Ellington Financial

# Third Quarter 2017 Earnings Conference Call

November 7, 2017

# Important Notice

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**Forward-Looking Statements**

This presentation contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our beliefs, expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are not historical in nature and can be identified by words such as “believe,” “expect,” “anticipate,” “estimate,” “project,” “plan,” “continue,” “intend,” “should,” “would,” “could,” “goal,” “objective,” “will,” “may,” “seek,” or similar expressions or their negative forms, or by references to strategy, plans, or intentions. Examples of forward-looking statements in this presentation include projections regarding our portfolio growth, our ability to obtain financing, and our ability to cover our dividend, 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 16, 2017, which can be accessed through the Company’s website at www.ellingtonfinancial.com or at the SEC’s website (www.sec.gov). Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected may be described from time to time in reports we file with the SEC, including reports on Form 10-Q, 10-K and 8-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

**Modeling**

Some statements in this presentation may be derived from proprietary models developed by Ellington Management Group, L.L.C. (“Ellington”). Some examples provided may be based upon the hypothetical performance of such models. Models, however, are inherently imperfect and subject to a number of risks, including that the underlying data used by the models is incorrect, inaccurate, or incomplete, or that the models rely upon assumptions that may prove to be incorrect. The utility of model-based information is highly limited. The information is designed to illustrate Ellington’s current view and expectations and is based on a number of assumptions and limitations, including those specified herein. Certain models make use of discretionary settings or parameters which can have a material effect on the output of the model. Ellington exercises discretion as to which settings or parameters to use in different situations, including using different settings or parameters to model different securities. Actual results and events may differ materially from those described by such models.

**Example Analyses**

The example analyses included herein are for illustrative purposes only and are intended to illustrate Ellington’s analytic approach. They are not and should not be considered a recommendation to purchase or sell any security or a projection of the Company’s future results or performance. The example analyses are only as of the date specified and do not reflect changes since that time.

**Projected Yields and Spreads**

Projected yields and spreads discussed herein are based upon Ellington models and rely on a number of assumptions, including as to prepayment, default and interest rates and changes in home prices. Such models are inherently imperfect and there is no assurance that any particular investment will perform as predicted by the models, or that any such investment will be profitable. Projected yields are presented for the purposes of (i) providing insight into the strategy’s objectives, (ii) detailing anticipated risk and reward characteristics in order to facilitate comparisons with other investments, (iii) illustrating Ellington’s current views and expectations, and (iv) aiding future evaluations of performance. They are not a guarantee of future performance. They are based upon assumptions regarding current and future events and conditions, which may not prove to be accurate. There can be no assurance that the projected yields will be achieved. Investments involve risk of loss.

**Financial Information**

All financial information included in this presentation is as of September 30, 2017 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

# Third Quarter Highlights[1]

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| | |
|---|---|
| **Overall Results** | Net income: $6.2 million or $0.19 per share<br>Economic return: 1.06% for the quarter, 6.0% year-to-date annualized through Q3<br>Continued to ramp Credit portfolio |
| **Credit Strategy** | Credit gross income: $7.9 million[2] or $0.24 per share<br>Long Credit portfolio: $741.3 million[3] – 8% increase from previous quarter |
| **Agency RMBS Strategy** | Agency gross income: $2.8 million[2] or $0.08 per share<br>Long Agency portfolio: $816.2 million – 2% decrease from previous quarter |
| **Equity & BVPS** | Total equity: $629.7 million<br>Diluted book value per share: $18.96 after a $0.45 dividend paid in September |
| **Dividends** | 3rd quarter dividend of $0.41 per share announced on 11/1/2017, payable on 12/15/2017<br>Annualized dividend yield of 10.7% based on the 11/3/2017 closing price of $15.35 |
| **Leverage** | Overall debt-to-equity[4] ratio: 1.91x<br>– Credit: 0.97x<br>– Agency: 7.57x<br>Issued $86 million senior unsecured notes<br>– 5.25% fixed rate with 5-year term, effective interest rate of 5.55%<br>– Rated “A” by Egan-Jones Ratings Company |

# Market Conditions & Portfolio Trends

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| | |
|---|---|
| **Overall Market Conditions** | ■ Volatility remained at historic lows and the yield curve flattened again during the quarter<br>■ In September, the Federal Reserve announced it would initiate tapering in October<br>■ During the quarter, yield spreads across most credit products remained at the tightest points of their trailing two-year ranges<br>■ Agency RMBS finally participated in the spread tightening that other fixed-income asset classes had already benefited from this year |
| **Credit Strategy** | ■ Performance driven by net interest income as opposed to trading gains, as we emphasized deploying proceeds of our debt offering over selling<br>■ Strong performance from CMBS, distressed corporate investments, and corporate credit relative value strategy<br>■ Pace of capital deployment slower than planned in environment of heightened competition |
| **Agency Strategy** | ■ Strong performance as Agency RMBS yield spreads tightened<br>■ Portfolio benefited from the outperformance of specified pools versus TBAs |

# Objectives

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- Focus on growing the Credit portfolio and improving earnings
  - Leverage our proprietary pipeline of loans and make opportunistic allocations to securities to build a diverse group of high-yielding assets
  - Select high-quality, high-yielding assets without compromising our acquisition standards
  - Expand financing facilities, including continuing to access the securitization markets
    - Emphasize long-term non mark-to-market financing
    - Securitization is an important driver of this growth, as it enhances yields and frees up capital to redeploy
    - We have lots of room to grow the balance sheet
- Minimize the volatility of our book value and earnings through dynamic credit and interest rate hedging
- Generate powerful and consistent earnings stream for shareholders

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# Portfolio

# Portfolio Summary as of September 30, 2017[1]

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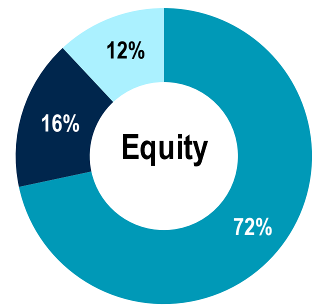
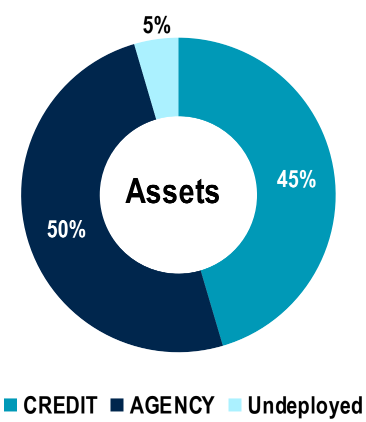
## Diversified sources of return to perform through market cycles

| Strategy | Equity Allocation | Fair Value ($MM) | Average Price (%)[2][6] | WAVG Life[4][6] | WAVG Mkt Yield[5][6] |
|---|---|---|---|---|---|
| **CREDIT** | | | | | |
| Residential Mortgage Loans and REO | | $ 163,649 | 98.0 | 2.0 | 6.4% |
| Consumer Loans and ABS | | 119,366 | -[3] | 0.9 | 10.1% |
| Non Dollar-Denominated MBS, CLO and ABS | | 116,791 | 80.2 | 6.7 | 8.2% |
| CMBS, Commercial Mortgage Loans and REO | | 115,182 | 59.0 | 2.3 | 12.5% |
| CLO | | 110,890 | 98.8 | 4.3 | 10.4% |
| Non-Agency RMBS | | 75,933 | 57.4 | 4.6 | 6.0% |
| Debt and Equity Investment in Mortgage-Related Entities | | 27,590 | 100.0 | 0.0 | 16.1% |
| Corporate Debt and Equity | | 11,901 | 41.4 | 1.9 | 6.3% |
| **Total - Credit** | **72%** | **$ 741,302** | **80.8** | **3.2** | **8.9%** |
| **AGENCY** | | | | | |
| Fixed-Rate Specified Pools | | $ 721,709 | 106.2 | 7.4 | 2.9% |
| Reverse Mortgage Pools | | 55,172 | 108.7 | 5.8 | 2.9% |
| IOs | | 30,722 | N/A | 3.5 | 6.0% |
| Floating-Rate Specified Pools | | 8,598 | 104.0 | 3.9 | 2.4% |
| **Total - Agency** | **16%** | **$ 816,201** | **106.3** | **7.1** | **3.0%** |
| **Undeployed** | **12%** | | | | |

**Equity and Asset Allocation by Strategy**




**Debt-to-Equity Ratio by Strategy and Overall:**

**Credit:** 0.97x[7]

**Agency:** 7.57x[7]

**Overall:** 1.91x[8]

# Third Quarter Portfolio Updates by Strategy

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| Strategy | Third Quarter Developments |
|---|---|
| **Diversified Credit** | |
| **Residential Mortgage Loans & REO** | ▪ Reached critical mass in our non-QM portfolio, and intend to complete securitization in the near future<br>▪ Continue to see interesting opportunities in the non-performing loan space despite a slowdown in overall volumes |
| **Consumer Loans & ABS** | ▪ Positive performance; net added to portfolio |
| **Non Dollar-Denominated MBS, CLO and ABS** | ▪ Positive performance as market continued to tighten<br>▪ Net purchased U.K. non-conforming RMBS |
| **CMBS, Commercial Mortgage Loans & REO** | ▪ Strong performance; net sold certain holdings<br>▪ One new origination and one resolution in small-balance commercial mortgage strategy |
| **CLO** | ▪ After completing our first CLO securitization earlier this year, have begun accumulating assets for a follow-on CLO<br>▪ Profitably sold some of the mezzanine tranches that we had retained from our first CLO securitization<br>▪ Positive performance |
| **Non-Agency RMBS** | ▪ Positive performance, even after drag from hedges; net added to the portfolio |
| **Mortgage-Related Entities** | ▪ Our reverse mortgage origination partner began securitizing GNMAs<br>▪ Modest mark-to-market loss |
| **Corporate Debt & Equity** | ▪ Strong performance in distressed debt and equity, including net realized gains from sale activity |
| **Corporate Credit Relative Value**(1) | ▪ Strong performance; generated trading gains across a number of smaller positions as some of the basis relationships, which as we noted last quarter had moved against us, started to normalize |
| **Agency RMBS** | |
| **Prepayment & Related Relative Value** | ▪ Strong performance as Agency RMBS yield spreads tightened<br>▪ Benefited from the outperformance of specified pools versus TBAs |

# Interest Rate Sensitivity Analysis[1]

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| | Estimated Change in Fair Value | | | |
|---|---|---|---|---|
| | 50 Basis Point Decline in Interest Rates | | 50 Basis Point Increase in Interest Rates | |
| *(In thousands)* | Market Value | % of Total Equity | Market Value | % of Total Equity |
| Agency RMBS ARM Pools | $ 53 | 0.01% | $ (60) | -0.01% |
| Agency RMBS Fixed Pools and IOs | 10,730 | 1.70% | (15,458) | -2.45% |
| TBAs | (4,120) | -0.65% | 6,761 | 1.07% |
| Non-Agency RMBS, CMBS, Other ABS, and Mortgage Loans | 3,324 | 0.53% | (3,711) | -0.59% |
| Interest Rate Swaps | (5,102) | -0.81% | 4,877 | 0.78% |
| U.S. Treasury Securities | (2,004) | -0.32% | 1,912 | 0.31% |
| U.S. Treasury Futures | (265) | -0.04% | 256 | 0.04% |
| Mortgage-Related Derivatives | 50 | 0.01% | (51) | -0.01% |
| Corporate Securities and Derivatives on Corporate Securities | (34) | -0.01% | 80 | 0.01% |
| Repurchase Agreements and Reverse Repurchase Agreements | (2,389) | -0.38% | 2,350 | 0.37% |
| | $ 243 | 0.04% | $ (3,044) | -0.48% |

- **Diversified fixed income portfolio has duration of less than 0.6**

# Long Credit Portfolio – Holdings Overview

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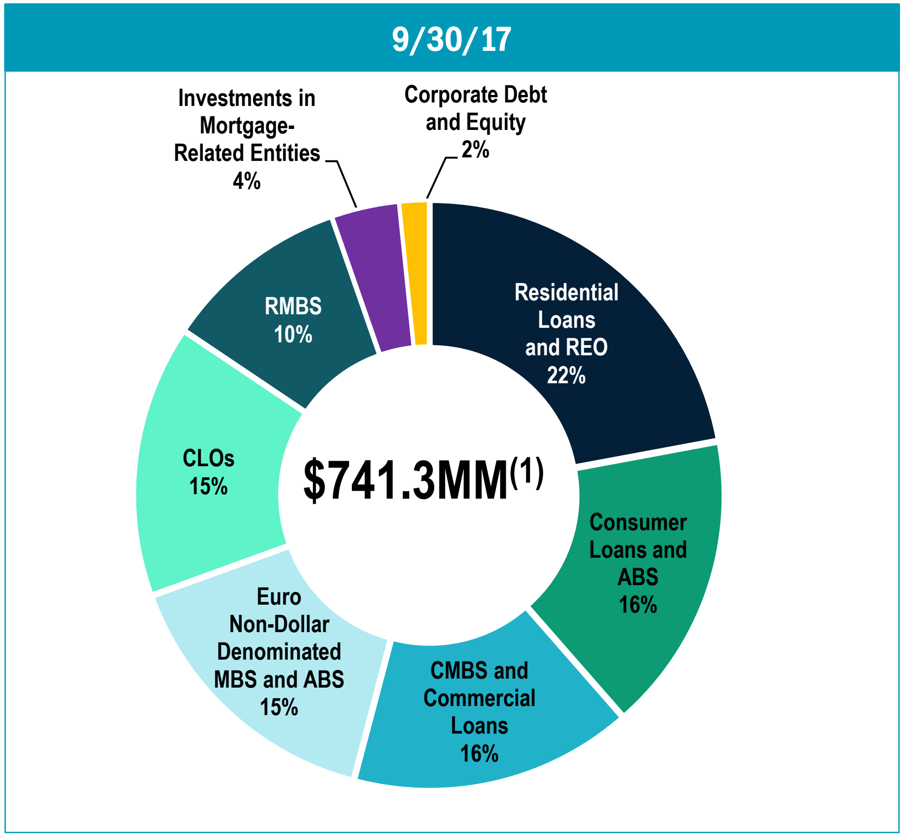


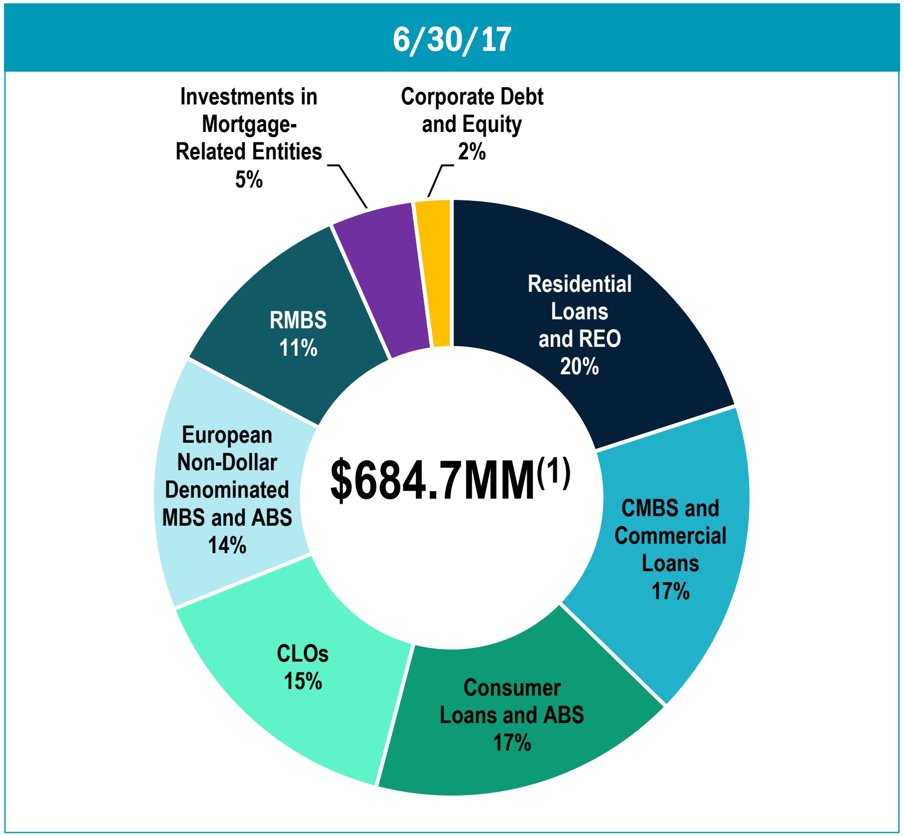


- Continued to increase the size of the Credit portfolio, which grew 8% quarter-over-quarter
- In the current environment of heightened competition for assets, we believe that we have been diligent in seeking high-quality, high-yielding assets without compromising our acquisition standards

# Credit: Significantly Diversified Sources of Return Over Time

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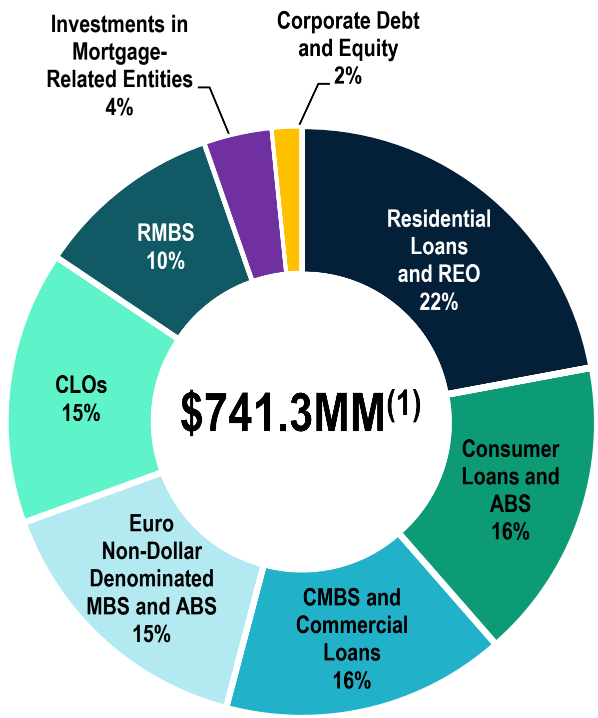
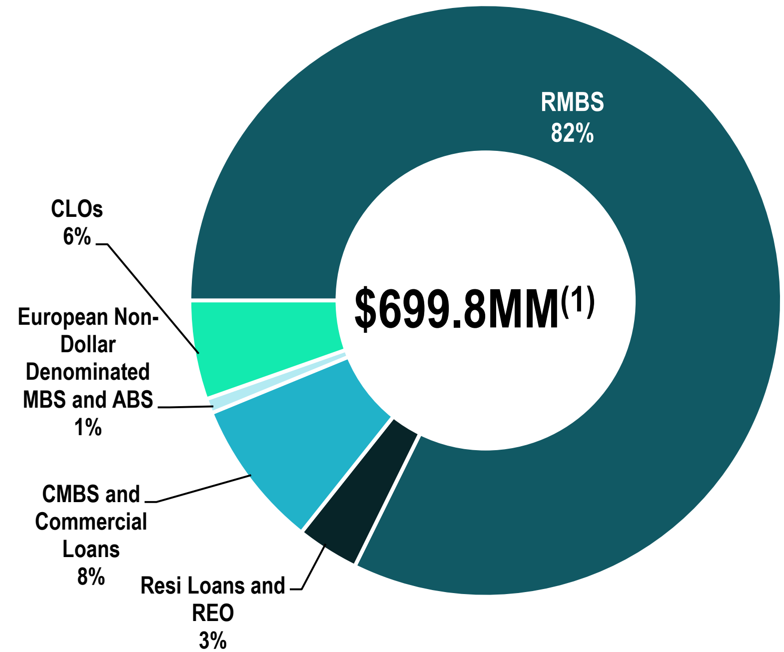
## 9/30/17



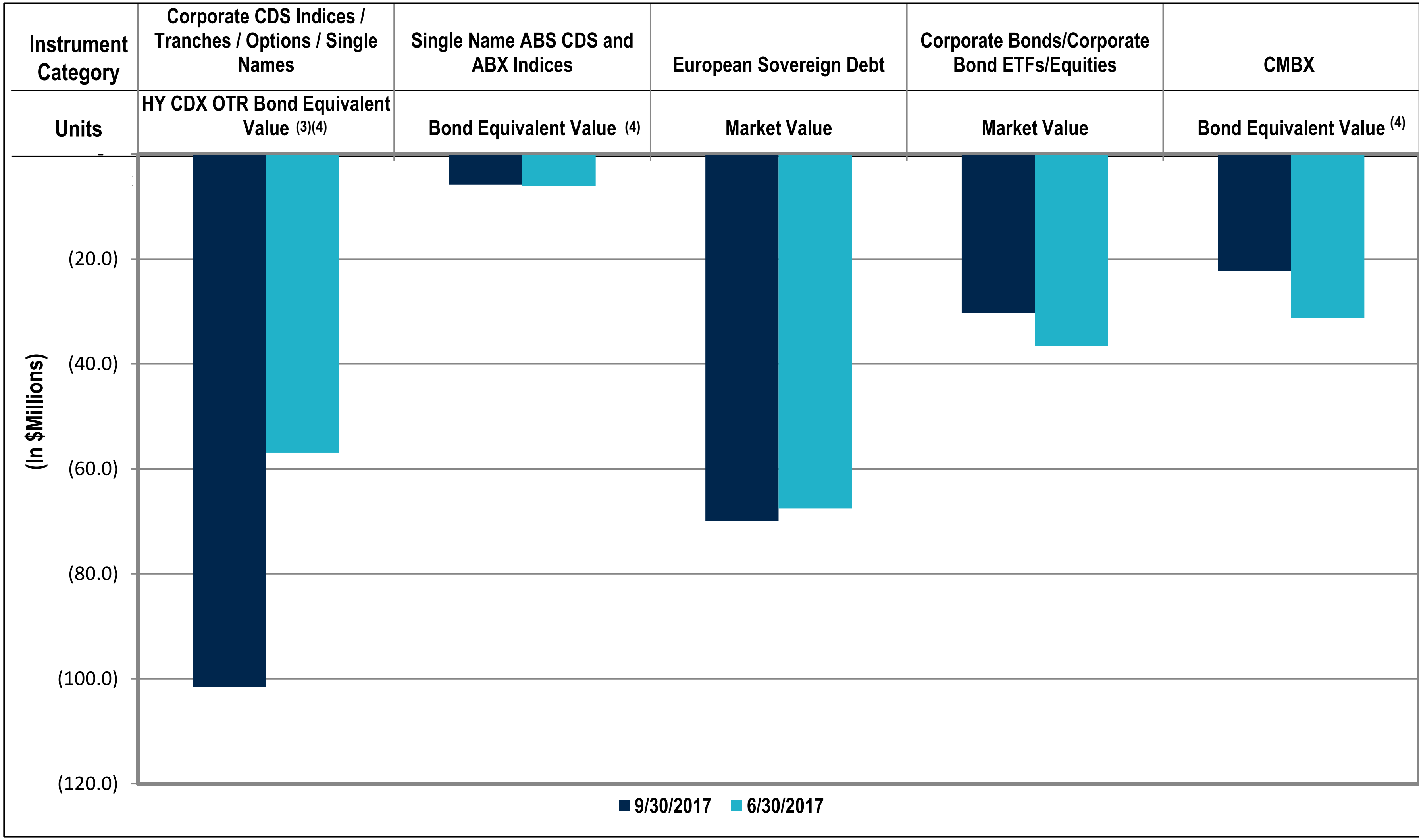

## 12/31/13




- We have significantly diversified our sources of return in the Credit strategy since the end of 2013
- Flexible approach to allocate capital to the sectors where we see the best relative value as market conditions change
- We believe our analytical expertise, research and systems provide an edge that will generate attractive loss-adjusted returns

# Credit Hedging Portfolio[1][2]





# Agency Long Portfolio

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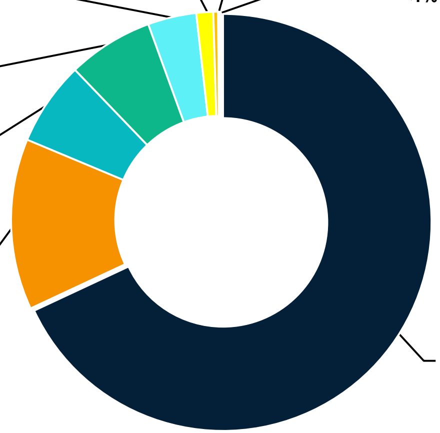
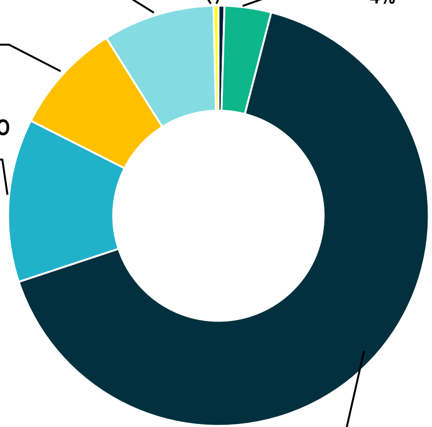
## Agency Long Portfolio: $816.2MM[1]
As of 9/30/17




Weighted Average Coupon: 4.00%[6]

## Collateral Characteristics and Historical 3-month CPR
For the Quarter Ended 9/30/17[2]




| Characteristic[3] | Fair Value[2][4] | 3-Month Historical CPR[3] |
|---|---|---|
| Geography | $3.4 | 0.2 |
| Non-Owner | 26.5 | 21.9 |
| Low Loan Bal | 486.2 | 13.2 |
| Low FICO | 92.7 | 14.0 |
| MHA[5] | 63.4 | 15.0 |
| Other | 63.3 | 10.8 |
| Jumbo | 2.7 | 18.5 |
| Totals | $738.2 | 13.4 |

- Target specified pools with higher coupons and prepayment protection
- Expect technological advances in mortgage origination and servicing to continue driving investor demand for specified pools versus TBAs

# Agency Interest Rate Hedging Portfolio(1)

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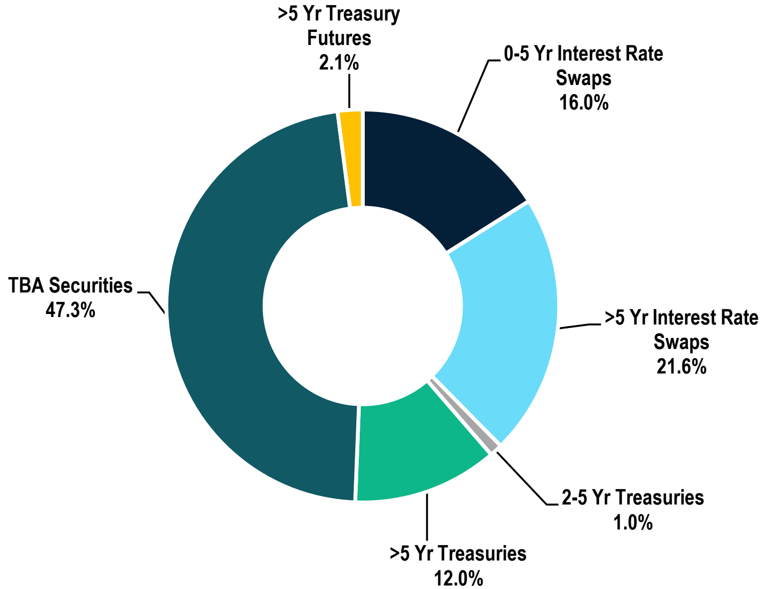
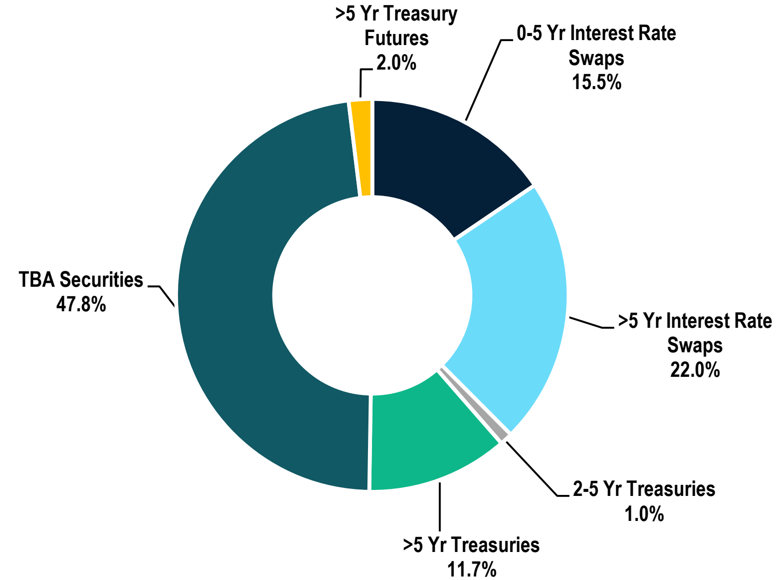
**We deploy a dynamic and adaptive hedging strategy to preserve book value**

**As of 9/30/17:**
**Short $289MM 10-year equivalents**




**As of 6/30/17:**
**Short $302MM 10-year equivalents**




- Shorting "generic" pools (or TBAs) allows us to significantly reduce interest rate risk and basis risk in our Agency portfolio
  - We also hedge interest rate risk 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"
  - Avg. market pay-up was 0.81% of the value of our fixed rate Agency pool portfolio as of 9/30/17, up from 0.77% as of 6/30/17
- We hedge along the yield curve to protect against volatility, defend book value and minimize interest rate risk

# Agency Interest Rate Hedging Portfolio (continued)

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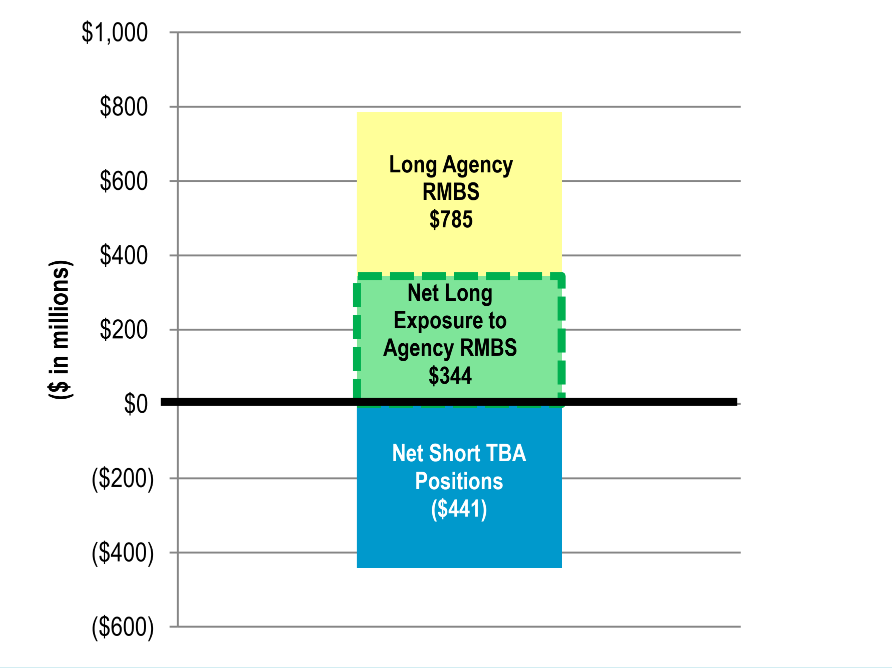
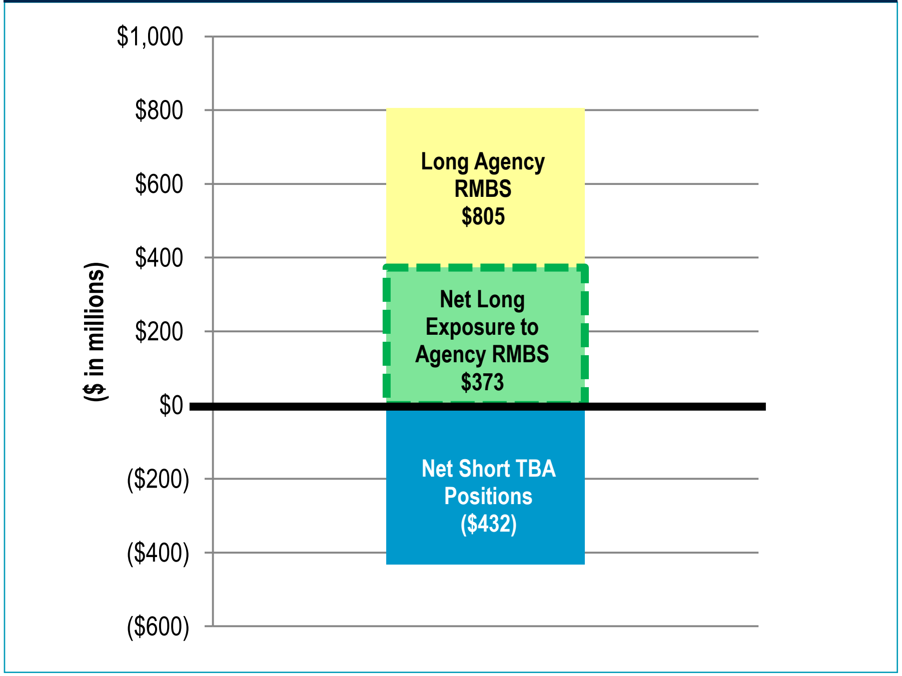
## Exposure to Agency Pools Based on Fair Value

### As of 9/30/2017




### As of 6/30/2017




- We slightly reduced our net long mortgage exposure quarter over quarter

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# Borrowings

# Borrowings and Leverage[1]

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| ($ In thousands) | As of September 30, 2017 | | | For the Quarter Ended September 30, 2017 | |
|---|---|---|---|---|---|
| **Strategy** | **Outstanding Borrowings** | **Weighted Average Borrowing Rate** | **Debt-to-Equity Ratio[2]** | **Average Borrowings for the Quarter Ended** | **Average Cost of Funds** |
| Credit, Secured | $345,318 | 3.01% | | $375,078 | 3.39% |
| Credit, Unsecured Senior Notes | 86,000 | 5.55% | | 41,130 | 5.55% |
| **Subtotal – Credit** | **431,318** | **3.52%** | **0.97x** | **416,208** | **3.60%** |
| Agency | 768,418 | 1.33% | 7.57x | 783,521 | 1.30% |
| **Total** | **$1,199,736** | **2.12%** | **1.91x** | **$1,199,729** | **2.10%** |

- **Excluding repo related to U.S. Treasury securities and our corporate credit relative value trading strategy, average Credit strategy borrowing rate for the quarter was 3.93%, as compared to 3.87% for the quarter ended June 30, 2017.**
- **Debt-to-equity ratio of 1.91x including repo on U.S. Treasury securities, which totaled $5.7 million as of September 30, 2017. The Company's debt financings consist of reverse repos in the amount of $1,029.8 million, other secured borrowings in the amount of $89.6 million, and Senior Notes with a par amount of $86.0 million as of September 30, 2017.**

# Repo Borrowings(1)

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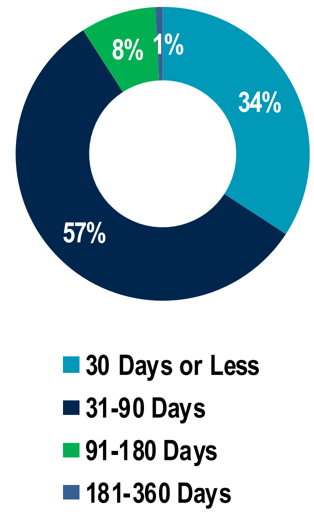
| ($ in thousands) | Repo Borrowings as of September 30, 2017 | | | | |
|---|---|---|---|---|---|
| Remaining Days to Maturity | Credit | Agency | U.S. Treasury | Total | % of Total Borrowings |
| 30 Days or Less | $64,719 | $281,543 | $5,720 | $351,982 | 34.20% |
| 31-90 Days | 136,073 | 448,049 | — | 584,122 | 56.70% |
| 91-180 Days | 47,112 | 38,826 | — | 85,938 | 8.30% |
| 181-360 Days | 7,768 | — | — | 7,768 | 0.80% |
| **Total Borrowings** | **255,672** | **768,418** | **5,720** | **1,029,810** | **100.00%** |
| **Weighted Average Remaining Days to Maturity** | **60** | **43** | **2** | **48** | |

**Borrowings by**
**Days to Maturity**




- **Repo borrowings with 21 counterparties, largest representing approximately 15% of total**
- **Weighted average remaining days to maturity of 48 days**
- **Maturities are staggered to mitigate liquidity risk**

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# Supplemental Information

# Operating Results

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| (In thousands, except per share amounts) | | Quarter Ended September 30, 2017 | | Per Share | % of Average Equity | | Quarter Ended June 30, 2017 | | Per Share | % of Average Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| Credit: | | | | | | | | | | |
| Interest income and other income | $ | 14,877 | $ | 0.45 | 2.35% | $ | 14,098 | $ | 0.43 | 2.19% |
| Net realized gain (loss)[1] | | 2,732 | | 0.08 | 0.43% | | 5,544 | | 0.17 | 0.86% |
| Change in net unrealized gain (loss)[1] | | (2,800) | | (0.09) | -0.44% | | 194 | | 0.01 | 0.03% |
| Net interest rate hedges [1] | | (325) | | (0.01) | -0.05% | | (438) | | (0.02) | -0.07% |
| Net credit hedges and other activities[1][3] | | (760) | | (0.02) | -0.12% | | (4,687) | | (0.15) | -0.73% |
| Interest expense[4] | | (3,967) | | (0.12) | -0.63% | | (3,253) | | (0.10) | -0.51% |
| Other investment related expenses | | (1,809) | | (0.05) | -0.29% | | (2,013) | | (0.06) | -0.31% |
| Total Credit profit (loss) | | 7,948 | | 0.24 | 1.25% | | 9,445 | | 0.28 | 1.46% |
| Agency RMBS: | | | | | | | | | | |
| Interest income | | 5,917 | | 0.18 | 0.94% | | 6,397 | | 0.19 | 0.99% |
| Net realized gain (loss) | | (173) | | (0.01) | -0.03% | | (663) | | (0.02) | -0.10% |
| Change in net unrealized gain (loss) | | 1,453 | | 0.04 | 0.23% | | 1,522 | | 0.05 | 0.24% |
| Net interest rate hedges and other activities [2] | | (1,831) | | (0.05) | -0.29% | | (4,659) | | (0.14) | -0.72% |
| Interest expense | | (2,571) | | (0.08) | -0.41% | | (2,226) | | (0.07) | -0.35% |
| Total Agency RMBS profit (loss) | | 2,795 | | 0.08 | 0.44% | | 371 | | 0.01 | 0.06% |
| Total Credit and Agency RMBS profit (loss) | | 10,743 | | 0.32 | 1.69% | | 9,816 | | 0.29 | 1.52% |
| Other interest income (expense), net | | 352 | | 0.01 | 0.06% | | 215 | | 0.01 | 0.03% |
| Other expenses | | (4,500) | | (0.14) | -0.71% | | (4,590) | | (0.14) | -0.71% |
| Net increase in equity resulting from operations | $ | 6,595 | $ | 0.19 | 1.04% | $ | 5,441 | $ | 0.16 | 0.84% |
| Less: Net increase in equity resulting from operations attributable to non-controlling interests | | 400 | | | | | 377 | | | |
| **Net increase in shareholders' equity resulting from operations [5]** | **$** | **6,195** | **$** | **0.19** | **1.00%** | **$** | **5,064** | **$** | **0.16** | **0.80%** |
| Diluted book value per share | $ | 18.96 | | | | $ | 19.21 | | | |

# Gross Profit and Loss[1]

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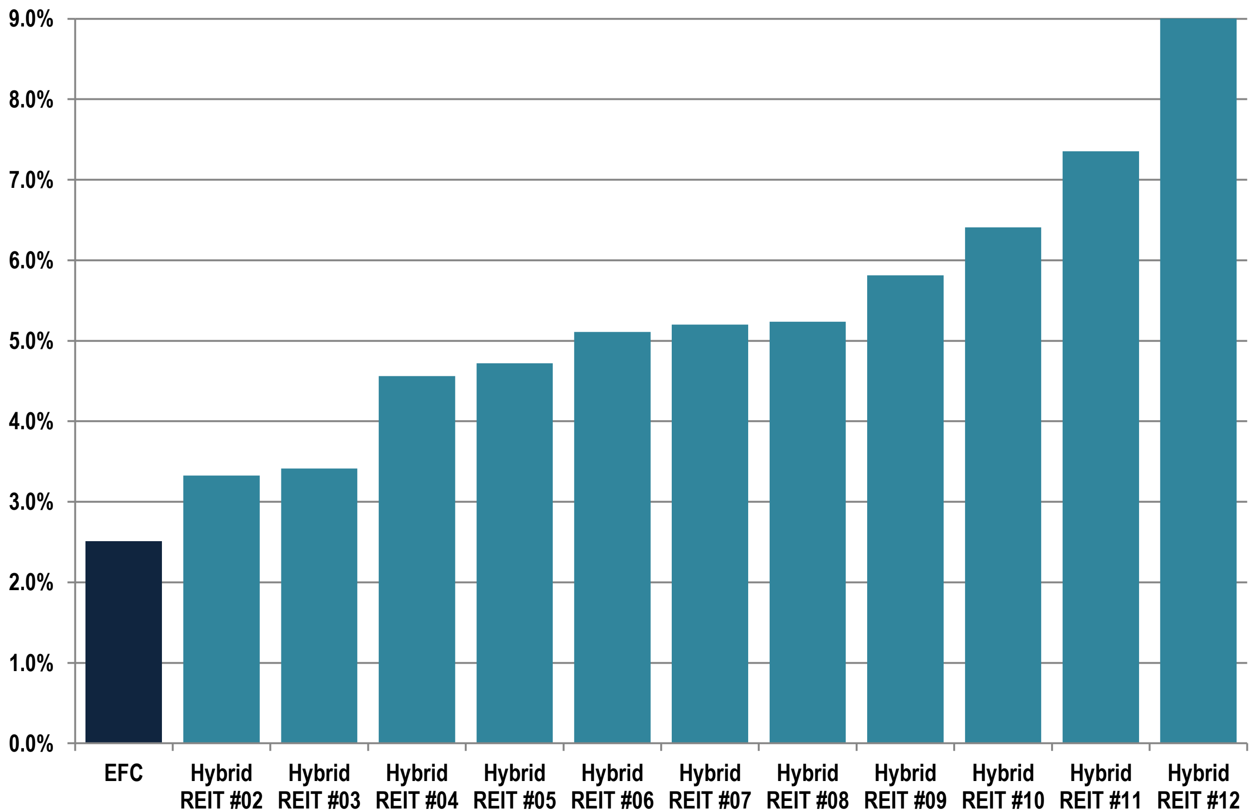
## Resilient profit generation through market cycles

| | Nine Months Ended September 30, | | Years Ended | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | | 2014 | | 2013 | | 2012 | | 2011 | | 2010 | | 2009 | | 2008 | |
| ($ In thousands) | $ | % | $ | % | $ | % | $ | % | $ | % | $ | % | $ | % | $ | % | $ | % | $ | % |
| Long: Credit | 44,120 | 6.87 | 36,203 | 5.29 | 46,892 | 6.09 | 77,636 | 11.38 | 109,536 | 18.53 | 129,830 | 30.02 | 1,505 | 0.39 | 70,840 | 21.87 | 101,748 | 36.33 | (64,565) | (26.20) |
| Credit Hedge and Other | (7,910) | (1.23) | (40,548) | (5.92) | 10,671 | 1.38 | (1,197) | (0.17) | (19,286) | (3.26) | (14,642) | (3.39) | 19,895 | 5.16 | (7,958) | (2.46) | 10,133 | 3.62 | 78,373 | 31.81 |
| Interest Rate Hedge: Credit | (617) | (0.10) | (371) | (0.05) | (4,899) | (0.64) | (9,479) | (1.39) | 8,674 | 1.47 | (3,851) | (0.89) | (8,171) | (2.12) | (12,150) | (3.75) | (1,407) | (0.50) | (3,446) | (1.40) |
| Long: Agency | 13,148 | 2.04 | 17,166 | 2.51 | 23,629 | 3.07 | 61,126 | 8.97 | (14,044) | (2.39) | 37,701 | 8.72 | 63,558 | 16.47 | 21,552 | 6.65 | 22,171 | 7.92 | 4,763 | 1.93 |
| Interest Rate Hedge and Other: Agency | (8,062) | (1.26) | (8,226) | (1.20) | (17,166) | (2.23) | (47,634) | (6.99) | 19,110 | 3.23 | (20,040) | (4.63) | (54,173) | (14.04) | (14,524) | (4.48) | (8,351) | (2.98) | (6,414) | (2.60) |
| **Gross Profit (Loss)** | **40,679** | **6.32** | **4,224** | **0.63** | **59,127** | **7.67** | **80,452** | **11.80** | **103,990** | **17.58** | **128,998** | **29.83** | **22,614** | **5.86** | **57,760** | **17.83** | **124,294** | **44.39** | **8,711** | **3.54** |

# Stable Economic Return

Ellington Financial

**Standard Deviation of Quarterly Economic Returns of Hybrid REITs Q1-2011 – Q2 -2017(1)(2)**




**Standard Deviation of Quarterly Economic Returns of Hybrid REITs Q1-2011 – Q2-2017**

| Company | Standard Deviation |
|---|---|
| EFC | 2.51% |
| Hybrid REIT #02 | 3.33% |
| Hybrid REIT #03 | 3.41% |
| Hybrid REIT #04 | 4.56% |
| Hybrid REIT #05 | 4.72% |
| Hybrid REIT #06 | 5.11% |
| Hybrid REIT #07 | 5.20% |
| Hybrid REIT #08 | 5.24% |
| Hybrid REIT #09 | 5.81% |
| Hybrid REIT #10 | 6.41% |
| Hybrid REIT #11 | 7.36% |
| Hybrid REIT #12 | 14.51% |

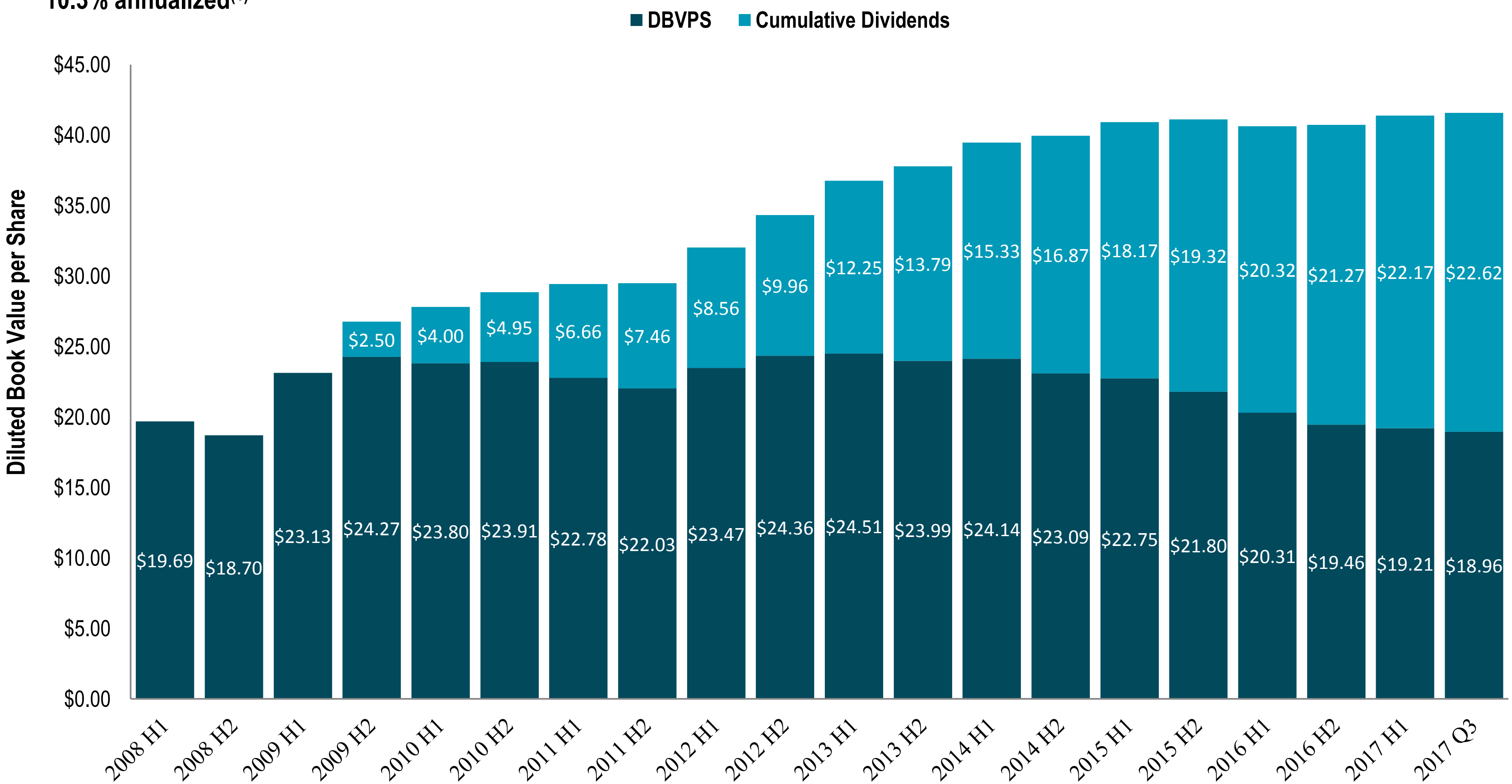
- **The standard deviation of EFC's quarterly economic return is lower than the Hybrid REIT peer group**

# Total Return Since Inception

Ellington Financial

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

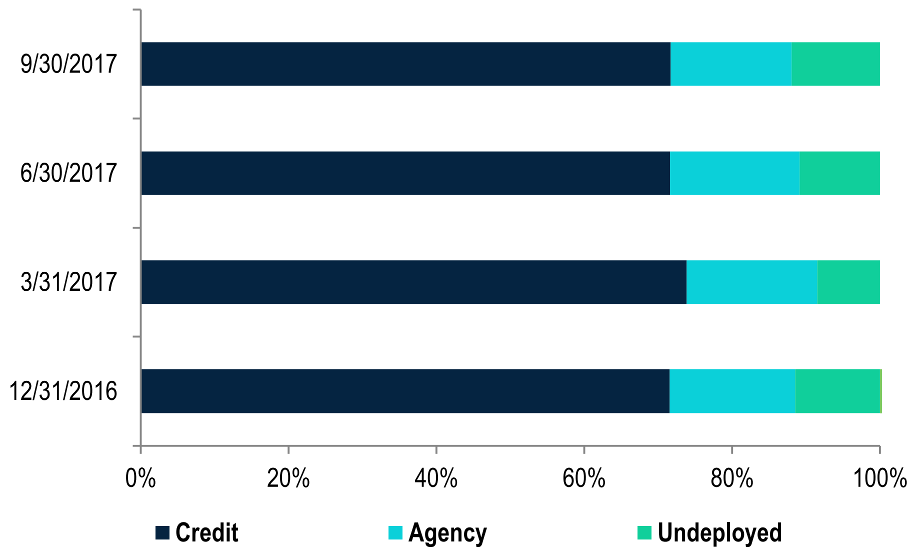
- **EFC life-to-date diluted net asset value-based total return from inception in August 2007 through Q3 2017 is approximately 169%, or 10.3% annualized[(1)]**



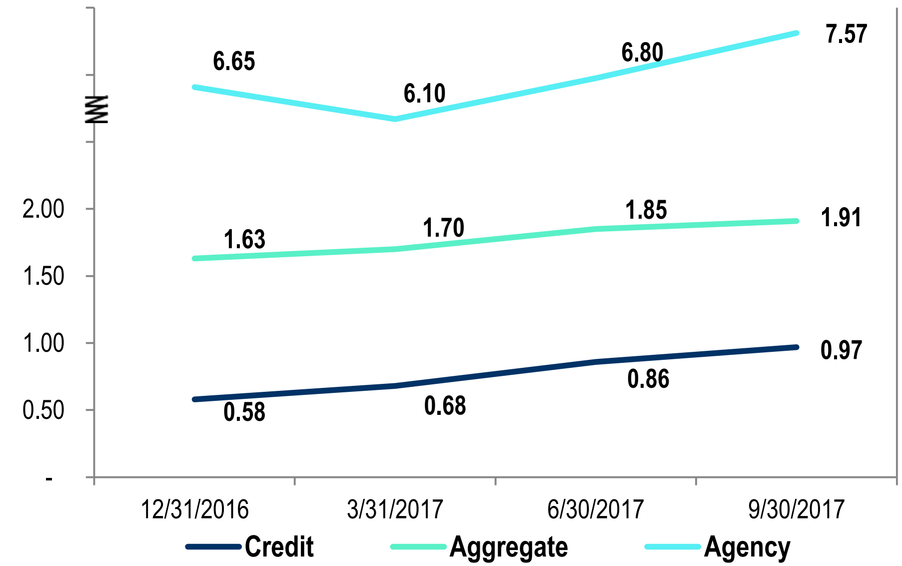
# Capital, Leverage & Portfolio Composition(1)

Ellington Financial

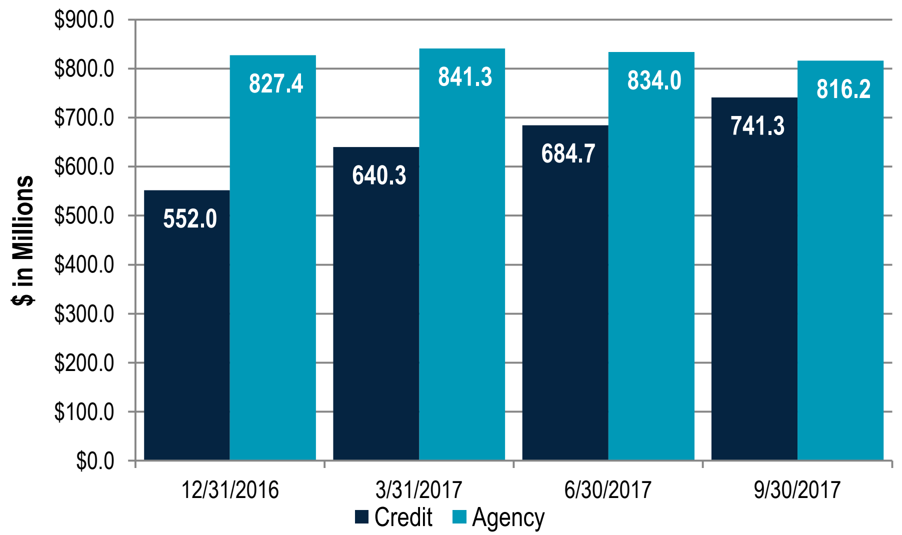
## Capital Usage Across Entire Portfolio



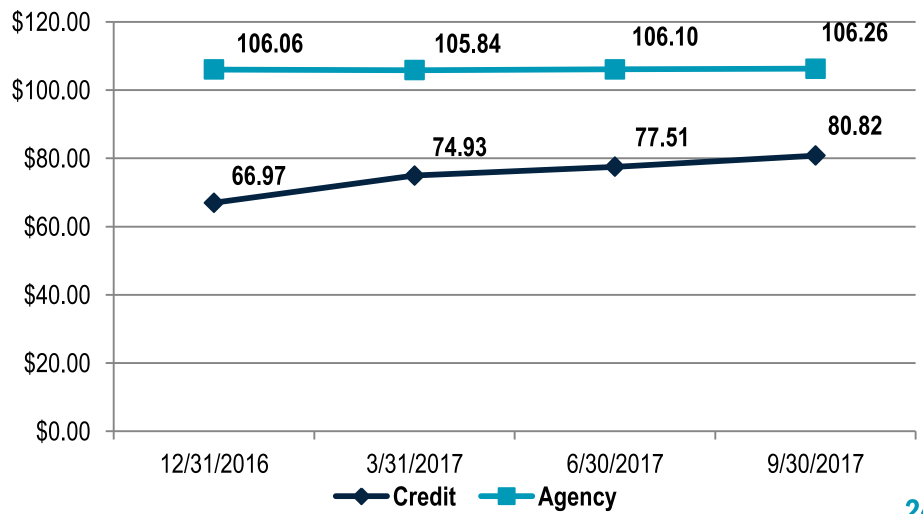

## Leverage by Strategy (Debt-to-Equity)




## Credit and Agency Portfolios by Fair Value




## Average Price – Credit and Agency(2)



# Income Statement
(Unaudited)

Ellington Financial

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED STATEMENT OF OPERATIONS**

| *(In thousands, except per share data)* | Three Month Period Ended September 30, 2017 | Three Month Period Ended June 30, 2017 | Nine Month Period Ended September 30, 2017 |
|---|---|---|---|
| **Investment income** | | | |
| Interest income | $ 21,145 | $ 21,788 | $ 65,819 |
| Other income | 1,232 | 872 | 3,043 |
| **Total investment income** | 22,377 | 22,660 | 68,862 |
| **Expenses** | | | |
| Base management fee to affiliate (Net of fee rebates of $172, $0, and $172, respectively) | 2,161 | 2,372 | 6,942 |
| Interest expense | 8,166 | 7,625 | 21,794 |
| Other investment related expenses | 1,908 | 2,058 | 5,487 |
| Other operating expenses | 2,240 | 2,173 | 6,530 |
| Total expenses | 14,475 | 14,228 | 40,753 |
| **Net investment income** | 7,902 | 8,432 | 28,109 |
| **Net realized gain (loss) on:** | | | |
| Investments | 1,087 | 691 | 2,372 |
| Financial derivatives, excluding currency forwards | (595) | (4,046) | (6,222) |
| Financial derivatives—currency forwards | (4,013) | (2,523) | (7,357) |
| Foreign currency transactions | 4,726 | 531 | 6,234 |
| | 1,205 | (5,347) | (4,973) |
| **Change in net unrealized gain (loss) on:** | | | |
| Investments | (1,750) | 2,829 | 6,837 |
| Financial derivatives, excluding currency forwards | (305) | (2,619) | (4,081) |
| Financial derivatives—currency forwards | 2,026 | (1,194) | 1,162 |
| Foreign currency translation | (2,483) | 3,340 | 712 |
| | (2,512) | 2,356 | 4,630 |
| **Net realized and change in net unrealized gain (loss) on investments and financial derivatives** | (1,307) | (2,991) | (343) |
| **Net increase in equity resulting from operations** | $ 6,595 | $ 5,441 | $ 27,766 |
| **Less: Increase in equity resulting from operations attributable to non-controlling interests** | 400 | 377 | 1,229 |
| **Net increase in shareholders' equity resulting from operations** | $ 6,195 | $ 5,064 | $ 26,537 |
| **Net increase in shareholders' equity resulting from operations per share:** | | | |
| Basic and diluted | $ 0.19 | $ 0.16 | $ 0.81 |
| **Weighted average shares and LTIP units outstanding** | 32,567 | 32,587 | 32,623 |
| **Weighted average shares and convertible units outstanding** | 32,779 | 32,799 | 32,835 |

# Balance Sheet
(Unaudited)

Ellington Financial

**ELLINGTON FINANCIAL LLC**
**CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND EQUITY**

| *(In thousands, except share amounts)* | As of September 30, 2017 | June 30, 2017 | December 31, 2016[1] |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 111,423 | $ 134,515 | $ 123,274 |
| Restricted Cash | 425 | 425 | 655 |
| Investments, financial derivatives, and repurchase agreements: | | | |
| Investments, at fair value (Cost – $1,758,854, $1,799,464, and $1,525,710) | 1,756,432 | 1,794,129 | 1,505,026 |
| Financial derivatives–assets, at fair value (Net cost – $41,041, $36,162, and $40,724) | 29,896 | 26,602 | 35,595 |
| Repurchase agreements (Cost – $194,265, $265,403, and $185,205) | 193,070 | 266,659 | 184,819 |
| Total Investments, financial derivatives, and repurchase agreements | 1,979,398 | 2,087,390 | 1,725,440 |
| Due from brokers | 108,173 | 62,934 | 93,651 |
| Receivable for securities sold and financial derivatives | 499,053 | 484,124 | 445,112 |
| Interest and principal receivable | 25,006 | 21,157 | 21,704 |
| Other assets | 3,169 | 6,881 | 3,359 |
| Total assets | $ 2,726,647 | $ 2,797,426 | $ 2,413,195 |
| **LIABILITIES** | | | |
| Investments and financial derivatives: | | | |
| Investments sold short, at fair value (Proceeds – $672,506, $687,979, and $589,429) | $ 675,650 | $ 687,234 | $ 584,896 |
| Financial derivatives–liabilities, at fair value (Net proceeds – $28,507, $19,994, and $12,012) | 32,278 | 27,003 | 18,687 |
| Total investments and financial derivatives | 707,928 | 714,237 | 603,583 |
| Reverse repurchase agreements | 1,029,810 | 1,119,238 | 1,033,581 |
| Due to brokers | 3,613 | 3,898 | 12,780 |
| Payable for securities purchased and financial derivatives | 169,717 | 224,529 | 85,168 |
| Other secured borrowings (Proceeds – $89,646, $88,100, and $24,086) | 89,646 | 88,100 | 24,086 |
| Senior notes, net | 84,752 | - | - |
| Accounts payable and accrued expenses | 4,230 | 3,996 | 3,327 |
| Base management fee payable to affiliate | 2,161 | 2,371 | 2,416 |
| Interest and dividends payable | 4,868 | 3,977 | 3,460 |
| Other liabilities | 198 | 119 | 17 |
| Total liabilities | 2,096,923 | 2,160,465 | 1,768,418 |
| **EQUITY** | 629,724 | 636,961 | 644,777 |
| **TOTAL LIABILITIES AND EQUITY** | $ 2,726,647 | $ 2,797,426 | $ 2,413,195 |
| **ANALYSIS OF EQUITY:** | | | |
| Common shares, no par value, 100,000,000 shares authorized; | | | |
| (31,992,177, 32,112,697, and 32,294,703 shares issued and outstanding) | $ 605,357 | $ 615,702 | $ 627,620 |
| Additional paid-in capital–LTIP units | 10,278 | 10,229 | 10,041 |
| **Total Shareholders' Equity** | $ 615,635 | $ 625,931 | $ 637,661 |
| Non-controlling interests | 14,089 | 11,030 | 7,116 |
| **Total Equity** | $ 629,724 | $ 636,961 | $ 644,777 |
| **PER SHARE INFORMATION:** | | | |
| Common shares, no par value | $ 19.24 | $ 19.49 | $ 19.75 |
| **DILUTED PER SHARE INFORMATION:** | | | |
| Common shares and convertible units, no par value[2] | $ 18.96 | $ 19.21 | $ 19.46 |

# About Ellington

Ellington Financial

- EFC is managed by Ellington Financial Management LLC, an affiliate of Ellington Management Group, L.L.C. (“EMG”)
- EMG was founded in 1994 by Michael Vranos and five partners; currently has over 160 employees, giving EFC access to time-tested infrastructure and proprietary resources in trading, research, risk management, and operational support
  - EMG has approximately $6.6 billion in assets under management as of September 30, 2017
- EMG's portfolio managers are among the most experienced in the MBS sector and the firm’s analytics have been developed over a 22-year history
  - Prior to forming EMG, five of the founding partners constituted the core of Kidder Peabody’s MBS trading and research group, while one spent ten years at Lehman Brothers where he ran collateralized mortgage obligation (“CMO”) trading
  - The founding partners each have advanced academic training in mathematics and engineering, including among them several Ph.D.’s and Master’s degrees
- Management owns over 11%[(1)] of EFC; interests are aligned with shareholders

# Endnotes

Ellington Financial

**Slide 3 – Second Quarter Highlights**

(1) Holdings, leverage and book value amounts are as of September 30, 2017.
(2) Gross income includes interest income, other income, net realized and change in net unrealized gains (losses), net interest rate hedges, net credit hedges and other activities, interest expense, and other investment related expenses, if applicable. It excludes other interest income (expense), management fees, and other expenses.
(3) This information does not include interest rate swaps, TBA positions, corporate CDS, equity swaps, positions related to certain of our relative value strategies, or other hedge positions.
(4) In determining the debt-to-equity ratio for an individual strategy, equity usage for such strategy is based on an internal calculation that reflects the actual amount of capital posted to counterparties in connection with such strategy's positions (whether in the form of haircut, initial margin, prime brokerage requirements, or otherwise) plus additional capital allocated to support such strategy's positions. The Company refers to the excess of its total equity over the total risk capital of its strategies as its "risk capital buffer". If the debt-to-equity ratios for individual strategies were computed solely based on the actual amount of capital posted to counterparties, such ratios would be higher. The debt-to-equity ratio does not account for liabilities other than debt financings.

**Slide 7 – Portfolio Summary as of September 30, 2017**

(1) This information does not include interest rate swaps, TBA positions, corporate CDS, equity swaps, positions related to certain of our relative value strategies, or other hedge positions.
(2) 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.
(3) Average price of consumer loans and ABS is proprietary.
(4) Weighted average life assumes "projected" cashflows using Ellington's proprietary models. Excludes interest only, principal only, equity tranches.
(5) Estimated yields at market prices are management's estimates derived from Ellington's proprietary models based on prices and market environment as of 9/30/2017 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.
(6) REO and equity investments in mortgage related entities are excluded from total average calculations.
(7) See endnote (4) on slide 3.
(8) Overall debt-to-equity ratio is computed by dividing EFC's total debt by EFC's total equity. The debt-to-equity ratio does not account for liabilities other than debt financings.

**Slide 8 – Third Quarter Portfolio Updates by Strategy**

(1) In our corporate credit relative value trading strategy, we seek to identify and capitalize on short-term pricing disparities in the corporate credit markets. As a subset of this strategy, we often engage in "basis trading," where we hold long or short positions in the bonds of a corporate issuer and simultaneously hold offsetting positions in credit default swaps referencing the same corporate issuer. In the overall strategy, we typically use reverse repurchase agreements to finance the long corporate bond positions that we hold.

**Slide 9 – Interest Rate Sensitivity Analysis**

(1) The table reflects the estimated effects on the value of our portfolio, both overall and by category, of hypothetical, immediate, 50 basis point downward and upward parallel shifts in interest rates, based on the market environment as of September 30, 2017. The preceding analysis does not include sensitivities to changes in interest rates for instruments 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. In particular, this analysis excludes certain corporate securities and derivatives on corporate securities, and reflects only sensitivity to U.S. interest rates. Results are based on forward-looking models, which are inherently imperfect, and incorporate various simplifying assumptions. Therefore, the table 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, and such differences might be significant and adverse.

**Slide 10 – Long Credit Portfolio – Holdings Overview**

(1) This information does not include interest rate swaps, TBA positions, corporate CDS, common stock and equity swaps, positions related to certain of our relative value strategies, or other hedge positions.

# Endnotes

Ellington Financial

**Slide 11 – Credit: Significantly Diversified Sources of Return Over Time**

(1) This information does not include interest rate swaps, TBA positions, corporate CDS, common stock and equity swaps, positions related to certain of our relative value strategies, or other hedge positions.

**Slide 12 – Credit Hedging Portfolio**

(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.

**Slide 13 – Agency Long Portfolio**

(1) Does not include long TBA positions with a notional value of $115.3 million and a fair value of $121.0 million. Agency long portfolio includes $785.5 million of long Agency securities and $30.7 million of interest only securities.
(2) Excludes reverse mortgage pools.
(3) Classification methodology may change over time as market practices change.
(4) Fair values are shown in millions.
(5) "MHA" indicates those pools where underlying borrowers have participated in the Making Homes Affordable program.
(6) Represents weighted average net pass-through rate. Excludes interest only securities.

**Slide 14 – Agency Interest Rate Hedging Portfolio**

(1) Agency interest rate hedges are shown in normalized units of risk, with each group of positions measured in "10-year equivalents; "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.

**Slide 17 – Borrowings and Leverage**

(1) Amounts exclude repo on U.S. Treasury securities.
(2) See endnote (4) on slide 3. The debt-to-equity ratio does not account for liabilities other than debt financings. The Company's debt financings consist of reverse repos in the amount of $1,119.2 million, other secured borrowings in the amount of $89.6 million, and senior notes with a par amount of $86.0 million as of September 30, 2017.

**Slide 18 – Repo Borrowings**

(1) Included in the above table, using the original maturity dates, are any reverse repos involving underlying investments the Company sold prior to September 30, 2017 for settlement following September 30, 2017 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 September 30, 2017, for which delivery of the borrowed funds is not scheduled until after September 30, 2017. Remaining maturity for a reverse repo is based on the contractual maturity date in effect as of September 30, 2017. Some reverse repos have floating interest rates, which may reset before maturity.

# Endnotes

Ellington Financial

**Slide 20 – Operating Results**

(1) Conformed to current period presentation.
(2) Includes TBAs and U.S. Treasury securities, if applicable.
(3) Includes equity and other relative value trading strategies and related hedges.
(4) Includes interest expense on our Senior Notes.
(5) 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.

**Slide 21 – Gross Profit and Loss**

(1) 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.

**Slide 22 – Stable Economic Return**

(1) Source: Company filings.
(2) Economic return is computed by adding back dividends to ending book value per share, and comparing that amount to book value per share as of the beginning of the quarter.

**Slide 23 – Total Return Since Inception**

(1) 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.

**Slide 24 – Capital, Leverage & Portfolio Composition**

(1) Excludes U.S. Treasury securities. See endnote (4) on slide 3.
(2) Excludes interest only, principal only, equity tranches and other similar investments and REO.

**Slide 26 – Balance Sheet**

(1) Derived from audited financial statements as of December 31, 2016.
(2) Based on total equity excluding non-controlling interests not represented by instruments convertible into common shares.

**Slide 27 – About Ellington**

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

Ellington Financial

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