Ellington Financial

Ellington Financial LLC (NYSE: EFC)

Second Quarter 2014 Earnings Conference Call

August 7, 2014

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 exemption from registration under the Investment Company Act of 1940 and other changes in market conditions and economic trends. Furthermore, forward-looking statements are subject to risks and uncertainties, including, among other things, those described under Item 1A of our Annual Report on Form 10-K filed on March 14, 2014, which can be accessed through the Company’s website at www.ellingtonfinancial.com 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.

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, 2014 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

Second Quarter 2014

Operating Results

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(In thousands, except per share amounts)	Quarter Ended 6/30/2014	Per Share	% of Average Equity	Quarter Ended 3/31/2014	Per Share	% of Average Equity	Six Months Ended 06/30/2014	Per Share	% of Average Equity
Non-Agency MBS, mortgage loans, ABS, and other:									
Interest income	$ 12,970	0.50	2.05%	$ 13,516	0.52	2.15%	$ 26,486	1.02	4.20%
Net realized gain	12,906	0.50	2.05%	24,255	0.93	3.85%	37,161	1.43	5.90%
Change in net unrealized gain (loss)	2,417	0.09	0.38%	(11,530)	(0.44)	-1.83%	(9,113)	(0.35)	-1.45%
Net interest rate hedges (1)	(2,418)	(0.09)	-0.38%	(2,427)	(0.09)	-0.39%	(4,845)	(0.18)	-0.77%
Net credit hedges and other activities(2)	(3,573)	(0.14)	-0.57%	1,074	0.04	0.17%	(2,499)	(0.10)	-0.40%
Interest expense	(1,478)	(0.06)	-0.23%	(1,647)	(0.06)	-0.26%	(3,125)	(0.12)	-0.49%
Other investment related expenses	(489)	(0.02)	-0.08%	(163)	(0.01)	-0.03%	(652)	(0.03)	-0.11%
Total non-Agency MBS, mortgage loans, ABS, and other profit	20,335	0.78	3.22%	23,078	0.89	3.66%	43,413	1.67	6.88%
Agency RMBS:									
Interest income	8,009	0.31	1.27%	7,947	0.30	1.26%	15,956	0.61	2.53%
Net realized gain (loss)	2,005	0.08	0.32%	(5,056)	(0.19)	-0.80%	(3,051)	(0.11)	-0.48%
Change in net unrealized gain (loss)	14,031	0.54	2.22%	12,450	0.48	1.98%	26,481	1.02	4.20%
Net interest rate hedges (1)	(18,055)	(0.70)	-2.86%	(10,443)	(0.40)	-1.66%	(28,498)	(1.10)	-4.52%
Interest expense	(776)	(0.03)	-0.12%	(776)	(0.03)	-0.12%	(1,552)	(0.06)	-0.24%
Total Agency RMBS profit	5,214	0.20	0.83%	4,122	0.16	0.66%	9,336	0.36	1.49%
Total non-Agency and Agency MBS, mortgage loans, ABS, and other profit	25,549	0.98	4.05%	27,200	1.05	4.32%	52,749	2.03	8.37%
Other interest income (expense), net	(3)	—	0.00%	(4)	—	0.00%	(7)	—	0.00%
Other expenses (excluding incentive fee)	(4,342)	(0.17)	-0.69%	(4,358)	(0.17)	-0.69%	(8,700)	(0.34)	-1.38%
Net increase in equity resulting from operations (before incentive fee)	21,204	0.81	3.36%	22,838	0.88	3.63%	44,042	1.69	6.99%
Incentive fee	—	—	—%	—	—	—%	—	—	—%
Net increase in equity resulting from operations	$ 21,204	$ 0.81	3.36%	$ 22,838	$ 0.88	3.63%	$ 44,042	1.69	6.99%
Less: Net increase in equity resulting from operations attributable to non-controlling interests	257			203			460		
Net increase in shareholders' equity resulting from operations (6)	**$ 20,947**	**$ 0.81**	**3.36%**	**$ 22,635**	**$ 0.88**	**3.63%**	**$ 43,582**	**$ 1.69**	**6.99%**
Weighted average shares and convertible units (3) outstanding	26,065			26,059			26,062		
Average equity (includes non-controlling interests) (4)	$ 630,443			$ 629,306			$ 629,846		
Ending equity (includes non-controlling interests)	$ 631,123			$ 630,076			$ 631,123		
Diluted book value per share	$ 24.14			$ 24.10			$ 24.14		
Weighted average shares and LTIP units outstanding (5)	25,853			25,847			25,850		
Average shareholders' equity (excludes non-controlling interests) (4)	$ 623,433			$ 623,021			$ 623,259		

(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

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Overall Results	■ 2nd quarter net income of \$20.9 million, or \$0.81 per share, equating to a 2nd quarter non-annualized return on average shareholders' equity of 3.4%; 1st quarter net income of \$22.6 million, or \$0.88 per share
Non-Agency Strategy	■ 2nd quarter non-Agency strategy gross income of \$20.3 million[(1)], or \$0.78 per share ■ Primary drivers were interest income and net realized and change in net unrealized gains (losses) on investments, partially offset by net losses on interest rate hedges, net credit hedges and other activities, and interest expense
Agency RMBS Strategy	■ 2nd quarter Agency RMBS strategy gross income of \$5.2 million[(1)], or \$0.20 per share ■ Primary drivers were interest income and net realized and change in net unrealized gains (losses) on investments, partially offset by net losses on interest rate hedges, and interest expense
Operating Expenses	■ 2nd quarter core expenses of \$4.3 million–includes base management fees and other operating expenses Core expenses represent 2.8% of average equity, annualized
Leverage	■ Debt to equity ratio: 1.89:1 at June 30, 2014 as compared to 1.87:1 at March 31, 2014 ■ Leverage ratio remained relatively constant

(1) Gross income includes interest 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), fees, and other expenses.

Ellington Financial: Second Quarter Highlights (continued)

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Portfolios	■ Non-Agency Long Portfolio including long credit default swaps: $670.1 million with a market yield of 7.01%(1) at the end of the second quarter, as compared to $660.5 million at the end of the first quarter with a market yield of 7.21%(1) ■ Agency Long Portfolio: $961.8 million at the end of the second quarter compared to $927.7 million at the end of the first quarter
Book Value and Shareholders' Equity	■ June 30, 2014 diluted book value per share of $24.14, net of $0.77 first quarter dividend paid in June, as compared to $24.10 per share as of March 31, 2014 ■ Total equity of $631.1 million as of June 30, 2014, compared to $630.1 million as of March 31, 2014

Dividend Yield	■ 2nd quarter dividend of $0.77 per share announced on August 5th, unchanged from prior quarter's dividend
	  ■ Annualized dividend yield of 12.9% based on the August 6, 2014 closing price of $23.95
	  ■ Seventh consecutive regular dividend at this level
	  ■ We continue to expect to recommend to our Board of Directors a quarterly dividend amount of $0.77 per share(2)

(1) Refer to footnote 5 on page 12 for a discussion of management's market yield estimates. Long credit default swaps are not included in yield calculations.

(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

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Overall Market Conditions	■ Non-Agency RMBS rallied in the second quarter as credit spreads continued to tighten ■ Investor appetite for fixed income assets, especially higher-yielding assets, has increased; retail bond funds experienced significant net inflows in 2014, in contrast to the outflows of the latter half of 2013 ■ Active new issuance in CMBS market as spreads in this sector also continued to tighten ■ Increased sales volume in residential non-performing loan sector (“NPLs”)—in addition to other activity, Freddie Mac entered this market as a seller; meanwhile, asset prices have risen

Portfolio Trends	■ Non-Agency RMBS
	    ■ Continued to actively trade portfolio, selling assets that we believe have become overvalued
	    ■ Purchases focused on sectors where we believe defaults have “burned out,” but the market has yet to reflect this in pricing
	    ■ Increased investment in European non-dollar-denominated RMBS to $29.2 million
	■ Continued to be active in CLOs, CMBS, distressed small balance commercial mortgage loans, and NPLs
	    ■ CLOs now comprise over 12% of non-Agency portfolio, up from over 7% in the first quarter
	        ■ Acquiring legacy CLOs at attractive prices, as investors and dealers sell their legacy inventory to make room for CLO 2.0 issuance
	    ■ Remain active purchasers of CMBS “B-pieces”
	    ■ Continue to generate attractive returns in distressed small balance commercial mortgage loans
	    ■ Purchased one small NPL pool during the quarter
	■ Actively sourcing privately negotiated transactions—backed by real estate or consumer related assets
	■ Maintaining “dry powder” for future investment opportunities

Ellington Financial: Agency Strategy

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Overall Market Conditions	■ Agency RMBS continued to rally in the second quarter ■ As expected, the Federal Reserve continues to taper its monthly bond purchases at a steady and measured pace, and it is expected that by the fall of 2014 the Federal Reserve's net monthly purchases of Agency RMBS and U.S. Treasuries will come to an end ■ The reduction in asset purchases by the Federal Reserve, coupled with the potential for an increase in new mortgage production in response to the recent drop in interest rates, is likely to cause the market dominance of the Federal Reserve to continue to wane in the coming months ■ New mortgage origination and refinancing activity remained relatively low given the level of mortgage rates
Portfolio Trends	■ Average pay-up of 0.51% as of June 30, 2014, compared to 0.32% as of March 31, 2014 ■ Continued focus on higher coupon specified fixed pools, as pay-ups for many specified pool sectors remain well below their previous highs ■ Reverse mortgage pools continued to perform well ■ Interest only securities have also continued to perform well, as prepayments have increased, but remained relatively subdued despite the drop in interest rates

Ellington Financial: Market Outlook

Non-Agency	■ As spreads have tightened, careful asset selection has become increasingly important
	  ■ Opportunities in certain more seasoned sectors
	■ We continue to focus on asset diversification
	  ■ CLOs
	  ■ European MBS/ABS
	  ■ CMBS “B-pieces”
	  ■ Distressed small balance commercial mortgage loans
	  ■ Residential NPLs
	  ■ Opportunities in other asset-backed investments
	■ Continue to enhance private transaction sourcing capabilities

Agency	■ Reduced presence of the Federal Reserve likely to create future opportunities for us and other private investors ■ Market volatility remains a significant risk—ability to hedge using a variety of tools, including TBAs, continues to be important

Non-Agency Portfolio

EFC: Non-Agency Long Portfolio

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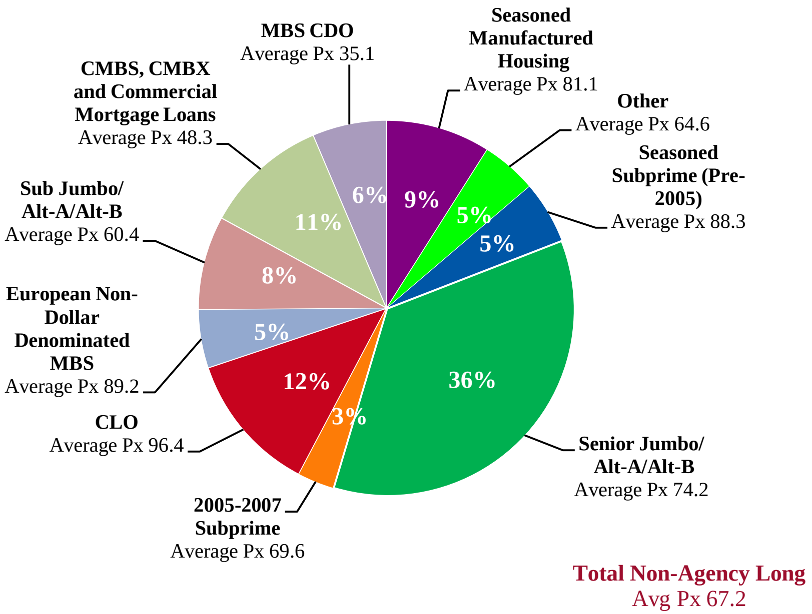
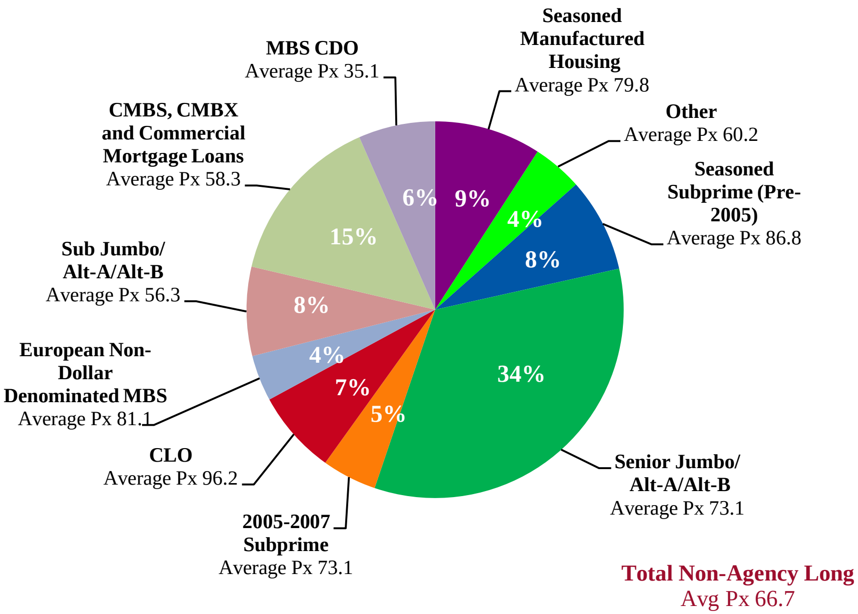
Current Quarter
Non-Agency Long Portfolio 6/30/14: $670MM[(1)(2)]



Previous Quarter
Non-Agency Long Portfolio 3/31/14: $661MM[(1)(2) (3)]



- **During the second quarter:**
  - Increased holdings of CLOs
  - Commercial mortgage holdings declined due to active trading—continue to see attractive opportunities, especially in B-pieces and distressed small balance commercial loans
  - Continuing to source legacy assets in the European RMBS market

(1) Non-Agency portfolio includes net long PrimeX and CMBX, based on their respective bond equivalent values. Bond equivalent values for CDS represent the investment amount of a corresponding position in the reference obligation or index constituents, calculated assuming a price equal to the difference between (i) par and (ii) the tear up price ("points up front"). This information does not include interest rate swaps, TBA positions, corporate CDS, common stock and equity swaps, or other hedge positions. The bond equivalent value of credit derivatives in the non-Agency long portfolio include $10.5 million of long CMBX positions and $1.9 million of long PrimeX positions at June 30, 2014, and $20.7 million of long CMBX positions and $2.0 million of long PrimeX positions at March 31, 2014. The corresponding net fair value of net long PrimeX and CMBX is $(3.8) million at June 30, 2014 and $(6.5) million at March 31, 2014.
(2) Average price excludes interest only, principal only, equity tranches and other similar securities, and net long credit derivatives at June 30, 2014 and March 31, 2014.
(3) Prior period presentation has been conformed to current period presentation.

EFC: Non-Agency Long Portfolio as of June 30, 2014

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- **Non-Agency strategy is the main driver of earnings**
- **Non-Agency long portfolio value: $670.1 million[1] as of 6/30/14 (which includes $657.7 million of long non-Agency securities and loans and $12.4 million of bond equivalent value of net long credit derivatives):**

Non-Agency Sector	Fair Value (millions)	Average Price [2]	Weighted Average Life [3]	Historical 1-Year CPR [4]	Est. Yield at Market Price at HPA Downside [5][6]	Est. Yield at Market Price at Ellington HPA Forecast [5][6]
Seasoned Subprime	$35.9	88.3%	4.6	8.4%	5.75%	6.60%
2005-2007 Subprime	20.9	69.6	8.0	7.9	5.39	6.78
Sub Jumbo/Alt-A/Alt-B	54.2	60.4	8.1	11.9	5.59	7.73
Senior Jumbo/Alt-A/Alt-B	237.9	74.2	6.1	11.7	5.57	6.19
Seasoned Manufactured Housing	60.2	81.1	5.8	7.3	6.52 [7]	6.52
CLO	81.3	96.4	2.7	N/A	5.84 [7]	6.26
CMBS and Commercial Mortgage Loans	71.5	48.3	11.2	N/A	15.77 [7]	15.77
European Non-Dollar Denominated MBS	33.6	89.2	14.1	4.8	5.74 [7]	5.74
MBS CDO	42.7	35.1	1.9	N/A	5.21	8.81
Other	31.9	64.6	7.5	7.8	4.99	4.99
Total	**$670.1**	**67.2%**	**6.2**	**10.2%**	**4.93%**	**7.01%**

(1) As of June 30, 2014, fair value includes $10.5 million of bond equivalent value of net long CMBX positions and $1.9 million of bond equivalent value of long PrimeX positions. The above table does not include these positions in averages or totals other than Fair Value.
(2) Average price excludes interest only, principal only, equity tranches and other similar securities. All averages in this table are weighted averages using fair value, except for average price which uses current principal balance.
(3) Weighted average life assumes "projected" cashflows using Ellington's proprietary models. Excludes interest only, principal only, equity tranches and other similar securities.
(4) 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 securities where Intex CPR not available.
(5) Estimated yields at market prices are management's estimates derived from Ellington's proprietary models based on prices and market environment as of 6/30/14 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. Average sector yields include interest only, principal only, equity tranches and other similar securities, and exclude securities for which yields were unavailable. 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.
(6) "HPA Downside" means all home prices decline a total of 15% over the next two years relative to our baseline HPA projections but are in-line with our baseline HPA projections thereafter, and the default rate on all collateral increases 50% beyond the impact of the 15% decline in home prices on default rates. As of June 30, 2014, our baseline projections call for home prices to rise approximately 5.1% per year nationally over the next four years, with some variation over time and material variation across localities.
(7) Yields for assets in these sectors are held constant for this analysis as management believes they are less directly affected by changes in U.S. home prices.

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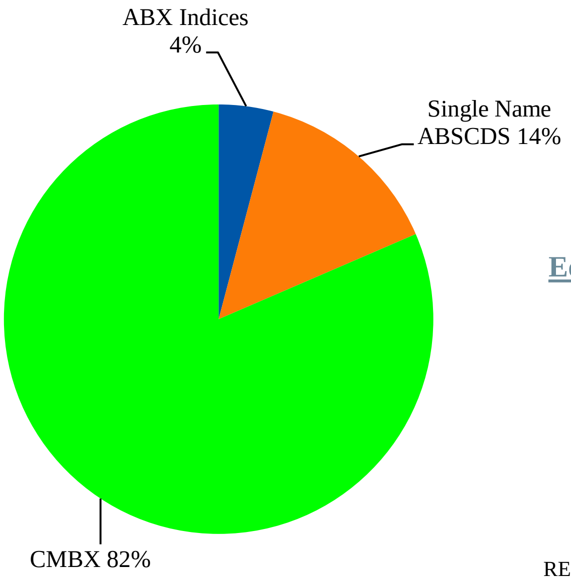
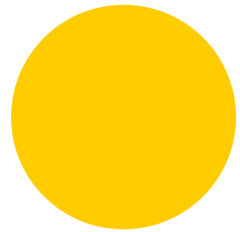
EFC: Credit Hedging and Other Portfolio

Current Quarter
Credit Hedging & Other Portfolio 6/30/14: $234MM(1)

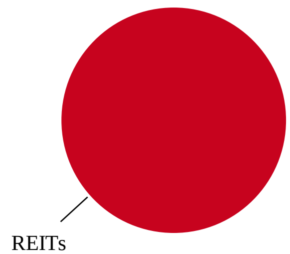
CDS on MBS: $67.4mm



Corporate CDS: $158.4mm

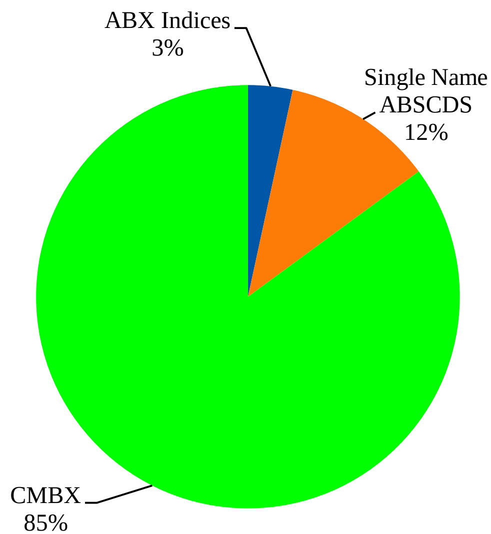


Equities: $7.7mm Net Short

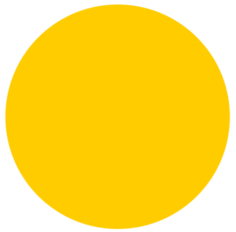


Previous Quarter
Credit Hedging & Other Portfolio 3/31/14: $237MM(1)

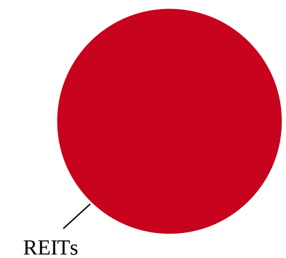
CDS on MBS: $86.0mm



Corporate CDS: $139.4mm



Equities: $11.6mm Net Long



- **During the second quarter:**
  - Increased Corporate CDS hedges as corporate credit spreads continued to tighten
  - Decreased net short CMBX positions—these serve as credit hedges and relative value trading positions

(1) Credit hedging portfolio includes synthetic credit positions based on their respective bond equivalent values in the case of CDS. See footnote 1 on page 11 for a description of bond equivalent value of CDS. This information does not include interest rate swaps, TBA positions, or other hedge positions. The total bond equivalent value of CDS on MBS and Corporate CDS is $225.8 million as of June 30, 2014 and $225.4 million as of March 31, 2014. The corresponding net fair value of short CDS on MBS and short Corporate CDS is $(9.2) million as of June 30, 2014 and $5.1 million as of March 31, 2014. For equities, the amounts above represent notional value, defined as the number of underlying shares multiplied by price per share, as of June 30, 2014 and March 31, 2014. The net short equities notional value of $7.7 million as of June 30, 2014 represents a gross long notional value of $31.5 million offset by a gross short notional value of $39.2 million. The net long equities notional value of $11.6 million as of March 31, 2014 represents a gross long notional value of $30.7 million offset by a gross short notional value of $19.1 million. The net fair value of common stock held short as of June 30, 2014 was $25.7 million. The net fair value of common stock held short as of March 31, 2014 was $6.9 million. The net fair value of the equity swaps evidencing the equity positions was $(18) thousand as of June 30, 2014 and $(16) thousand as of March 31, 2014.

Agency Portfolio

EFC: Agency Long Portfolio

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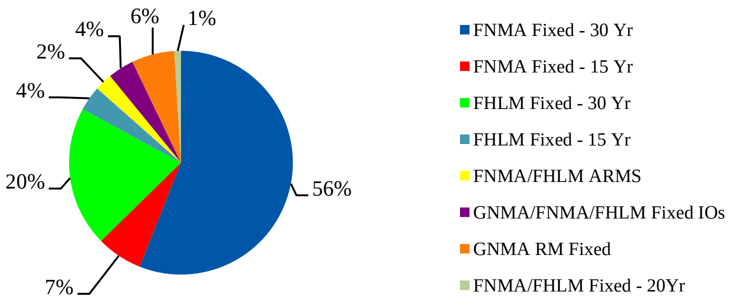
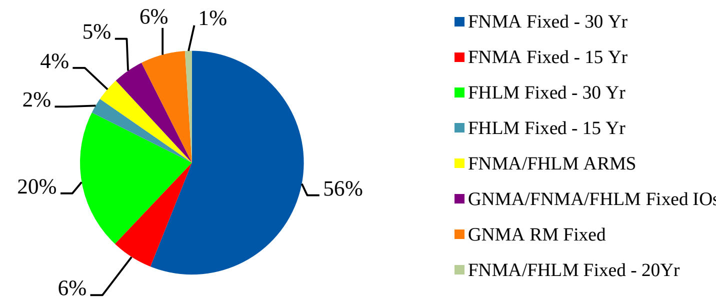
Current Quarter
Agency Long Portfolio 6/30/14: $962MM[1]



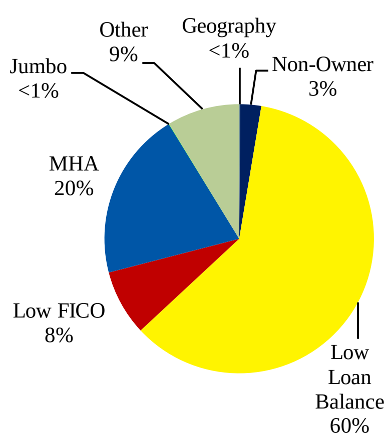
Weighted Average Coupon: 4.22%[7]

Previous Quarter
Agency Long Portfolio 3/31/14: $928MM[1]



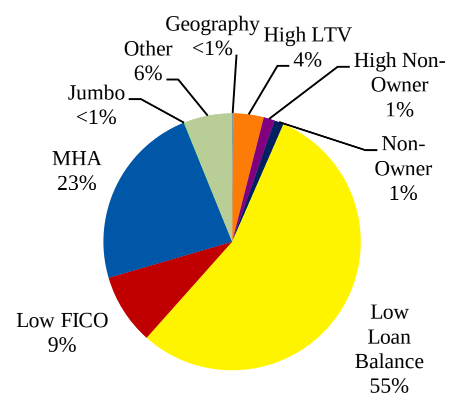
Weighted Average Coupon: 4.20%[7]

Collateral Characteristics and Historical 3-month CPR
Agency Fixed Rate Pool Portfolio 6/30/14: $842MM[2]



Characteristic[4]	Fair Value[2][5]	3-Month Historical CPR[3]
Geography	$1.1	0.0
High LTV	0.0	0.0
High Non-Owner Occupied	0.0	0.0
Non-Owner	21.1	7.7
Low Loan Bal	508.5	4.0
Low FICO	66.4	9.6
MHA[6]	170.6	1.8
Jumbo	0.3	0.0
Other	73.5	9.8
Totals	$841.5	4.6

Collateral Characteristics and Historical 3-month CPR
Agency Fixed Rate Pool Portfolio 3/31/14: $795MM[2]

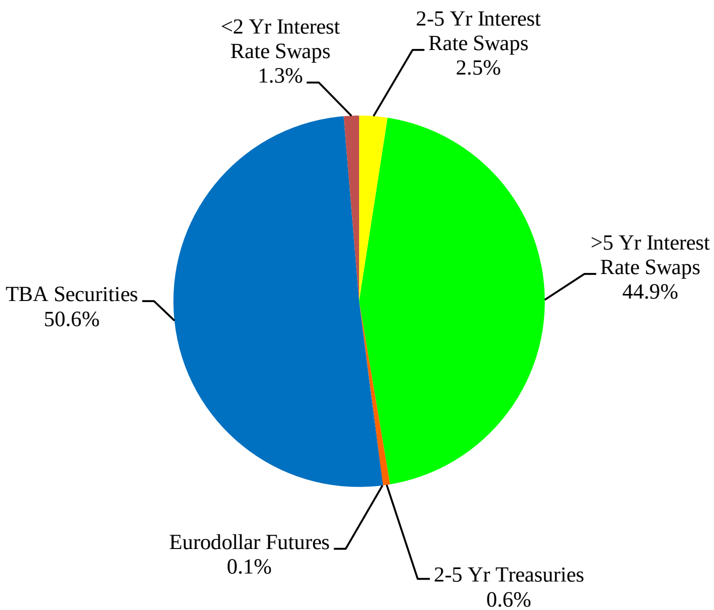


Characteristic[4]	Fair Value[2][5]	3-Month Historical CPR[3]
Geography	$1.1	0.0
High LTV	30.4	3.0
High Non-Owner Occupied	11.2	16.1
Non-Owner	9.3	0.5
Low Loan Bal	437.1	2.8
Low FICO	70.8	2.9
MHA[6]	185.9	2.6
Jumbo	0.3	4.0
Other	48.4	5.9
Totals	$794.5	3.1

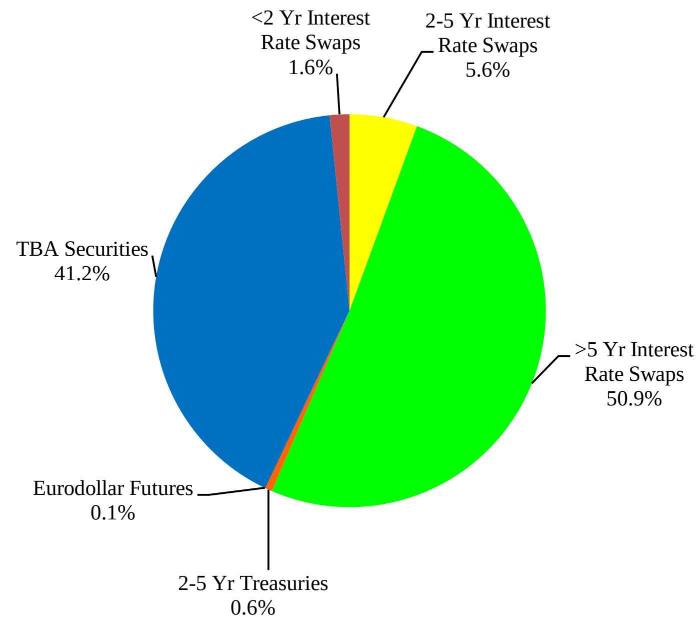
(1) Does not include long TBA positions. Agency long portfolio includes $925.6 million of long Agency securities at June 30, 2014 and $886.3 million of long Agency securities at March 31, 2014. Additionally, the long Agency portfolio includes $36.2 million of interest only securities at June 30, 2014 and $41.4 million of interest only securities at March 31, 2014.
(2) Excludes reverse mortgage pool securities with a value of $59.5 million at June 30, 2014 and $59.8 million at March 31, 2014.
(3) Excludes Agency fixed rate RMBS without any prepayment history with a total value of $70.9 million at June 30, 2014 and $46.0 million at March 31, 2014.
(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 6/30/14: Short $391 MM 10-year equivalents



Previous Quarter
Agency Interest Rate Hedging Portfolio 3/31/14: Short $432 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 TBA hedge position relative to swaps during the second quarter**

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)

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

(In millions)

Agency-related Portfolio	**6/30/2014**	**3/31/2014**
Long Agency RMBS	$962	$928
Net Short TBAs	(546)	(435)
Net Long Exposure to Agency RMBS	**$416**	**$493**

- **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, etc.**
- **For those Agency pools hedged with comparable TBAs, the biggest risk is a drop in “pay-ups,” which portfolio-wide average 0.51% of the value of our fixed rate Agency pool portfolio as of June 30, 2014, up from 0.32% as of March 31, 2014**

Estimated Change in Fair Value as of 6/30/14 for Agency Pools, Agency IOs, and Related Hedges if Interest Rates Move:

(In thousands)	**Down 50 BPS**	**Up 50 BPS**
Agency RMS - ARM Pools	$305	($365)
Agency RMBS - Fixed Pools and IO	13,337	(20,563)
TBAs	(6,874)	10,329
Interest Rate Swaps	(8,496)	8,031
U.S. Treasury Securities	(105)	103
Eurodollar and U.S. Treasury Futures	(12)	12
Repurchase Agreements and Reverse Repurchase Agreements	(396)	578
Total	**($2,241)**	**($1,875)**

Note: The above table reflects a parallel shift in interest rates based on the market environment as of June 30, 2014. 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 June 30, 2014

Ellington Financial

($ in thousands)	Repo Borrowings			
Remaining Days to Maturity	**Non-Agency**	**Agency**	**Total**	**% of Total Borrowings**
30 Days or Less	$70,171	$298,351	$368,522	31.0%
31-60 Days	73,729	274,386	348,115	29.3%
61-90 Days	21,246	271,446	292,692	24.6%
91-120 Days	—	3,828	3,828	0.3%
121-150 Days	—	28,875	28,875	2.4%
151-180 Days	132,691	14,108	146,799	12.4%
Total Borrowings	**$297,837**	**$890,994**	**$1,188,831**	**100.0%**
Weighted Average Remaining Days to Maturity	100	49	62	

- **As of June 30, 2014:**
  - EFC had borrowings outstanding with 16 counterparties
  - Borrowings from the largest counterparty represented 21% of total outstanding borrowings
  - EFC had repo borrowings with a remaining weighted average maturity of 62 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, 2014 for settlement following June 30, 2014 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, 2014, for which delivery of the borrowed funds is not scheduled until after June 30, 2014. Remaining maturity for a reverse repo is based on the contractual maturity date in effect as of June 30, 2014. Some reverse repos have floating interest rates, which may reset before maturity.

EFC: Average Cost of Borrowings

Ellington Financial

($ In thousands)	As of June 30, 2014	For the Quarter Ended June 30, 2014	
Collateral for Borrowing	Outstanding Borrowings[1]	Average Borrowings for the Quarter Ended[1]	Average Cost of Funds[1]
Non-Agency RMBS, CMBS, and Other	$297,837	$307,964	1.92%
Agency RMBS	890,994	864,934	0.36%
Total	**$1,188,831**	**$1,172,898**	**0.77%**

- Debt-to-equity ratio(2) of 1.89:1 as of June 30, 2014 compared to 1.87:1 as of March 31, 2014
- Borrowing costs have declined slightly for both non-Agency and Agency Repo
  - As of June 30th, weighted average borrowing rate was 1.89% for non-Agency repo and 0.35% for Agency repo

(1) Borrowed amounts exclude $0.9 million and $1.0 million in securitized debt as of June 30, 2014 and March 31, 2014, respectively, 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 repurchase agreements ("reverse repos") and a securitized debt financing in the amount of $0.9 million and $1.0 million as of June 30, 2014 and March 31, 2014, respectively.

Supplemental Information

EFC: Gross Profit and Loss

	Six Months Ended June 30, 2014		Years Ended											
	2014		2013		2012		2011		2010		2009		2008	
($ In thousands)	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Long: Non-Agency	50,757	8.05	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	(2,499)	(0.40)	(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	(4,845)	(0.77)	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	37,834	6.01	(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	(28,498)	(4.52)	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	**52,749**	**8.37**	**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

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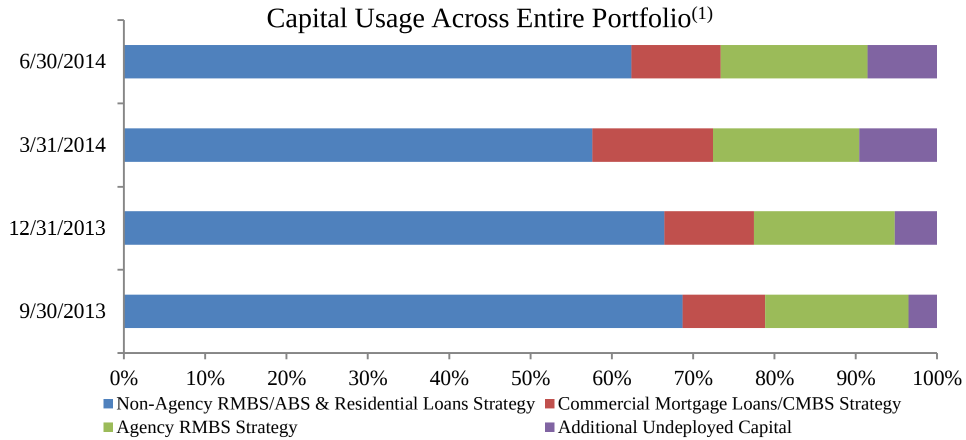


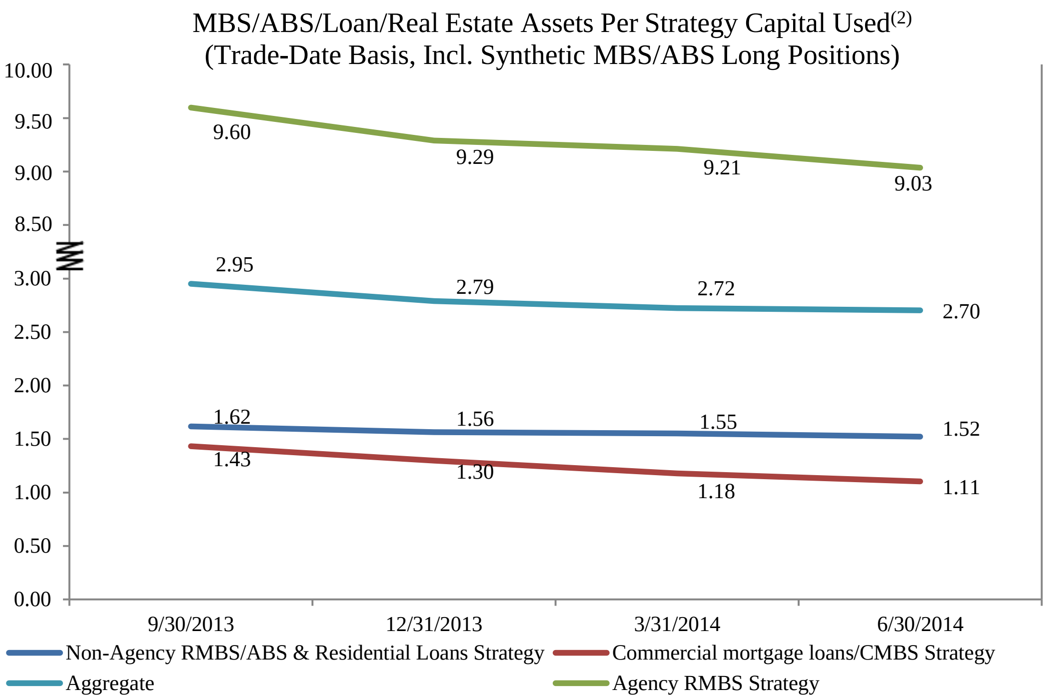
Notes

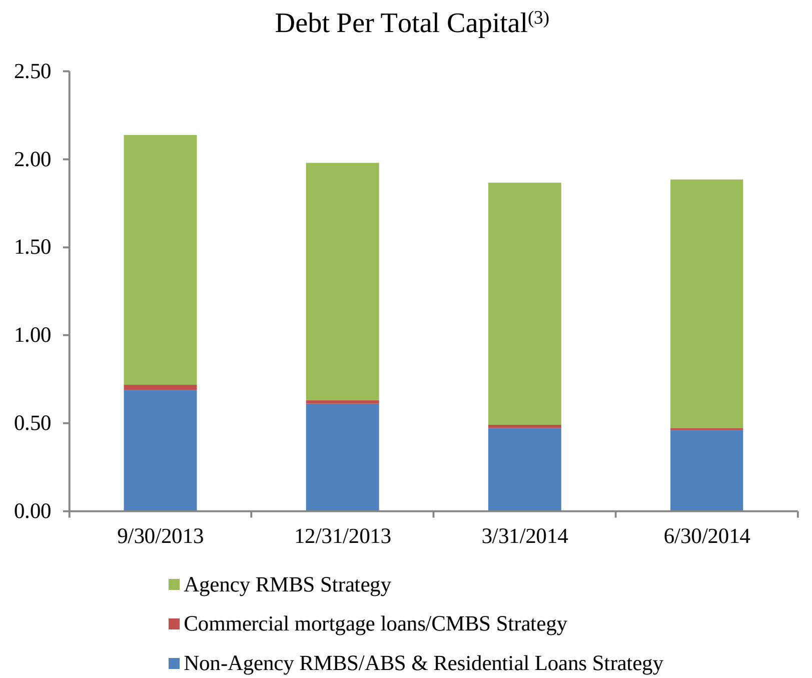
(1) Capital usage based on pro forma calculation of leverage generally applicable to long positions in target asset classes

(2) 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, Agency pools)
- long holdings of unsecuritized residential mortgage loans
- long holdings of unsecuritized commercial mortgage loans and B-notes
- 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

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





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

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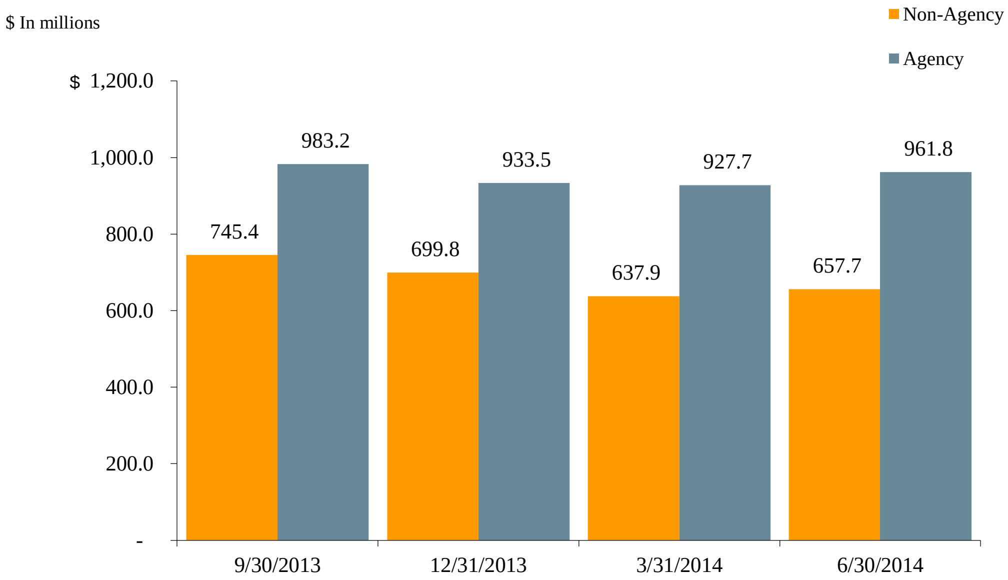
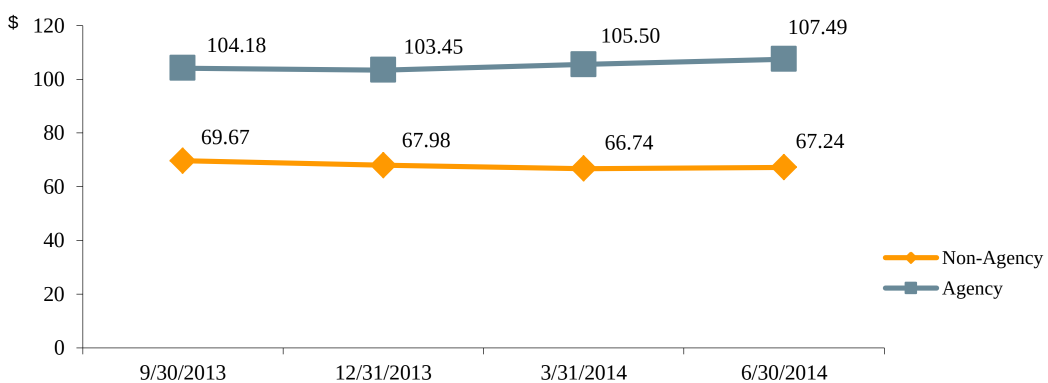
Non-Agency and Agency Portfolios by Fair Value[1]

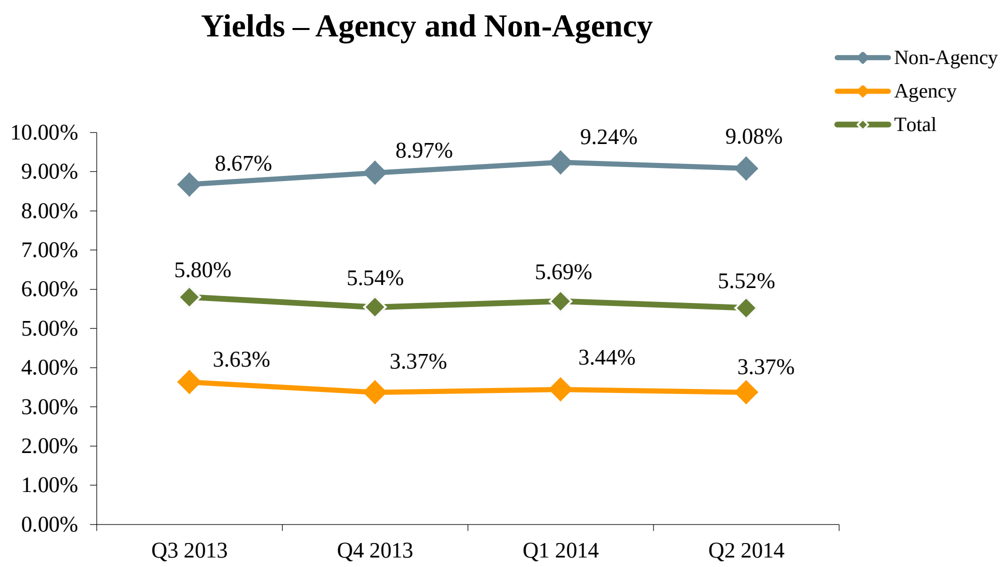


Average Price – Non-Agency and Agency[2]

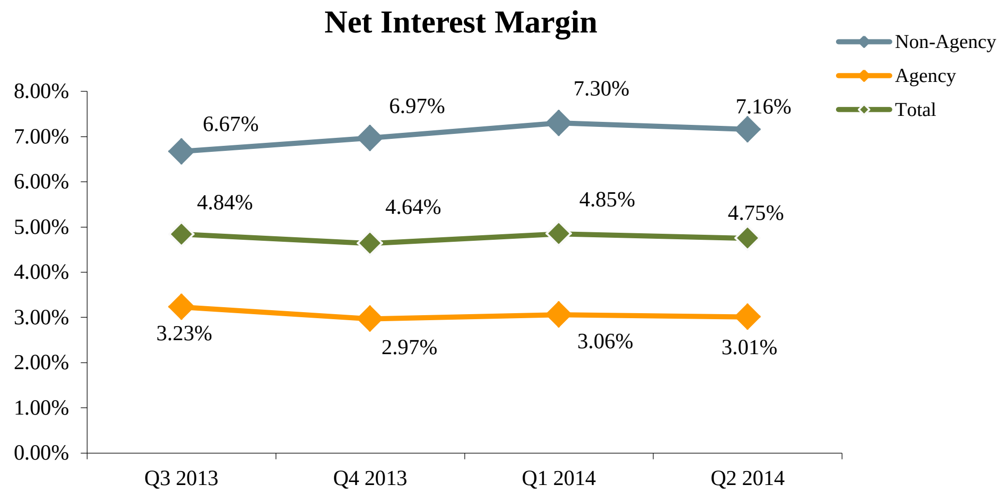


(1) Excludes long credit default swaps.
(2) Excludes interest only, principal only, equity tranches , real estate owned, and other similar securities. Also excludes long credit default swaps.

EFC: Yields and Net Interest Margin



Note: Yields are based on amortized cost, not fair value.



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

EFC: Dividends and Expense Ratio

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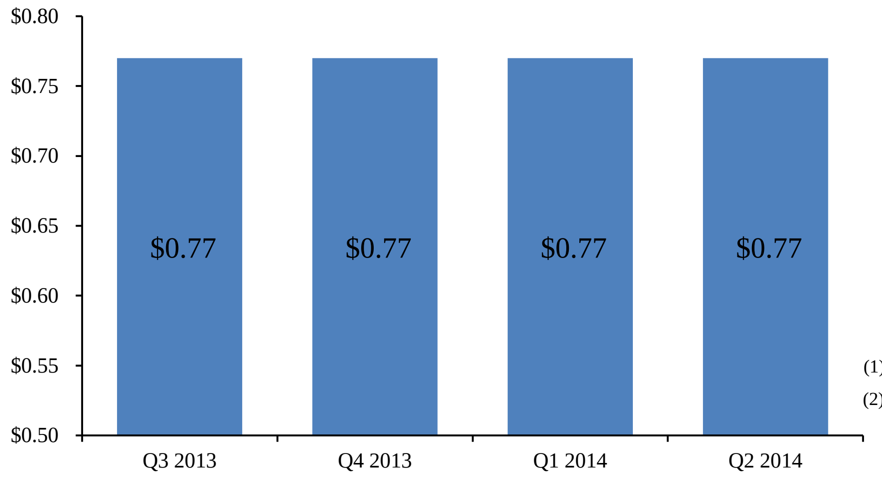
Dividends Per Share

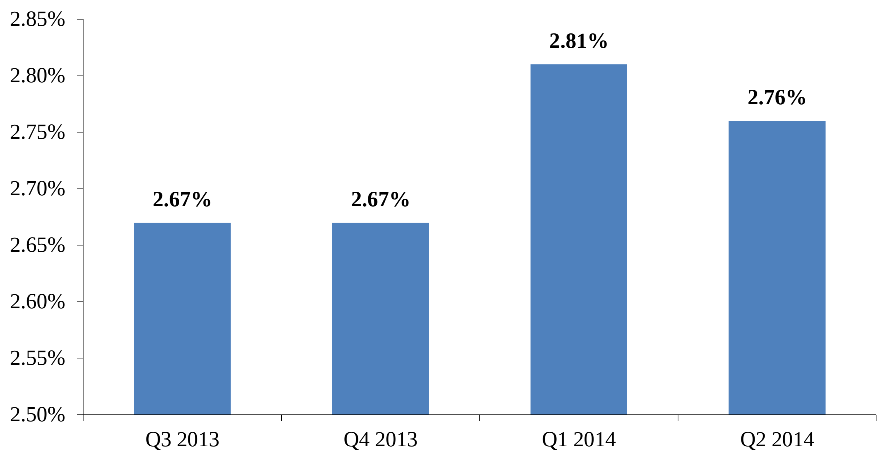


Dividend Yield as of August 6, 2014
12.9%[1]

(1) Based on NYSE closing price as of 08/06/2014.

(2) Expense ratios annualized.

Expense Ratio[2]



EFC: Book Value

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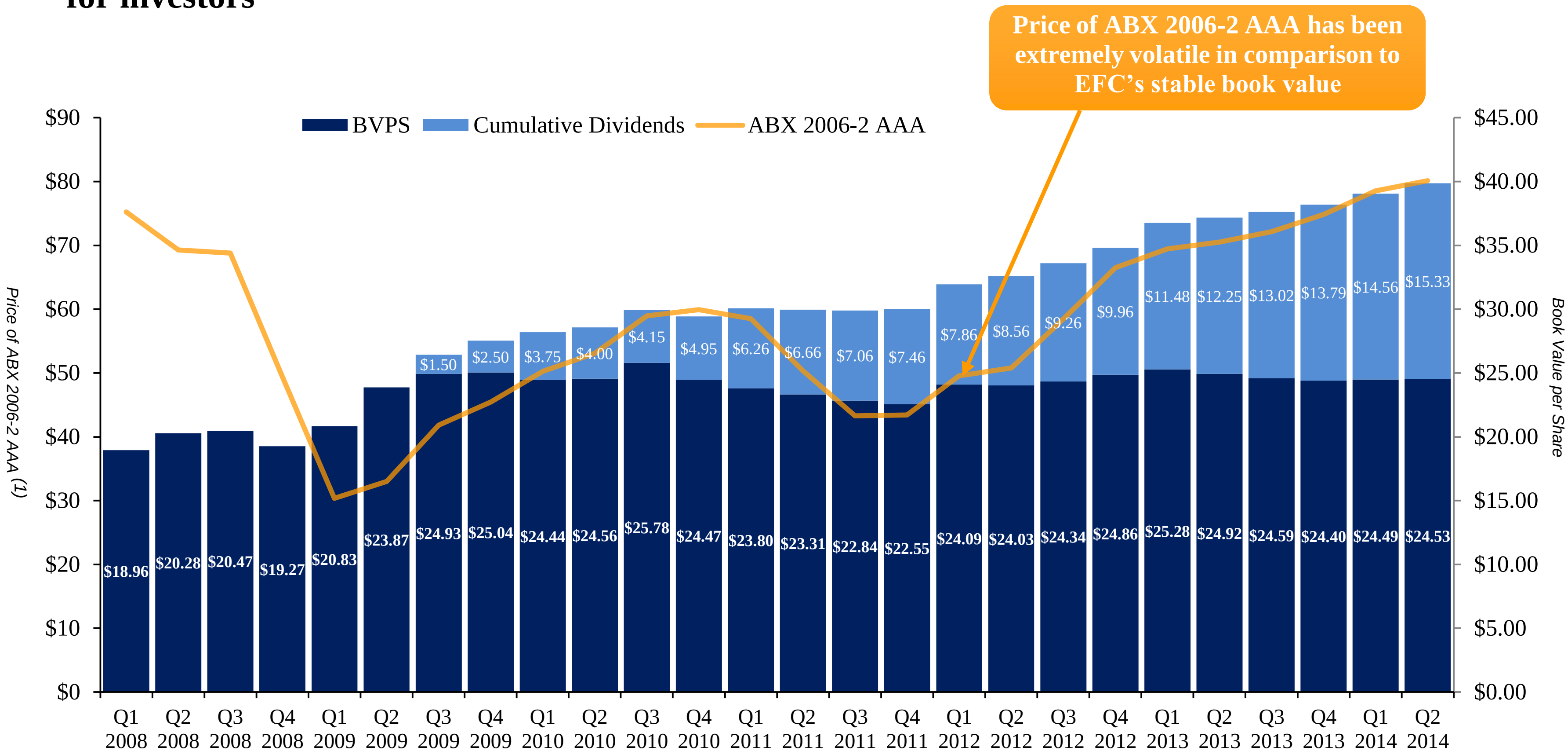
- **EFC has successfully preserved book value through market cycles, while producing strong results for investors**



- **EFC life-to-date net-asset-value-based total return from inception in August 2007 through Q2 2014 is approximately 137%**

(1) Source: Bloomberg, Markit

Note: Total return is based on $19.17 net book value per share at inception in August 2007 and is calculated assuming the reinvestment of dividends. Total return from inception using the June 30, 2014 book value per share is 137.38%. 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 June 30, 2014	Three Month Period Ended March 31, 2014	Six Month Period Ended June 30, 2014
Investment income			
Interest income	$ 20,996	$ 21,496	$ 42,493
Expenses			
Base management fee	2,368	2,364	4,733
Incentive fee	-	-	-
Interest expense	2,416	2,627	5,043
Other investment related expenses	1,232	430	1,662
Other operating expenses	1,974	1,994	3,968
Total expenses	7,990	7,415	15,406
Net investment income	13,006	14,081	27,087
Net realized gain (loss) on:			
Investments	4,596	9,843	14,439
Financial derivatives	(817)	1,218	402
Foreign currency transactions	(95)	347	252
	3,684	11,408	15,093
Change in net unrealized gain (loss) on:			
Investments	9,803	(147)	9,656
Financial derivatives	(5,771)	(2,439)	(8,211)
Foreign currency translation	482	(65)	417
	4,514	(2,651)	1,862
Net realized and unrealized gain (loss) on investments and financial derivatives	8,198	8,757	16,955
Net increase in equity resulting from operations	$ 21,204	$ 22,838	$ 44,042
Less: Increase in equity resulting from operations attributable to non-controlling interest	257	203	460
Net increase in shareholders' equity resulting from operations	$ 20,947	$ 22,635	$ 43,582
Net increase in shareholders' equity resulting from operations per share:			
Basic and diluted	$ 0.81	$ 0.88	$ 1.69
Weighted average shares and LTIP units outstanding	25,853	25,847	25,850
Weighted average shares and convertible units outstanding	26,065	26,059	26,062

Balance Sheet

(Unaudited)

Ellington Financial

ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND EQUITY

(In thousands, except share amounts)	As of June 30, 2014	March 31, 2014	December 31, 2013 (1)
ASSETS			
Cash and cash equivalents	$ 145,032	$ 170,362	$ 183,489
Investments, financial derivatives and repurchase agreements:			
Investments at fair value (Cost - $1,693,248, $1,713,189, and $1,688,257)	1,753,832	1,756,011	1,730,130
Financial derivatives - assets at fair value (Net cost - $54,200, $55,230, and $50,533)	59,470	57,560	59,664
Repurchase agreements (Cost - $30,537, $29,872, and $27,943)	30,537	29,875	27,962
Total Investments, financial derivatives and repurchase agreements	1,843,839	1,843,446	1,817,756
Due from brokers	109,863	68,863	82,571
Receivable for securities sold	813,166	832,841	883,005
Interest and principal receivable	7,618	6,800	6,831
Other assets	1,709	1,693	1,546
Total assets	$ 2,921,227	$ 2,924,005	$ 2,975,198
LIABILITIES			
Investments and financial derivatives:			
Investments sold short at fair value (Proceeds - $846,217, $819,652, and $847,602)	$ 852,846	$ 818,765	$ 845,614
Financial derivatives - liabilities at fair value (Net proceeds - $28,981, $18,821, and $29,746)	48,378	29,504	44,791
Total investments and financial derivatives	901,224	848,269	890,405
Reverse repurchase agreements	1,188,831	1,175,907	1,236,166
Due to brokers	27,479	30,860	19,762
Payable for securities purchased	164,792	231,809	193,047
Securitized debt (Proceeds - $906, $963, and $980)	925	983	983
Accounts payable and accrued expenses	2,209	2,281	1,810
Base management fee payable	2,368	2,364	2,364
Incentive fee payable	—	—	3,091
Interest and dividends payable	2,276	1,456	1,521
Total liabilities	2,290,104	2,293,929	2,349,149
EQUITY	631,123	630,076	626,049
TOTAL LIABILITIES AND EQUITY	$ 2,921,227	$ 2,924,005	$ 2,975,198
ANALYSIS OF EQUITY:			
Common shares, no par value, 100,000,000 shares authorized;			
(25,441,750, 25,441,750, and 25,428,186 shares issued and outstanding)	$ 614,862	$ 613,822	$ 611,282
Additional paid-in capital - LTIP units	9,245	9,181	9,119
Total Shareholders' Equity	$ 624,107	$ 623,003	$ 620,401
Non-controlling interests	7,016	7,073	5,648
Total Equity	$ 631,123	$ 630,076	$ 626,049
PER SHARE INFORMATION:			
Common shares, no par value	$24.53	$24.49	$24.40
DILUTED PER SHARE INFORMATION:			
Common shares and convertible units, no par value	$24.14	$24.10	$23.99

(1) Derived from audited financial statements as of December 31, 2013.

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 140 employees, giving EFC access to time-tested infrastructure and proprietary resources in trading, research, risk management, and operational support**
  - EMG has approximately $5.6 billion in assets under management as of June 30, 2014
- **EMG's portfolio managers are among the most experienced in the MBS sector and the firm's analytics have been developed over a 19-year history**
  - Prior to forming 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 13% of EFC; interests are aligned with shareholders**

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

Ellington Financial

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