

# EARN

*Ellington Residential Mortgage REIT (NYSE: EARN)*  
Second Quarter 2013 Earnings Conference Call  
August 15, 2013



# 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. 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 in Exhibit 99.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 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.

## **Financial Information**

All financial information included in this presentation is as of June 30, 2013 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

# Second Quarter 2013



# Ellington Residential: Second Quarter Highlights

Overall Results	<ul style="list-style-type: none"> <li>■ 2<sup>nd</sup> quarter net loss of \$9.7 million or \$1.55 per share</li> <li>■ Book value decline of 5.5% to \$18.57 as of June 30, 2013</li> </ul>
Core Earnings <sup>(1)</sup>	<ul style="list-style-type: none"> <li>■ Core Earnings of \$1.3 million or \$0.21 per weighted average share outstanding</li> <li>■ Net Interest Margin: 1.63%</li> </ul>
Shareholders' Equity	<ul style="list-style-type: none"> <li>■ Shareholders' equity of \$169.6 million as of June 30, 2013</li> <li>■ Completed initial public offering and concurrent private placement, increasing shareholders' equity by \$148.5 million</li> </ul>
Portfolio	<ul style="list-style-type: none"> <li>■ Agency RMBS Portfolio: \$1.3 billion             <ul style="list-style-type: none"> <li>■ 100% Fixed Rate</li> </ul> </li> <li>■ Non-Agency RMBS Portfolio: \$38.8 million</li> </ul>
Leverage	<ul style="list-style-type: none"> <li>■ Debt to equity ratio: 7.2:1</li> <li>■ Average cost of funds 0.38% for the quarter or 1.19% including interest rate swaps</li> </ul>
Dividend	<ul style="list-style-type: none"> <li>■ Declared second quarter dividend of \$1.3 million or \$0.14 per share (paid in July 2013)</li> </ul>

(1) Core Earnings is a non-GAAP financial measure. See slide 22 for a reconciliation of Core Earnings to net loss.

# Ellington Residential: Agency RMBS

## Overall Market Conditions

- Agency RMBS dramatically underperformed both U.S. Treasuries and interest rate swaps
- Specified pools with prepayment protection characteristics were particularly hard-hit as interest rates rose, making prepayment protection less valuable
  - Many sectors saw pay-up declines of 1-3 points
  - We believe that long-term prepayment protection is now very attractively priced
- Yield curve steepened dramatically
  - Hedging across the yield curve was critical to protecting book value
- As interest rates rose, there was large scale selling of Agency RMBS by investors who needed to reduce leverage and overall risk; should interest rates continue to rise, we would expect these selling pressures to resume, but at a more muted pace
- By the end of the quarter there was much less prepayment risk in the market
- Recent declines in prices and pay-ups has made many specified pool sectors more attractive

## Portfolio Trends

- As of the end of the quarter, the Company had fully invested the net proceeds from its May 2013 initial public offering and concurrent private placement
- Volatility and aggressive selling of MBS has created many pools with excellent call protection and very small pay-ups to TBAs
- Many MBS now trade at a discounted dollar price where additional value resides in extension protection and faster turnover speeds

# Ellington Residential: Non-Agency

## Overall Market Conditions

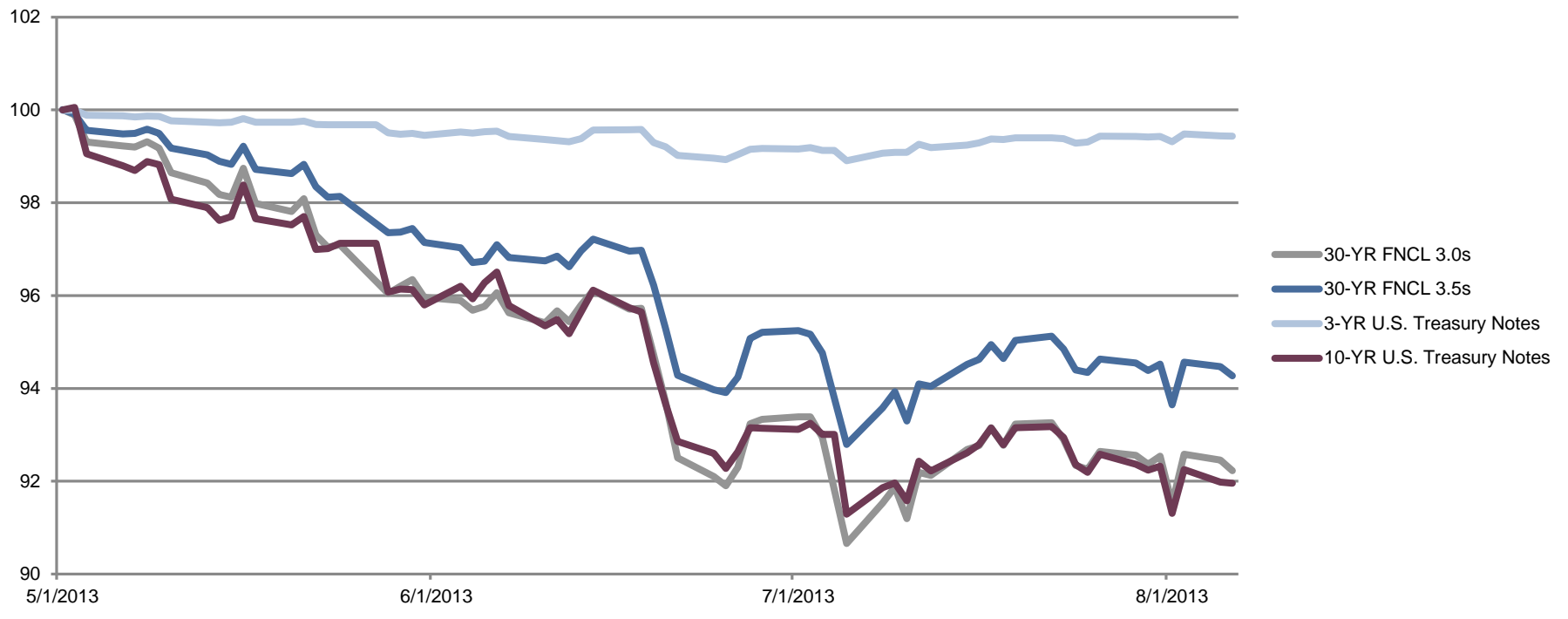
- Fundamentals of housing remain strong but the combination of rapid HPA in the last year and 100 basis point increase in mortgage rates means that the actual monthly payments on new mortgage originations have risen +30% in the last 18 months in some areas
- Technicals weakened and roiled fixed income markets in the last half of the quarter due to indications that the Federal Reserve might begin to taper its accommodative monetary policies
- Housing market statistics continued to support the notion that a sustained recovery has taken hold
- Lack of robust new issue market has further concentrated demand for non-Agency RMBS into a shrinking legacy market
- Combination of uncertainty around future Federal Reserve actions and large portfolio sale by a British bank served to put downward pressure on non-Agency MBS prices in the latter part of the quarter

## Portfolio Trends

- Portfolio increased to \$38.8 million as of June 30<sup>th</sup> from \$12.4 million at March 31<sup>st</sup>
- Widening in non-Agency MBS yield spreads has created attractive investment opportunities
- Many trading opportunities to augment returns

# Market Discussion

Relative Price Drops of 30-Year MBS & U.S. Treasuries

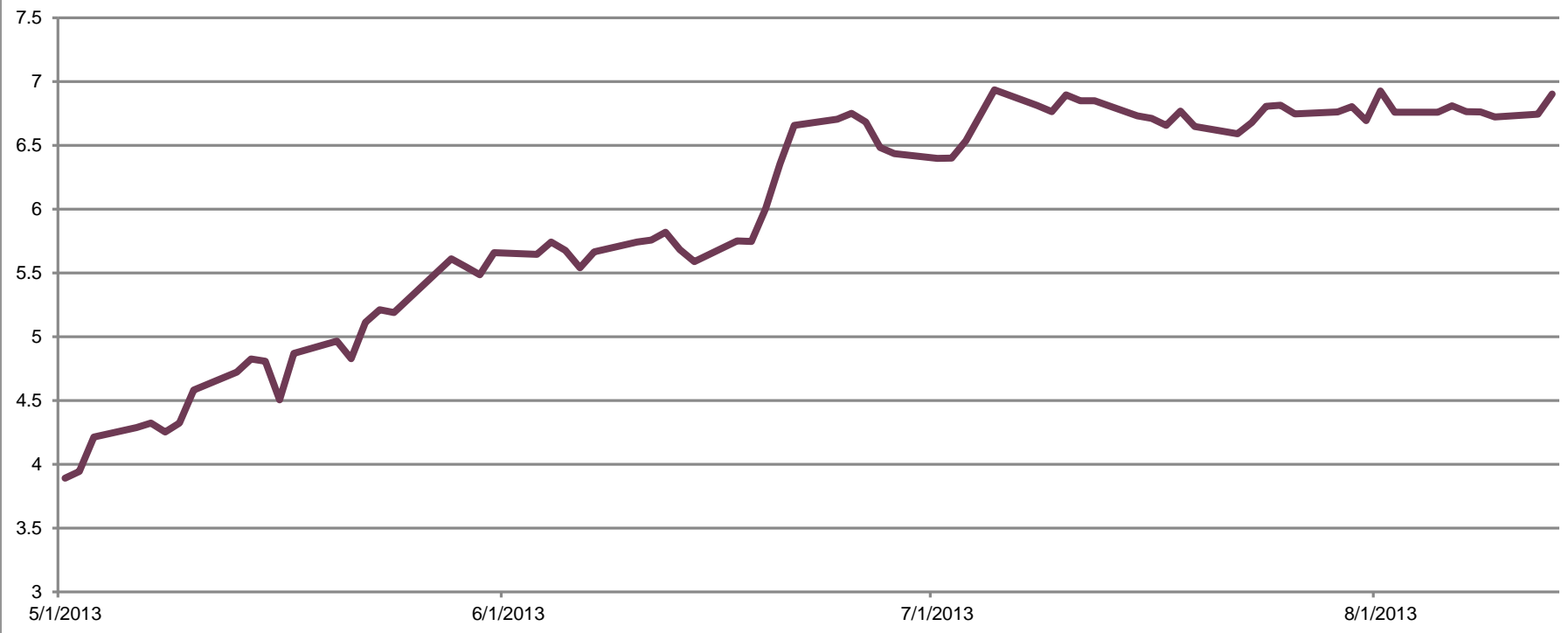


- Hedges in the front end of the curve do not protect book value
- Decline in 30-YR FNCL 3.0s similar to 10-Year U.S. Treasury Note, despite much shorter duration

Source: Barclays

# Market Discussion

## 30-Year FNCL 3.5s TBA LIBOR Option Adjusted Duration

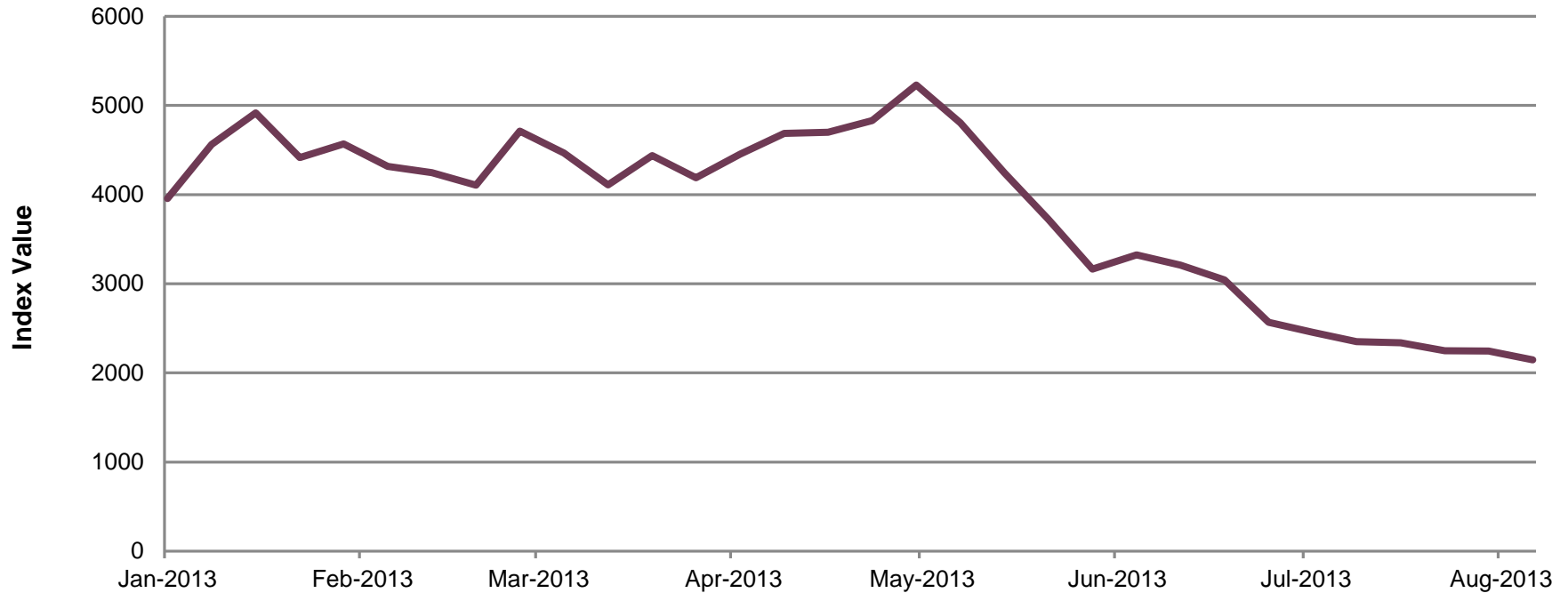


- Duration of FNCL 3.5s moved from approximately 4 years to 7 years from EARN's IPO pricing to quarter end
- 4 year swap rate on 5/1 was 0.60 while the 7 year swap rate on 6/28 was 2.15, a move of 155 basis points



# Market Discussion

## Mortgage Bankers Association Refinancing Index



- **Prepayment risk and Agency RMBS origination volume substantially reduced**

# Portfolio

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# Ellington Residential: Portfolio Summary

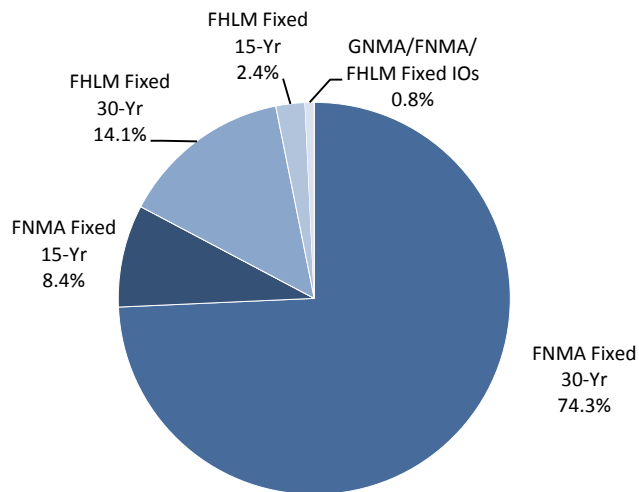
	June 30, 2013					March 31, 2013				
(In thousands)	Current Principal	Fair Value	Average Price <sup>(1)</sup>	Cost	Average Cost <sup>(1)</sup>	Current Principal	Fair Value	Average Price <sup>(1)</sup>	Cost	Average Cost <sup>(1)</sup>
<b>Agency RMBS<sup>(2)</sup></b>										
15-year fixed rate mortgages	\$ 138,155	\$ 142,249	\$ 102.96	\$ 144,771	\$ 104.79	\$ —	\$ —	\$ —	\$ —	\$ —
30-year fixed rate mortgages	1,142,993	1,160,516	101.53	1,204,637	105.39	—	—	—	—	—
<b>Total Agency RMBS</b>	<b>1,281,148</b>	<b>1,302,765</b>	<b>101.69</b>	<b>1,349,408</b>	<b>105.33</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Non-Agency RMBS</b>	<b>62,358</b>	<b>38,810</b>	<b>62.24</b>	<b>38,708</b>	<b>62.07</b>	<b>20,252</b>	<b>12,360</b>	<b>61.03</b>	<b>12,099</b>	<b>59.74</b>
<b>Total RMBS<sup>(2)</sup></b>	<b>1,343,506</b>	<b>1,341,575</b>	<b>99.86</b>	<b>1,388,116</b>	<b>103.32</b>	<b>20,252</b>	<b>12,360</b>	<b>61.03</b>	<b>12,099</b>	<b>59.74</b>
<b>Agency Interest Only RMBS</b>	<b>n/a</b>	<b>9,904</b>	<b>n/a</b>	<b>8,886</b>	<b>n/a</b>	<b>n/a</b>	<b>—</b>	<b>n/a</b>	<b>—</b>	<b>n/a</b>
<b>Total Real Estate Securities</b>		<b>\$ 1,351,479</b>		<b>\$ 1,397,002</b>			<b>\$ 12,360</b>		<b>\$ 12,099</b>	

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

(2) Excludes Interest only securities.

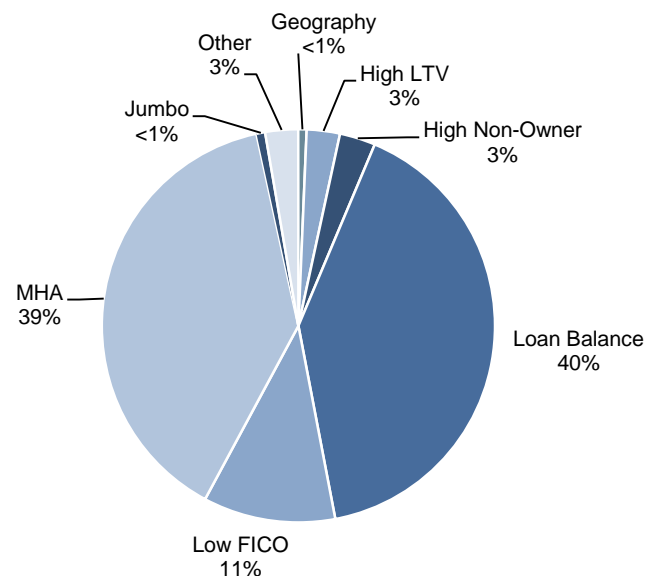
# Ellington Residential: Agency Long Portfolio

**Agency Long Portfolio**  
As of 6/30/13: \$1.3BN<sup>(1)</sup>



Category	Fair Value <sup>(1)</sup>	Weighted Average Coupon
FNMA Fixed - 30-Yr	\$975.2	3.56
FNMA Fixed - 15-Yr	110.9	3.02
FHLM Fixed - 30-Yr	185.3	3.36
FHLM Fixed - 15-Yr	31.4	3.00
GNMA/FNMA/FHLM Fixed IOs	9.9	3.63
<b>Total</b>	<b>\$1312.7</b>	<b>3.48</b>

**Collateral Characteristics and Historical 3-month CPR**  
Agency Fixed Rate Pool Portfolio 6/30/13: \$1.3BN<sup>(2)</sup>



Characteristic <sup>(4)</sup>	Fair Value <sup>(2)(5)</sup>	3-Month CPR % <sup>(3)</sup>
Geography	\$8.7	16.9
High LTV	35.5	5.4
High Non-Owner	38.5	0.3
Loan Balance	529.6	1.8
Low FICO	141.6	2.8
MHA <sup>(6)</sup>	504.3	0.5
Jumbo	9.3	0.7
Other	35.3	6.5
<b>Total</b>	<b>\$1302.8</b>	<b>1.7</b>

(1) Does not include long TBA positions. Agency long portfolio includes \$1.3 billion of long Agency securities at June 30, 2013. Additionally, the long Agency portfolio includes \$9.9 million of interest only securities at June 30, 2013.

(2) Excludes interest only securities with a value of \$9.9 million at June 30, 2013.

(3) Excludes interest only securities and Agency fixed rate RMBS without any prepayment history with a total value of \$213.8 million at June 30, 2013.

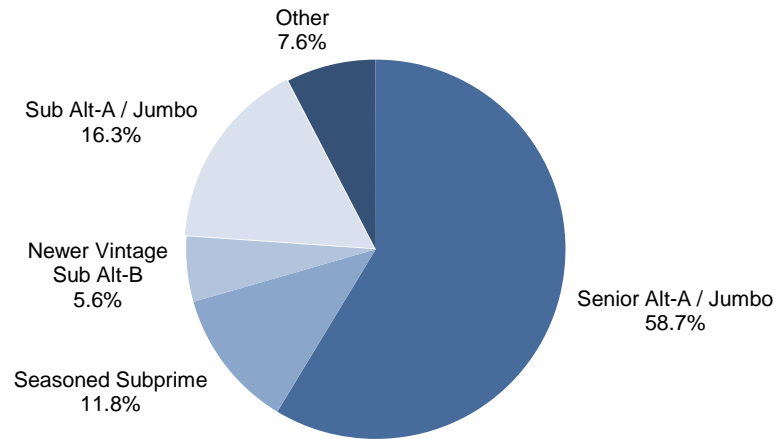
(4) Classification methodology may change over time as market practices change.

(5) Fair values are shown in millions.

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

# Ellington Residential: Non-Agency Long Portfolio

Current Quarter  
Non-Agency Long Portfolio 6/30/13: \$38.8MM



Total Non-Agency Long  
Avg Px 62.2

- Average book yield on portfolio during second quarter: 7.75%
- Non-Agency yields also increased during the quarter

# Borrowings and Hedges

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## Repo Borrowings as of June 30, 2013

June 30, 2013			
Weighted Average			
Original Maturity	Borrowings Outstanding	Interest Rate	Days to Maturity
	<i>(In thousands)</i>		
30 days or less	\$700,812	0.38%	15
31-60 days	289,830	0.37%	44
61-90 days	225,054	0.37%	74
<b>Total</b>	<b>\$1,215,696</b>	<b>0.37%</b>	<b>33</b>

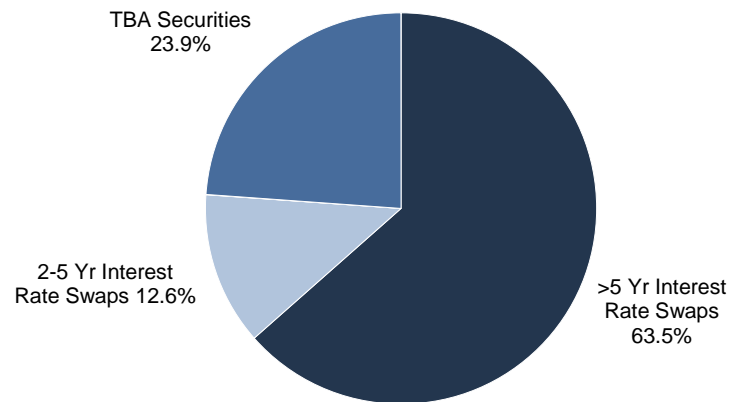
### ■ As of June 30, 2013:

- EARN had outstanding repo borrowings with 5 counterparties, with borrowings from the largest counterparty representing 35% of total outstanding borrowings
- EARN had outstanding repo borrowings with a remaining weighted average maturity of 33 days; maturities are staggered to mitigate liquidity risk
- Debt to equity ratio 7:17 to 1

Note: As of June 30, 2013, the Company had no outstanding borrowings other than repurchase agreements. The Company's outstanding repo borrowings were with five counterparties as of June 30, 2013 and it had eight available counterparties at that date. Since June 30, 2013, the Company increased its number of available counterparties to nine. The entire amount of outstanding borrowings as of June 30, 2013 were related to the Company's Agency RMBS.

# Interest Rate Hedging Portfolio

Current Quarter  
Agency Interest Rate Hedging Portfolio 6/30/13:  
Short \$924 MM 10-year equivalents



- Agency interest rate hedges are shown in normalized units of risk, with each group of positions measured in “10-year equivalents”

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.



# Interest Rate Hedging Portfolio

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

<i>(In millions)</i>	
Agency-related Portfolio	6/30/2013
Long Agency RMBS	\$1,313
Net Short TBA Positions <sup>(1)</sup>	357
Net Long Exposure to Agency RMBS	\$956

- 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, U.S. Treasuries, etc.
- Average pay-up on Agency pools was 0.20% as of June 30, 2013

## Estimated Change in Fair Value as of 6/30/13 if Interest Rates Move:

<i>(In thousands)</i>	Down 50 bps	Up 50 bps
Agency RMBS, excluding TBAs	\$36,088	\$(42,502)
TBAs	(8,390)	10,145
Non-Agency RMBS	296	(295)
Interest Rate Swaps	(30,459)	28,660
Repurchase Agreements	(428)	574
<b>Totals</b>	<b>\$(2,893)</b>	<b>\$(3,418)</b>

(1) Net short TBA positions represents the current market value of the underlying Agency MBS (on a forward delivery basis) as of June 30, 2013. The net carrying value of the TBA positions as of June 30, 2013 on the Consolidated Balance Sheet was \$2.1 million.

Note: The above table reflects a parallel shift in interest rates based on the market environment as of June 30, 2013. The preceding analysis does not include sensitivities to changes in interest rates for other categories of instruments for which we believe that the effect of a change in interest rates is not material to the value of the overall portfolio and/or cannot be accurately estimated. Results are based on forward-looking models, which are inherently imperfect, and incorporate various simplifying assumptions. Therefore, the table above is for illustrative purposes only and actual changes in interest rates would likely cause changes in the actual value of our portfolio that would differ from those presented above, and such differences might be significant and adverse.

# Interest Rate Hedging Portfolio

Interest Rate Swaps					
June 30, 2013					
Maturity	Notional Amount	Fair Value	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
(In thousands)					
2017	\$ 40,000	\$ 181	1.05%	0.27%	3.95
2018	183,000	4,117	1.03%	0.27%	4.89
2020	271,900	8,711	1.61%	0.27%	6.90
2023	204,000	10,192	2.10%	0.27%	9.89
2043	82,000	2,995	3.25%	0.26%	29.94
<b>Total</b>	<b>\$ 780,900</b>	<b>\$ 26,196</b>	<b>1.74%</b>	<b>0.27%</b>	<b>9.48</b>

TBA Securities				
	Notional Amount <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Net Carrying Value <sup>(4)</sup>
<b>Total TBA and forward settling securities, net</b>	<b>\$ (345,814)</b>	<b>\$ (358,657)</b>	<b>\$ (356,567)</b>	<b>\$ 2,090</b>

(1) Notional amount represents the principal balance of the underlying Agency MBS.

(2) Cost basis represents the forward price to be paid for the underlying Agency MBS.

(3) Market value represents the current market value of the underlying Agency MBS (on a forward delivery basis) as of June 30, 2013.

(4) Net carrying value represents the difference between the market value of the TBA contract as of June 30, 2013 and the cost basis and is reported in the Derivative assets, at fair value and Derivative 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		Six Month
	June 30, 2013	March 31, 2013	Period Ended June 30, 2013
<i>(In thousands except per share amounts)</i>			
<b>INTEREST INCOME</b>			
Interest income	\$ 4,310	\$ 283	\$ 4,592
Interest expense	(525)	—	(525)
<b>Total net interest income</b>	<b>3,785</b>	<b>283</b>	<b>4,067</b>
<b>EXPENSES</b>			
Management fees	703	119	823
Professional fees	237	32	268
Other operating expenses	421	46	466
<b>Total expenses</b>	<b>1,361</b>	<b>197</b>	<b>1,557</b>
<b>OTHER INCOME (LOSS)</b>			
Net realized gains (losses) on real estate securities	(3,006)	888	(2,117)
Net realized gains on derivative instruments	8,376	—	8,376
Change in net unrealized gains (losses) on real estate securities	(45,784)	155	(45,629)
Unrealized gains on derivative instruments	28,286	—	28,286
<b>Total other income (loss)</b>	<b>(12,128)</b>	<b>1,043</b>	<b>(11,084)</b>
<b>NET INCOME (LOSS)</b>	<b>\$ (9,704)</b>	<b>\$ 1,129</b>	<b>\$ (8,574)</b>
<b>NET INCOME (LOSS) PER COMMON SHARE</b>			
Basic	\$ (1.55)	\$ 0.69	\$ (2.17)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>6,248,763</b>	<b>1,633,378</b>	<b>3,953,820</b>

# Ellington Residential Balance Sheet (Unaudited)

## CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES & EQUITY

	As of		
	June 30, 2013	March 31, 2013	December 31, 2012 <sup>(1)</sup>
<i>(In thousands except share amounts)</i>			
<b>ASSETS</b>			
Cash and cash equivalents	\$ 52,345	\$ 20,098	\$ 18,161
Real estate securities, at fair value	1,351,479	12,360	13,596
Due from brokers	41,604	—	—
Derivative assets, at fair value	31,266	—	—
Receivable for securities sold	15,963	—	—
Interest receivable	3,943	43	39
Other assets	367	439	360
<b>Total Assets</b>	<b>1,496,967</b>	<b>32,940</b>	<b>32,156</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Repurchase agreements	1,215,696	—	—
Payable for securities purchased	77,136	—	—
Due to brokers	27,887	—	—
Derivative liabilities, at fair value	2,980	—	—
Dividend payable	1,279	—	—
Accrued expenses	1,360	728	1,076
Management fee payable	703	119	116
Interest payable	353	—	—
<b>Total Liabilities</b>	<b>1,327,394</b>	<b>847</b>	<b>1,192</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; (9,133,378; 1,633,378; 1,633,378 shares issued and outstanding, respectively)	91	16	16
Additional paid-in-capital	181,061	32,674	32,674
Accumulated deficit	(11,579)	(597)	(1,726)
<b>Total Shareholders' Equity</b>	<b>169,573</b>	<b>32,093</b>	<b>30,964</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,496,967</b>	<b>\$ 32,940</b>	<b>\$ 32,156</b>

(1) Derived from audited financial statements as of December 31, 2012.

# Reconciliation of Core Earnings<sup>(1)</sup>

<i>(In thousands except share data)</i>	Three Month Period Ended June 30, 2013		Six Month Period Ended June 30, 2013	
<b>Net Loss</b>	\$	(9,704)	\$	(8,574)
<b>Less:</b>				
<b>Net realized losses on real estate securities</b>		(3,006)		(2,117)
<b>Net realized gains on derivatives</b>		8,376		8,376
<b>Change in net unrealized losses on real estate securities</b>		(45,784)		(45,629)
<b>Change in net unrealized gains on derivatives</b>		28,286		28,286
<b>Sub-Total</b>		2,424		2,510
<b>Plus:</b>				
<b>Net realized and unrealized losses on periodic payments of interest rate swaps</b>		(1,111)		(1,111)
<b>Core Earnings</b>	\$	1,313	\$	1,399
<b>Weighted Average Shares Outstanding</b>		6,248,763		3,953,820
<b>Core Earnings Per Share</b>	\$	0.21	\$	0.35

(1) Core Earnings consists of net income or net loss, excluding realized gains or losses on sales of securities and termination of interest rate swaps, unrealized gains or losses on real-estate securities and interest rate swaps and realized and unrealized gains or losses on TBAs, and, if applicable, items of income or loss that are of a non-recurring nature. Core Earnings includes realized and unrealized losses associated with payments and accruals of periodic settlements of interest rate swaps. Core Earnings is a supplemental non-GAAP financial measure. We believe Core Earnings provides information useful to investors, because it is a metric used by our management to assess our performance and to evaluate the effective net yield provided by our portfolio. Moreover, one of our objectives is to generate income from the net interest margin on our portfolio and we use Core Earnings to help measure the extent to which we are achieving this objective. However, because Core Earnings is an incomplete measure of our financial results and differs from net income or net 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 and six month periods ended June 30, 2013, the Company's Core Earnings on a consolidated basis to the line on its consolidated statement of operations entitled net loss, which the Company believes is the most directly comparable GAAP measure on its Consolidated Statement of Operations to Core Earnings.

## About Ellington

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- **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 120 employees, giving EARN access to time-tested infrastructure and industry-leading resources in trading, research, risk management, and operational support**
    - **EMG has approximately \$5.5 billion in assets under management**
  
  - **EMG’s portfolio managers are among the most experienced in the MBS sector and the firm’s analytics have been developed over an 18 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**
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# EARN

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