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ELLINGTON RESIDENTIAL MORTGAGE REIT

Fourth Quarter 2014 Earnings Conference Call

February 18, 2015

Important Notice

Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Actual results may differ from the Company's 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.

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 21, 2014 which can be accessed through the link to our SEC filings under "For Our Shareholders" on our website (www.earnreit.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 Forms 10-Q, 10-K and 8-K. The Company undertakes 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.

Projected Yields and Spreads

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

Financial Information

All financial information included in this presentation is as of December 31, 2014 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

Fourth Quarter 2014

Ellington Residential: Fourth Quarter Highlights

ELLINGTON RESIDENTIAL MORTGAGE REIT

Overall Results	▪ Fourth quarter net loss of $1.2 million, or $0.13 per share ▪ Solid performance of long portfolio significantly offset by net losses on interest rate hedges, primarily in the form of interest rate swaps and short TBAs

Core Earnings(1)	▪ Core Earnings of $7.0 million, or $0.76 per share
	▪ Net Interest Margin of 2.49%
	    ▪ Improved cash flows of non-Agency RMBS and "catch-up" positive premium amortization adjustment related to Agency RMBS increased our interest income
	    ▪ Decline in cost of funds during the quarter as interest rates fell and hedges were weighted more to short TBAs

Shareholders' Equity	▪ Shareholders' equity as of December 31, 2014 of $163.4 million, or $17.86 per share

Portfolio	▪ Agency RMBS Portfolio: $1.361 billion as of December 31, 2014
	    ▪ $1.271 billion fixed rate "specified" pools
	    ▪ $44.3 million ARM pools
	    ▪ $34.4 million reverse mortgage pools
	    ▪ $11.2 million IOs
	▪ Non-Agency RMBS Portfolio: $32.5 million as of December 31, 2014

Leverage	▪ Debt to equity ratio: approximately 8.1:1 as of December 31, 2014, as compared to 7.3:1 as of September 30, 2014
Dividend	▪ Declared fourth quarter dividend of $0.55 per share (paid in January 2015) ▪ Annualized dividend yield of 13.5% based on closing price of $16.28 on February 13, 2015

(1) Core Earnings is a non-GAAP financial measure. See slide 23 for a reconciliation of Core Earnings to Net Income.

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Ellington Residential: Agency RMBS

Overall Market Conditions	■ Yield curve experienced significant flattening during the fourth quarter ■ Prepayment rates remained relatively muted in response to lower mortgage rates, thus providing support to TBA roll prices ■ Specified pools performed well, but the decline in mortgage rates benefited pay-ups for some coupons more than others ■ The Federal Reserve's reduction in monthly purchase volume was more than offset by other market participants
Portfolio Trends and Outlook	■ Average pay-up of 0.74% as of December 31, 2014, compared to 0.63% as of September 30, 2014 ■ Following year-end, prepayments have ticked up, thereby increasing the value of specified pools ■ Increased holdings of long TBAs during the fourth quarter ■ Spreads on reverse mortgages remained tight, although we have found attractive opportunities in new issue pools ■ We see potential for future opportunities in Agency IOs, should that market experience a pull-back from recent tights ■ We turned over approximately 20% of the portfolio as measured by sales, excluding principal paydowns ■ We expect that the Federal Reserve's reduced presence in the Agency RMBS market will be supportive of specified pools relative to TBAs

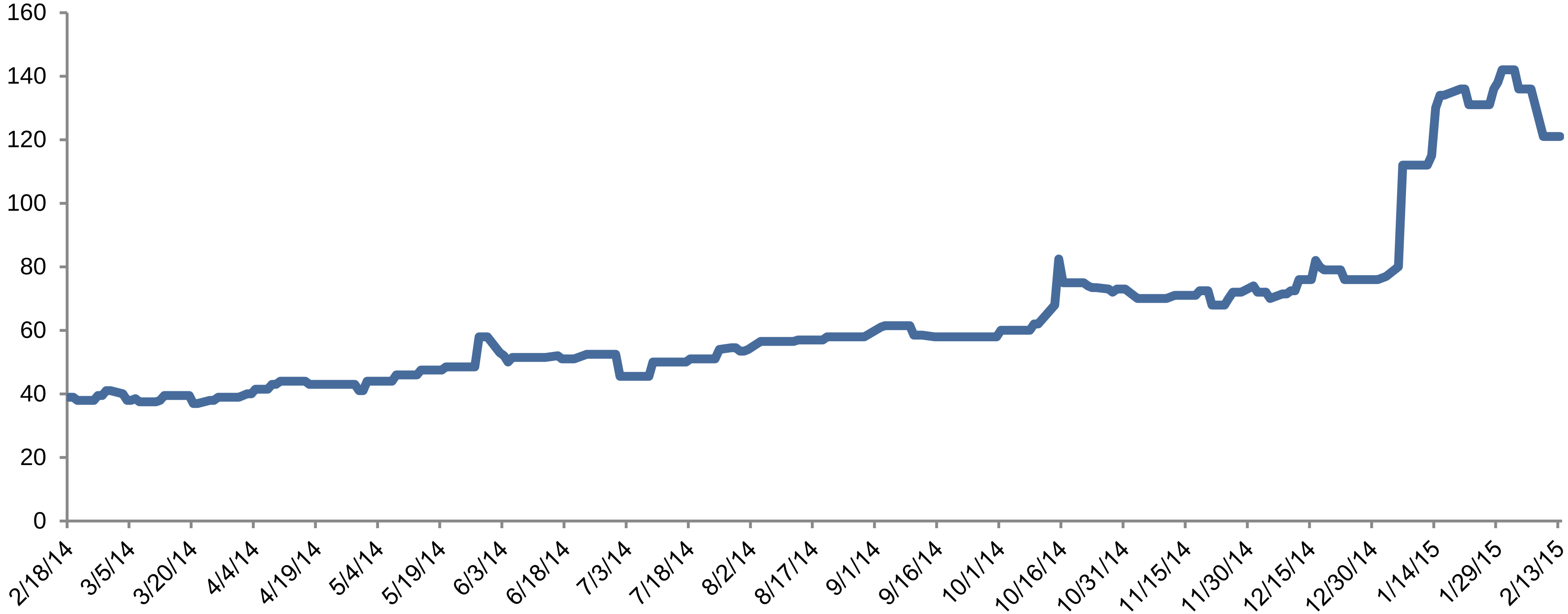
Ellington Residential: Non-Agency

Overall Market Conditions	■ Prices of non-Agency RMBS were supported by ongoing improvements in fundamental data, including mortgage delinquency and foreclosure rates
	■ Steep drops in the price of oil and interest rates during the quarter provided support to non-Agency RMBS prices
	    ■ The price of gasoline and heating oil represent significant budget items for most Americans; a drop in the price of oil increases disposable income
	    ■ Drop in interest rates potentially drives lower reset rates on adjustable mortgages, also increasing disposable income

Portfolio Trends and Outlook	■ We continue to find attractive opportunities to buy and sell legacy non-Agency RMBS assets ■ Lower oil prices and interest rates, if sustained, could lead to growth in the rate of home price appreciation

The Cost of Prepayment Protection has Increased

Spread (32nds of a point, or ticks) between pay-ups for low loan balance and Jumbo pools

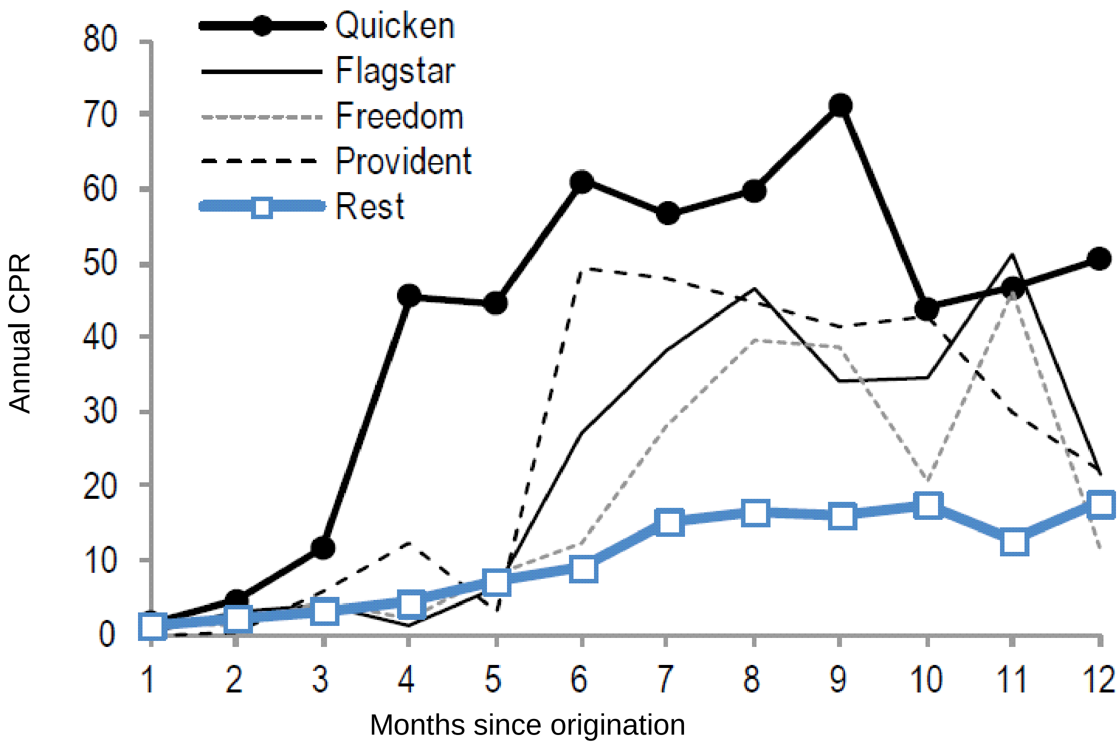


- **The difference between prices for low loan balance and Jumbo pools measures the trade-off between extra yield vs. prepay protection**
- **Jumbo pools tend to have very fast prepayments when they are in the money, but offer only a small amount of extra yield when they are out of the money**
- **Despite the steady decline in mortgage rates during the fourth quarter, it was only in early 2015, as rates continued to rally, that the cost of prepayment protection meaningfully increased**

Source: Barclays

Some Efficient Originators Prepay Faster

One-month CPRs by weighted average loan age observed on Fannie Mae 3.5s for various sellers in January

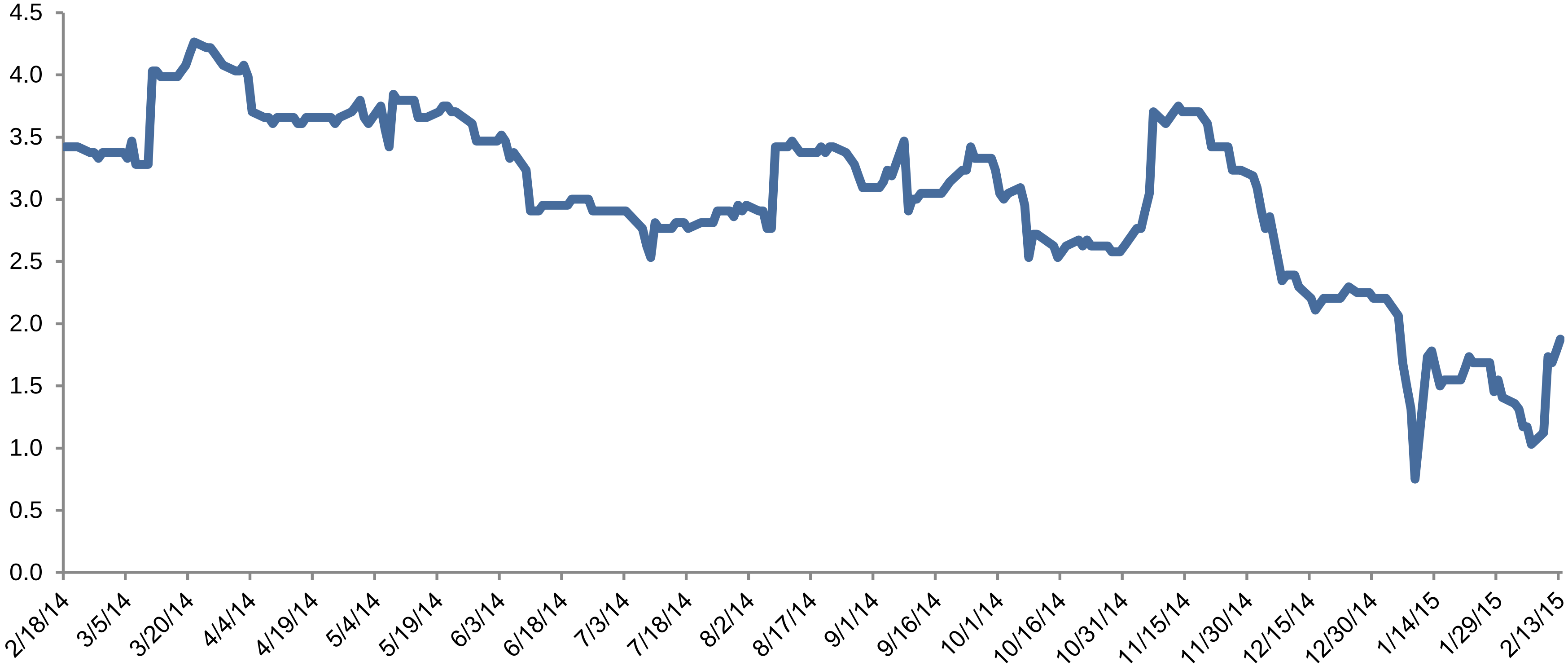


- **Quicken has been able to create tremendous prepayment responsiveness in its borrower base**
- **More efficient originators gain market share**
- **We expect other originators to gradually become more efficient, leading to faster prepayment for larger loans when borrowers have a refinancing incentive**

Source: J.P. Morgan and Fannie Mae

Yields on TBA Rolls have Declined

Roll Yield for TBA 4.5s



- **The annual yield from rolling TBA 4.5s has decreased substantially since late fall of 2014**
- **Prepayment expectations have increased, and Federal Reserve buying of 4.5s stopped almost one year ago**
- **For coupons that the Federal Reserve has not recently purchased, pools originated in 2014 with larger balances and good-credit borrowers have the potential for fast TBA speeds**

Source: Barclays

Portfolio

Ellington Residential: Portfolio Summary

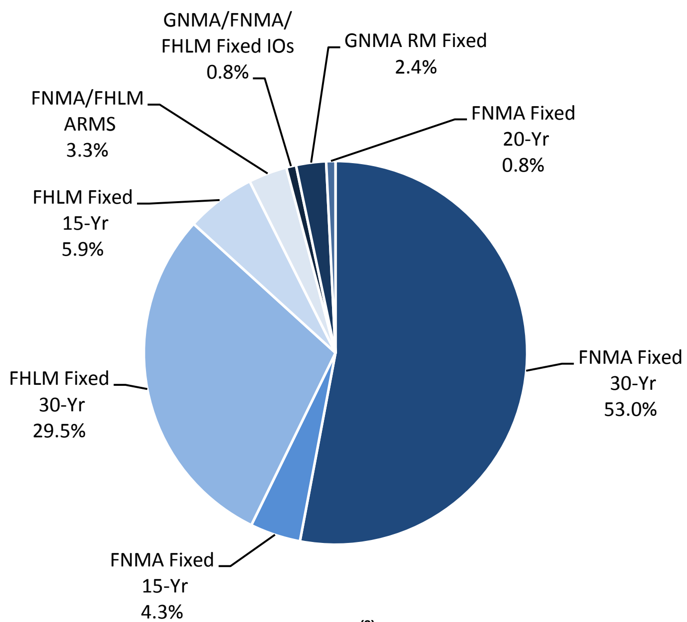
	December 31, 2014					September 30, 2014				
(In thousands)	Current Principal	Fair Value	Average Price[(1)]	Cost	Average Cost[(1)]	Current Principal	Fair Value	Average Price[(1)]	Cost	Average Cost[(1)]
Agency RMBS[(2)]										
15-year fixed rate mortgages	$ 130,720	$ 138,028	$ 105.59	$ 137,024	$ 104.82	$ 136,558	$ 143,357	$ 104.98	$ 143,056	$ 104.76
20-year fixed rate mortgages	9,764	10,568	108.23	10,341	105.91	9,974	10,662	106.90	10,570	105.98
30-year fixed rate mortgages	1,042,550	1,122,254	107.65	1,103,639	105.86	1,036,799	1,098,761	105.98	1,092,290	105.35
ARMs	41,710	44,283	106.17	44,523	106.74	43,288	46,121	106.54	46,233	106.80
Reverse mortgages	31,412	34,425	109.59	34,153	108.73	19,523	21,217	108.68	21,103	108.09
Total Agency RMBS	1,256,156	1,349,558	107.44	1,329,680	105.85	1,246,142	1,320,118	105.94	1,313,252	105.39
Non-Agency RMBS	50,668	32,501	64.15	30,291	59.78	52,785	33,732	63.90	31,217	59.14
Total RMBS[(2)]	1,306,824	1,382,059	105.76	1,359,971	104.07	1,298,927	1,353,850	104.23	1,344,469	103.51
Agency Interest Only RMBS	n/a	11,244	n/a	10,780	n/a	n/a	14,242	n/a	12,108	n/a
Total mortgage-backed securities		**1,393,303**		**1,370,751**			**1,368,092**		**1,356,577**	
U.S. Treasury securities sold short	(13,860)	(13,959)	100.71	(13,917)	100.41	(2,500)	(2,483)	99.32	(2,479)	99.16
Reverse repurchase agreements	13,987	13,987	100.00	13,987	100.00	2,484	2,484	100.00	2,484	100.00
Total		**$ 1,393,331**		**$1,370,821**			**$ 1,368,093**		**$1,356,582**	

(1) Represents the dollar amount (not shown in thousands) per $100 of current principal of the price or cost for the security.

(2) Excludes Agency IOs.

Ellington Residential: Agency Long Portfolio

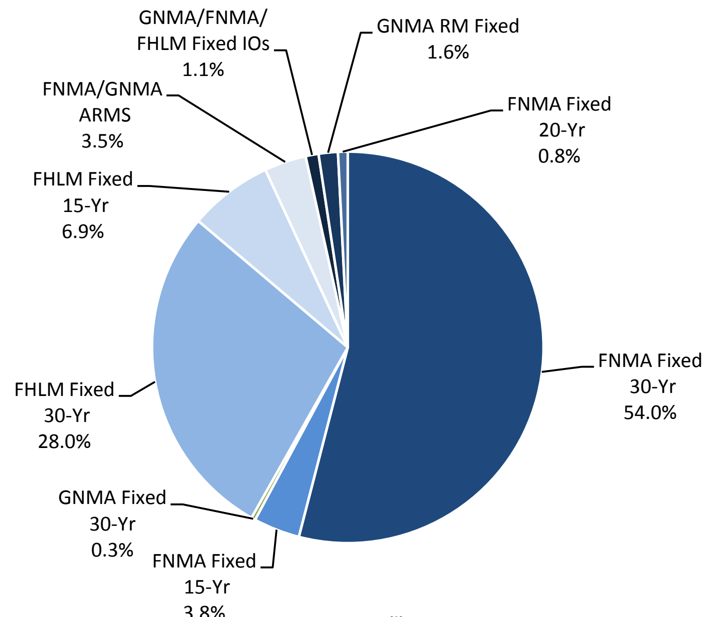
Current Quarter Agency Long Portfolio
As of 12/31/14: $1.36BN(1)



Fixed Portfolio(2)

Category	Fair Value(1)	Weighted Average Coupon(3)
FNMA Fixed - 30-Yr	$720.9	4.07
FNMA Fixed - 20-Yr	10.6	4.00
FNMA Fixed - 15-Yr	58.0	3.48
FHLM Fixed - 30-Yr	401.4	4.11
FHLM Fixed - 15-Yr	80.0	3.35
GNMA Fixed - 30-Yr	-	-
GNMA RM Fixed	34.4	4.91
Total	**$1,305.3**	**4.03**

Previous Quarter Agency Long Portfolio
As of 9/30/14: $1.33BN(1)



Fixed Portfolio(2)

Category	Fair Value(1)	Weighted Average Coupon(3)
FNMA Fixed - 30-Yr	$720.8	4.01
FNMA Fixed - 20-Yr	10.7	4.00
FNMA Fixed - 15-Yr	51.1	3.48
FHLM Fixed - 30-Yr	373.4	4.10
FHLM Fixed - 15-Yr	92.3	3.36
GNMA Fixed - 30-Yr	4.5	4.00
GNMA RM Fixed	21.2	4.73
Total	**$1,274.0**	**3.98**

(1) Does not include long TBA positions.
(2) Fair value shown in millions. Excludes fixed rate IOs.
(3) Represents weighted average net pass-through rate.

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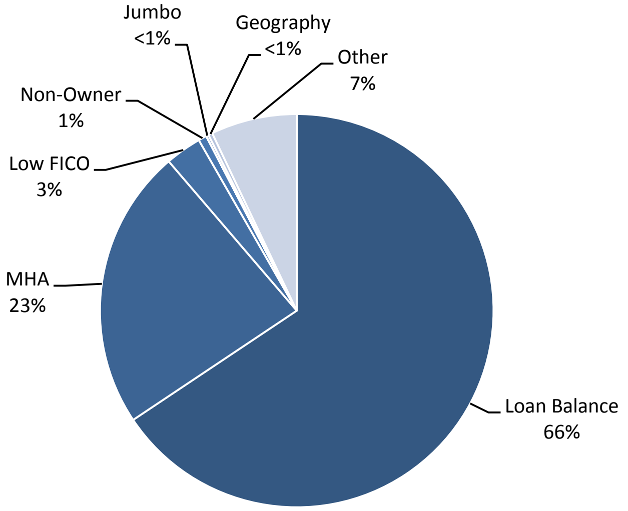
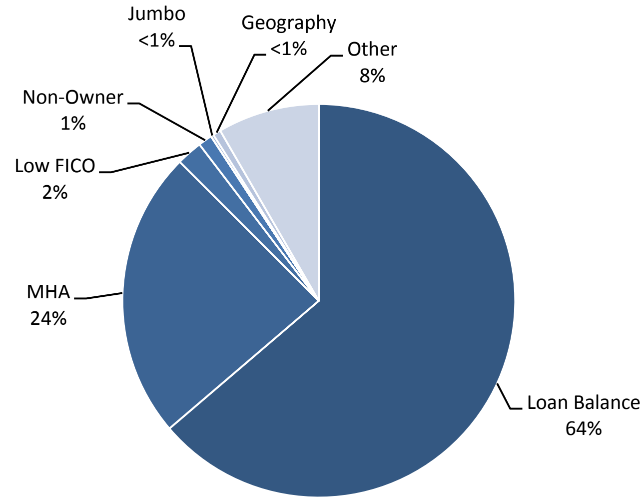
Ellington Residential: Agency Long Portfolio

Collateral Characteristics and Historical 3-month CPR Agency Fixed Rate Pool Portfolio 12/31/14: $1.27BN(1)



Characteristic(2)	Fair Value(1)(3)	3-Month CPR %(4)
Loan Balance	$834.0	4.1
MHA(5)	293.6	4.3
Low FICO	37.9	4.0
Non-Owner	8.7	1.6
Geography	4.2	0.5
Jumbo	2.6	21.3
Other	89.8	10.5
Total	**$1,270.8**	**4.6**

Collateral Characteristics and Historical 3-month CPR Agency Fixed Rate Pool Portfolio 9/30/14: $1.25BN(1)

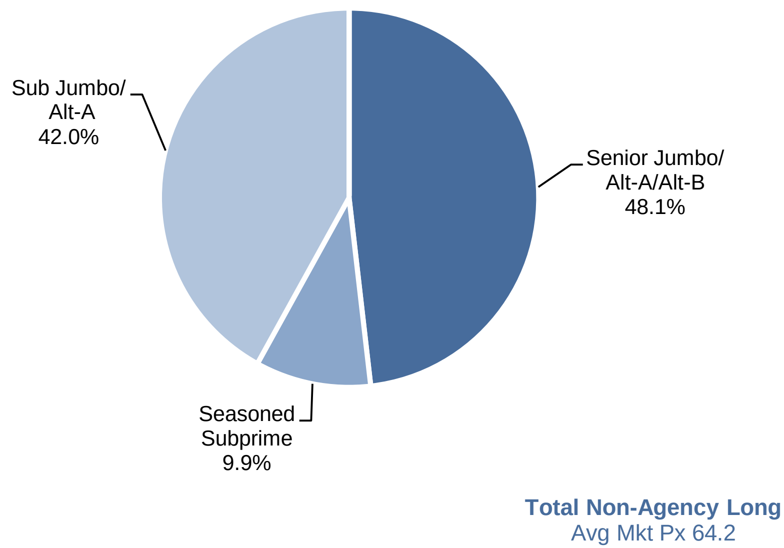


Characteristic(2)	Fair Value(1)(3)	3-Month CPR %(4)
Loan Balance	$801.3	5.2
MHA(5)	298.1	3.6
Low FICO	26.8	2.2
Non-Owner	14.4	12.9
Geography	4.2	0.5
Jumbo	2.8	0.8
Other	105.2	11.4
Total	**$1,252.8**	**5.3**

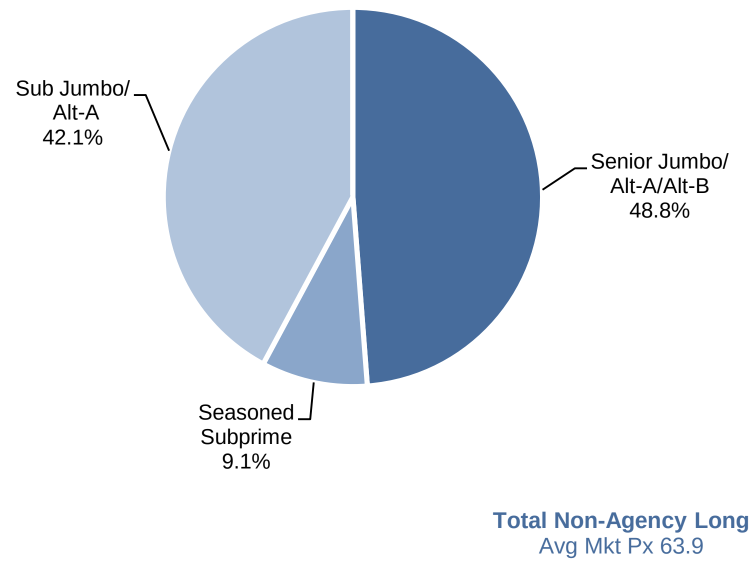
(1) Does not include long TBA positions, reverse mortgage pools, or fixed rate IOs.
(2) Classification methodology may change over time as market practices change.
(3) Fair value shown in millions.
(4) Excludes Agency fixed rate RMBS without any prepayment history with a total value of $69.8 million as of December 31, 2014 and $105.4 million as of September 30, 2014.
(5) "MHA" indicates those pools where underlying borrowers have participated in the Making Homes Affordable program.

Ellington Residential: Non-Agency Long Portfolio

Current Quarter
Non-Agency Long Portfolio 12/31/14: $32.5MM



Previous Quarter
Non-Agency Long Portfolio 9/30/14: $33.7MM



- **Average book yield for the fourth quarter was 11.12%, as compared to 10.26% for the third quarter**
  - **We expect an increase in future prepayments with lower mortgage rates and some loosening of mortgage credit**
    - **Future prepayments would lead to higher yields**
  - **Prudent asset selection remains critical, as yield spreads remain tight**

Borrowings and Hedges

Ellington Residential: Repo Borrowings

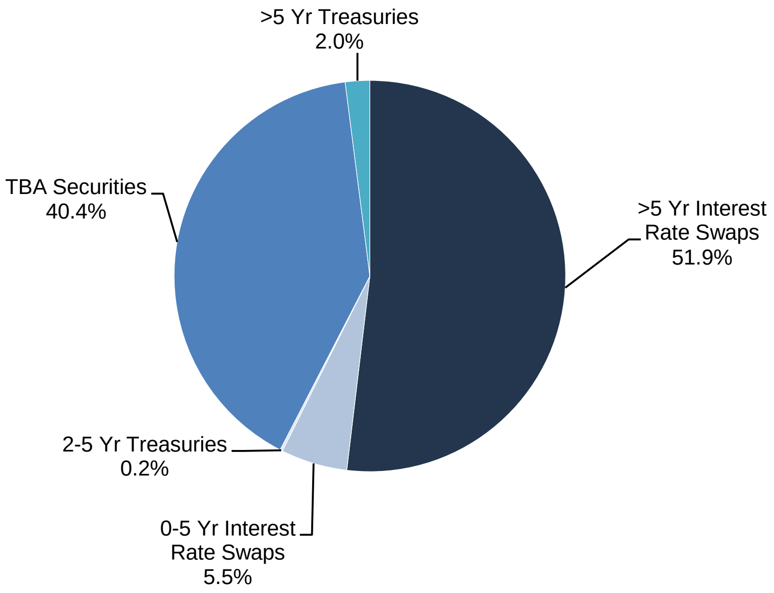
	December 31, 2014			September 30, 2014		
		Weighted Average			Weighted Average	
Remaining Days to Maturity	**Borrowings Outstanding** *(In thousands)*	**Interest Rate**	**Remaining Days to Maturity**	**Borrowings Outstanding** *(In thousands)*	**Interest Rate**	**Remaining Days to Maturity**
30 days or less	$ 437,633	0.33%	15	$ 325,079	0.34%	16
31-60 days	417,009	0.34%	44	519,999	0.33%	45
61-90 days	333,580	0.36%	72	338,669	0.33%	73
91-120 days	-	-%	-	22,192	0.38%	106
121-150 days	-	-%	-	27,394	0.38%	135
151-180 days	85,917	0.41%	165	-	-%	-
301-330 days	48,941	0.47%	317	-	-%	-
Total	**$ 1,323,080**	**0.35%**	**60**	**$ 1,233,333**	**0.33%**	**48**

- **As of December 31, 2014:**
  - **Outstanding borrowings with 10 counterparties**
  - **Repo availability from both existing and new counterparties remained strong and rates remained low**
  - **Increased weighted average remaining days to maturity by 12, to 60 days**

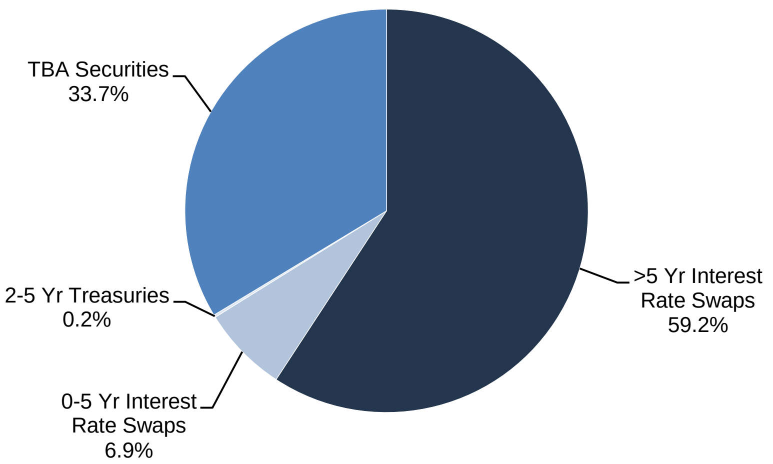
Note: As of December 31, 2014 and September 30, 2014, the Company had no outstanding borrowings other than under repurchase agreements. The entire amount of outstanding borrowings as of both December 31, 2014 and September 30, 2014 were related to Agency RMBS.

Ellington Residential: Interest Rate Hedging Portfolio

Current Quarter
Agency Interest Rate Hedging Portfolio 12/31/14: Short $598.7MM 10-year equivalents



Previous Quarter
Agency Interest Rate Hedging Portfolio 9/30/14: Short $674.1MM 10-year equivalents



- **Agency interest rate hedges are shown in normalized units of risk, with each group of positions measured in "10-year equivalents"**
- **During the fourth quarter:**
  - **Interest rate hedging portfolio continues to be predominantly made up of TBAs and interest rate swaps**
  - **Weighted average remaining term of swap book declined: 8.56 years as of December 31, 2014, as compared to 9.08 years as of September 30, 2014**
  - **Increased short TBA hedge weighting relative to interest rate swaps**

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

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Ellington Residential: Interest Rate Hedging

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

(In millions) Agency-related Portfolio	12/31/2014		9/30/2014	
Long Agency RMBS	$	1,361	$	1,334
Net Short TBA Positions[1]		(576)		(511)
Net Long Exposure to Agency RMBS	$	785	$	823

- **Shorting "generic" pools (or TBAs) allows EARN to significantly reduce interest rate risk and basis risk in its Agency portfolio; interest rate risk is also hedged with swaps, swaptions, U.S. Treasury securities, etc.**
- **Average pay-up on Agency pools was 0.74% as of December 31, 2014, as compared to 0.63% as of September 30, 2014**

Estimated Change in Fair Value as of December 31, 2014 if Interest Rates Move[2]:

(In thousands)	Down 50 bps		Up 50 bps	
Agency RMBS - ARM Pools	$	382	$	(505)
Agency RMBS - Fixed Pools and IOs		22,694		(30,899)
TBAs		(9,150)		12,301
Non-Agency RMBS		523		(493)
Interest Rate Swaps		(16,057)		15,049
Swaptions		415		(221)
U.S. Treasury Securities		(610)		577
Repurchase and Reverse Repurchase Agreements		(851)		1,108
Total	**$**	**(2,654)**	**$**	**(3,083)**

(1) Net short TBA positions represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of December 31, 2014 and September 30, 2014. The net carrying value of the TBA positions as of December 31, 2014 and September 30, 2014 on the Consolidated Balance Sheet was $(1.2) million and $(0.1) million, respectively.

(2) Based on the market environment as of December 31, 2014. 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.

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Ellington Residential: Interest Rate Hedging (Continued)

December 31, 2014

Interest Rate Swap

Maturity	Notional Amount		Fair Value		Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
	(In thousands)						
2016	$	48,000	$	(91)	0.80 %	0.23 %	1.77
2017		74,750		(388)	1.21 %	0.24 %	2.59
2018		10,000		167	0.84 %	0.23 %	3.33
2020		23,500		471	1.42 %	0.23 %	5.38
2023		209,350		140	2.13 %	0.23 %	8.40
2024		12,900		(605)	2.73 %	0.23 %	9.45
2043		46,320		(4,202)	3.12 %	0.23 %	28.42
Total	$	**424,820**	$	**(4,508)**	**1.87** %	**0.23** %	**8.56**

TBA Securities

(In thousands)		Notional Amount (1)		Cost Basis (2)		Market Value (3)		Net Carrying Value (4)
Total TBAs, Net	$	(536,757)	$	(574,589)	$	(575,787)	$	(1,198)

Interest Rate Swaptions

	Option			Underlying Swap			
($ in thousands)		Fair Value	Months to Expiration		Notional Amount	Term (Years)	Fixed Rate
Straddle	$	78	6.5	$	9,700	10.0	3.00%

(1) Notional amount represents the principal balance of the underlying Agency RMBS.
(2) Cost basis represents the forward price to be paid for the underlying Agency RMBS.
(3) Market value represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of December 31, 2014.
(4) Net carrying value represents the difference between the market value of the TBA contract as of December 31, 2014 and the cost basis, and is reported in Financial derivatives-assets, at fair value and Financial derivatives-liabilities, at fair value on the Consolidated Balance Sheet.

Supplemental Information

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Ellington Residential: Income Statement (Unaudited)

CONSOLIDATED STATEMENT OF OPERATIONS

	Three Month Period Ended		Year Ended
	December 31, 2014	September 30, 2014	December 31, 2014
(In thousands except share amounts)			
INTEREST INCOME (EXPENSE)			
Interest income	$ 11,806	$ 11,484	$ 46,824
Interest expense	(1,165)	(1,121)	(4,511)
Total net interest income	10,641	10,363	42,313
EXPENSES			
Management fees	552	574	2,285
Professional fees	587	123	986
Other operating expenses	608	597	2,481
Total expenses	1,747	1,294	5,752
OTHER INCOME (LOSS)			
Net realized gains on mortgage-backed securities	3,070	2,030	2,457
Net realized losses on financial derivatives	(12,923)	(4,391)	(31,878)
Change in net unrealized gains (losses) on mortgage-backed securities	11,000	(5,455)	48,550
Change in net unrealized gains (losses) on financial derivatives	(11,217)	2,280	(39,522)
Total other income (loss)	(10,070)	(5,536)	(20,393)
NET INCOME (LOSS)	$ (1,176)	$ 3,533	$ 16,168
NET INCOME (LOSS) PER COMMON SHARE			
Basic	$ (0.13)	$ 0.39	$ 1.77
WEIGHTED AVERAGE SHARES OUTSTANDING	9,149,274	9,141,892	9,142,736
CASH DIVIDENDS PER SHARE:			
Dividends Declared	$ 0.55	$ 0.55	$ 2.20

Ellington Residential: Balance Sheet (Unaudited)

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ELLINGTON RESIDENTIAL MORTGAGE REIT

CONSOLIDATED BALANCE SHEET

	As of		
	December 31, 2014	September 30, 2014	December 31, 2013 (1)
(In thousands except share amounts)			
ASSETS			
Cash and cash equivalents	$ 45,237	$ 51,063	$ 50,112
Mortgage-backed securities, at fair value	1,393,303	1,368,092	1,326,036
Due from brokers	18,531	20,071	18,347
Financial derivatives-assets, at fair value	3,072	8,439	34,963
Reverse repurchase agreements	13,987	2,484	-
Receivable for securities sold	41,834	25,945	76,692
Interest receivable	4,793	5,601	4,766
Other assets	317	497	174
Total Assets	$ 1,521,074	$ 1,482,192	$ 1,511,090
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Repurchase agreements	$ 1,323,080	$ 1,233,333	$ 1,310,347
Payable for securities purchased	4,227	63,143	2,776
Due to brokers	583	3,889	22,788
Financial derivatives-liabilities, at fair value	8,700	2,850	1,069
U.S. Treasury securities sold short, at fair value	13,959	2,483	-
Dividend payable	5,032	5,032	4,570
Accrued expenses	890	754	996
Management fee payable	551	574	600
Interest payable	687	591	764
Total Liabilities	$ 1,357,709	$ 1,312,649	$ 1,343,910
SHAREHOLDERS' EQUITY			
Preferred shares, par value $0.01 per share, 100,000,000 shares authorized; (0 shares issued and outstanding, respectively)	-	-	-
Common shares, par value $0.01 per share, 500,000,000 shares authorized; (9,149,274, 9,149,274, and 9,139,842 shares issued and outstanding, respectively)	91	91	91
Additional paid-in-capital	181,282	181,252	181,147
Accumulated deficit	(18,008)	(11,800)	(14,058)
Total Shareholders' Equity	163,365	169,543	167,180
Total Liabilities and Shareholders' Equity	$ 1,521,074	$ 1,482,192	$ 1,511,090
Per Share Information			
Common shares, par value $0.01 per share	$ 17.86	$ 18.53	$ 18.29

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

Reconciliation of Core Earnings(1)

(In thousands except share amounts)	Three Month Period Ended December 31, 2014		Three Month Period Ended September 30, 2014	
Net Income (Loss)	$	(1,176)	$	3,533
Less:				
Net realized gains on mortgage-backed securities		3,070		2,030
Net realized losses on financial derivatives, excluding periodic payments(2)		(9,280)		(3,713)
Change in net unrealized gains (losses) on mortgage-backed securities		11,000		(5,455)
Change in net unrealized gains and (losses) on financial derivatives, excluding accrued periodic payments(3)		(12,942)		3,755
Subtotal		(8,152)		(3,383)
Core Earnings	$	6,976	$	6,916
Weighted Average Shares Outstanding		9,149,274		9,141,892
Core Earnings Per Share	$	0.76	$	0.76

(1) Core Earnings consists of net income (loss), excluding realized and change in net unrealized gains and losses on mortgage-backed securities and financial derivatives, and, if applicable, items of income or loss that are of a non-recurring nature. Core Earnings includes net realized and change in net unrealized gains (losses) associated with payments and accruals of periodic payments on interest rate swaps. Core Earnings is a supplemental non-GAAP financial measure. We believe that Core Earnings provides information useful to investors because it is a metric that we use to assess our performance and to evaluate the effective net yield provided by the portfolio. Moreover, one of our objectives is to generate income from the net interest margin on the portfolio, and Core Earnings is used to help measure the extent to which this objective is being achieved. However, because Core Earnings is an incomplete measure of our financial results and differs from net income (loss) computed in accordance with GAAP, it should be considered as supplementary to, and not as a substitute for, our net income (loss) computed in accordance with GAAP. The table above reconciles, for the three month periods ended December 31, 2014 and September 30, 2014, our Core Earnings on a consolidated basis to the line on our Consolidated Statement of Operations entitled Net Income (Loss), which we believe is the most directly comparable GAAP measure on our Consolidated Statement of Operations to Core Earnings.

(2) For the three month period ended December 31, 2014, represents Net realized gains (losses) on financial derivatives of $(12,923) less Net realized gains (losses) on periodic settlements of interest rate swaps of $(3,643). For the three month period ended September 30, 2014, represents Net realized gains (losses) on financial derivatives of $(4,391) less Net realized gains (losses) on periodic settlements of interest rate swaps of $(678).

(3) For the three month period ended December 31, 2014, represents Change in net unrealized gains (losses) on financial derivatives of $(11,217) less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of $1,725. For the three month period ended September 30, 2014, represents Change in net unrealized gains (losses) on financial derivatives of $2,280 less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of $(1,475).

About Ellington

- EARN is managed by Ellington Residential Mortgage Management LLC, an affiliate of Ellington Management Group, L.L.C. ("EMG")
- EMG was founded in 1994 by Michael Vranos and five partners; currently has over 150 employees, giving EARN access to time-tested infrastructure and industry-leading resources in trading, research, risk management, and operational support
  - EMG has approximately $6.2 billion in assets under management as of December 31, 2014
- EMG's portfolio managers are among the most experienced in the MBS sector and the firm's analytics have been developed over a 20-year history
  - Prior to forming EMG, five of the founding partners constituted the core of Kidder Peabody's MBS trading and research group, while one spent ten years at Lehman Brothers where he ran collateralized mortgage obligation ("CMO") trading
  - The founding partners each have advanced academic training in mathematics and engineering, including among them several Ph.D.'s and Master's degrees
- EARN was formed through an initial strategic venture between affiliates of EMG and a group of funds managed by an affiliate of The Blackstone Group LP

EARN

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