

**E A R N**

**ELLINGTON RESIDENTIAL MORTGAGE REIT**

**Third Quarter 2020  
Earnings Conference Call  
November 5, 2020**



## 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 exclusion from registration under the Investment Company Act of 1940 and other changes in market conditions and economic trends including changes resulting from the ongoing spread and economic effects of the novel coronavirus (COVID-19) pandemic and associated responses to the pandemic. 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 12, 2020 and Part II, Item 1A of our Quarterly Report on Form 10-Q filed on May 11, 2020 which can be accessed through the link to our SEC filings under "For Our Shareholders" on our website ([www.earnreit.com](http://www.earnreit.com)) or at the SEC's website ([www.sec.gov](http://www.sec.gov)). Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected may be described from time to time in reports we file with the SEC, including reports on 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 September 30, 2020 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

# Third Quarter Market Update

Quarter Ended:	9/30/2020	6/30/2020	Q/Q	3/31/2020	Q/Q	12/31/2019	Q/Q	9/30/2019	Q/Q	6/30/2019	Q/Q	3/31/2019	Q/Q
<u>UST (%)<sup>(1)</sup></u>													
3M UST	0.09	0.13	-0.04	0.06	+0.07	1.54	-1.48	1.81	-0.26	2.09	-0.28	2.38	-0.29
2Y UST	0.13	0.15	-0.02	0.25	-0.10	1.57	-1.32	1.62	-0.05	1.75	-0.13	2.26	-0.51
5Y UST	0.28	0.29	-0.01	0.38	-0.09	1.69	-1.31	1.54	+0.15	1.77	-0.22	2.23	-0.47
10Y UST	0.68	0.66	+0.03	0.67	-0.01	1.92	-1.25	1.66	+0.25	2.01	-0.34	2.41	-0.40
30Y UST	1.46	1.41	+0.04	1.32	+0.09	2.39	-1.07	2.11	+0.28	2.53	-0.42	2.81	-0.29
3M10Y Spread	0.59	0.53	+0.07	0.61	-0.08	0.37	+0.23	-0.14	+0.52	-0.08	-0.06	0.02	-0.11
2Y10Y Spread	0.56	0.51	+0.05	0.42	+0.08	0.35	+0.08	0.04	+0.31	0.25	-0.21	0.15	+0.11
<u>US Dollar Swaps (%)<sup>(1)</sup></u>													
2Y SWAP	0.22	0.22	-0.00	0.49	-0.26	1.70	-1.21	1.63	+0.07	1.81	-0.17	2.38	-0.58
5Y SWAP	0.35	0.33	+0.02	0.52	-0.20	1.73	-1.21	1.50	+0.23	1.77	-0.26	2.29	-0.52
10Y SWAP	0.71	0.64	+0.07	0.72	-0.08	1.90	-1.18	1.56	+0.33	1.96	-0.40	2.41	-0.44
<u>LIBOR (%)<sup>(1)</sup></u>													
1M	0.15	0.16	-0.01	0.99	-0.83	1.76	-0.77	2.02	-0.25	2.40	-0.38	2.49	-0.10
3M	0.23	0.30	-0.07	1.45	-1.15	1.91	-0.46	2.09	-0.18	2.32	-0.23	2.60	-0.28
1M3M Spread	0.09	0.14	-0.05	0.46	-0.32	0.15	+0.31	0.07	+0.08	-0.08	+0.15	0.11	-0.18
<u>Mortgage Rates (%)<sup>(2)</sup></u>													
15Y	2.65	2.81	-0.16	3.05	-0.24	3.37	-0.32	3.43	-0.06	3.42	+0.01	3.78	-0.36
30Y	2.90	3.13	-0.23	3.50	-0.37	3.74	-0.24	3.64	+0.10	3.73	-0.09	4.06	-0.33
<u>FNMA Pass-Thrus<sup>(1)</sup></u>													
30Y 2.5	\$104.89	\$104.23	+\$0.66	\$103.55	+\$0.69	\$98.92	+\$4.63	\$99.58	-\$0.66	\$99.27	+\$0.31	\$97.55	+\$1.72
30Y 3.5	\$105.48	\$105.17	+\$0.31	\$105.80	-\$0.63	\$102.86	+\$2.94	\$102.64	+\$0.22	\$102.20	+\$0.44	\$101.39	+\$0.81
30Y 4.5	\$108.17	\$107.45	+\$0.72	\$107.64	-\$0.19	\$105.30	+\$2.34	\$105.33	-\$0.03	\$104.48	+\$0.84	\$104.17	+\$0.31
<u>Libor-based OAS (bps)<sup>(3)</sup></u>													
FNMA 30Y 2.5 OAS	17.4	19.9	-2.50	35.7	-15.8	28.3	+7.4	37.4	-9.1	25.2	+12.2	17.0	8.2
FNMA 30Y 3.5 OAS	43.7	43.1	+0.60	10.9	+32.2	36.4	-25.5	53.0	-16.6	41.2	+11.8	27.3	13.9
FNMA 30Y 4.5 OAS	63.4	79.3	-15.90	58.4	+20.9	63.6	-5.2	70.5	-6.9	71.0	-0.5	46.9	24.1
<u>Libor-based ZSpread (bps)<sup>(4)</sup></u>													
FNMA 30Y 2.5 ZSpread	70.5	71.7	-1.20	98.0	-26.3	70.5	+27.5	93.5	-23.0	56.9	+36.6	42.5	14.4
FNMA 30Y 3.5 ZSpread	66.3	64.9	+1.40	32.5	+32.4	84.0	-51.5	101.8	-17.8	87.0	+14.8	76.4	10.6
FNMA 30Y 4.5 ZSpread	72.0	87.8	-15.80	64.3	+23.5	91.8	-27.5	97.1	-5.3	99.0	-1.9	79.5	19.5

## Results

- Net Income: \$8.1 million or \$0.66 per share; year-to-date net income of \$12.7 million or \$1.03 per share
- Core Earnings<sup>(1)</sup>: \$4.8 million or \$0.39 per share
- Economic Return: 5.1% for the quarter, and 8.5% year-to-date, non-annualized
- Net Interest Margin<sup>(2)</sup>: 2.21%

## Shareholders' Equity & BVPS<sup>(3)</sup>

- Shareholders' Equity: \$162.4 million
- Book Value Per Share: \$13.17

## Portfolio

- Agency RMBS Portfolio: \$1.09 billion<sup>(3)</sup>
  - Weighted average prepayment speed on fixed-rate specified pools increased to 21.4% CPR from 18.0% CPR last quarter
  - Average pay-ups on specified pools increased to 2.55%<sup>(3)</sup> from 2.50%<sup>(4)</sup> last quarter
- Non-Agency RMBS Portfolio: \$24.6 million<sup>(3)</sup>
  - Reduced size of the portfolio by 41% during the quarter as we monetized gains in this sector

## Leverage<sup>(3)</sup>

- Debt-to-Equity Ratio: 6.5:1
- Net Mortgage Assets-to-Equity Ratio of 5.6:1<sup>(5)</sup>
- Cash and cash equivalents of \$61.2 million, in addition to other unencumbered assets of \$28.1 million

## Dividend

- Declared third quarter dividend of \$0.28 per share (paid in October 2020)
- Annualized dividend yield of 10.1% based on closing price of \$11.13 on 11/4/2020

# Summary of Financial Results

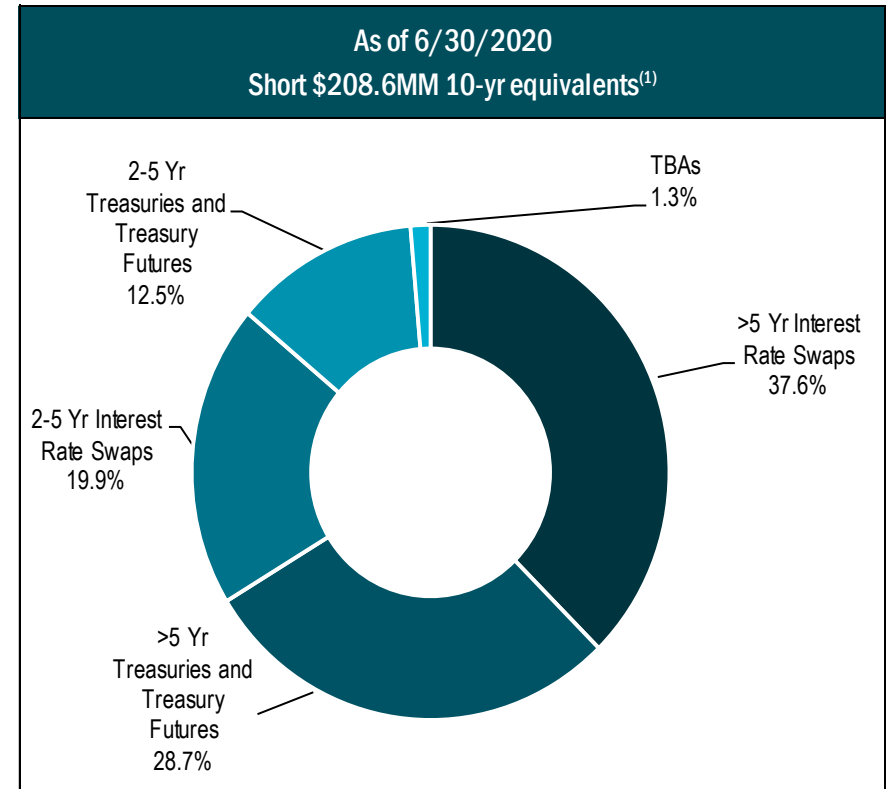
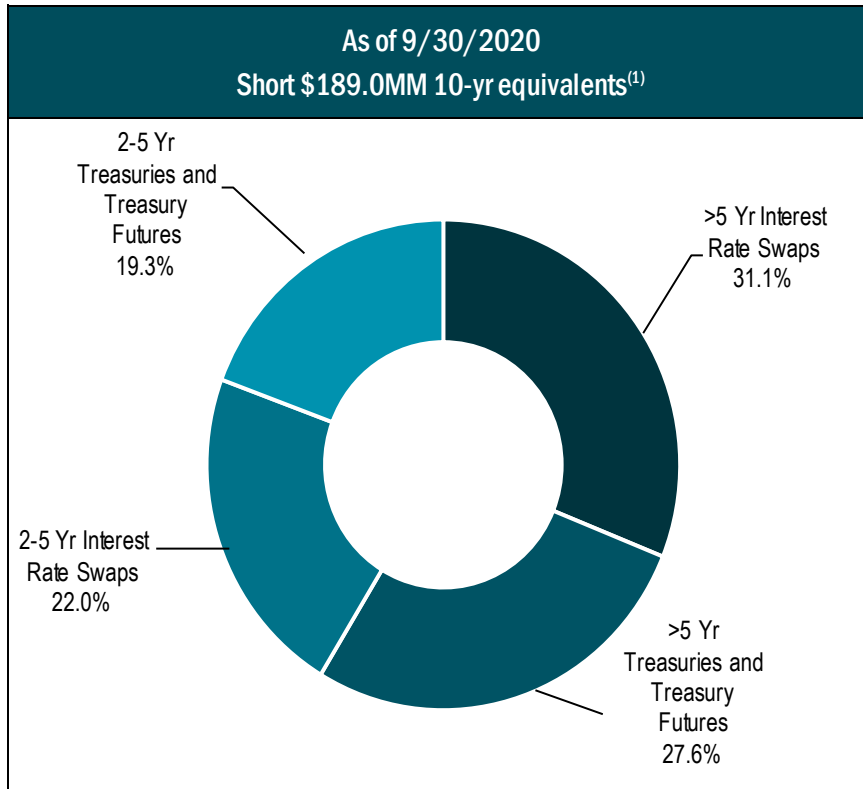
	Quarter Ended 9/30/2020		Quarter Ended 6/30/2020	
		Per Share <sup>(1)</sup>		Per Share <sup>(1)</sup>
<i>(\$ in thousands except per share amounts)</i>				
Interest Income	\$ 7,776		\$ 3,489	
Interest Expense	(819)		(2,330)	
Total Net Interest Income	\$ 6,957		\$ 1,159	
Total Other Gain (Loss) <sup>(2)</sup>	(419)		(327)	
Total Expenses	(1,406)		(1,732)	
Add back: Deferred offering costs expensed	39		313	
Add back: Catch-up Premium Amortization Adjustment <sup>(3)</sup>	(405)		3,782	
<b>Core Earnings<sup>(4)</sup></b>	<b>\$ 4,766</b>	<b>\$ 0.39</b>	<b>\$ 3,195</b>	<b>\$ 0.26</b>
<b>Net Realized and Unrealized Gain (Loss):</b>				
RMBS	\$ 425		\$ 20,729	
Interest Rate Hedges and Other Activities, Net	2,561		1,516	
Total Net Realized and Unrealized Gain (Loss)	\$ 2,986		\$ 22,245	
Deduct : Deferred offering costs expensed	(39)		(313)	
Deduct : Catch-up Premium Amortization Adjustment <sup>(3)</sup>	405		(3,782)	
<b>Net Income (Loss)</b>	<b>\$ 8,118</b>	<b>\$ 0.66</b>	<b>\$ 21,345</b>	<b>\$ 1.73</b>
Weighted Average Yield <sup>(5)</sup>	2.68%		2.99%	
Cost of Funds	-0.47%		-1.13%	
Net Interest Margin <sup>(6)</sup>	2.21%		1.86%	
Average Pay-Ups	2.55%		2.50% <sup>(7)</sup>	
<b>Shareholders' Equity</b>	<b>\$ 162,401</b>	<b>\$ 13.17</b>	<b>\$ 157,677</b>	<b>\$ 12.80</b>

# Consolidated Balance Sheet (Unaudited)

	As of		
	September 30, 2020	June 30, 2020	December 31, 2019 <sup>(1)</sup>
<i>(In thousands except share amounts)</i>			
<b>ASSETS</b>			
Cash and cash equivalents	\$ 61,193	\$ 50,935	\$ 35,351
Mortgage-backed securities, at fair value	1,113,620	1,154,047	1,401,778
Other investments, at fair value	5,290	411	-
Due from brokers	49,530	38,024	34,596
Financial derivatives-assets, at fair value	1,738	3,115	4,180
Reverse repurchase agreements	20,013	-	2,084
Receivable for securities sold	7,191	40,977	5,500
Interest receivable	4,562	4,289	5,016
Other assets	380	539	604
<b>Total Assets</b>	<b>\$ 1,263,517</b>	<b>\$ 1,292,337</b>	<b>\$ 1,489,109</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Repurchase agreements	\$ 1,061,640	\$ 909,821	\$ 1,296,272
Payable for securities purchased	5,308	205,950	19,433
Due to brokers	669	1,372	33
Financial derivatives-liabilities, at fair value	7,916	12,144	2,047
U.S. Treasury securities sold short, at fair value	19,986	-	2,070
Dividend payable	3,454	3,450	3,488
Accrued expenses	1,077	837	588
Management fee payable to affiliate	611	594	605
Interest payable	455	492	3,729
<b>Total Liabilities</b>	<b>\$ 1,101,116</b>	<b>\$ 1,134,660</b>	<b>\$ 1,328,265</b>
<b>SHAREHOLDERS' EQUITY</b>			
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; (12,334,636, 12,319,616 and 12,455,758 shares issued and outstanding, respectively)	123	123	124
Additional paid-in-capital	229,551	229,491	230,358
Accumulated deficit	(67,273)	(71,937)	(69,638)
<b>Total Shareholders' Equity</b>	<b>162,401</b>	<b>157,677</b>	<b>160,844</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,263,517</b>	<b>\$ 1,292,337</b>	<b>\$ 1,489,109</b>
<b>Supplemental Per Share Information</b>			
Book Value Per Share	\$ 13.17	\$ 12.80	\$ 12.91

(In thousands)	September 30, 2020					June 30, 2020				
	Current Principal	Fair Value	Average Price <sup>(1)</sup>	Cost	Average Cost <sup>(1)</sup>	Current Principal	Fair Value	Average Price <sup>(1)</sup>	Cost	Average Cost <sup>(1)</sup>
<b>Agency RMBS<sup>(2)</sup></b>										
15-year fixed rate mortgages	\$ 80,451	\$ 86,213	\$ 107.16	\$ 83,106	\$ 103.30	\$ 64,491	\$ 69,169	\$ 107.25	\$ 66,172	\$ 102.61
20-year fixed rate mortgages	36,481	37,933	103.98	37,757	103.50	1,077	1,191	110.58	1,148	106.59
30-year fixed rate mortgages	781,388	854,443	109.35	818,178	104.71	825,850	900,003	108.98	861,994	104.38
ARMs	22,518	23,590	104.76	23,011	102.19	25,471	26,827	105.32	26,030	102.19
Reverse mortgages	67,233	74,246	110.43	71,281	106.02	89,561	100,393	112.09	95,451	106.58
<b>Total Agency RMBS</b>	<b>988,071</b>	<b>1,076,425</b>	<b>108.94</b>	<b>1,033,333</b>	<b>104.58</b>	<b>1,006,450</b>	<b>1,097,583</b>	<b>109.05</b>	<b>1,050,795</b>	<b>104.41</b>
<b>Non-Agency RMBS</b>	<b>32,062</b>	<b>24,580</b>	<b>76.66</b>	<b>21,993</b>	<b>68.60</b>	<b>58,642</b>	<b>41,987</b>	<b>71.60</b>	<b>39,016</b>	<b>66.53</b>
<b>Total RMBS<sup>(2)</sup></b>	<b>1,020,133</b>	<b>1,101,005</b>	<b>107.93</b>	<b>1,055,326</b>	<b>103.45</b>	<b>1,065,092</b>	<b>1,139,570</b>	<b>106.99</b>	<b>1,089,811</b>	<b>102.32</b>
<b>Agency Interest Only RMBS</b>	n/a	12,615	n/a	14,640	n/a	n/a	14,477	n/a	16,023	n/a
<b>Total mortgage-backed securities</b>		<b>\$1,113,620</b>		<b>\$1,069,966</b>			<b>\$1,154,047</b>		<b>\$1,105,834</b>	

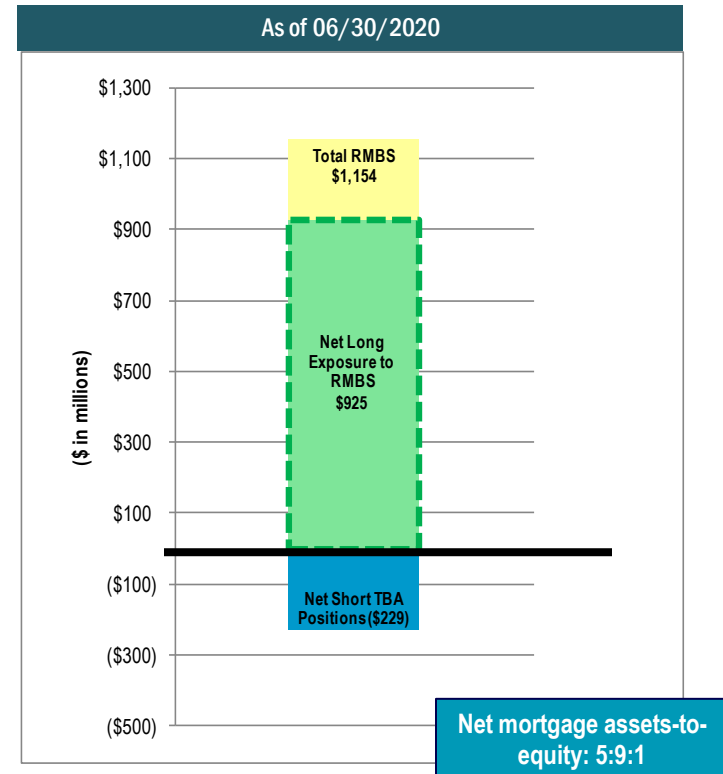
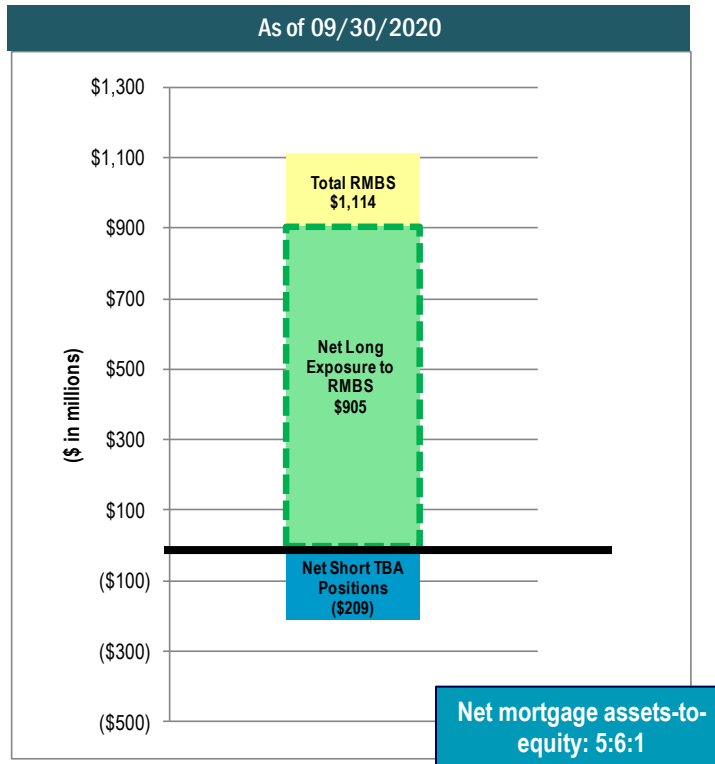
- Decreased Agency RMBS holdings by approximately 2% quarter over quarter, and reduced non-Agency RMBS by 41% as we monetized gains in this sector during the third quarter
- Overall portfolio size decreased by 3.5%



- We hedge along the entire yield curve to manage interest rate risk and protect book value
- Shorting “generic” pools (or TBAs) allows EARN to significantly reduce interest rate risk and basis risk in its Agency portfolio
- During the quarter, we increased the amount of long TBAs held for investment, and as a result, at quarter end our net position in TBAs was slightly long, on a 10-year equivalent basis (though it was still net short on a notional basis)
- We also hedge interest rate risk with swaps, U.S. Treasury securities, futures, and swaptions



## Exposure to RMBS Based on Fair Value of TBA Portfolio<sup>(1)</sup>



- EARN often carries significantly lower net effective mortgage exposure than our “headline” leverage suggests
  - Our net mortgage assets-to-equity<sup>(2)</sup> ratio decreased to 5.6:1 from 5.9:1, quarter over quarter
  - Our net mortgage assets-to-equity ratio decreased primarily as a result of a slight decline in our overall RMBS portfolio and an increase in shareholders’ equity
- Use of TBA short positions as hedges:
  - Helps drive outperformance in especially volatile quarters, such as the first and second quarters
  - When interest rates spike, TBA short positions not only extend with specified pool assets, but they tend to extend more than specified pool assets, which dynamically and automatically hedges a correspondingly larger portion of our specified pool portfolio

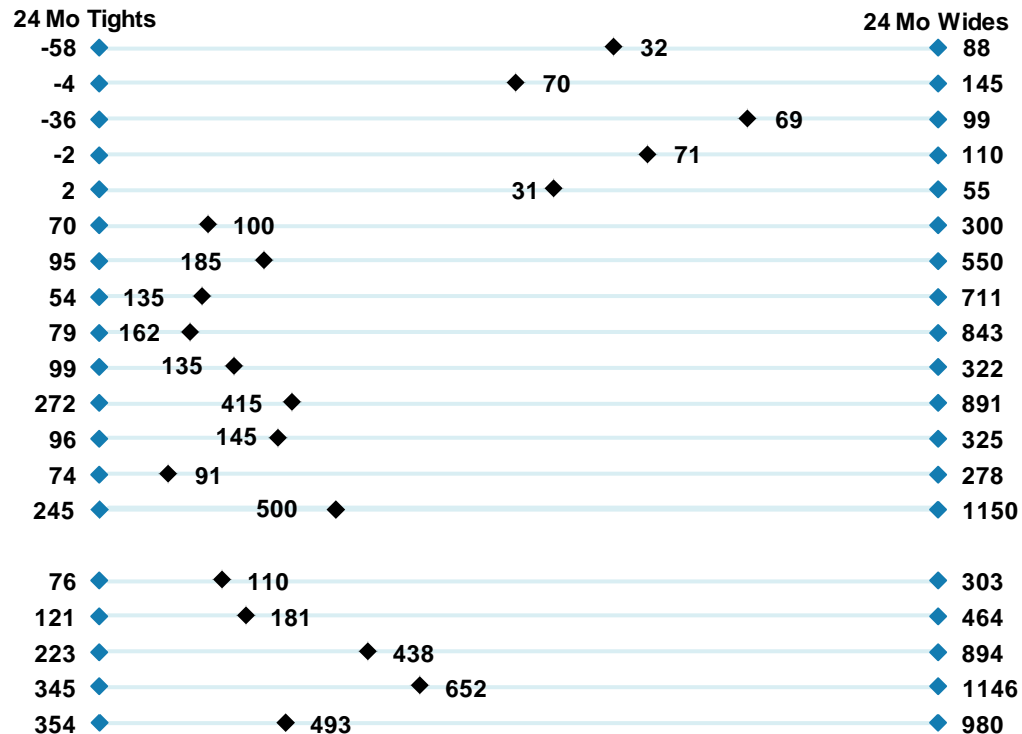
◆ As of September 30, 2020<sup>(1)</sup>

**Securitized Products**

US Agency MBS TOAS  
 US Agency MBS TZV  
 US Agency FN 3 OAS  
 US Agency G2 3 OAS  
 US Spec HLB 3  
 Non-QM AAA  
 Legacy Resi  
 CRT OTR M1  
 Subprime Auto BBB  
 US CLO 2.0 AAA  
 US CLO 2.0 BBB  
 EUR CLO 2.0 AAA  
 US CMBS AAA  
 US CMBS BBB

**US Corporate Credit**

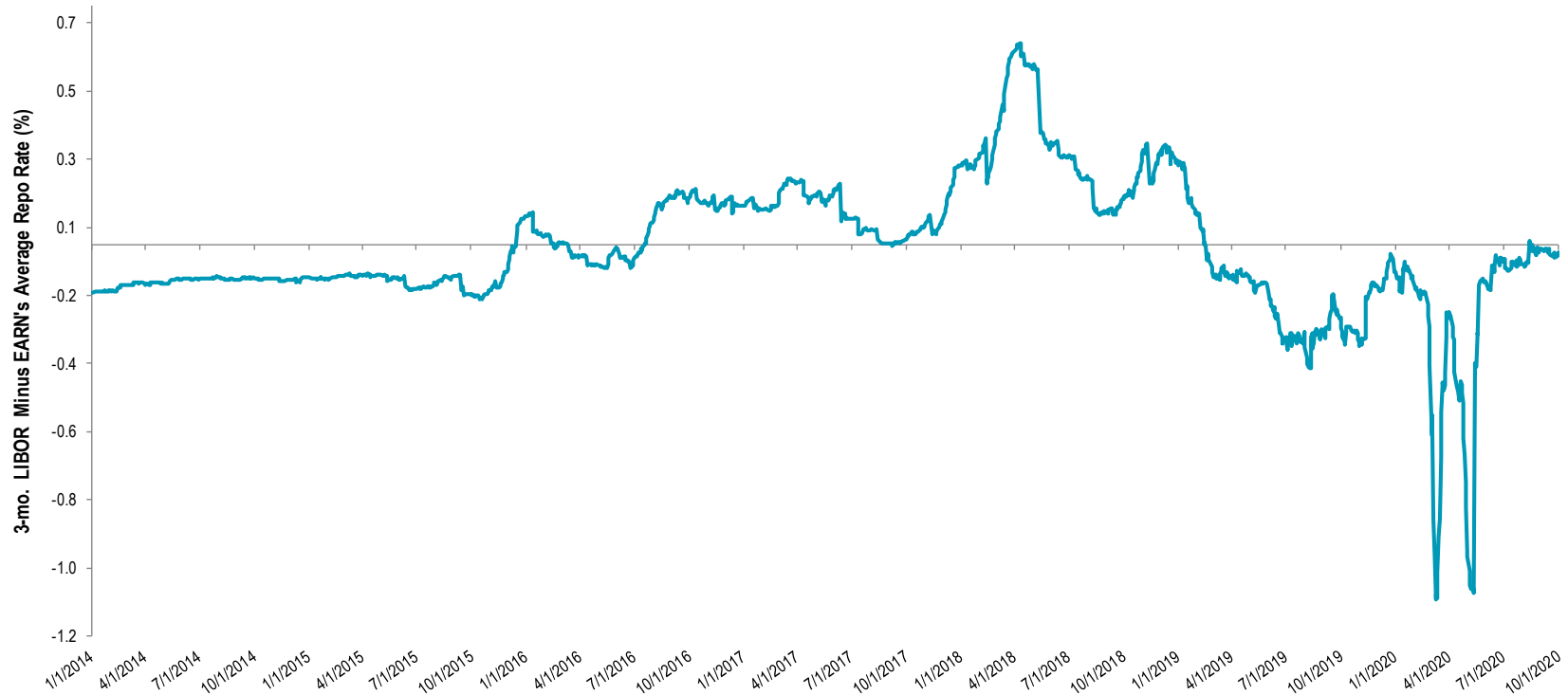
US IG Corp A OAS  
 US IG Corp BBB OAS  
 US HY Corp BB STW  
 US HY Corp B STW  
 Lev Loans



Source: Morgan Stanley

- During the quarter, yield spreads tightened for all US Corporate Credit instruments, as well as the following products: US Agency FN 3 OAS, US Spec HLB 3, Non-QM AAA, Legacy Resi, Subprime Auto BBB, US CLO 2.0 AAA, US CLO 2.0 BBB, EUR CLO 2.0 AAA, US CMBS AAA, and US CMBS BBB
- Yield spreads on the following product widened: US Agency MBS TOAS, US Agency MBS TZV, US Agency G2 3 OAS, and CRT OTR M1

### 3-month LIBOR Minus EARN Repo Funding Rate



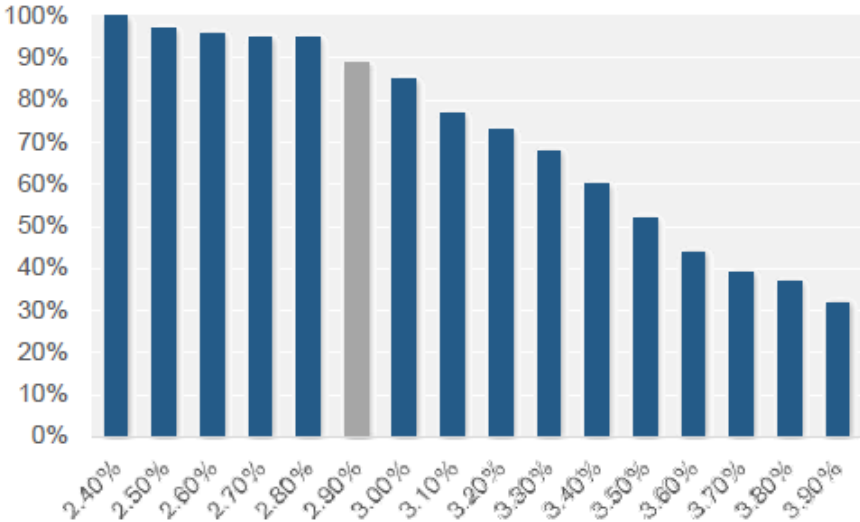
- Because we receive 3-month LIBOR on our interest rate swaps, when 3-month LIBOR is lower than our repo funding costs, our hedging costs are higher and our net interest margin is reduced
- At the start of 2020, the spread between our agency repo funding rate and 3-month LIBOR had narrowed significantly
- The relationship between 3-month LIBOR and our agency repo funding rate was volatile during the market turmoil earlier this year, but has since stabilized and narrowed

# The Vast Majority of Outstanding Mortgages are Refinanceable

**% of Mortgages in the \$ (50 bps)**



**Refi Sensitivity to Moves in the Mortgage Rate**



Source: Credit Suisse Locus

Ellington is committed to corporate responsibility. We recognize the importance of environmental, social and governance (“ESG”) factors, and believe that the implementation of ESG policies will benefit our employees, support long-term shareholder performance, and make a positive impact on the environment and society as a whole.

### Environmental

- Our office is conveniently located near mass transportation.
- We provide financial support and incentives to our employees who use public transit.
- To reduce energy usage, we use Energy Star® certified desktops, monitors and printers; and utilize motion sensor lighting and cooling to reduce energy usage in non-peak hours.
- To reduce waste and promote a cleaner environment, we use green cleaning supplies and kitchen products; recycle electronics, ink cartridges, and packaging; provide recycling containers to employees; and use water coolers to reduce waste.

### Social

- We invest in home mortgage loans, which support homeownership and stability within communities.
- Ellington and senior members of management sponsor numerous charitable causes. We also support employee charitable contributions with matching gift programs.
- Our employees have access to robust health and wellness programs. Ellington also supports various events that support health and wellness.
- We provide opportunities for personal growth with training and education support, including reimbursement for continuing education. We also provide mentorship programs, and internship opportunities.
- We are committed to enhancing gender, racial, and ethnic diversity throughout our organization.
- We are in compliance with applicable employment codes and guidelines, including ADA, Equal Opportunity Employment, Non-Discrimination, Anti-Harassment and Non-Retaliation codes.

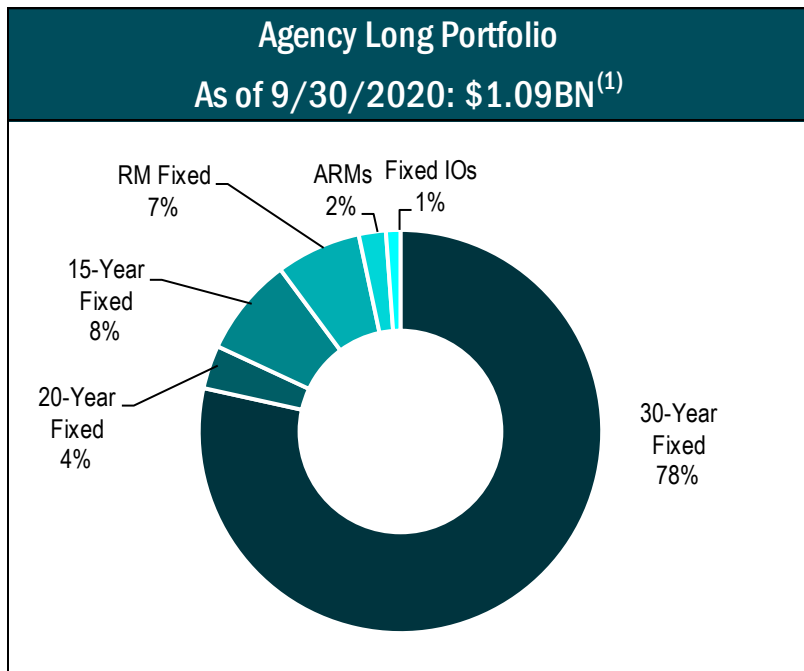
### Governance

- Our Manager has a Responsible Investment policy incorporating ESG factors into its investment processes for applicable strategies.
- We operate under a Code of Business Conduct and Ethics.
- EARN has a separate independent Chairman, and the majority of Board members are independent.
- We hold annual elections of Directors.
- We are committed to significant disclosure and transparency, including an established quarterly book value disclosure and dividend policy.
- We foster regular employee engagement, and have an established Whistleblower policy.
- Robust process for shareholder engagement.

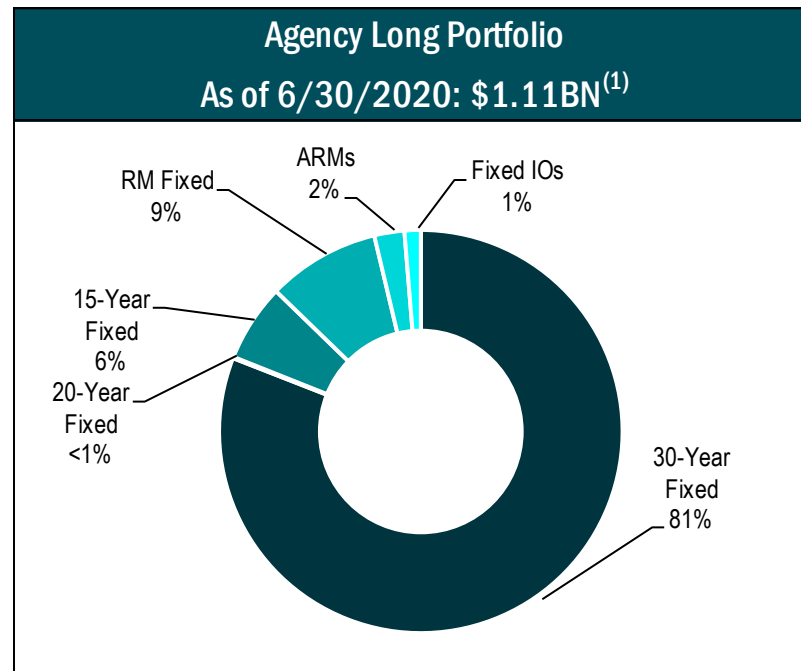
- 1. Capitalize on investment opportunities following the severe dislocations of earlier this year**
- 2. Rely on disciplined interest rate hedging and liquidity management to manage future volatility and protect book value**
- 3. Dial up and down our MBS exposure aggressively in response to market opportunities**
- 4. Rotate portfolio to take advantage of relative value discrepancies between Agency RMBS, and capitalize on lower borrowing costs, in order to drive Net Interest Margin and Core Earnings**
- 5. Changes in the prepayment landscape should favor our core strengths of prepayment modeling, asset selection, and dynamic interest rate hedging, while also providing meaningful trading opportunities**
- 6. Vary capital allocations to non-Agency RMBS as market opportunities change over time**

# Supplemental Slides





Category	Fair Value <sup>(1)(2)</sup>	Wtd. Avg. Coupon <sup>(3)</sup>
30-Year Fixed	\$ 854.4	3.91
20-Year Fixed	37.9	2.16
15-Year Fixed	86.2	3.38
RM Fixed	74.2	3.93
<b>Subtotal - Fixed</b>	<b>1,052.8</b>	<b>3.80</b>
ARMs	23.6	
Fixed IOs	12.6	
<b>Total</b>	<b>\$ 1,089.0</b>	

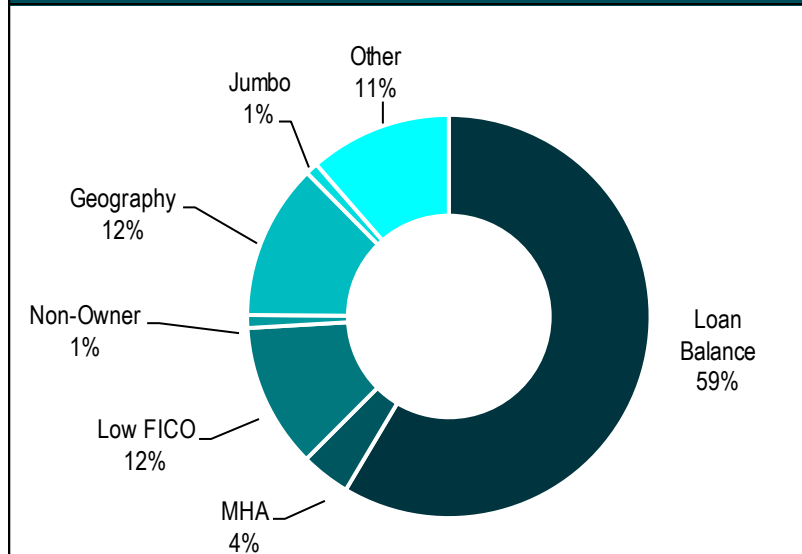


Category	Fair Value <sup>(1)(2)</sup>	Wtd. Avg. Coupon <sup>(3)</sup>
30-Year Fixed	\$ 900.0	3.88
20-Year Fixed	1.2	5.00
15-Year Fixed	69.2	3.61
RM Fixed	100.4	4.10
<b>Subtotal - Fixed</b>	<b>1,070.8</b>	<b>3.89</b>
ARMs	26.8	
Fixed IOs	14.5	
<b>Total</b>	<b>\$ 1,112.1</b>	

■ Decreased portfolio size by approximately 2%

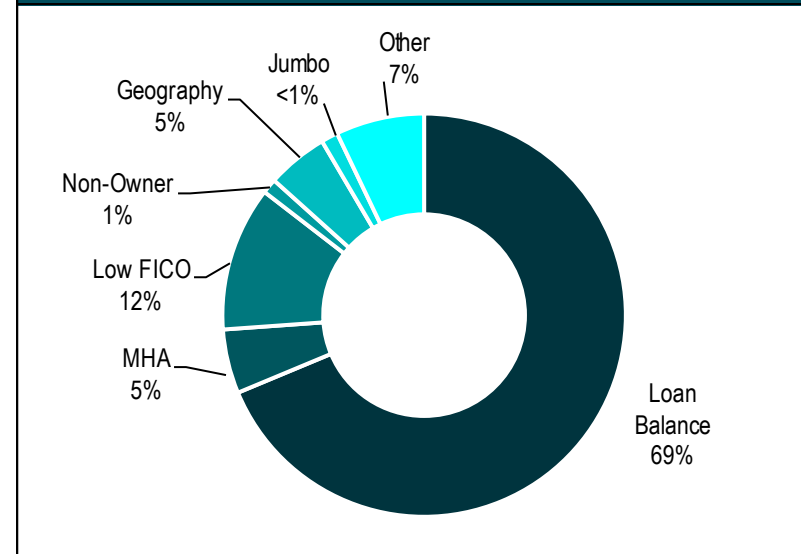


## Agency Fixed Long Portfolio Collateral Characteristics and Historical 3-Mo CPR: Average for Quarter Ended 9/30/2020<sup>(1)</sup>

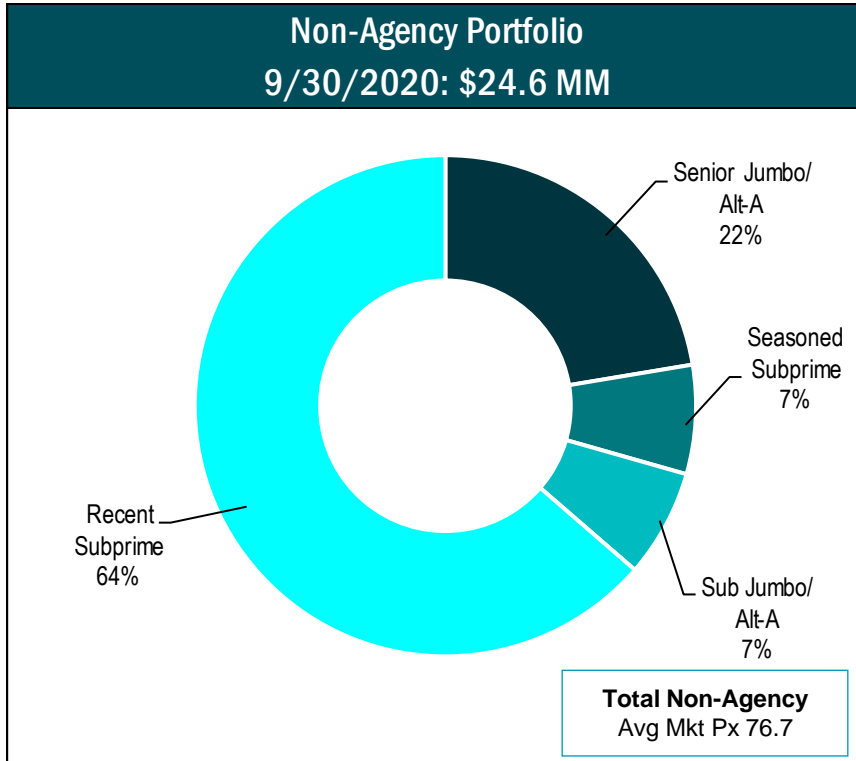


Characteristic <sup>(2)</sup>	Fair Value <sup>(1)(3)</sup>	3-Month CPR %
Loan Balance	\$ 565.3	21.0
MHA <sup>(4)</sup>	38.2	21.6
Low FICO	112.0	26.4
Non-Owner	10.0	5.0
Geography	120.6	11.4
Jumbo	9.6	35.5
Other	110.1	27.7
<b>Total</b>	<b>\$ 965.8</b>	<b>21.4</b>

## Agency Fixed Long Portfolio Collateral Characteristics and Historical 3-Mo CPR: Average for Quarter Ended 6/30/2020<sup>(1)</sup>



Characteristic <sup>(2)</sup>	Fair Value <sup>(1)(3)</sup>	3-Month CPR %
Loan Balance	\$ 551.6	16.7
MHA <sup>(4)</sup>	41.3	18.6
Low FICO	93.2	17.8
Non-Owner	9.5	19.6
Geography	39.3	17.5
Jumbo	10.8	30.3
Other	57.0	26.6
<b>Total</b>	<b>\$ 802.8</b>	<b>18.0</b>



- Decreased non-Agency RMBS holdings by 41% as we monetized gains during the third quarter
- We expect to continue to vary our allocation to non-Agency RMBS as market opportunities change over time

Remaining Days to Maturity	September 30, 2020			June 30, 2020		
	Borrowings Outstanding	Weighted Average		Borrowings Outstanding	Weighted Average	
		Interest Rate	Remaining Days to Maturity		Interest Rate	Remaining Days to Maturity
	<i>(In thousands)</i>			<i>(In thousands)</i>		
30 days or less	\$ 302,744	0.27%	16	\$ 212,165	0.54%	16
31-60 days	575,571	0.25%	44	513,347	0.33%	45
61-90 days	89,814	0.31%	77	113,116	0.30%	80
91-120 days	4,516	1.34%	114	12,498	0.30%	107
151-180 days	15,829	0.25%	167	4,291	1.50%	167
181-360 days	73,166	0.30%	279	54,404	0.32%	346
<b>Total</b>	<b>\$ 1,061,640</b>	<b>0.27%</b>	<b>57</b>	<b>\$ 909,821</b>	<b>0.38%</b>	<b>62</b>

- Outstanding borrowings are with 15 counterparties as of September 30, 2020
- As of September 30<sup>th</sup>, the weighted average interest rate on our repo borrowings declined to 0.27% from 0.38% as of June 30<sup>th</sup>, as short-term interest rates fell

# Interest Rate Sensitivity Analysis<sup>(1)</sup>

(\$ in thousands)	Estimated Change in Fair Value			
	50 Basis Point Decline in Interest Rates		50 Basis Point Increase in Interest Rates	
	Market Value	% of Total Equity	Market Value	% of Total Equity
Agency RMBS—ARM Pools	\$ 417	0.26%	\$ (266)	-0.16%
Agency RMBS—Fixed Pools and IOs	8,059	4.96%	(8,028)	-4.94%
TBAs	(780)	-0.48%	(1,334)	-0.82%
Non-Agency RMBS	655	0.40%	(574)	-0.35%
Interest Rate Swaps	(4,896)	-3.01%	4,645	2.86%
U.S. Treasury Securities	(246)	-0.15%	246	0.15%
U.S. Treasury Futures	(4,025)	-2.48%	3,915	2.41%
Corporate Securities and Derivatives on Corporate Securities	-	0.00%	-	0.00%
Repurchase and Reverse Repurchase Agreements	(446)	-0.27%	820	0.50%
<b>Total</b>	<b>\$ (1,262)</b>	<b>-0.78%</b>	<b>\$ (576)</b>	<b>-0.35%</b>

# Financial Derivatives as of September 30, 2020

(\$ in thousands)

Fixed Payer Interest Rate Swaps	Maturity	Notional Amount	Fair Value	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
	2020-2022	\$ 119,347	\$ (2,274)	0.97%	0.25%	2.04
	2023-2025	77,591	(1,730)	0.96%	0.25%	2.70
	2026-2028	60,448	(467)	0.57%	0.24%	6.82
	2029-2050	14,728	(2,341)	1.78%	0.25%	24.29
	<b>Total</b>	<b>\$ 272,114</b>	<b>\$ 6,812</b>	<b>0.92%</b>	<b>0.25%</b>	<b>4.49</b>

Fixed Receiver Interest Rate Swaps	Maturity	Notional Amount	Fair Value	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
	2023	(13,200)	642	0.26%	1.87%	2.56
	2030	(19,630)	(15)	0.29%	0.67%	9.76
	<b>Total</b>	<b>\$ (32,830)</b>	<b>\$ (627)</b>	<b>0.28%</b>	<b>1.15%</b>	<b>6.87</b>

TBA Securities	Coupon	Notional Amount <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Net Carrying Value <sup>(4)</sup>
	2.00	\$ 124,450	\$ 128,205	\$ 128,642	\$ 437
	2.50	145,700	153,010	152,602	(409)
	3.00	(85,008)	(89,215)	(89,041)	174
	3.50	(194,960)	(205,499)	(205,517)	(19)
	4.00	(121,185)	(129,317)	(129,183)	135
	4.50	(78,300)	(84,779)	(84,779)	(1)
	5.00	16,880	18,279	18,325	46
	<b>Total TBAs, net</b>	<b>\$ (192,423)</b>	<b>\$ (209,315)</b>	<b>\$ (208,952)</b>	<b>\$ 363</b>

Futures	Maturity	Notional Amount	Fair Value	Remaining Months to Expiration
	2 yr	\$ (2,700)	\$ (3)	3.07
	5 yr	(47,100)	(81)	3.07
	10 yr	(70,700)	(265)	2.77
	30 yr	6,600	(7)	2.77
	<b>Total</b>	<b>\$ (113,900)</b>	<b>\$ (356)</b>	<b>2.88</b>

# Consolidated Statement of Operations

(Unaudited)

	Three-Month Period Ended		Nine-Month Period Ended
	September 30, 2020	June 30, 2020	September 30, 2020
<i>(In thousands except share amounts)</i>			
<b>INTEREST INCOME (EXPENSE)</b>			
Interest income	\$ 7,776	\$ 3,489	\$ 21,146
Interest expense	(819)	(2,330)	(9,249)
Total net interest income	6,957	1,159	11,897
<b>EXPENSES</b>			
Management fees to affiliate	611	594	1,731
Professional fees	237	598	1,043
Compensation expense	140	142	433
Insurance expense	82	82	239
Other operating expenses	336	316	979
Total expenses	1,406	1,732	4,425
<b>OTHER INCOME (LOSS)</b>			
Net realized gains (losses) on securities	4,987	5,175	11,255
Net realized gains (losses) on financial derivatives	(648)	(8,452)	(15,599)
Change in net unrealized gains (losses) on securities	(4,575)	15,690	17,883
Change in net unrealized gains (losses) on financial derivatives	2,803	9,505	(8,293)
Total other income (loss)	2,567	21,918	5,246
<b>NET INCOME (LOSS)</b>	<b>\$ 8,118</b>	<b>\$ 21,345</b>	<b>\$ 12,718</b>
<b>NET INCOME (LOSS) PER COMMON SHARE</b>			
Basic and Diluted	\$ 0.66	\$ 1.73	\$ 1.03
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	12,323,044	12,319,616	12,359,007
<b>CASH DIVIDENDS PER SHARE:</b>			
Dividends declared	\$ 0.28	\$ 0.28	\$ 0.84

# Consolidated Balance Sheet (Unaudited)

	As of		
	September 30, 2020	June 30, 2020	December 31, 2019 <sup>(1)</sup>
<i>(In thousands except share amounts)</i>			
<b>ASSETS</b>			
Cash and cash equivalents	\$ 61,193	\$ 50,935	\$ 35,351
Mortgage-backed securities, at fair value	1,113,620	1,154,047	1,401,778
Other investments, at fair value	5,290	411	-
Due from brokers	49,530	38,024	34,596
Financial derivatives-assets, at fair value	1,738	3,115	4,180
Reverse repurchase agreements	20,013	-	2,084
Receivable for securities sold	7,191	40,977	5,500
Interest receivable	4,562	4,289	5,016
Other assets	380	539	604
<b>Total Assets</b>	<b>\$ 1,263,517</b>	<b>\$ 1,292,337</b>	<b>\$ 1,489,109</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Repurchase agreements	\$ 1,061,640	\$ 909,821	\$ 1,296,272
Payable for securities purchased	5,308	205,950	19,433
Due to brokers	669	1,372	33
Financial derivatives-liabilities, at fair value	7,916	12,144	2,047
U.S. Treasury securities sold short, at fair value	19,986	-	2,070
Dividend payable	3,454	3,450	3,488
Accrued expenses	1,077	837	588
Management fee payable to affiliate	611	594	605
Interest payable	455	492	3,729
<b>Total Liabilities</b>	<b>\$ 1,101,116</b>	<b>\$ 1,134,660</b>	<b>\$ 1,328,265</b>
<b>SHAREHOLDERS' EQUITY</b>			
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; (12,334,636, 12,319,616 and 12,455,758 shares issued and outstanding, respectively)	123	123	124
Additional paid-in-capital	229,551	229,491	230,358
Accumulated deficit	(67,273)	(71,937)	(69,638)
<b>Total Shareholders' Equity</b>	<b>162,401</b>	<b>157,677</b>	<b>160,844</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,263,517</b>	<b>\$ 1,292,337</b>	<b>\$ 1,489,109</b>
<b>Supplemental Per Share Information</b>			
Book Value Per Share	\$ 13.17	\$ 12.80	\$ 12.91

# Reconciliation of Core Earnings to Net Income (Loss)<sup>(1)</sup>

<i>(In thousands except share amounts)</i>	Three Month Period Ended	
	September 30, 2020	June 30, 2020
<b>Net Income (Loss)</b>	\$ 8,118	\$ 21,345
<b>Adjustments:</b>		
Net realized (gains) losses on securities	(4,987)	(5,175)
Change in net unrealized (gains) losses on securities	4,575	(15,690)
Net realized (gains) losses on financial derivatives	648	8,452
Change in net unrealized (gains) losses on financial derivatives	(2,803)	(9,505)
Net realized gains (losses) on periodic settlements of interest rate swaps	(271)	(1,223)
Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps	(148)	896
Deferred offering costs expensed	39	313
Negative (positive) component of interest income represented by Catch-up Premium Amortization Adjustment	(405)	3,782
<b>Subtotal</b>	<b>(3,352)</b>	<b>(18,150)</b>
<b>Core Earnings</b>	<b>\$ 4,766</b>	<b>\$ 3,195</b>
<b>Weighted Average Shares Outstanding</b>	<b>12,323,044</b>	<b>12,319,616</b>
<b>Core Earnings Per Share</b>	<b>\$ 0.39</b>	<b>\$ 0.26</b>



## Ellington Profile

As of 9/30/2020

Founded:	1994
Employees:	>150
Investment Professionals:	62
Global offices:	2

**\$10.8**

Billion in  
assets under  
management as of  
9/30/2020<sup>(1)</sup>

**14**

Employee-partners  
own the firm<sup>(2)</sup>

**24**

Years of average  
industry experience  
of senior portfolio  
managers

**27%**

Ownership of EARN  
by Blackstone  
Tactical  
Opportunity Funds

## Ellington and its Affiliated Management Companies

- Our external manager Ellington Residential Mortgage Management LLC is part of the Ellington family of SEC-registered investment advisors<sup>(3)</sup>. Ellington Management Group and its affiliates manage Ellington Residential Mortgage REIT (EARN), Ellington Financial Inc. (EFC), multi-investor hedge funds, separately managed accounts, and opportunistic private funds
- Time-tested infrastructure and proprietary resources in trading, research, risk management, and operational support
- Founding partners each have advanced academic training in mathematics and engineering, including among them several Ph.D.'s and Master's degrees

## Industry-Leading Research & Trading Expertise

- Sophisticated proprietary models for prepayment and credit analysis
- Approximately 24% of employees dedicated to research and infrastructure development
- Structured credit trading experience and analytical skills developed since the firm's founding 25 years ago
- Ellington's portfolio managers are among the most experienced in the MBS sector and the firm's analytics have been developed over its 25-year history

## Slide 3 – Third Quarter Market Update

- (1) Source: Bloomberg
- (2) Source: Mortgage Bankers Association via Bloomberg
- (3) LIBOR-based Option Adjusted Spread measures the additional yield spread over LIBOR that an asset provides at its current market price after taking into account any interest rate options embedded in the asset.
- (4) LIBOR-based Zero-volatility spread (Z-spread) measures the additional yield spread over LIBOR that the projected cash flows of an asset provide at the current market price of the asset.

## Slide 4 – Third Quarter Highlights

- (1) Core Earnings is a non-GAAP financial measure. See slide 24, endnote 1 for an explanation regarding the calculation of Core Earnings and the Catch-up Premium Amortization Adjustment.
- (2) Net interest margin excludes the effect of the Catch-up Premium Amortization Adjustment.
- (3) As of September 30, 2020.
- (4) Prior period conformed to current period calculation methodology.
- (5) We define our net mortgage assets-to-equity ratio as the net aggregate market value of our mortgage-backed securities (including the underlying market values of our long and short TBA positions) divided by total shareholders' equity. As of September 30, 2020 the market value of our mortgage-backed securities and our net short TBA position was \$1.11 billion and \$(209.0) million, respectively, and total shareholders' equity was \$162.4 million.

## Slide 5 – Summary of Financial Results

- (1) Shareholders' Equity per share is calculated using shares outstanding at the end of the period. All other per share amounts are calculated using the weighted average shares outstanding for the quarter.
- (2) Total Other Gain (Loss) represents net realized and unrealized gains (losses) on periodic settlements of interest rate swaps.
- (3) See slide 24, endnote 1 for definition of Catch-up Premium Amortization Adjustment.
- (4) Core Earnings is a non-GAAP financial measure. See slide 24 for a reconciliation of Core Earnings to Net Income (Loss).
- (5) Weighted Average Yield excludes the effect of the Catch-up Premium Amortization Adjustment.
- (6) Net interest margin excludes the effect of the Catch-up Premium Amortization Adjustment.
- (7) Conformed to current period calculation methodology.

## Slide 6 – Consolidated Balance Sheet

- (1) Derived from audited financial statements as of December 31, 2019.

## Slide 7 – Portfolio Summary

- (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.

## Slide 8 – Interest Rate Hedging Portfolio

- (1) "10-year equivalents" for a group of positions represent the amount of 10-year U.S. Treasury securities that would be expected to experience a similar change in market value under a standard parallel move in interest rates.

## Slide 9 – Dynamic Hedging Strategy

- (1) Net short TBA positions represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of September 30, 2020 and June 30, 2020. The net carrying value of the TBA positions as of September 30, 2020 and June 30, 2020 on the Consolidated Balance Sheet was \$0.36 million and \$1.54 million, respectively.
- (2) We define our net mortgage assets-to-equity ratio as the net aggregate market value of our mortgage-backed securities (including the underlying market values of our long and short TBA positions) divided by total shareholders' equity.

## Slide 10 – Relative Yield Spreads

- (1) As of date is September 30, 2020 except for the below securitized products as follows:

9/17/2020 for Non-QM AAA; 9/18/2020 for Legacy Resi, Subprime Auto BBB, US CMBS AAA, and US CMBS BBB; 9/24/2020 for US Spec HLB 3; 9/25/2020 for US Agency MBS TOAS, US Agency MBS TZV, US Agency FN 3 OAS, US Agency G2 3 OAS, CRT OTR M1, EUR CLO 2.0 AAA, US IG Corp A OAS, US IG Corp BBB OAS, US HY Corp BB STW, US HY Corp B STW, Lev Loans. US CLO 2.0 AAA and US CLO 2.0 BBB

## Slide 11 – Spread Differential: 3-mo. LIBOR vs. Repo Funding Rate

- (1) Chart compares LIBOR on each day to the average rate of EARN's repo financing outstanding on that day. Because repo financing may be entered into for an extended term at a rate fixed at the beginning of the term, the average outstanding repo rate on a given day may reflect rates set in a rate environment weeks or months before that day. The average rate on outstanding repo financing on a day may differ materially from the rate available to establish repo financing on that day.

## Slide 16 – Agency Portfolio Summary

- (1) Does not include long TBA positions with a notional value of \$359.4 million and a market value of \$375.5 million as of September 30, 2020. Does not include long TBA positions with a notional value of \$319.3 million and a market value of \$331.4 million as of June 30, 2020.
- (2) Fair value shown in millions.
- (3) Represents weighted average net pass-through rate.

## Slide 17 – CPR Breakout of Agency Fixed Long Portfolio

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

## Slide 19 – Repo Borrowings

- (1) As of September 30, 2020 and June 30, 2020, the Company had no outstanding borrowings other than under repurchase agreements.

## Slide 20 – Interest Rate Sensitivity Analysis

- (1) Based on the market environment as of September 30, 2020. 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.

**Slide 21 – Financial Derivatives as of September 30, 2020**

- (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 September 30, 2020.
- (4) Net carrying value represents the difference between the market value of the TBA contract as of September 30, 2020 and the cost basis, and is included in Financial derivatives-assets, at fair value and Financial derivatives-liabilities, at fair value on the Consolidated Balance Sheet.

**Slide 23 – Consolidated Balance Sheet**

- (1) Derived from audited financial statements as of December 31, 2019.

**Slide 24 – Reconciliation of Core Earnings to Net Income (Loss)**

- (1) Core Earnings consists of net income (loss), excluding realized and change in net unrealized gains and (losses) on securities and financial derivatives, and excluding, if applicable, any non-recurring items of income or loss. Core Earnings also excludes the effect of the Catch-up Premium Amortization Adjustment on interest income. The Catch-up Premium Amortization Adjustment is a quarterly adjustment to premium amortization triggered by changes in actual and projected prepayments on our Agency RMBS (accompanied by a corresponding offsetting adjustment to realized and unrealized gains and losses). The adjustment is calculated as of the beginning of each quarter based on our then-current assumptions about cashflows and prepayments, and can vary significantly from quarter to quarter. Core Earnings includes net realized and change in net unrealized gains (losses) associated with periodic settlements 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. In addition, we believe that presenting Core Earnings enables our investors to measure, evaluate and compare our operating performance to that of our peer companies. 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, net income (loss) computed in accordance with GAAP. The table above reconciles, for the three-month periods ended September 30, 2020 and June 30, 2020, our Core Earnings to the line on our Consolidated Statement of Operations entitled Net Income (Loss), which we believe is the most directly comparable GAAP measure.

**Slide 25 – About Ellington Management Group**

- (1) \$10.8 billion in assets under management includes approximately \$1.4 billion in Ellington-managed CLOs. For these purposes, the Ellington-managed CLO figure represents the aggregate outstanding balance of CLO notes and market value of CLO equity, excluding any notes and equity held by other Ellington-managed funds and accounts.
- (2) Does not include partners formerly employed by Ellington who may have residual capital balances but who no longer have voting rights in the partnership.
- (3) Registration with the SEC does not imply that the firm or any of its principals or employees possess a particular level of skill or training in the investment advisory or any other business.



**E A R N**

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**Investors:**

**Ellington Residential Mortgage REIT**

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