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SAMPLE PARTNER A
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To Ellington Financial LLC Shareholders:

Enclosed is your Schedule K-1, which reflects the activity from your investment in Ellington Financial LLC (NYSE:EFC). As a shareholder, you are required to report this activity on your federal and state income tax returns. To assist you in reporting this activity, we have prepared this 2016 Tax Package, which contains certain information relating to your ownership of EFC shares.

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

- (1) 2016 Tax Reporting Package - Frequently Asked Questions
- (2) 2016 Schedule K-1 (Form 1065)
- (3) 2016 Supplemental Information (contains details about the amounts reported on Schedule K-1)
- (4) 2016 Schedule K-1 Footnotes (Form 926 Information – if applicable)
- (5) 2016 Ownership Schedule
- (6) 2016 Sales Schedule (if applicable)

Please carefully review the information on your 2016 Ownership Schedule. This schedule contains the history of shares you bought or sold by date and number of shares as reported to EFC by your broker or our transfer agent through December 31, 2016. We rely on purchase and sale information obtained from the brokers and transfer agent to prepare the tax information reported to you. If the information provided by the brokers and transfer agent is incorrect, then the information reported to you, as well as the information reported to the Internal Revenue Service, will also be incorrect. If the information is inaccurate, please contact us as indicated on the 2016 Ownership Schedule to correct such information, and we will issue you a corrected tax package.

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

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

Ellington Financial LLC

2016 Income Tax Reporting Package

Frequently Asked Questions

INTRODUCTION

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

The enclosed tax package consists of your IRS Schedule K-1 (Form 1065), Supplemental Information Schedule, Footnotes, Ownership Schedule and Sales Schedule for EFC's tax year ending December 31, 2016. Please read the Supplemental Information Schedule, Footnotes, Ownership Schedule and Partner's IRS Instruction Booklet (which is also enclosed) carefully before filing your 2016 Federal Income Tax Return. (Please read the Sales Schedule if you disposed of shares in 2016.)

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

Next, individuals should review their Federal Schedule K-1 and Supplemental Information Schedule and Footnotes. If any boxes of the 2016 Schedule K-1 or the Supplemental Information Schedule show an amount, then you should report the amount on the applicable box's corresponding Form or Schedule that you will attach to your Form 1040.

Finally, if you disposed of your shares prior to January 1, 2017, you should utilize the Sales Schedule and applicable summary to determine your taxable gain or loss on share dispositions. Please contact your tax advisor if you have any questions regarding the applicable tax treatment of any item on the enclosed schedules. Questions relating specifically to the Schedule K-1 Information should be directed to: **EFC Partner DataLink at (855) 237-3734.**

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

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

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

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

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

A. No. The cash payments you received are treated as partnership distributions (nontaxable reductions to your tax basis) for tax purposes. The amount you are required to include in your individual income tax return is your share of EFC's income and related items, allocated based on the number of shares you owned during 2016, and is reported on your Schedule K-1. The amount of your taxable income will not correspond to the amount of cash distributed to you during the year, if any.

Q. What is a Schedule K-1?

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

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

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

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

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

Q. Why do you report Unrelated Business Taxable Income (UBTI) amounts?

A. UBTI is a tax-exempt organization's (including IRA's, Keogh and other qualified retirement plans) distributive share of our gross income and allowable deductions which is considered to be unrelated to the regular activities of the tax-exempt organization, and is generally taxable to those organizations. Tax-exempt organizations subject to this tax should report the UBTI amounts in the appropriate places on Schedule E of their Forms 990-T. Such income is includable in the organization's taxable income, but may be offset by a \$1,000 deduction. Please consult your tax adviser if you sold your EFC shares and need to calculate how much of the gain (loss) on disposition is UBTI.

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

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

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

A. You may make any corrections directly onto the Ownership Schedule and return it to EFC by May 15, 2017 at the address given in the instructions. You may also call (855) 237-3734 or fax corrections to (215) 982-6302. EFC will use the information on the corrected Ownership Schedule to update its records and will send you corrected tax information.

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

A. EFC is on a December 31 calendar year end for income tax purposes. Therefore, the enclosed tax information should be reported in your 2016 income tax return. If you are a fiscal year taxpayer, the tax information items should be reported in your tax return for your fiscal year which includes December 31, 2016.

Schedule K-1 (Form 1065)

2016

Department of the Treasury Internal Revenue Service

For calendar year 2016, or tax year beginning ending 2016

Partner's Share of Income, Deductions, Credits, etc.

See back of form and separate instructions.

Part I Information About the Partnership

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

Part II Information About the Partner

E Partner's identifying number APPLD FOR
F Partner's name, address, city, state, and ZIP code SAMPLE PARTNER A 53 FOREST AVE OLD GREENWICH, CT 06870
G General partner or LLC member-manager [] Limited partner or other LLC member [X]
H Domestic partner [X] Foreign partner []
I1 What type of entity is this partner? INDIVIDUAL
I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here []
J Partner's share of profit, loss, and capital (see instructions):
Beginning Ending
Profit 0.029788 % 0.030545 %
Loss 0.029788 % 0.030545 %
Capital 0.029788 % 0.030545 %
K Partner's share of liabilities at year end:
Nonrecourse \$
Qualified nonrecourse financing \$
Recourse \$

L Partner's capital account analysis:
Beginning capital account \$ 180,896
Capital contributed during the year \$ -
Current year increase (decrease) \$ (1,654)
Withdrawals & distributions \$ (19,500)
Ending capital account \$ 159,742
[X] Tax basis [] GAAP [] Section 704(b) book
[] Other (explain)
M Did the partner contribute property with a built-in gain or loss?
[] Yes [X] No
If "Yes," attach statement (see instructions)

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

Table with 4 columns: Line number, Description, Code, and Amount. Rows include Ordinary business income (loss) 15 Credits 17,371; Net rental real estate income (loss) 2; Other net rental income (loss) 16 Foreign transactions B 29,047; Guaranteed payments C 2,115; Interest income D 1,225; Ordinary dividends G 3,288; Qualified dividends H 20,236; Royalties I 421; Net short-term capital gain (loss) 8 931; Net long-term capital gain (loss) 17 Alternative minimum tax (AMT) items 1,177; Collectibles (28%) gain (loss) 9b; Unrecaptured section 1250 gain 9c; Net section 1231 gain (loss) 10 18 Tax-exempt income and nondeductible expenses; Other income (loss) 11 F* (17,862); Section 179 deduction 12 19 Distributions A 19,500; Other deductions 13 H* 3,288 20 Other information; Self-employment earnings (loss) 14 V* STMT Y* (1,656); K 244 A 261 B 244

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

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

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

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

2. Net rental real estate income (loss)

3. Other net rental income (loss)

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

4. Guaranteed payments

5. Interest income

6a. Ordinary dividends

6b. Qualified dividends

7. Royalties

8. Net short-term capital gain (loss)

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

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

Net loss	See the Partner's Instructions
Form 1040, line 8a	Schedule E, line 28, column (j)
Form 1040, line 9a	Form 1040, line 8a
Form 1040, line 9b	Form 1040, line 9a
Schedule E, line 4	Schedule E, line 4
Schedule D, line 5	Schedule D, line 5
Schedule D, line 12	Schedule D, line 12
28% Rate Gain Worksheet, line 4	28% Rate Gain Worksheet, line 4
(Schedule D instructions)	(Schedule D instructions)
See the Partner's Instructions	See the Partner's Instructions

9c. Unrecaptured section 1250 gain

10. Net section 1231 gain (loss)

11. Other income (loss)

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

12. Section 179 deduction

13. Other deductions

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

14. Self-employment earnings (loss)

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

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

15. Credits

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

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

ELLINGTON FINANCIAL LLC

2016 SUPPLEMENTAL INFORMATION

PARTNER NAME: SAMPLE PARTNER A

PARTNER FEDERAL ID & ENTITY TYPE: APPLD FOR / INDIVIDUAL

CUSTODIAN FEDERAL ID (IF APPLICABLE):

Line	Description	Amount
	<u>Ordinary business income (loss)</u>	
	U.S. Government Interest as Non-qualified Dividend Income	-
	U.S. Sourced Interest Income	21,299
	U.S. Government Interest	32
	U.S. Sourced Non-qualified Dividend Income	122
	Foreign Sourced Non-qualified Dividend Income	1,225
	Management Fees	(2,676)
	Incentive Fees	-
	Trade Or Business Expenses	(2,893)
	PFIC QEF Income	144
	Guaranteed Payments Received – Not Treated as Portfolio Interest	118
1	Total Ordinary business income (loss)	<u>17,371</u>
	<u>Other Income (Loss)</u>	
	Section 475(F) Mark-to-Market Gain (Loss)	(14,811)
	Section 475(F) Mark-to-Market Gain (Loss) – U.S. Treasuries	20
	Swap Income (Loss)	(5,423)
	Sub-Part F Income	2,344
	Other Income	8
	Other Loss	-
11F	Total Other Income (Loss)	<u>(17,862)</u>
	<u>Investment Interest Expense</u>	
	Investment interest related to US Treasuries	9
	Other Investment Interest expense	3,279
13H	Total Investment Interest Expense	<u>3,288</u>
	<u>Unrelated Business Taxable Income</u> (UBTI, see Frequently Asked Questions page)	
20V1	UBTI – Ordinary	(2,643)
20V2	UBTI – Capital	1,595

PARTNER NAME: SAMPLE PARTNER A

PARTNER FEDERAL ID & ENTITY TYPE: APPLD FOR / INDIVIDUAL

CUSTODIAN FEDERAL ID (IF APPLICABLE):

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

Summarized reporting information for shareholders who file Form 1040 may be found on Schedule K-1, Page 2. Please note that any income or loss included in Box 11 (Other income (loss)) should be combined (or netted) with the amount included in Box 1 and reported on Form 1040, Schedule E, Line 28, column (h) or (j). Interest expense in Box 13H will generally be reported on Form 1040, Schedule E, Part II, Line 28 by listing “Investment Interest Expense – Ellington Financial LLC” in column (a), and entering the interest expense amount in Box 13h on Schedule E, Part II, Line 28, column (h) (unless the interest expense is limited by the investment interest expense limitation on Form 4952, in which case the limited amount should be reported).

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

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

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

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

Please consult your tax advisor.

Form 926 Information: Return by a U.S. Transferor of Property to a Foreign Corporation

Information Reporting Required Under Section 6038

Ellington Financial LLC invested in foreign corporations in transactions described in Section 6038 during the year ended 12/31/2016. If you are a U.S. domestic partner and are deemed to have contributed \$100,000 or more in fair market value to a foreign corporation you may be required to include Form 926 with your tax return. Please consult your tax advisor.

The following information is being provided to assist you with Form 926. If you believe you have a filing requirement, the additional information needed to complete the Form can be obtained by contacting Partner DataLink at (855)-237-3734 or downloaded at www.partnerdatalink.com/Ellington.

Transferee Entity	Type of Property	Fair Market Value	Cost or Other Basis
Debt Resolution Corp S.a r.l. - Compartment I	Cash	1,564	1,564
Debt Resolution Corp S.a r.l. - Compartment K	Cash	2,926	2,926
Chronos Strategies S.A. variable rate notes due in 2030	Cash	460	460
EF Cayman Holdings Ltd.	Cash	57,499	57,499
EF Cayman Holdings 3 Ltd.	Partnership Interest	2,187	4,266

ELLINGTON FINANCIAL LLC**2016 OWNERSHIP SCHEDULE**

PARTNER NAME: SAMPLE PARTNER A

PARTNER FEDERAL ID & ENTITY TYPE: APPLD FOR / INDIVIDUAL

CUSTODIAN FEDERAL ID (IF APPLICABLE):

This schedule details your transactional history regarding shares of Ellington Financial LLC, as reported to the Partnership by your broker or our transfer agent through December 31, 2016. This schedule is limited to all shares that are reported as owned by the partner federal identification number and entity type shown above.

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

The transactional information contained below has been utilized to prepare this Tax Package. If this transactional information is incorrect, then the information reported in this Tax Package (as well as the information reported to the IRS) may be incorrect. **To report any errors or inaccuracies, please contact Partner DataLink by email at EllingtonK1Help@Deloitte.com, by phone at (855) 237-3734 or by mail at Partner DataLink, Ellington Financial LLC, P.O. Box 8447, Hermitage, TN 37076-8447, by May 15, 2017. Alternatively, you may make changes directly on this form and return it by fax to (215) 982-6302.**

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

THE SCHEDULE IS NOT PROOF OF OWNERSHIP

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