

Ellington Financial

*Ellington Financial LLC (NYSE: EFC)*

Second Quarter 2015 Earnings Conference Call

August 7, 2015



# Important Notice

## 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 13, 2015, 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.

## 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 June 30, 2015 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

# Second Quarter 2015

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# Operating Results

(In thousands, except per share amounts)	Quarter Ended 6/30/2015			Quarter Ended 3/31/2015			Six Month Period Ended 6/30/2015		
	Per Share	% of Average Equity	Per Share	% of Average Equity	Per Share	% of Average Equity	Per Share	% of Average Equity	
<b>Non-Agency MBS, mortgage loans, ABS, and other:</b>									
Interest income and other investment income	\$ 17,797	\$ 0.52	2.27%	\$ 17,646	\$ 0.52	2.25%	\$ 35,443	\$ 1.04	4.52%
Net realized gain	11,208	0.33	1.43%	10,875	0.32	1.38%	22,083	0.65	2.82%
Change in net unrealized gain (loss)	(9,000)	(0.26)	-1.15%	(6,177)	(0.18)	-0.79%	(15,177)	(0.44)	-1.94%
Net interest rate hedges <sup>(1)</sup>	900	0.03	0.12%	(3,837)	(0.11)	-0.49%	(2,937)	(0.09)	-0.37%
Net credit hedges and other activities <sup>(2)</sup>	(1,614)	(0.05)	-0.21%	2,534	0.07	0.32%	920	0.03	0.12%
Interest expense	(1,586)	(0.05)	-0.20%	(1,766)	(0.05)	-0.22%	(3,352)	(0.10)	-0.43%
Other investment related expenses	(1,163)	(0.03)	-0.15%	(820)	(0.02)	-0.10%	(1,983)	(0.06)	-0.25%
<b>Total non-Agency MBS, mortgage loans, ABS, and other profit</b>	<b>16,542</b>	<b>0.49</b>	<b>2.11%</b>	<b>18,455</b>	<b>0.55</b>	<b>2.35%</b>	<b>34,997</b>	<b>1.03</b>	<b>4.47%</b>
<b>Agency RMBS:</b>									
Interest income	8,204	0.24	1.05%	9,008	0.26	1.15%	17,212	0.51	2.20%
Net realized gain	476	0.01	0.06%	6,485	0.19	0.83%	6,961	0.20	0.89%
Change in net unrealized gain (loss)	(13,750)	(0.40)	-1.75%	5,280	0.15	0.67%	(8,470)	(0.25)	-1.08%
Net interest rate hedges <sup>(1)</sup>	7,814	0.23	1.00%	(13,616)	(0.40)	-1.73%	(5,802)	(0.17)	-0.74%
Interest expense	(1,069)	(0.03)	-0.14%	(1,019)	(0.03)	-0.13%	(2,088)	(0.06)	-0.27%
<b>Total Agency RMBS profit</b>	<b>1,675</b>	<b>0.05</b>	<b>0.22%</b>	<b>6,138</b>	<b>0.17</b>	<b>0.79%</b>	<b>7,813</b>	<b>0.23</b>	<b>1.00%</b>
<b>Total non-Agency and Agency MBS, mortgage loans, ABS, and other profit</b>	<b>18,217</b>	<b>0.54</b>	<b>2.33%</b>	<b>24,593</b>	<b>0.72</b>	<b>3.14%</b>	<b>42,810</b>	<b>1.26</b>	<b>5.47%</b>
Other interest income (expense), net	8	—	0.00%	(25)	—	0.00%	(17)	—	0.00%
Other expenses	(5,002)	(0.15)	-0.64%	(5,151)	(0.15)	-0.66%	(10,153)	(0.30)	-1.30%
<b>Net increase in equity resulting from operations</b>	<b>\$ 13,223</b>	<b>\$ 0.39</b>	<b>1.69%</b>	<b>\$ 19,417</b>	<b>\$ 0.57</b>	<b>2.48%</b>	<b>\$ 32,640</b>	<b>\$ 0.96</b>	<b>4.17%</b>
Less: Net increase in equity resulting from operations attributable to non-controlling interests	71			156			227		
<b>Net increase in shareholders' equity resulting from operations <sup>(6)</sup></b>	<b>\$ 13,152</b>	<b>\$ 0.39</b>	<b>1.69%</b>	<b>\$ 19,261</b>	<b>\$ 0.57</b>	<b>2.47%</b>	<b>\$ 32,413</b>	<b>\$ 0.96</b>	<b>4.17%</b>
Weighted average shares and convertible units <sup>(3)</sup> outstanding	34,091			34,091			34,091		
Average equity (includes non-controlling interests) <sup>(4)</sup>	\$ 782,691			\$ 785,653			\$ 783,993		
Ending equity (includes non-controlling interests)	\$ 777,082			\$ 785,424			\$ 777,082		
Diluted book value per share	\$ 22.75			\$ 23.01			\$ 22.75		
Weighted average shares and LTIP units outstanding <sup>(5)</sup>	33,879			33,879			33,879		
Average shareholders' equity (excludes non-controlling interests) <sup>(4)</sup>	\$ 776,485			\$ 779,720			\$ 777,904		

(1) Includes TBAs and U.S. Treasuries, if applicable.

(2) Includes equity 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: Second Quarter Highlights

## Overall Results

- Net income of \$13.2 million, or \$0.39 per share

## Non-Agency Strategy

- Non-Agency strategy gross income of \$16.5 million<sup>(1)</sup>, or \$0.49 per share
  - Interest income and other investment income, net realized and unrealized gains and net contributions from interest rate hedges partially offset by net losses from net credit hedges and other activities, interest expense, and other investment related expenses
  - Non-Agency RMBS continued as the main driver of our returns, but we continue to reduce this portfolio as we increase holdings of other asset classes
    - Increased contributions from other sectors, including consumer loans, residential NPLs, and European credit

## Agency RMBS Strategy

- Agency RMBS strategy gross income of \$1.7 million<sup>(1)</sup>, or \$0.05 per share
  - Significant interest rate increase, Agency RMBS spread widening, and softening of pay-ups led to declines in asset prices, although income from interest rate hedges partially offset the impact

## Operating Expenses

- Core expenses of \$5.0 million—includes base management fees and other operating expenses
  - Core expenses represent 2.5% of average equity, annualized

## Leverage

- Debt to equity ratio: 1.75:1 as of June 30, 2015

(1) Gross income includes interest income, other investment 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: Second Quarter Highlights (continued)

## Portfolios

- Total non-Agency Long Portfolio: \$753.3<sup>(1)</sup> million as of June 30, 2015 as compared to \$790.1<sup>(1)</sup> million as of March 31, 2015
- Agency Long Portfolio: \$1,124.5 million at the end of the second quarter, as compared to \$1,140.9 million at March 31, 2015

## Book Value and Shareholders' Equity

- June 30, 2015 diluted book value per share of \$22.75, after a \$0.65 first quarter dividend paid in June, as compared to \$23.01 per share as of March 31, 2015
- Total equity of \$777.1 million as of June 30, 2015, as compared to \$785.4 million as of March 31, 2015

## Dividend Yield

- 2<sup>nd</sup> quarter dividend of \$0.65 per share announced on August 3, 2015
- Annualized dividend yield of 14.2% based on the August 5, 2015 closing price of \$18.37
  - We continue to expect to recommend to our Board of Directors a quarterly dividend amount of \$0.65 per share<sup>(2)</sup> until conditions warrant otherwise

(1) Non-Agency 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: Non-Agency Strategy

## Overall Market Conditions

- During the second quarter:
  - Amidst heightened volatility and a global fixed-income sell-off, prices of non-Agency RMBS generally held firm—lack of new issue market coupled with strong fundamentals, including mortgage delinquency and foreclosure rates, have served to support prices
  - CMBS spreads generally widened, especially late in the quarter; heavy new issue supply coupled with global environment led to softness in asset prices
  - U.S. CLOs experienced significant spread widening; in part in sympathy with other credit-sensitive sectors, but also due to aggressive selling by banks in advance of quarter end
  - European “risk asset” prices also came under pressure, reversing course from the significant tightening of the first quarter
  - Transaction volume in the residential non-performing loan (“NPL”) sector moderated somewhat, although Fannie Mae entered the market with its first sale; asset prices remained firm

## Portfolio Trends

- Attractive entry-points created in many sectors as a result of second quarter spread widening
- Non-Agency RMBS — we were net sellers during the second quarter as prices held firm
- Small Balance Commercial Loans — continuing to broaden our sourcing capabilities
- European Assets — active in RMBS, CMBS, and CLO sectors
  - Spanish NPL market (consumer and mortgage) — seeing ongoing opportunity
- U.S. NPLs — selectively making investments as attractive opportunities arise
- Consumer ABS and Loans — purchasing U.S. consumer loans through flow agreements
- Distressed Corporate Debt — investing primarily in middle market senior corporate debt
- Non-QM — made our first commitments to buy mortgages under flow agreements with two mortgage originators in which we have invested

# Ellington Financial: Agency Strategy

## Overall Market Conditions

- During the second quarter:
  - The yield curve steepened
    - 2-year U.S. Treasury yield increased 9 bps to 0.64%
    - 10-year U.S. Treasury yield increased 43 bps to 2.35%
  - Agency RMBS production increased in the first part of the quarter, led by refinancing activity
  - Even strong demand for Agency RMBS could not keep up with the additional supply
  - Refinancing activity slowed towards the end of the quarter as interest rates rose
  - TBA roll prices improved and pay-ups on specified pools declined

## Portfolio Trends

- Average market pay-up of 0.75% as of June 30, 2015, as compared to 1.11% as of March 31, 2015
  - Continued to focus on higher coupon specified fixed pools with prepayment protection characteristics
  - More attractive entry points created as a result of increase in Agency RMBS spreads and lower pay-ups
- Slightly decreased reverse mortgages and slightly increased Agency IOs



# Ellington Financial: Market Outlook

## Non-Agency

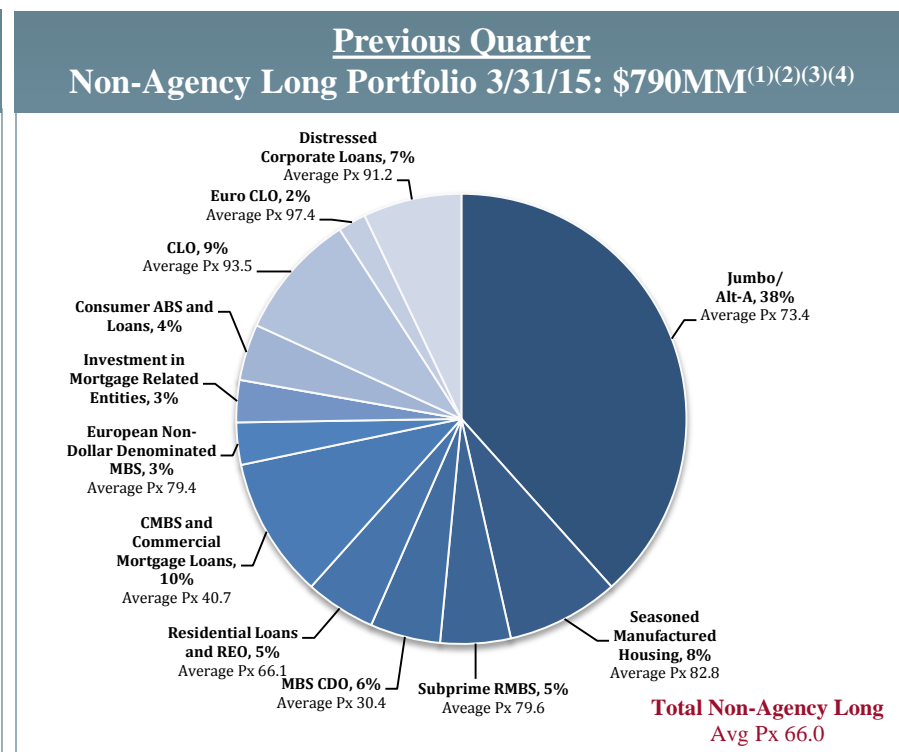
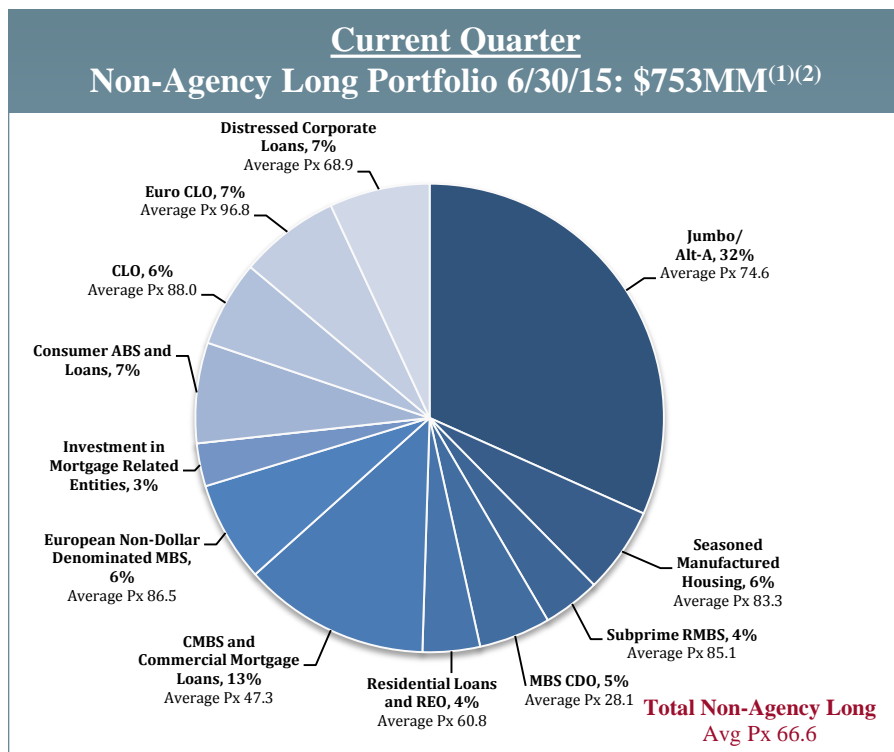
- We expect to continue to reduce our non-Agency RMBS legacy portfolio in favor of our other non-Agency strategies:
  - European MBS, CLOs, and NPLs (mortgage and consumer)
  - U.S. CLOs, especially legacy debt and equity
  - CMBS, especially “B-pieces” where the new issue market provides opportunities to “manufacture” risk attractively
  - Small Balance Commercial Loans, especially distressed loans
  - Residential NPLs, especially smaller, off-the-run packages
  - Consumer ABS and Loans, including flow agreements
  - Mortgage Originators, including non-QM flow agreements
  - Distressed Corporate Debt, where we continue to take a measured approach pending potential dislocations

## Agency

- Market volatility remains a significant risk, and our ability to hedge using a variety of tools, including TBAs, continues to be important
- Given the level of interest rates, we expect the supply of Agency RMBS to decline over the near term

# Non-Agency Portfolio

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■ **During the second quarter:**

- Opportunistically sold legacy non-Agency RMBS and partially re-deployed capital into our other non-Agency investments
- Increased allocations to small balance commercial loans and consumer loans

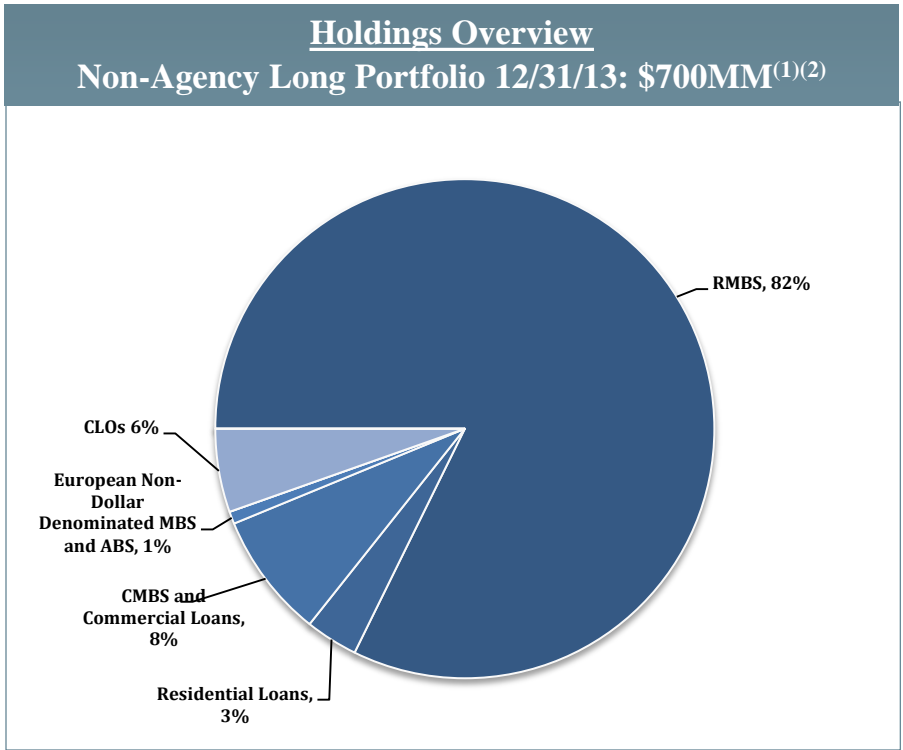
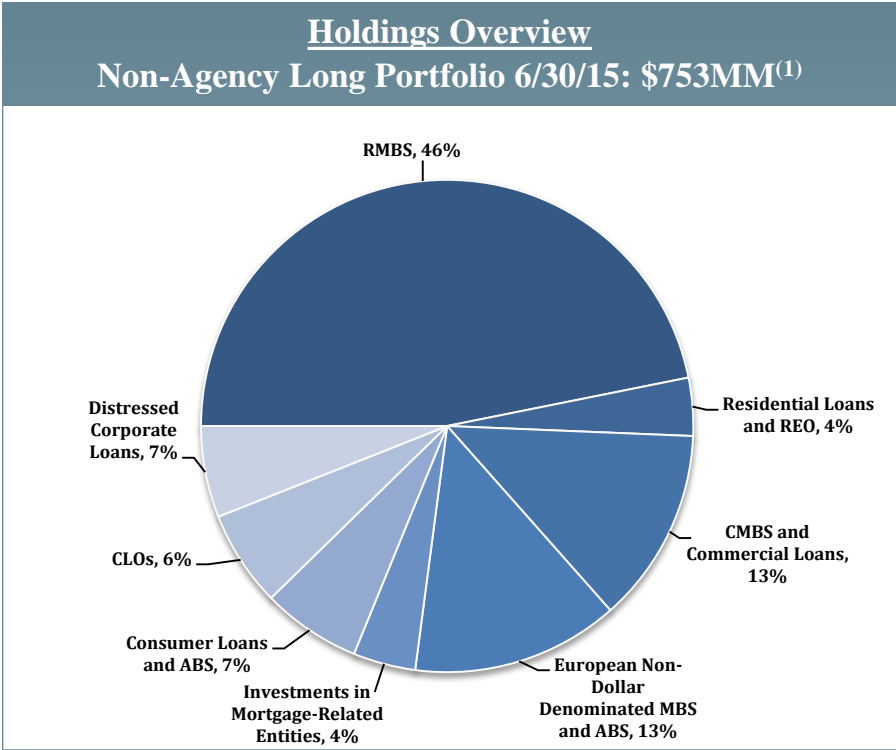
(1) This information does not include interest rate swaps, TBA positions, corporate CDS, common stock and equity swaps, or other hedge positions. Non-Agency portfolio includes loan equivalent value related to long total return swaps on distressed corporate debt, which is based on the value of the underlying loans. The loan equivalent value of long total return swaps included in the non-agency long portfolio was \$32.5 million as of June 30, 2015 and \$25.3 million as of March 31, 2015. The corresponding value of the related total return swaps on distressed corporate debt was \$(1.7) million as of June 30, 2015 and \$(189) thousand as of March 31, 2015.

(2) Average price excludes interest only, principal only, equity tranches and other similar investments, and REO at June 30, 2015 and March 31, 2015.

(3) Excludes long U.S. Treasury securities with a total value of \$17.7 million at March 31, 2015.

(4) Prior period presentation has been conformed to current period presentation.

# EFC: Non-Agency Long Portfolio (continued)



- As the above charts demonstrate, we have continued to diversify our sources of return in our non-Agency portfolio since the end of 2013
- We are increasing our capital allocation to other sectors where we believe our analytical expertise, research and systems provide an edge that will allow us to generate attractive loss-adjusted returns

(1) This information does not include interest rate swaps, TBA positions, corporate CDS, common stock and equity swaps, or other hedge positions. As of June 30, 2015, non-Agency portfolio includes loan equivalent value in the amount of \$32.5 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 \$(1.7) million.

(2) Prior period presentation has been conformed to current period presentation.

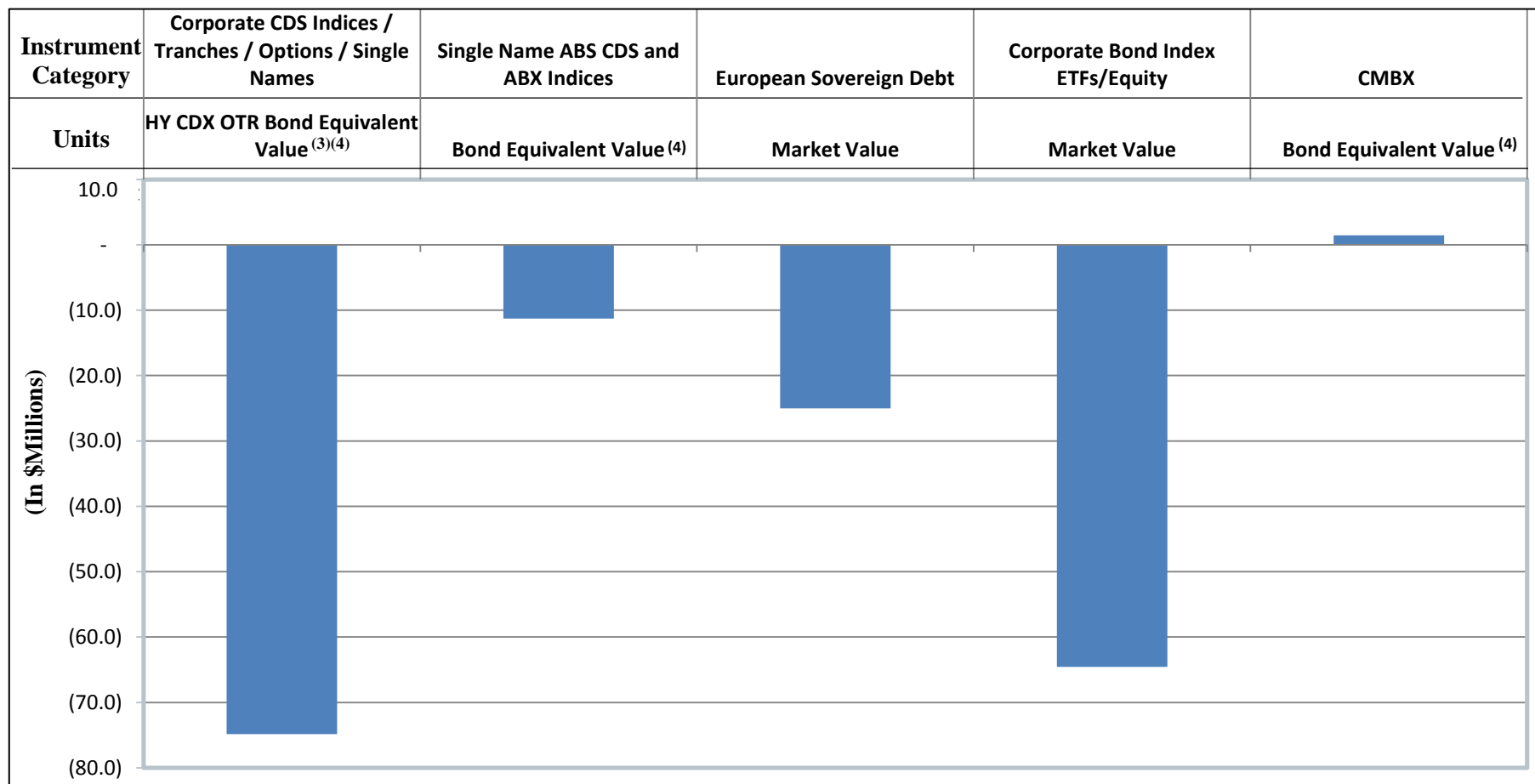
# EFC: Non-Agency Long Portfolio as of June 30, 2015

- **Non-Agency strategy is the main driver of earnings**
- **Non-Agency long securities and loan portfolio value: \$736.1 million — excludes REO and equity investments in mortgage related entities**

Non-Agency Sector	Fair Value (millions)	Average Price <sup>(1)</sup>	Weighted Average Life <sup>(2)</sup>	Historical 1-Year CPR <sup>(3)</sup>	Est. Yield at Market Price at Ellington HPA Forecast <sup>(4)</sup>
Jumbo/Alt-A	\$241.0	74.6%	6.5	11.6%	6.53%
Seasoned Manufactured Housing	44.3	83.3	5.3	6.8	6.48
Subprime	27.1	85.1	4.1	9.4	7.27
MBS CDO	38.0	28.1	1.8	N/A	7.11
Residential Loans	21.1	60.8	3.1	N/A	7.01
CMBS and Commercial Mortgage Loans	93.9	47.3	12.7	N/A	13.32
European Non-Dollar Denominated MBS	46.8	86.5	6.2	7.5	10.48
CLO	98.4	93.6	2.9	N/A	8.32
Consumer ABS and Loans	52.5	N/A	0.6	N/A	11.58
Distressed Corporate Loans	56.4	68.9	4.1	N/A	15.07
Other	16.6	79.3	2.6	N/A	12.53
<b>Total</b>	<b>\$736.1</b>	<b>66.6%</b>	<b>5.7</b>	<b>10.6%</b>	<b>9.11%</b>

- (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) Source for historical 1-Year CPR is Intex Solutions, Inc. (“Intex”). Excludes interest only, principal only, equity tranches and other similar securities, CMBS and commercial mortgage loans, and any investments where Intex CPR not available.
- (4) Estimated yields at market prices are management’s estimates derived from Ellington’s proprietary models based on prices and market environment as of 6/30/15 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 as of June 30, 2015<sup>(1)(2)</sup>



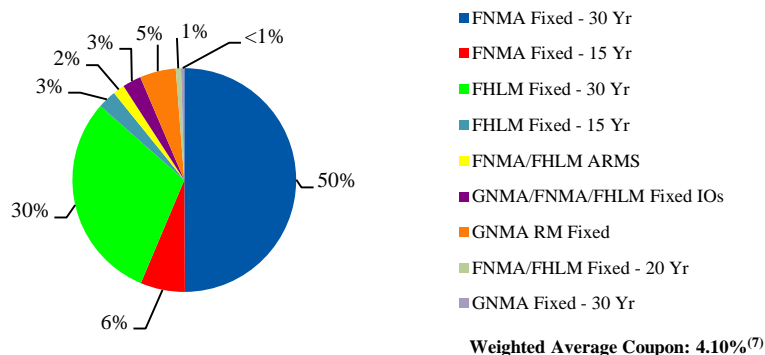
- (1) The Credit Hedging Portfolio excludes both legs of certain relative value trades which we believe do not affect the overall hedging position of the portfolio. Consequently, the amounts shown here may differ materially (i) from those that would be shown were all positions in the included instruments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

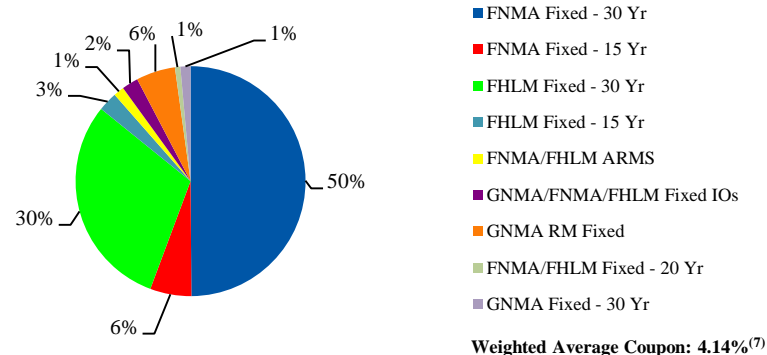
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# EFC: Agency Long Portfolio

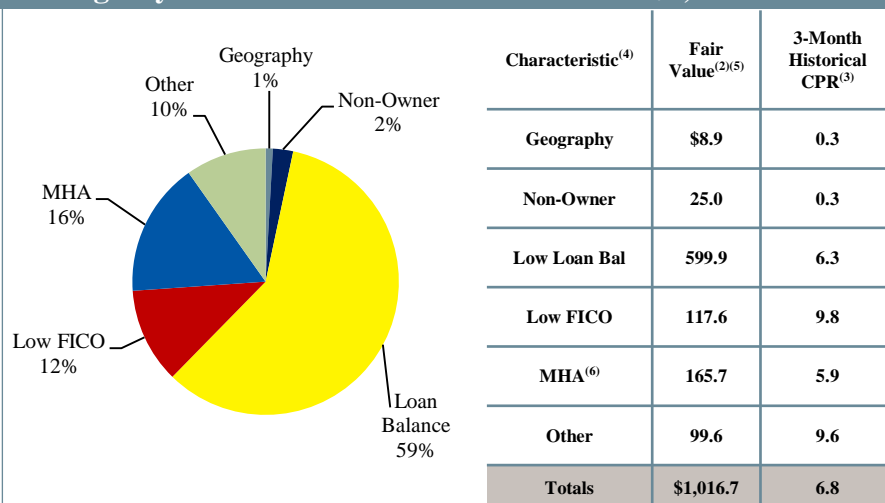
**Current Quarter**  
Agency Long Portfolio 6/30/15: \$1,124MM<sup>(1)</sup>



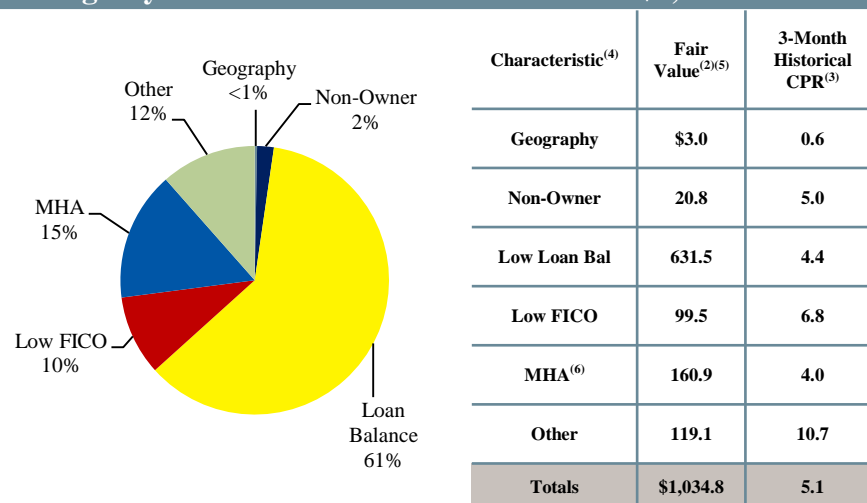
**Previous Quarter**  
Agency Long Portfolio 3/31/15: \$1,141MM<sup>(1)</sup>



**Collateral Characteristics and Historical 3-month CPR**  
Agency Fixed Rate Pool Portfolio 6/30/15: \$1,017MM<sup>(2)</sup>



**Collateral Characteristics and Historical 3-month CPR**  
Agency Fixed Rate Pool Portfolio 3/31/15: \$1,035MM<sup>(2)</sup>



(1) Does not include long TBA positions with a notional value of \$25.1 million and a fair value of \$24.9 million as of June 30, 2015 and a notional value of \$27.0 million and a fair value of \$27.6 million as of March 31, 2015. Agency long portfolio includes \$1,094.1 million of long Agency securities at June 30, 2015 and \$1,114.5 million of long Agency securities at March 31, 2015. Additionally, the long Agency portfolio includes \$30.4 million of interest only securities at June 30, 2015 and \$26.3 million of interest only securities at March 31, 2015.

(2) Excludes reverse mortgage pools with a value of \$58.6 million at June 30, 2015 and \$62.7 million at March 31, 2015.

(3) Excludes Agency fixed rate RMBS without any prepayment history with a total value of \$43.6 million at June 30, 2015 and \$86.0 million at March 31, 2015.

(4) Classification methodology may change over time as market practices change.

(5) Fair values are shown in millions.

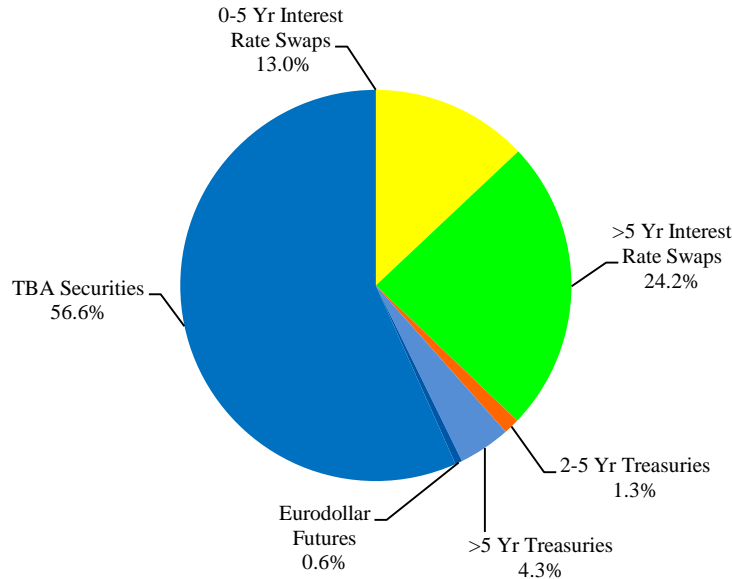
(6) "MHA" indicates those pools where underlying borrowers have participated in the Making Homes Affordable program.

(7) Represents weighted average net pass-through rate. Excludes interest only securities.

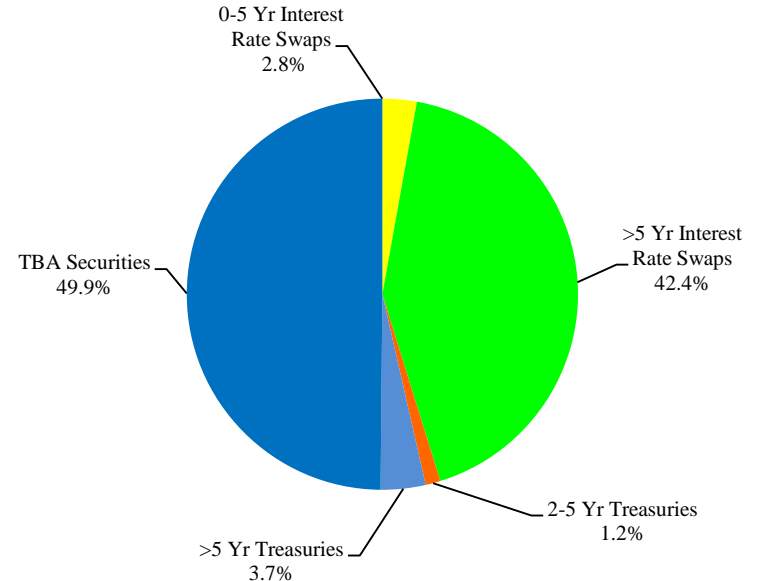


# EFC: Agency Interest Rate Hedging Portfolio

**Current Quarter**  
**Agency Interest Rate Hedging Portfolio 6/30/15:**  
**Short \$547 MM 10-year equivalents**



**Previous Quarter**  
**Agency Interest Rate Hedging Portfolio 3/31/15:**  
**Short \$418 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”
- Increased net short TBAs and reduced interest rate swaps

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)

## Calculation of Exposure to Agency RMBS Based on Fair Value of TBA Portfolio:

(In millions)

<b>Agency-related Portfolio</b>	<b>6/30/2015</b>	<b>3/31/2015</b>
Long Agency RMBS	\$1,124	\$1,141
Net Short TBAs	(654)	(664)
<b>Net Long Exposure to Agency RMBS</b>	<b>\$470</b>	<b>\$477</b>

- **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 0.75% of the value of our fixed rate Agency pool portfolio as of June 30, 2015, down from 1.11% as of March 31, 2015**

## Estimated Change in Fair Value as of 6/30/15 for Agency Pools, Agency IOs, and Related Hedges if Interest Rates Move:

<b>(In thousands)</b>	<b>Down 50 BPS</b>	<b>Up 50 BPS</b>
Agency RMS - ARM Pools	\$162	(\$194)
Agency RMBS - Fixed Pools and IO	22,482	(27,925)
TBAs	(11,648)	15,280
Interest Rate Swaps	(9,039)	8,613
U.S. Treasury Securities	(1,358)	1,301
Eurodollar and U.S. Treasury Futures	(138)	138
Repurchase and Reverse Repurchase Agreements	(1,323)	1,510
<b>Total</b>	<b>(\$862)</b>	<b>(\$1,277)</b>

Note: The above table reflects a parallel shift in interest rates based on the market environment as of June 30, 2015. 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

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# EFC: Repo Borrowings as of June 30, 2015

Repo Borrowings				
(\$ in thousands)				
Remaining Days to Maturity	Non-Agency	Agency	Total	% of Total Borrowings
30 Days or Less	\$37,213	\$126,395	\$163,608	12.0%
31-60 Days	31,096	109,392	140,488	10.3%
61-90 Days	31,448	229,314	260,762	19.2%
91-120 Days	6,305	199,808	206,113	15.1%
121-150 Days	6,478	139,422	145,900	10.7%
151-180 Days	26,234	286,632	312,866	23.0%
181-360 Days	21,143	—	21,143	1.6%
> 360 Days	109,528	—	109,528	8.1%
<b>Total Borrowings</b>	<b>269,445</b>	<b>1,090,963</b>	<b>1,360,408</b>	<b>100.0%</b>
Weighted Average Remaining Days to Maturity	249	103	132	

## ■ As of June 30, 2015:

- EFC had borrowings outstanding with 17 counterparties
- EFC had repo borrowings with a remaining weighted average maturity of 132 days; maturities are staggered to mitigate liquidity risk

Note: Included in the above table, using the original maturity dates, are any reverse repos involving underlying investments the Company sold prior to June 30, 2015 for settlement following June 30, 2015 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 June 30, 2015, for which delivery of the borrowed funds is not scheduled until after June 30, 2015. Remaining maturity for a reverse repo is based on the contractual maturity date in effect as of June 30, 2015. Some reverse repos have floating interest rates, which may reset before maturity.

# EFC: Average Cost of Borrowings

(\$ In thousands)	As of June 30, 2015	For the Quarter Ended June 30, 2015	
	Outstanding Borrowings <sup>1</sup>	Average Borrowings for the Quarter Ended <sup>1</sup>	Average Cost of Funds <sup>1</sup>
Collateral for Borrowing			
Non-Agency RMBS, CMBS, and Other	\$269,445	\$299,675	2.12%
Agency RMBS	1,090,963	1,095,056	0.39%
<b>Total excluding U.S. Treasury Securities</b>	<b>1,360,408</b>	<b>1,394,731</b>	<b>0.76%</b>
U.S. Treasury Securities	—	32,638	-0.01%
<b>Total</b>	<b>1,360,408</b>	<b>\$1,427,369</b>	<b>0.75%</b>
Leverage Ratio <sup>2</sup>	1.75:1		

■ Leverage ratio<sup>(2)</sup> was 1.75:1 as of June 30, 2015, as compared to 1.78:1 as of March 31, 2015

■ As of June 30, 2015, weighted average borrowing rates were 2.10% for non-Agency repo and 0.43% for Agency repo

(1) Borrowed amounts exclude \$0.7 million in securitized debt as of June 30, 2015, representing long term financing for the related asset.

(2) The debt-to-equity ratio does not account for liabilities other than debt financings. The Company's debt financings consist solely of reverse repos and a securitized debt financing in the amount of \$0.7 million as of June 30, 2015.

# Supplemental Information

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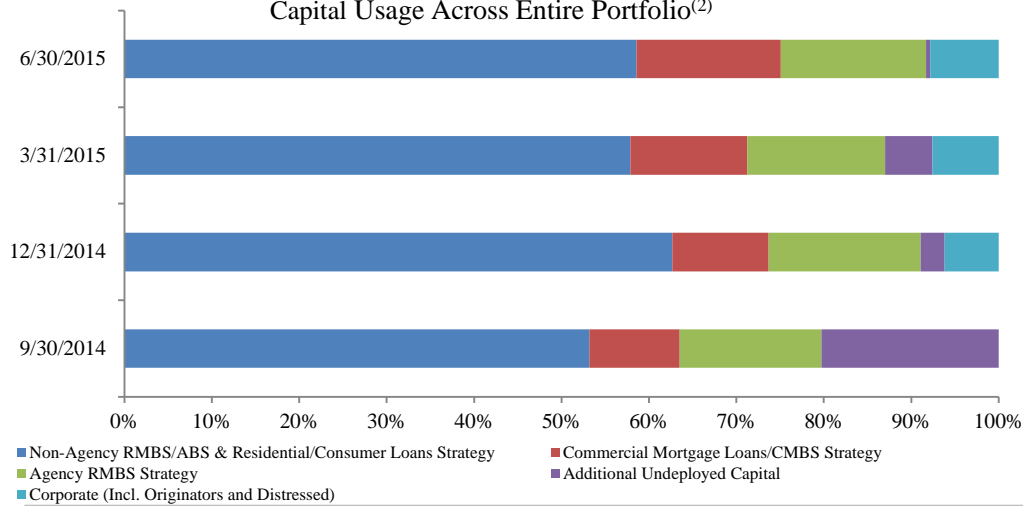
# EFC: Gross Profit and Loss

	Six Months Ended June 30, 2015		Years Ended													
	2015		2014		2013		2012		2011		2010		2009		2008	
(\$ In thousands)	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Long: Non-Agency	37,014	4.72	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: Non-Agency	920	0.12	(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: Non-Agency	(2,937)	(0.37)	(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	13,615	1.74	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: Agency	(5,802)	(0.74)	(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)
<b>Gross Profit</b>	<b>42,810</b>	<b>5.47</b>	<b>80,452</b>	<b>11.80</b>	<b>103,990</b>	<b>17.58</b>	<b>128,998</b>	<b>29.83</b>	<b>22,614</b>	<b>5.86</b>	<b>57,760</b>	<b>17.83</b>	<b>124,294</b>	<b>44.39</b>	<b>8,711</b>	<b>3.54</b>

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<sup>(1)</sup>

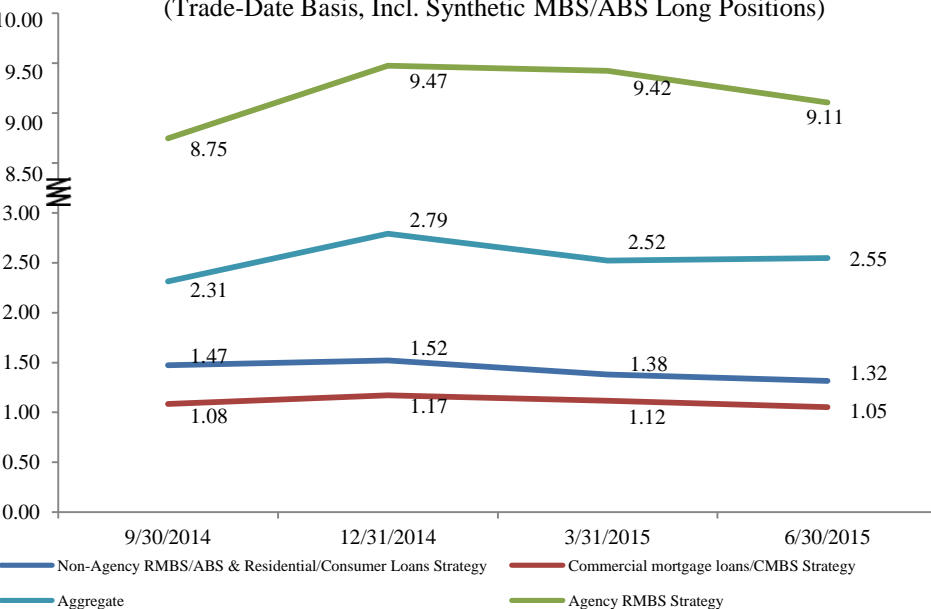
Capital Usage Across Entire Portfolio<sup>(2)</sup>



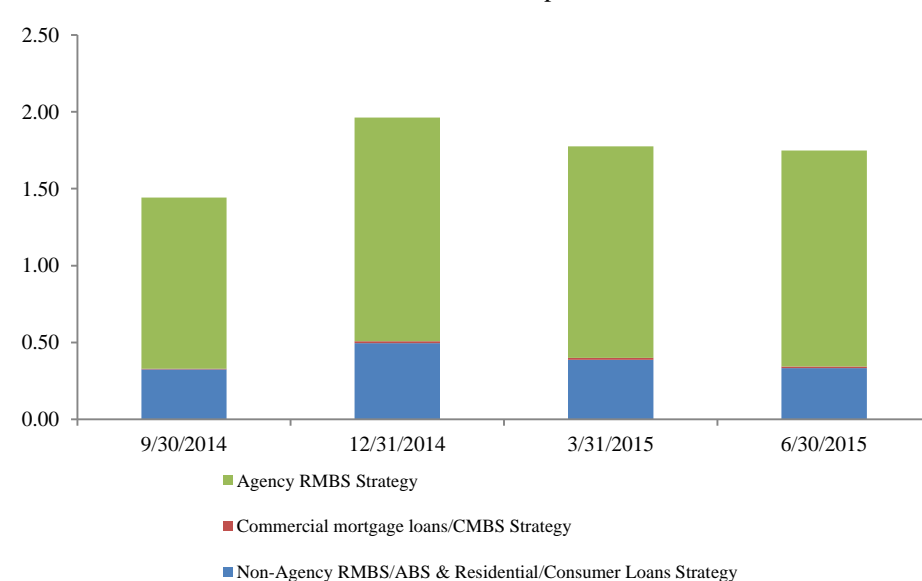
## Notes

- (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 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

MBS/ABS/Loan/Real Estate Assets Per Strategy Capital Used<sup>(3)</sup>  
(Trade-Date Basis, Incl. Synthetic MBS/ABS Long Positions)



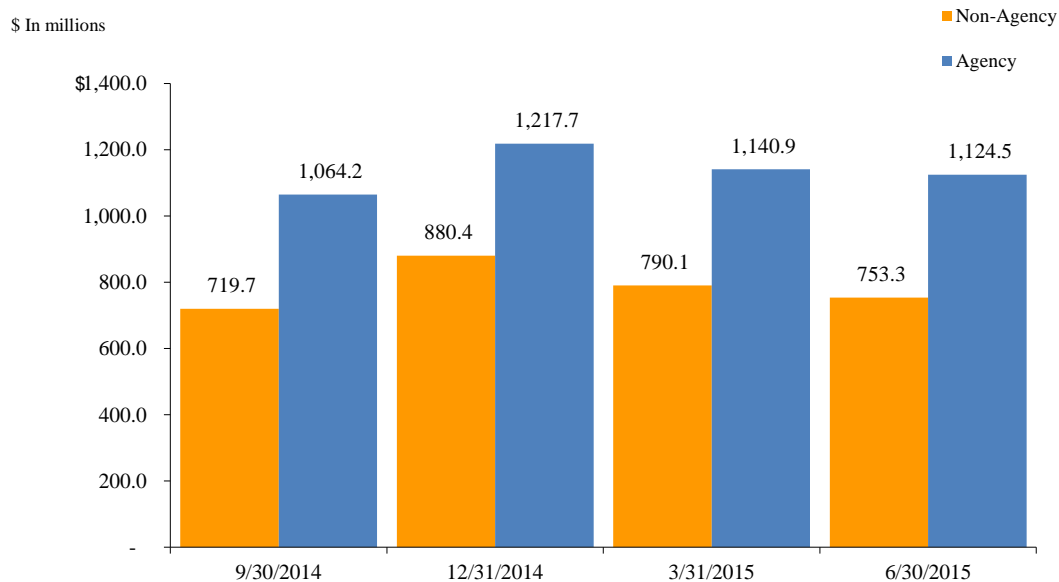
Debt Per Total Capital<sup>(4)</sup>



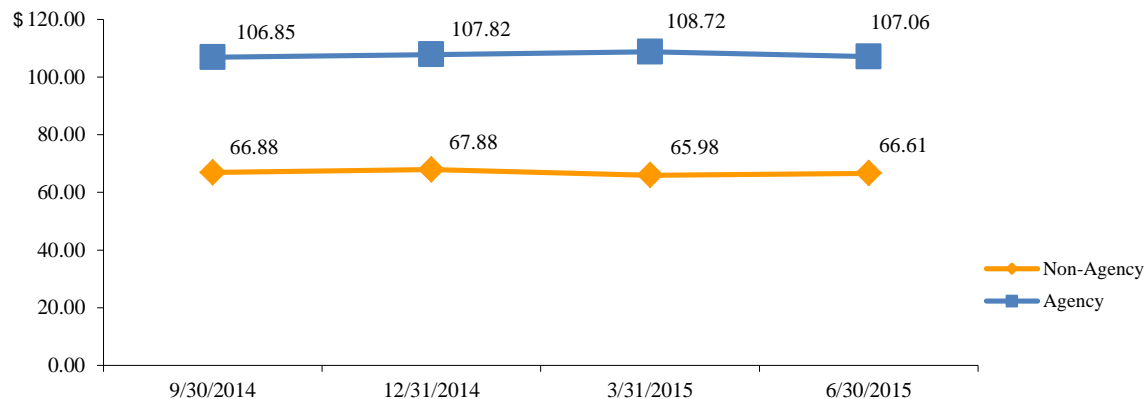


# EFC: Non-Agency and Agency Fair Values and Average Prices

### Non-Agency and Agency Portfolios by Fair Value



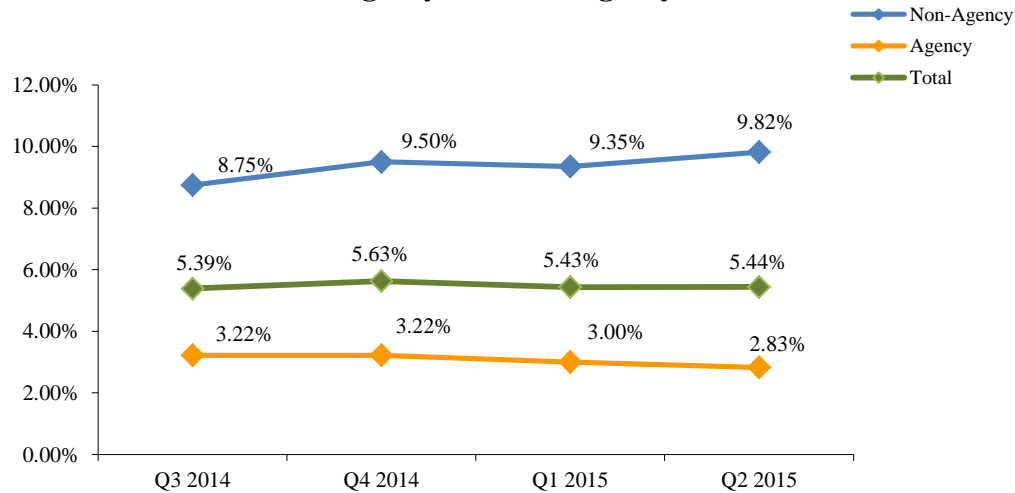
### Average Price – Non-Agency and Agency<sup>(1)</sup>



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

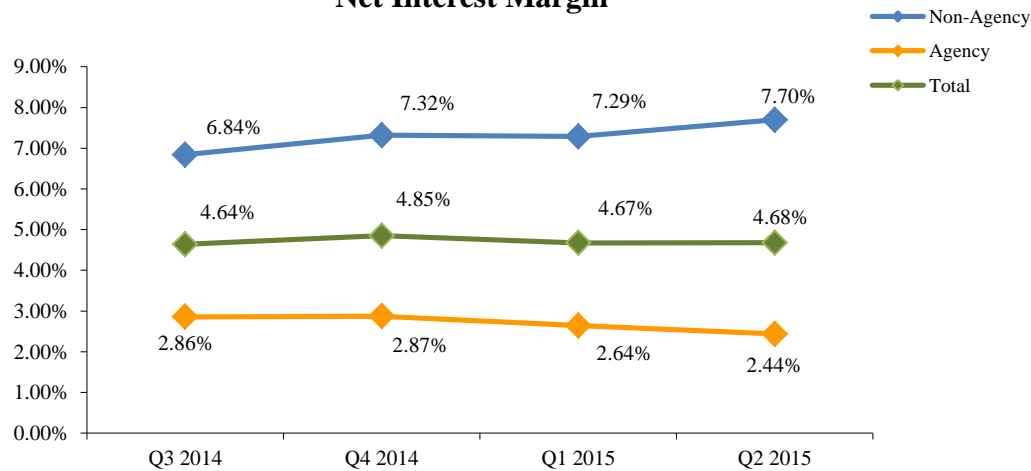
# EFC: Yields and Net Interest Margin

### Yields – Agency and Non-Agency



Note: Yields are based on amortized cost, not fair value. Excludes long credit swaps.

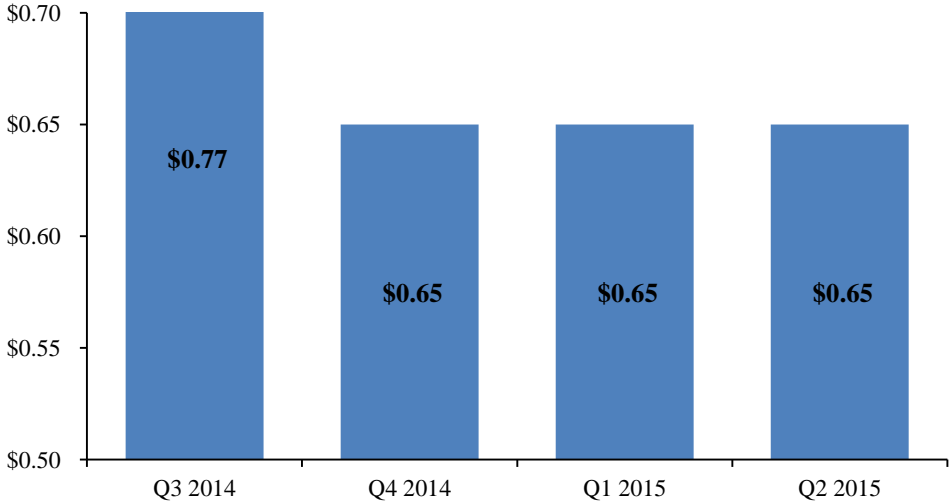
### Net Interest Margin



Note: Net interest margin figures are based on amortized cost, not fair value, and exclude long credit swaps and hedging related expenses.

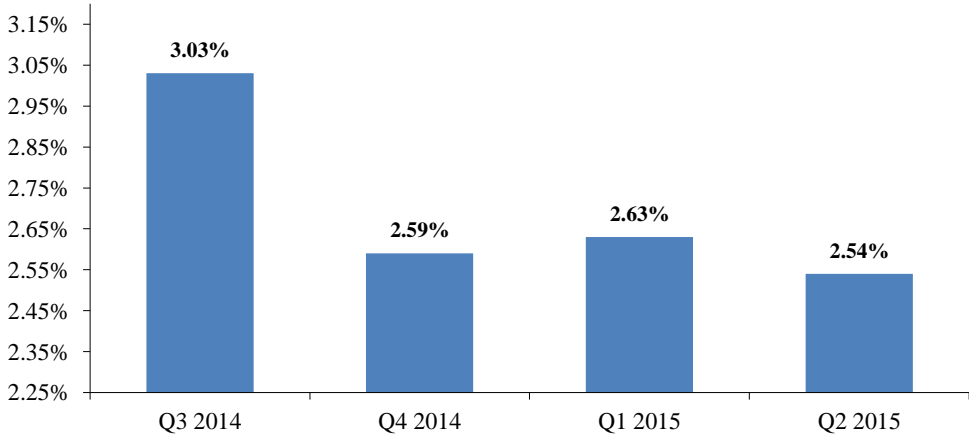
# EFC: Dividends and Expense Ratio

**Dividends Per Share**



**Dividend Yield as of August 5, 2015**  
**14.2%<sup>(1)</sup>**

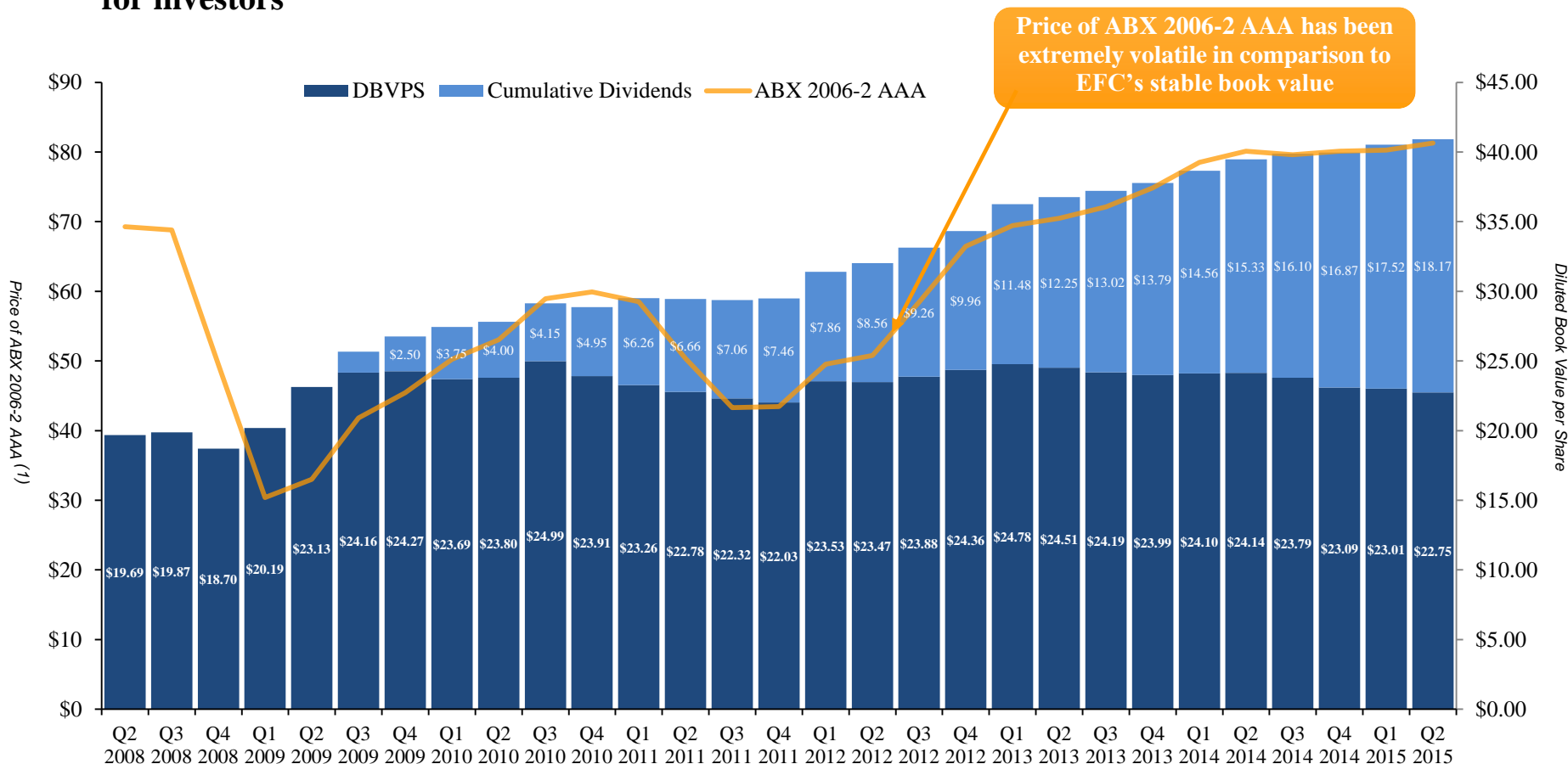
**Expense Ratio<sup>(2)</sup>**



(1) Based on NYSE closing price as of 8/5/2015.  
 (2) Expense ratios annualized.

# EFC: Diluted Book Value

■ 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 Q2 2015 is approximately 160%, or 12.9% annualized

(1) Source: Bloomberg, Markit

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

	Three Month Period Ended		Six Month Period
	June 30, 2015	March 31, 2015	Ended June 30, 2015
<i>(In thousands, except per share data)</i>			
<b>Investment income</b>			
Interest income	\$ 25,739	\$ 26,513	\$ 52,252
Other investment income	1,023	293	1,316
<b>Total Investment Income</b>	<b>26,762</b>	<b>26,806</b>	<b>53,568</b>
<b>Expenses</b>			
Base management fee	2,920	2,952	5,872
Interest expense	2,867	2,986	5,853
Other investment related expenses	1,163	1,202	2,365
Other operating expenses	2,082	2,199	4,281
Total expenses	9,032	9,339	18,371
<b>Net investment income</b>	<b>17,730</b>	<b>17,467</b>	<b>35,197</b>
<b>Net realized gain (loss) on:</b>			
Investments	14,045	9,734	23,779
Financial derivatives, excluding currency forwards	(9,693)	(5,834)	(15,527)
Financial derivatives—currency forwards	(4,320)	5,796	1,476
Foreign currency transactions	729	733	1,462
	761	10,429	11,190
<b>Change in net unrealized gain (loss) on:</b>			
Investments	(19,875)	693	(19,182)
Financial derivatives, excluding currency forwards	10,944	(2,644)	8,300
Financial derivatives—currency forwards	1,704	(1,465)	239
Foreign currency translation	1,959	(5,063)	(3,104)
	(5,268)	(8,479)	(13,747)
<b>Net realized and unrealized gain (loss) on investments and financial derivatives</b>	<b>(4,507)</b>	<b>1,950</b>	<b>(2,557)</b>
<b>Net increase in equity resulting from operations</b>	<b>\$ 13,223</b>	<b>\$ 19,417</b>	<b>\$ 32,640</b>
<b>Less: Increase in equity resulting from operations attributable to non-controlling interests</b>	<b>71</b>	<b>156</b>	<b>227</b>
<b>Net increase in shareholders' equity resulting from operations</b>	<b>\$13,152</b>	<b>\$19,261</b>	<b>\$32,413</b>
<b>Net increase in shareholders' equity resulting from operations per share:</b>			
Basic and diluted	\$ 0.39	\$ 0.57	\$ 0.96
<b>Weighted average shares and LTIP units outstanding</b>	<b>33,879</b>	<b>33,879</b>	<b>33,879</b>
<b>Weighted average shares and convertible units outstanding</b>	<b>34,091</b>	<b>34,091</b>	<b>34,091</b>

# Balance Sheet

(Unaudited)

ELLINGTON FINANCIAL LLC  
CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND EQUITY

	As of		
	June 30, 2015	March 31, 2015	December 31, 2014 <sup>(1)</sup>
<i>(In thousands, except share amounts)</i>			
<b>ASSETS</b>			
Cash and cash equivalents	\$ 123,856	\$ 156,250	\$ 114,140
Investments, financial derivatives and repurchase agreements:			
Investments at fair value (Cost - \$1,844,920, \$1,902,651, and \$2,122,326)	1,870,251	1,950,943	2,172,082
Financial derivatives - assets at fair value (Net cost - \$87,291, \$78,599, and \$61,560)	91,665	89,844	80,029
Repurchase agreements (Cost - \$53,799, \$45,073, and \$172,001)	53,788	44,754	172,001
Total Investments, financial derivatives, and repurchase agreements	2,015,704	2,085,541	2,424,112
Due from brokers	122,255	112,763	146,965
Receivable for securities sold	1,197,613	1,230,339	1,237,592
Interest and principal receivable	12,096	15,635	20,611
Other assets	3,344	2,484	1,935
Total assets	\$ 3,474,868	\$ 3,603,012	\$ 3,945,355
<b>LIABILITIES</b>			
Investments and financial derivatives:			
Investments sold short at fair value (Proceeds - \$1,185,455, \$1,193,569, and \$1,290,091)	\$ 1,183,384	\$ 1,195,882	\$ 1,291,370
Financial derivatives - liabilities at fair value (Net proceeds - \$35,500, \$37,184, and \$33,555)	45,565	67,667	66,116
Total investments and financial derivatives	1,228,949	1,263,549	1,357,486
Reverse repurchase agreements	1,360,408	1,396,112	1,669,433
Due to brokers	36,673	32,778	22,224
Payable for securities purchased	63,200	116,276	98,747
Securitized debt (Proceeds - \$649, \$663, and \$749)	655	669	774
Accounts payable and accrued expenses	2,676	3,218	2,798
Base management fee payable	2,919	2,953	2,963
Interest and dividends payable	2,293	2,020	2,386
Other liabilities	13	13	-
Total liabilities	2,697,786	2,817,588	3,156,811
EQUITY	777,082	785,424	788,544
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 3,474,868</b>	<b>\$ 3,603,012</b>	<b>\$ 3,945,355</b>
<b>ANALYSIS OF EQUITY:</b>			
Common shares, no par value, 100,000,000 shares authorized; (33,449,678, 33,449,678, and 33,449,678 shares issued and outstanding)	\$ 761,181	\$ 770,051	\$ 772,811
Additional paid-in capital - LTIP units	9,538	9,440	9,344
<b>Total Shareholders' Equity</b>	<b>\$ 770,719</b>	<b>\$ 779,491</b>	<b>\$ 782,155</b>
Non-controlling interests	6,363	5,933	6,389
<b>Total Equity</b>	<b>\$ 777,082</b>	<b>\$ 785,424</b>	<b>\$ 788,544</b>
<b>PER SHARE INFORMATION:</b>			
Common shares, no par value	\$ 23.04	\$ 23.30	\$ 23.38
<b>DILUTED PER SHARE INFORMATION:</b>			
Common shares and convertible units, no par value <sup>(2)</sup>	\$ 22.75	\$ 23.01	\$ 23.09

(1) Derived from audited financial statements as of December 31, 2014.

(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 150 employees, giving EFC access to time-tested infrastructure and proprietary resources in trading, research, risk management, and operational support**
  - EMG has approximately \$6.1 billion in assets under management as of June 30, 2015
- **EMG's portfolio managers are among the most experienced in the MBS sector and the firm's analytics have been developed over a 20-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 10% of EFC; interests are aligned with shareholders**



# Ellington Financial

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