rate hedges are shown in normalized units of risk, with each group of positions measured in "10-year equivalents"
- Size of hedging portfolio increased as asset portfolio increased in duration
  - Increased net short TBAs relative to interest rate swaps and U.S. Treasury securities

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

# EFC: Agency Interest Rate Hedging Portfolio (continued)

Ellington Financial

## Calculation of Exposure to Agency Pools Based on Fair Value:

**(In millions)**

| **Agency-related Portfolio** | **12/31/2016** | **9/30/2016** |
|---|---|---|
| Long Agency RMBS | $798 | $788 |
| Net Short TBAs | (390) | (393) |
| **Net Long Exposure to Agency RMBS** | **$408** | **$395** |

- Shorting "generic" pools (or TBAs) allows EFC to significantly reduce interest rate risk and basis risk in its Agency portfolio; interest rate risk is also hedged with swaps, U.S. Treasury securities, and other instruments
- For those Agency pools hedged with comparable TBAs, the biggest risk is a drop in "pay-ups"; average market pay-up was 0.76% of the value of our fixed rate Agency pool portfolio as of December 31, 2016, down from 1.12% as of September 30, 2016

## Estimated Change in Fair Value as of 12/31/16 for Agency Pools, Agency IOs, and Related Hedges if Interest Rates Move:

| **(In thousands)** | **Down 50 BPS** | **Up 50 BPS** |
|---|---|---|
| Agency RMS - ARM Pools | $72 | ($83) |
| Agency RMBS - Fixed Pools and IO | 12,871 | (16,692) |
| TBAs | (5,880) | 8,001 |
| Interest Rate Swaps | (5,495) | 5,263 |
| U.S. Treasury Securities | (1,589) | 1,513 |
| Eurodollar and U.S. Treasury Futures | (287) | 278 |
| Repurchase and Reverse Repurchase Agreements | (450) | 448 |
| **Total** | **($758)** | **($1,272)** |

Note: The above table reflects a parallel shift in interest rates based on the market environment as of December 31, 2016. The preceding analysis does not include sensitivities to changes in interest rates for categories of 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. Results are based on forward-looking models, which are inherently imperfect, and incorporate various simplifying assumptions. Therefore, the table above is for illustrative purposes only and actual changes in interest rates would likely cause changes in the actual value of our portfolio that would differ from those presented above, and such differences might be significant and adverse.

# Borrowings

# EFC: Repo Borrowings as of December 31, 2016

Ellington Financial

| ($ in thousands) | Repo Borrowings | | | | |
|---|---|---|---|---|---|
| Remaining Days to Maturity | Credit | Agency | U.S. Treasury | Total | % of Total Borrowings |
| 30 Days or Less | $94,849 | $405,725 | $5,428 | $506,002 | 49.0% |
| 31-60 Days | 26,974 | 195,288 | — | 222,262 | 21.5% |
| 61-90 Days | 41,522 | 149,965 | — | 191,487 | 18.5% |
| 91-120 Days | 10,084 | 8,240 | — | 18,324 | 1.8% |
| 121-150 Days | 1,239 | 11,798 | — | 13,037 | 1.2% |
| 151-180 Days | 12,616 | 19,296 | — | 31,912 | 3.1% |
| 181-360 Days | 50,557 | — | — | 50,557 | 4.9% |
| > 360 Days | — | — | — | — | —% |
| **Total Borrowings** | **237,841** | **790,312** | **5,428** | **1,033,581** | **100.0%** |
| Weighted Average Remaining Days to Maturity | 105 | 41 | 4 | 56 | |

- As of December 31, 2016:
  - Repo borrowings outstanding were with 21 counterparties
  - Repo borrowings had a weighted average remaining days to maturity of 56 days; maturities are staggered to mitigate liquidity risk
  - EFC had securitized debt outstanding in the amount of $24.1 million (not included above), collateralized by certain small balance commercial loans and REO. This debt amortizes until its maturity in September 2018.

Note: Included in the above table, using the original maturity dates, are any reverse repos involving underlying investments the Company sold prior to December 31, 2016 for settlement following December 31, 2016 even though the company may expect to terminate such reverse repos early. Not included are any reverse repos that the Company may have entered into prior to December 31, 2016, for which delivery of the borrowed funds is not scheduled until after December 31, 2016. Remaining maturity for a reverse repo is based on the contractual maturity date in effect as of December 31, 2016. Some reverse repos have floating interest rates, which may reset before maturity.

# EFC: Average Cost of Borrowings

Ellington Financial

| ($ In thousands) | As of December 31, 2016 | For the Quarter Ended December 31, 2016 | |
|---|---|---|---|
| Collateral for Borrowing | Outstanding Borrowings | Average Borrowings for the Quarter Ended | Average Cost of Funds |
| Credit | $261,927 | $243,712 | 3.09% |
| Agency RMBS | 790,312 | 768,137 | 0.83% |
| **Total excluding U.S. Treasury Securities** | 1,052,239 | 1,011,849 | 1.37% |
| U.S. Treasury Securities | 5,428 | 6,208 | 0.54% |
| **Total** | **1,057,667** | **$1,018,057** | **1.37%** |
| Leverage Ratio[1] | 1.64:1 | | |
| Leverage Ratio Excluding U.S. Treasury Securities[1] | 1.63:1 | | |

- As of December 31, 2016, weighted average borrowing rates were 2.89% for Credit borrowings and 0.89% for Agency repo
  - Increasing portion of Credit borrowings related to loans, which generally carry higher borrowing rates

(1) The debt-to-equity ratio does not account for liabilities other than debt financings. The Company's debt financings consist of reverse repos in the amount of $1,033.6 million and securitized debt in the amount of $24.1 million as of December 31, 2016.

# Supplemental Information

# EFC: Gross Profit and Loss

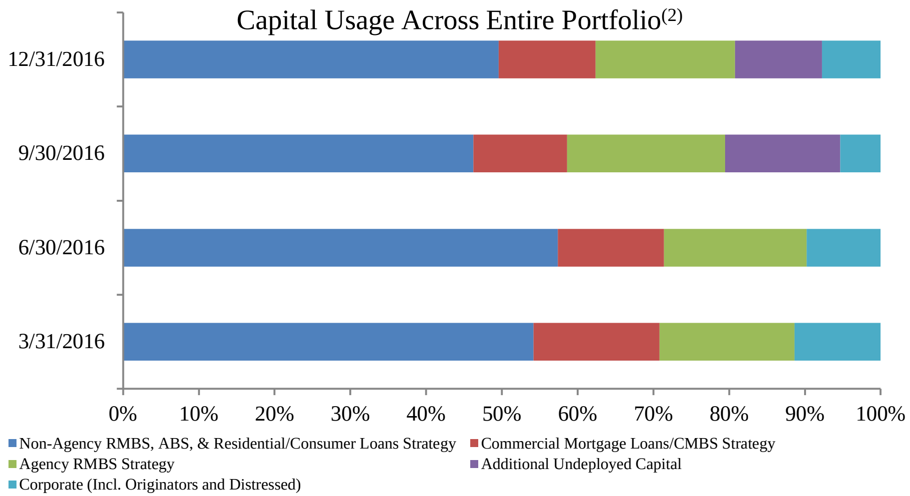
Ellington Financial

| | Years Ended | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2014 | | 2013 | | 2012 | | 2011 | | 2010 | | 2009 | | 2008 | |
| ($ In thousands) | $ | % | $ | % | $ | % | $ | % | $ | % | $ | % | $ | % | $ | % | $ | % |
| Long: Credit | 36,203 | 5.29 | 46,892 | 6.09 | 77,636 | 11.38 | 109,536 | 18.53 | 129,830 | 30.02 | 1,505 | 0.39 | 70,840 | 21.87 | 101,748 | 36.33 | (64,565) | (26.20) |
| Credit Hedge and Other | (40,548) | (5.92) | 10,671 | 1.38 | (1,197) | (0.17) | (19,286) | (3.26) | (14,642) | (3.39) | 19,895 | 5.16 | (7,958) | (2.46) | 10,133 | 3.62 | 78,373 | 31.81 |
| Interest Rate Hedge: Credit | (371) | (0.05) | (4,899) | (0.64) | (9,479) | (1.39) | 8,674 | 1.47 | (3,851) | (0.89) | (8,171) | (2.12) | (12,150) | (3.75) | (1,407) | (0.50) | (3,446) | (1.40) |
| Long: Agency | 17,166 | 2.51 | 23,629 | 3.07 | 61,126 | 8.97 | (14,044) | (2.39) | 37,701 | 8.72 | 63,558 | 16.47 | 21,552 | 6.65 | 22,171 | 7.92 | 4,763 | 1.93 |
| Interest Rate Hedge and Other: Agency | (8,226) | (1.20) | (17,166) | (2.23) | (47,634) | (6.99) | 19,110 | 3.23 | (20,040) | (4.63) | (54,173) | (14.04) | (14,524) | (4.48) | (8,351) | (2.98) | (6,414) | (2.60) |
| **Gross Profit (Loss)** | **4,224** | **0.63** | **59,127** | **7.67** | **80,452** | **11.80** | **103,990** | **17.58** | **128,998** | **29.83** | **22,614** | **5.86** | **57,760** | **17.83** | **124,294** | **44.39** | **8,711** | **3.54** |

Note: Gross profit excludes expenses other than interest expense and other investment related expenses. Figures in "%" columns are as a percentage of average equity for the period.

# EFC: Capital and Leverage[1]

Ellington Financial




## Notes

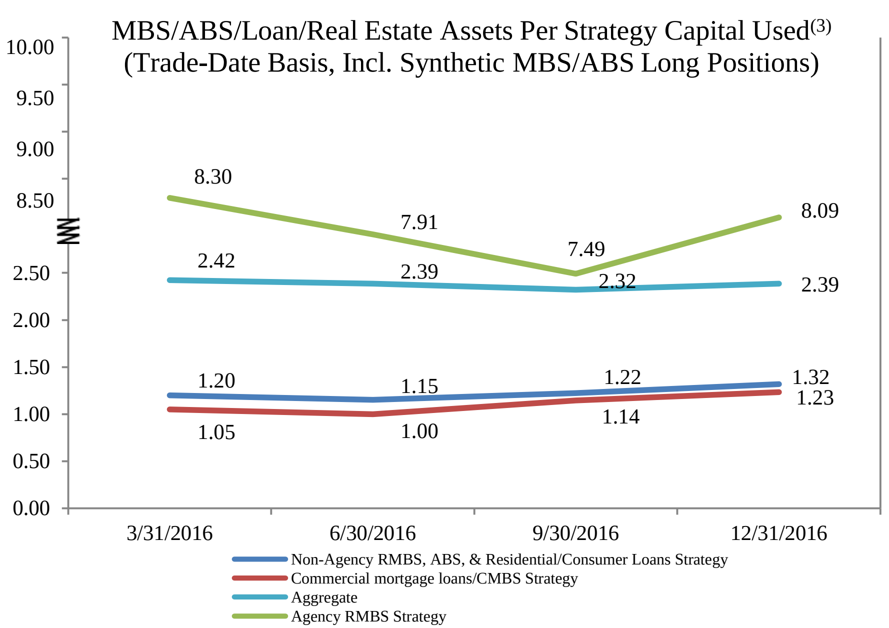
(1) Excludes U.S. Treasury securities

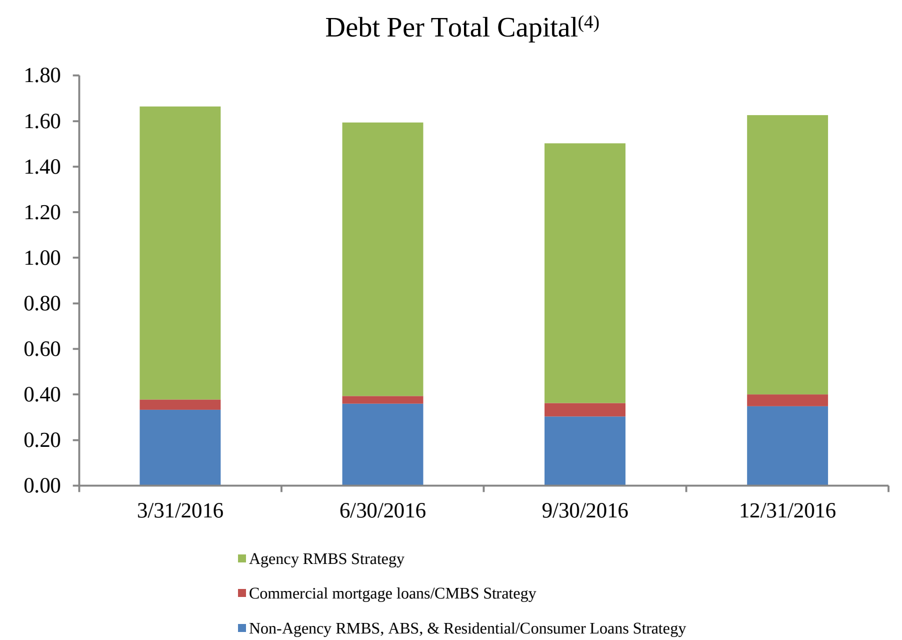
(2) Capital usage based on pro forma calculation of leverage generally applicable to long positions in target asset classes.

(3) Assets per strategy capital used includes in the numerator holdings on a trade date basis of:

- long cash bond holdings of MBS/ABS (such as CMOs, CDOs, CLOs Agency pools)
- long holdings of unsecuritized residential and commercial mortgage loans, consumer and corporate loans
- bond equivalent amount of synthetic long holdings of MBS/ABS (in the form of single name and index ABS CDS)
- long TBA positions held for investment, rather than hedging purposes
- other long investment holdings

(4) Debt per total capital includes in the numerator repo borrowings and securitized debt

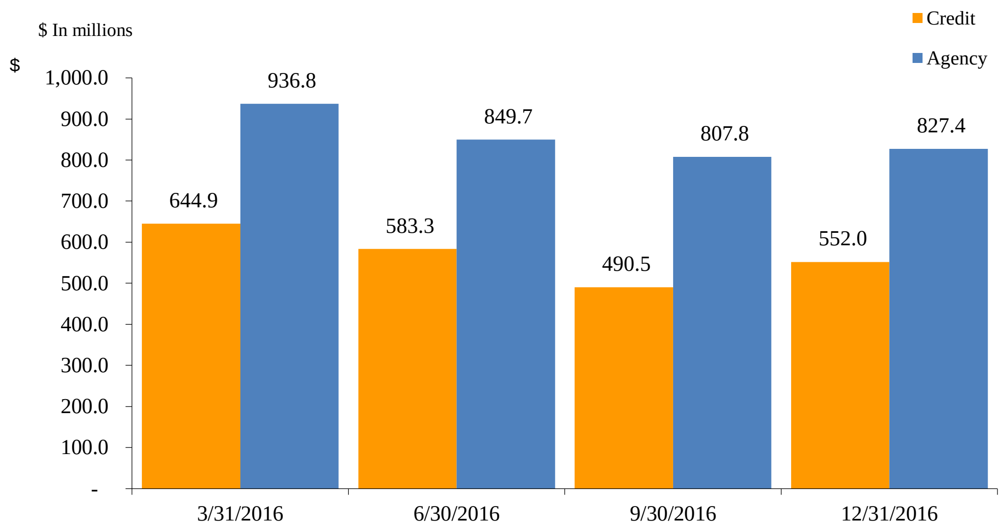


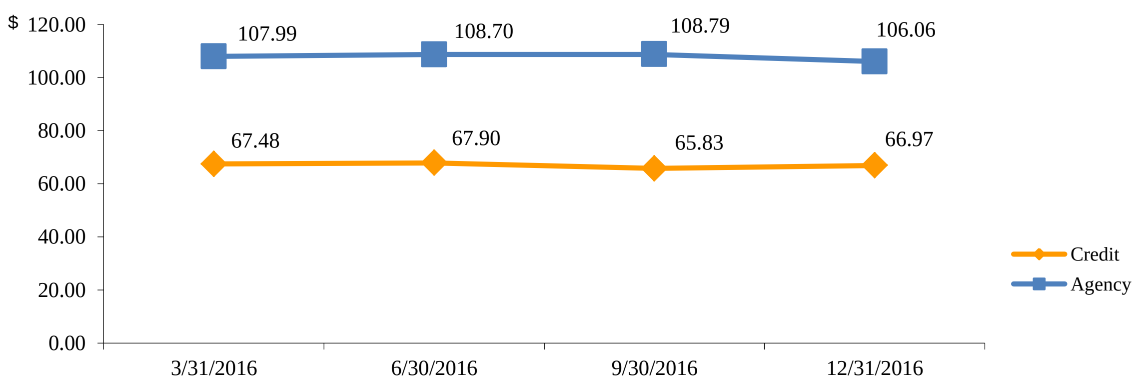
# EFC: Credit and Agency Fair Values and Average Prices

Ellington Financial

## Credit and Agency Portfolios by Fair Value

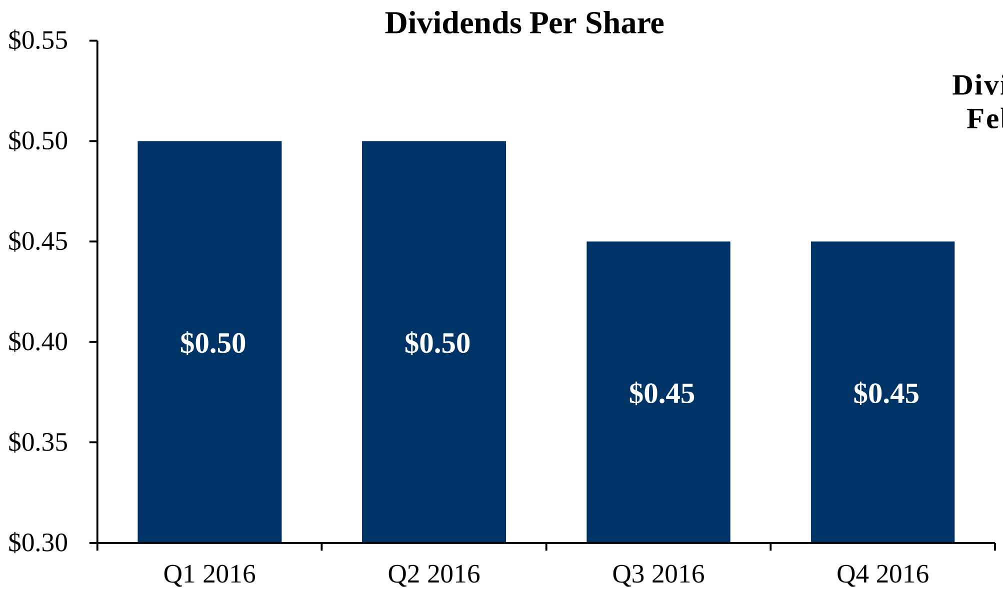



## Average Price – Credit and Agency[1]

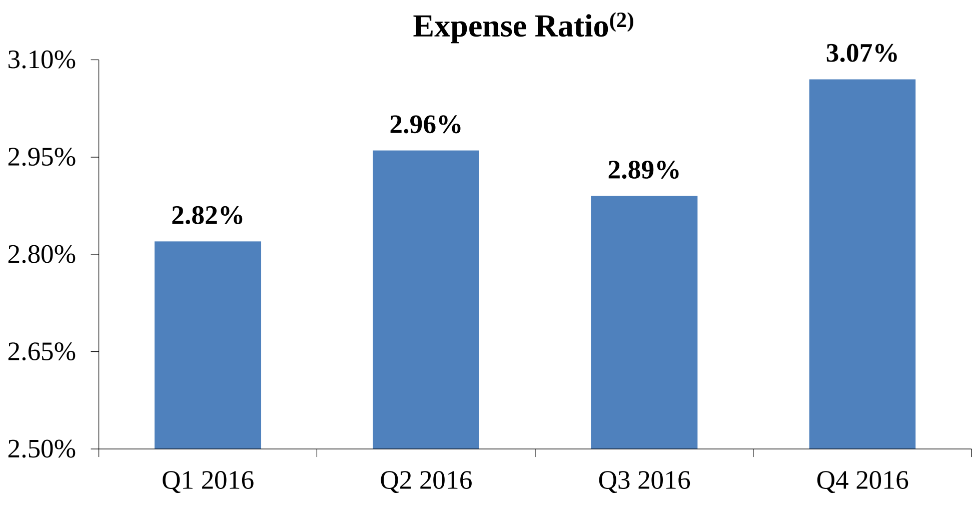



(1) Excludes interest only, principal only, equity tranches and other similar investments and REO

# EFC: Dividends and Expense Ratio




**Dividend Yield as of February 10, 2017**
**11.1%[(1)]**

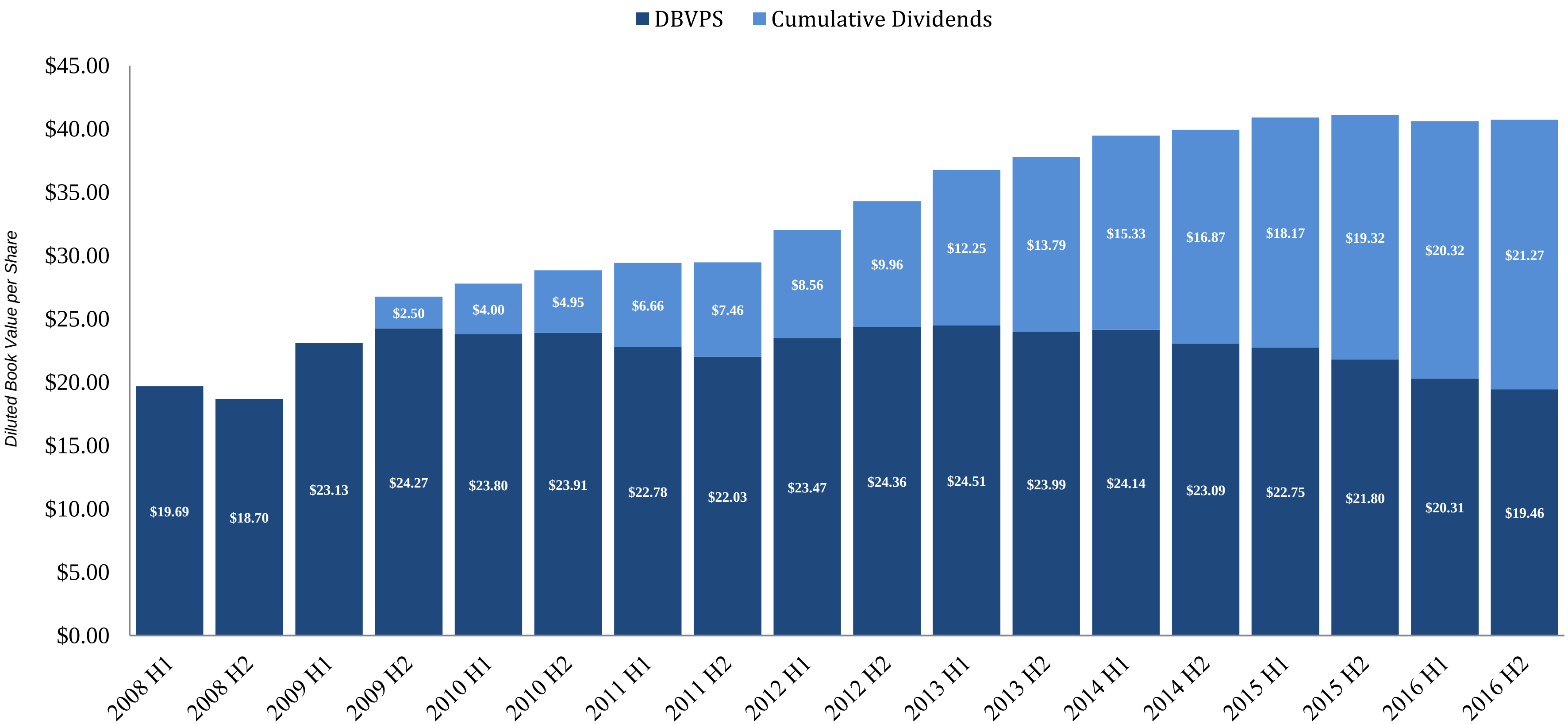



(1) Based on NYSE closing price as of 02/10/2017.
(2) Expense ratios annualized.

# EFC: Diluted Book Value

Ellington Financial

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




- EFC life-to-date diluted net-asset-value-based total return from inception in August 2007 through Q4 2016 is approximately 157%, or 10.6% annualized

Note: Total return is based on $18.61 net diluted book value per share at inception in August 2007 and is calculated assuming the reinvestment of dividends at diluted book value per share and assumes all convertible units were converted into common shares at their issuance dates. Dividends were paid in the quarter following the period related to such performance.

# Income Statement

(Unaudited)

Ellington Financial

ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF OPERATIONS

| *(In thousands, except per share data)* | Three Month Period Ended December 31, 2016 | Three Month Period Ended September 30, 2016 | Year Ended December 31, 2016 |
|---|---|---|---|
| **Investment income** | | | |
| Interest income | $ 18,265 | $ 16,662 | $ 74,344 |
| Other income | 2,342 | 807 | 5,841 |
| **Total investment income** | 20,607 | 17,469 | 80,185 |
| **Expenses** | | | |
| Base management fee | 2,416 | 2,485 | 10,065 |
| Interest expense | 4,461 | 4,143 | 16,306 |
| Other investment related expenses | 2,062 | 2,068 | 8,070 |
| Other operating expenses | 2,640 | 2,379 | 9,979 |
| Total expenses | 11,579 | 11,075 | 44,420 |
| **Net investment income** | 9,028 | 6,394 | 35,765 |
| **Net realized gain (loss) on:** | | | |
| Investments | 3,127 | 349 | 2,729 |
| Financial derivatives, excluding currency forwards | (5,143) | (23,330) | (40,758) |
| Financial derivatives—currency forwards | 3,873 | 1,525 | 4,093 |
| Foreign currency transactions | (4,099) | (1,564) | (5,597) |
| | (2,242) | (23,020) | (39,533) |
| **Change in net unrealized gain (loss) on:** | | | |
| Investments | (14,396) | 7,379 | (8,033) |
| Financial derivatives, excluding currency forwards | 9,185 | 9,462 | (5,964) |
| Financial derivatives—currency forwards | (178) | (1,855) | (1,580) |
| Foreign currency translation | 535 | 2,190 | 3,643 |
| | (4,854) | 17,176 | (11,934) |
| **Net realized and change in net unrealized gain (loss) on investments and financial derivatives** | (7,096) | (5,844) | (51,467) |
| **Net increase (decrease) in equity resulting from operations** | $ 1,932 | $ 550 | $ (15,702) |
| **Less: Increase in equity resulting from operations attributable to non-controlling interests** | 240 | 34 | 305 |
| **Net increase (decrease) in shareholders' equity resulting from operations** | $ 1,692 | $ 516 | $ (16,007) |
| **Net increase (decrease) in shareholders' equity resulting from operations per share:** | | | |
| Basic and diluted | $ 0.05 | $ 0.02 | $ (0.48) |
| **Weighted average shares and LTIP units outstanding** | 32,928 | 33,094 | 33,210 |
| **Weighted average shares and convertible units outstanding** | 33,140 | 33,306 | 33,422 |

# Balance Sheet

(Unaudited)

ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND EQUITY

| | As of | | |
|---|---|---|---|
| *(In thousands, except share amounts)* | December 31, 2016 | September 30, 2016 | December 31, 2015[1] |
| **ASSETS** | | | |
| Cash and cash equivalents | $ 123,274 | $ 179,618 | $ 183,909 |
| Restricted Cash | 655 | 5,610 | 4,857 |
| Investments, financial derivatives, and repurchase agreements: | | | |
| Investments, at fair value (Cost – $1,525,710, $1,501,092 and $1,672,400) | 1,505,026 | 1,499,715 | 1,661,118 |
| Financial derivatives–assets, at fair value (Net cost – $40,724, $63,635 and $163,943) | 35,595 | 64,817 | 162,905 |
| Repurchase agreements (Cost – $185,205, $164,669 and $105,329) | 184,819 | 165,048 | 105,700 |
| Total Investments, financial derivatives, and repurchase agreements | 1,725,440 | 1,729,580 | 1,929,723 |
| Due from brokers | 93,652 | 126,255 | 141,605 |
| Receivable for securities sold and financial derivatives | 445,113 | 563,462 | 705,748 |
| Interest and principal receivable | 21,704 | 17,377 | 20,444 |
| Other assets | 3,359 | 29,907 | 5,269 |
| Total assets | $ 2,413,195 | $ 2,651,809 | $ 2,991,555 |
| **LIABILITIES** | | | |
| Investments and financial derivatives: | | | |
| Investments sold short, at fair value (Proceeds – $589,429, $677,286 and $731,048) | $ 584,896 | $ 679,021 | $ 728,747 |
| Financial derivatives–liabilities, at fair value (Net proceeds – $12,012, $17,751 and $56,200) | 18,687 | 39,816 | 60,472 |
| Total investments and financial derivatives | 603,583 | 718,837 | 789,219 |
| Reverse repurchase agreements | 1,033,581 | 983,814 | 1,174,189 |
| Due to brokers | 12,780 | 15,600 | 114,797 |
| Payable for securities purchased and financial derivatives | 85,168 | 229,212 | 165,365 |
| Securitized debt (Proceeds – $24,086, $30,771 and $0) | 24,086 | 30,771 | - |
| Accounts payable and accrued expenses | 3,327 | 2,896 | 3,626 |
| Base management fee payable | 2,416 | 2,485 | 2,773 |
| Interest and dividends payable | 3,461 | 3,278 | 1,806 |
| Other liabilities | 17 | 163 | 828 |
| Total liabilities | 1,768,418 | 1,987,056 | 2,252,603 |
| **EQUITY** | 644,777 | 664,753 | 738,952 |
| **TOTAL LIABILITIES AND EQUITY** | $ 2,413,195 | $ 2,651,809 | $ 2,991,555 |
| **ANALYSIS OF EQUITY:** | | | |
| Common shares, no par value, 100,000,000 shares authorized; | | | |
| (32,294,703, 32,619,060 and 33,126,012 shares issued and outstanding) | $ 627,620 | $ 645,961 | $ 722,360 |
| Additional paid-in capital–LTIP units | 10,041 | 9,942 | 9,689 |
| **Total Shareholders' Equity** | $ 637,661 | $ 655,903 | $ 732,049 |
| Non-controlling interests | 7,116 | 8,850 | 6,903 |
| **Total Equity** | $ 644,777 | $ 664,753 | $ 738,952 |
| **PER SHARE INFORMATION:** | | | |
| Common shares, no par value | $ 19.75 | $ 20.11 | $ 22.10 |
| **DILUTED PER SHARE INFORMATION:** | | | |
| Common shares and convertible units, no par value[2] | $ 19.46 | $ 19.83 | $ 21.80 |

(1) Derived from audited financial statements as of December 31, 2015.

(2) Based on total equity excluding non-controlling interests not represented by instruments convertible into common shares.

# About Ellington



- EFC is managed by Ellington Financial Management LLC, an affiliate of Ellington Management Group, L.L.C. ("EMG")
- EMG was founded in 1994 by Michael Vranos and five partners; currently has over 160 employees, giving EFC access to time-tested infrastructure and proprietary resources in trading, research, risk management, and operational support
  - EMG has approximately $5.9 billion in assets under management as of December 31, 2016
- EMG's portfolio managers are among the most experienced in the MBS sector and the firm's analytics have been developed over a 22-year history
  - Prior to forming EMG, 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 obligation ("CMO") trading
  - The founding partners each have advanced academic training in mathematics and engineering, including among them several Ph.D.'s and Master's degrees
- Management owns over 11% of EFC; interests are aligned with shareholders

Note: Management ownership includes shares and LTIP units held by principals of EMG and family trusts, and operating partnership units attributable to non-controlling interests.

Ellington Financial

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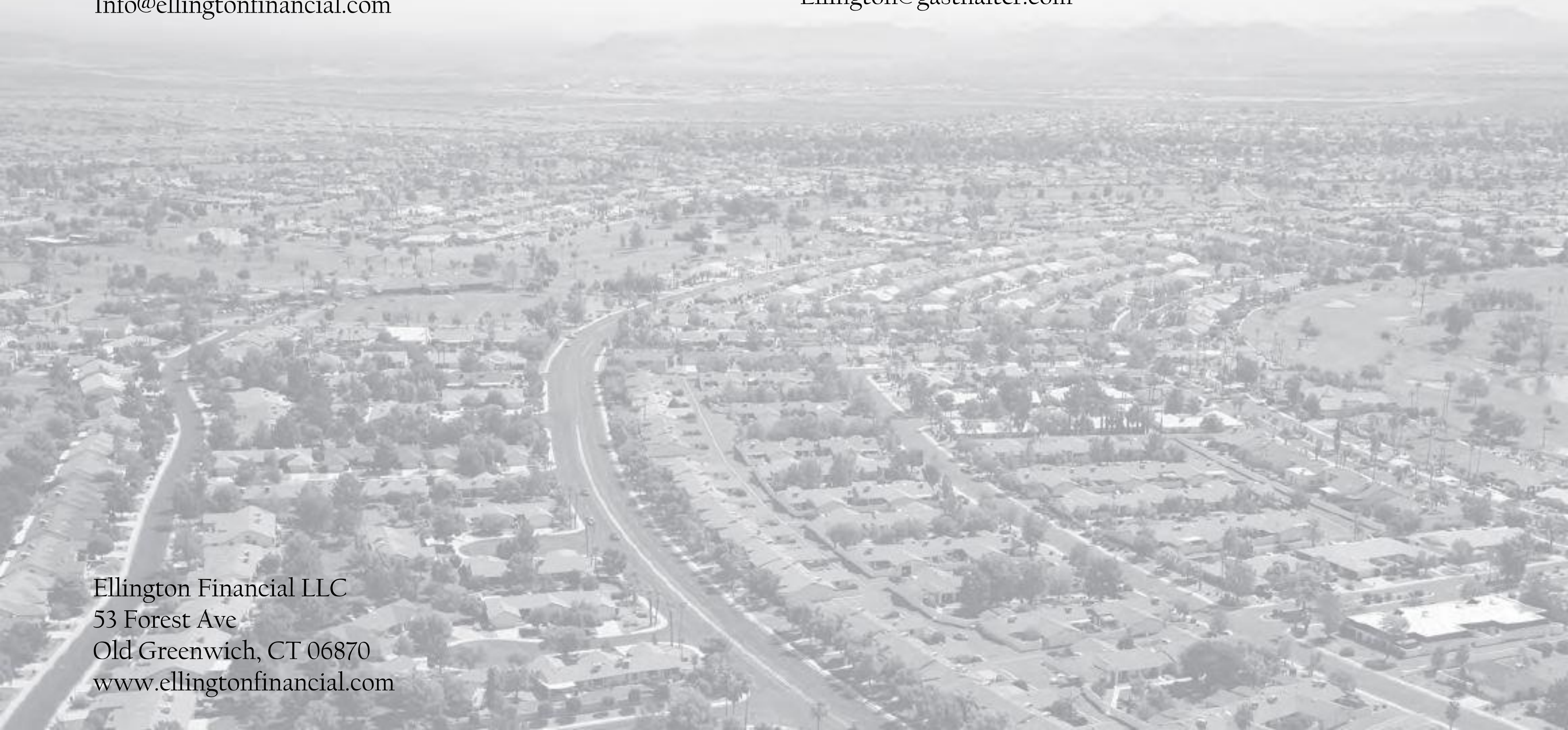

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