



E A R N

ELLINGTON RESIDENTIAL MORTGAGE REIT

# First Quarter 2016 Earnings Conference Call May 4, 2016

# 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 exclusion from registration under the Investment Company Act of 1940 and other changes in market conditions and economic trends. Furthermore, forward-looking statements are subject to risks and uncertainties, including, among other things, those described under Item 1A of our Annual Report on Form 10-K filed on March 10, 2016 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 March 31, 2016 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

# First Quarter 2016

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# Ellington Residential: First Quarter Highlights

Overall Results	<ul style="list-style-type: none"> <li>■ Net loss of \$(0.2) million, or \$(0.03) per share             <ul style="list-style-type: none"> <li>■ RMBS generally underperformed interest rate swaps and US Treasuries, but pay-ups on Agency specified pools increased as interest rates fell and market perception of prepayment risk rose</li> </ul> </li> </ul>
Core Earnings <sup>(1)</sup>	<ul style="list-style-type: none"> <li>■ Core Earnings of \$4.9 million, or \$0.53 per share</li> <li>■ Core Earnings excluding “catch-up” premium amortization adjustment related to Agency RMBS was \$4.6 million, or \$0.50 per share</li> <li>■ Net Interest Margin was 1.92%; excluding “catch-up” premium amortization adjustment, Net Interest Margin was 1.83%</li> </ul>
Shareholders' Equity	<ul style="list-style-type: none"> <li>■ Shareholders' equity as of March 31, 2016 of \$140.4 million, or \$15.39 per share</li> </ul>
Portfolio	<ul style="list-style-type: none"> <li>■ Agency RMBS Portfolio: \$1.139 billion as of March 31, 2016             <ul style="list-style-type: none"> <li>■ \$1.024 billion fixed rate “specified” pools</li> <li>■ \$37.1 million ARM pools</li> <li>■ \$77.5 million reverse mortgage pools</li> <li>■ \$6.9 million IOs</li> </ul> </li> <li>■ Non-Agency RMBS Portfolio: \$27.6 million as of March 31, 2016</li> </ul>
Leverage	<ul style="list-style-type: none"> <li>■ Debt to equity ratio: approximately 8.1:1 as of March 31, 2016; adjusted for unsettled purchases/sales, 7.7:1</li> </ul>
Dividend	<ul style="list-style-type: none"> <li>■ Declared first quarter dividend of \$0.45 per share (paid in April 2016)</li> <li>■ Annualized dividend yield of 14.7% based on closing price of \$12.25 on May 2, 2016</li> </ul>

(1) Core Earnings is a non-GAAP financial measure. See slide 24 for a reconciliation of Core Earnings to Net Income (Loss).

# Ellington Residential: Agency RMBS

## Overall Market Conditions

- Interest rates reversed course from the fourth quarter of 2015 and dropped sharply
  - 2-year and 10-year swap rates were down 34 basis points and 55 basis points, respectively
    - U.S. 10-year Treasury yield decreased 50 basis points to end the first quarter at 1.77%
    - 30-year mortgage rate decreased to 3.71% from 4.01%
- Initial equity market sell-off in the early part of the quarter was one of the worst starts to a year on record
  - Yield spreads on Agency RMBS widened, as the declines in yields on Agency RMBS could not keep pace with the declines in yields on either interest rate swaps or Treasuries
- Although pay-ups on specified pools increased as prepayment protection became more valuable in light of lower interest rates, the increase in pay-ups was not enough to compensate for the effects of yield spread widening

## Portfolio Trends and Outlook

- Portfolio size: \$1.146 billion as of March 31, 2016, as compared to \$1.211 billion as of December 31, 2015
- We turned over approximately 48% of the portfolio as measured by sales, excluding principal pay-downs
- Average pay-up of 0.88% as of March 31, 2016, compared to 0.73% as of December 31, 2015
- Continued to focus purchasing activity primarily on specified pools, especially those with higher coupons
- Slightly increased our holdings of reverse mortgage pools following their yield spread widening at the end of 2015
  - Yield spreads for reverse mortgage pools subsequently tightened somewhat toward the end of the first quarter, with potential for additional tightening as recently enacted regulatory changes, designed to protect reverse mortgage borrowers, may reduce prepayment speeds
- Continue to consider increasing our allocation to Agency IOs should more attractive entry points arise

# Ellington Residential: Non-Agency RMBS

## Overall Market Conditions

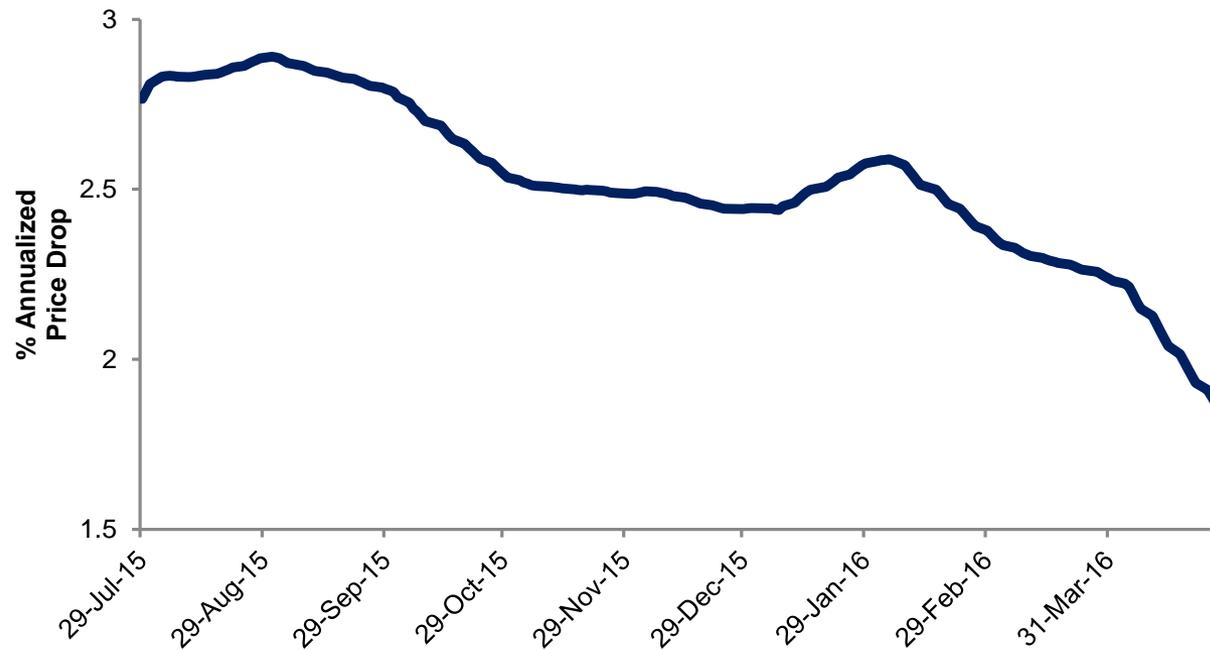
- Non-Agency RMBS yield spreads widened significantly in the early part of the quarter, and then abruptly reversed course and tightened significantly in the latter part of the quarter
  - Nonetheless, yield spreads ended the quarter noticeably wider than where they had begun
- Strong underlying fundamentals, driven by a stable housing market, caused the Non-Agency RMBS sector to perform better in comparison to many other structured product sectors

## Portfolio Trends and Outlook

- Intend to continue to opportunistically increase and decrease the size of this portfolio as market conditions vary
- Non-Agency RMBS generated a positive return
  - Strong carry and appreciation from our held positions
  - Quarter-over-quarter, our non-Agency RMBS portfolio declined in size slightly
- Continue to consider increasing our allocation to non-Agency RMBS should more attractive entry points arise

# TBA Shorts Become Much Less Expensive as Rolls Drop

Implied annualized price drop from FNCL 4.0% Dollar Roll (60 day average)



- Prepayment fears and healthy origination volumes depressed dollar roll levels
- TBA shorts should help our portfolio perform in large rate moves
- The combination of lower dollar rolls and prepay protected assets should support a healthy net interest margin

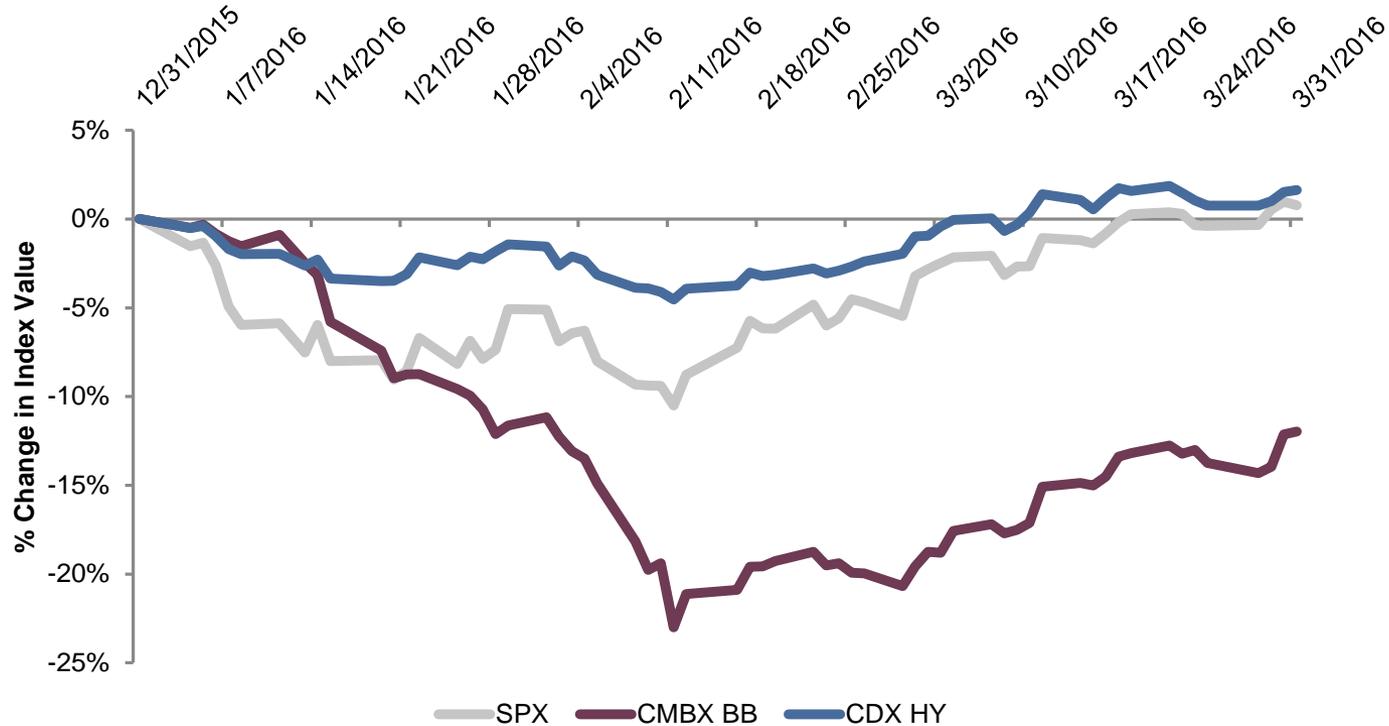
Source: Credit Suisse. Data series of the FN4 roll, 60 day average.

## April Prepay Reports Highlight the Value of Call Protection

FNCL 3.50%					Prepayment Speeds			
Year	Collateral	Balance (Billions)	LTV	FICO	Mar	Feb	Jan	Dec
2014	Non-Specified	58.3	78	760	24.3	11.0	7.8	12.6
2014	Low Loan Balance	0.6	68	756	7.5	5.4	5.6	6.8
FNCL 4.0%					Prepayment Speeds			
Year	Collateral	Balance (Billions)	LTV	FICO	Mar	Feb	Jan	Dec
2014	Non-Specified	67.1	80	741	27.8	15.4	13.3	18.8
2014	Low Loan Balance	3.0	72	740	9.9	7.2	6.9	8.5

- Drop in mortgage rates was enough to ignite prepayments
- Speed differences within a coupon ballooned
- Prepay protection should translate into higher net interest margin

## Market Moves in Q1 Were Violent and Highly Correlated



- Credit markets moved almost in lockstep in Q1, regardless of differing fundamentals
- Markets hit their lows in early-to-mid February
- Mortgages underperformed but held up much better than other spread products

# Agency MBS are Attractive to Investors Worldwide

Japan's monthly purchase of agency securities hit the highest level in the last few years



- Declining sovereign yields in Europe and Asia make Agency MBS a higher yielding yet still liquid alternative
- Global support dampened MBS yield spread volatility in Q1
- We believe MBS yield spreads are well supported and unlikely to widen dramatically

# Portfolio



# Ellington Residential: Portfolio Summary

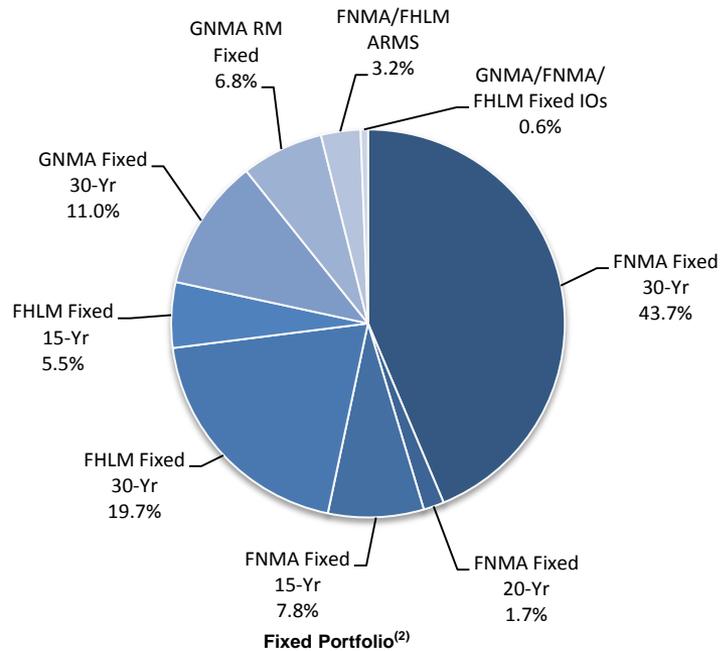
	March 31, 2016					December 31, 2015				
	Current Principal	Fair Value	Average Price <sup>(1)</sup>	Cost	Average Cost <sup>(1)</sup>	Current Principal	Fair Value	Average Price <sup>(1)</sup>	Cost	Average Cost <sup>(1)</sup>
<i>(In thousands)</i>										
Agency RMBS <sup>(2)</sup>										
15-year fixed rate mortgages	\$ 143,705	\$ 152,536	\$ 106.15	\$ 150,945	\$ 105.04	\$ 162,546	\$ 170,261	\$ 104.75	\$ 170,385	\$ 104.82
20-year fixed rate mortgages	17,991	19,488	108.32	19,226	106.86	18,477	19,830	107.32	19,754	106.91
30-year fixed rate mortgages	788,135	852,326	108.14	840,998	106.71	842,524	900,794	106.92	896,356	106.39
ARMs	35,122	37,133	105.73	37,232	106.01	36,433	38,530	105.76	38,629	106.03
Reverse mortgages	70,867	77,548	109.43	77,179	108.91	68,690	73,692	107.28	75,205	109.48
Total Agency RMBS	1,055,820	1,139,031	107.88	1,125,580	106.61	1,128,670	1,203,107	106.60	1,200,329	106.35
Non-Agency RMBS	42,649	27,631	64.79	26,175	61.37	48,408	31,401	64.87	30,395	62.79
Total RMBS <sup>(2)</sup>	1,098,469	1,166,662	106.21	1,151,755	104.85	1,177,078	1,234,508	104.88	1,230,724	104.56
Agency Interest Only RMBS	n/a	6,931	n/a	8,660	n/a	n/a	7,758	n/a	8,491	n/a
Total mortgage-backed securities		<b>1,173,593</b>		<b>1,160,415</b>			<b>1,242,266</b>		<b>1,239,215</b>	
U.S. Treasury securities sold short	(68,781)	(69,607)	101.20	(68,669)	99.84	(79,550)	(78,447)	98.61	(79,003)	99.31
Reverse repurchase agreements	69,575	69,575	100.00	69,575	100.00	78,632	78,632	100.00	78,632	100.00
Total		<b>\$1,173,561</b>		<b>\$1,161,321</b>			<b>\$1,242,451</b>		<b>\$1,238,844</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 Agency IOs.

# Ellington Residential: Agency Long Portfolio

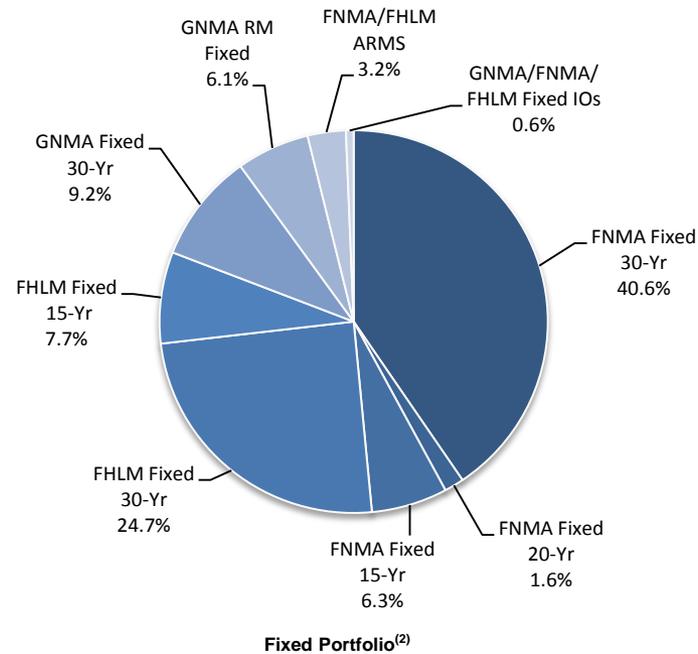
**Current Quarter Agency Long Portfolio**  
As of 3/31/16: \$1.15BN<sup>(1)</sup>



Fixed Portfolio<sup>(2)</sup>

Category	Fair Value <sup>(1)</sup>	Weighted Average Coupon <sup>(3)</sup>
FNMA Fixed - 30-Yr	\$501.0	4.08
FNMA Fixed - 20-Yr	19.5	4.00
FNMA Fixed - 15-Yr	90.0	3.41
FHLM Fixed - 30-Yr	225.8	4.07
FHLM Fixed - 15-Yr	62.5	3.46
GNMA Fixed - 30-Yr	125.6	4.28
GNMA RM Fixed	77.5	4.56
<b>Total</b>	<b>\$1,101.9</b>	<b>4.04</b>

**Previous Quarter Agency Long Portfolio**  
As of 12/31/15: \$1.21BN<sup>(1)</sup>



Fixed Portfolio<sup>(2)</sup>

Category	Fair Value <sup>(1)</sup>	Weighted Average Coupon <sup>(3)</sup>
FNMA Fixed - 30-Yr	\$490.7	4.10
FNMA Fixed - 20-Yr	19.8	4.00
FNMA Fixed - 15-Yr	76.7	3.40
FHLM Fixed - 30-Yr	298.6	4.09
FHLM Fixed - 15-Yr	93.6	3.36
GNMA Fixed - 30-Yr	111.5	4.32
GNMA RM Fixed	73.7	4.63
<b>Total</b>	<b>\$1,164.6</b>	<b>4.04</b>

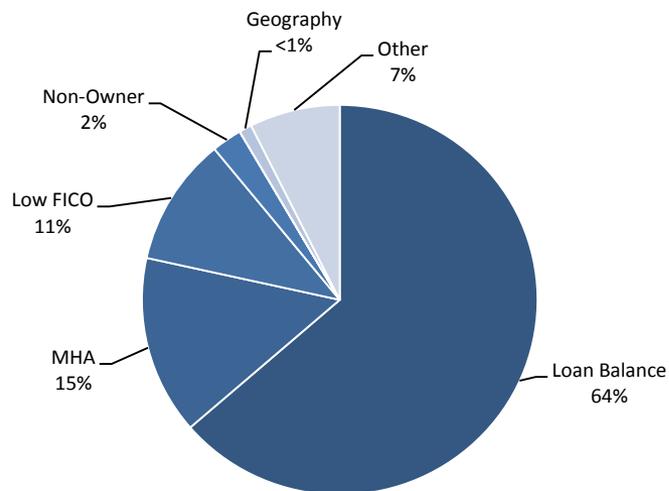
(1) Does not include long TBA positions with a notional value of \$76.9 million and a market value of \$80.3 million as of March 31, 2016 and a notional value of \$83.7 million and a market value of \$85.9 million as of December 31, 2015.

(2) Fair value shown in millions. Excludes fixed rate IOs.

(3) Represents weighted average net pass-through rate.

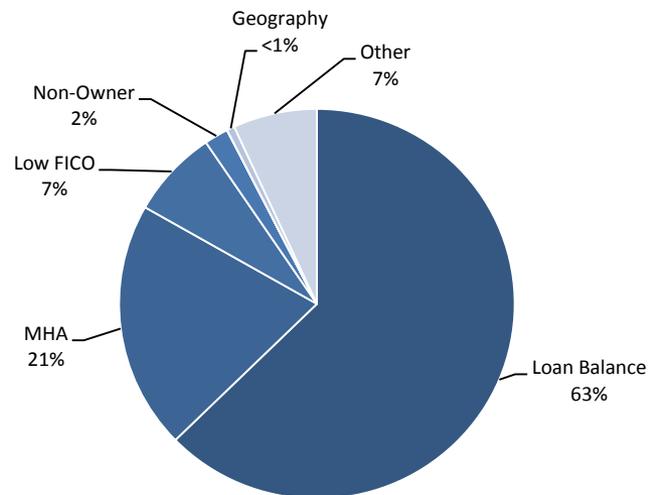
# Ellington Residential: Agency Fixed Long Portfolio

**Collateral Characteristics and Historical 3-month CPR  
For the Quarter Ended March 31, 2016<sup>(1)</sup>**



Characteristic <sup>(2)</sup>	Fair Value <sup>(1)(3)</sup>	3-Month CPR %
Loan Balance	\$658.4	6.7
MHA <sup>(5)</sup>	153.3	9.3
Low FICO	110.0	12.3
Non-Owner	25.8	5.5
Geography	10.7	6.0
Other	76.5	5.0
<b>Total</b>	<b>\$1,034.7</b>	<b>7.1</b>

**Collateral Characteristics and Historical 3-month CPR  
For the Quarter Ended December 31, 2015:<sup>(1)(5)</sup>**

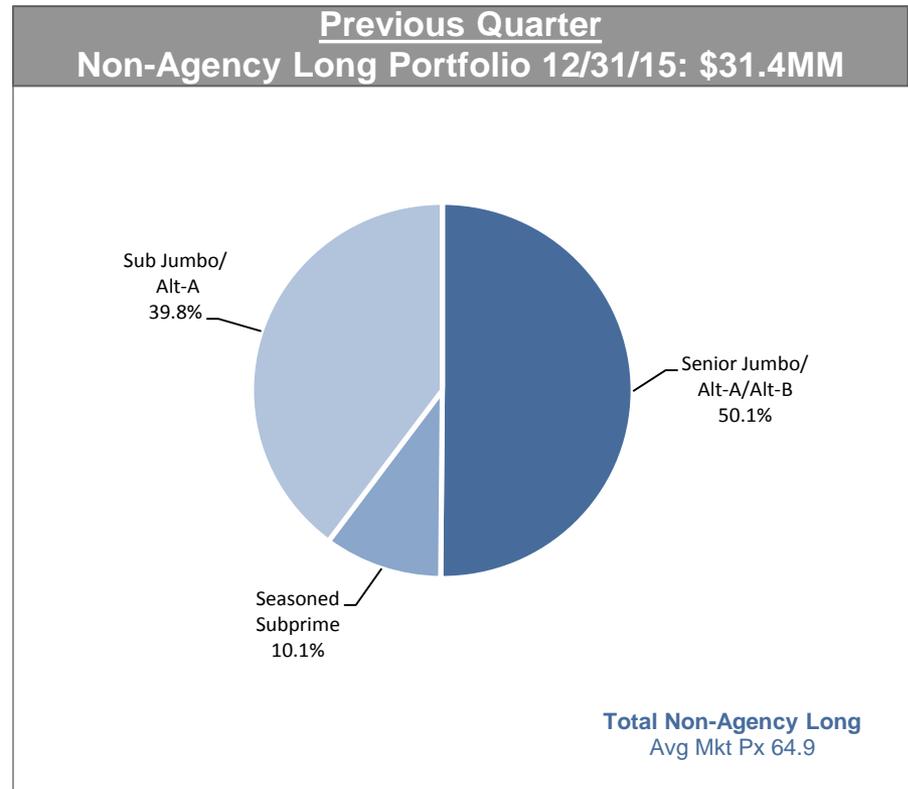
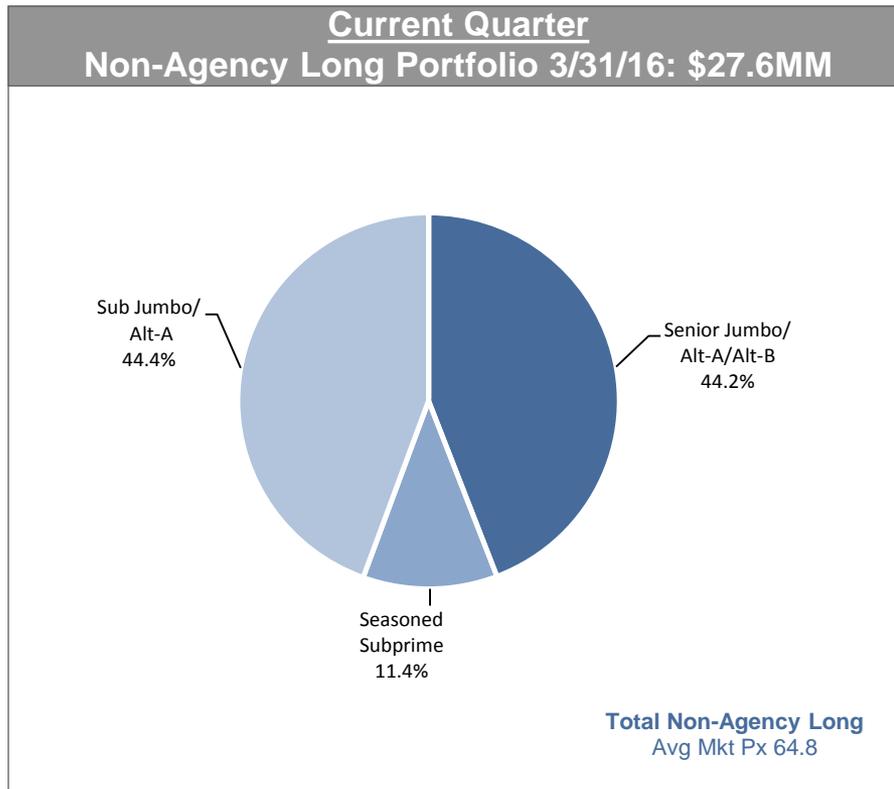


Characteristic <sup>(2)</sup>	Fair Value <sup>(1)(3)(5)</sup>	3-Month CPR % <sup>(5)</sup>
Loan Balance	\$692.7	5.7
MHA <sup>(5)</sup>	227.1	8.3
Low FICO	80.4	3.0
Non-Owner	21.9	7.6
Geography	7.0	0.5
Other	75.9	17.0
<b>Total</b>	<b>\$1,105.0</b>	<b>6.5</b>

- (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.

- (5) Prior period calculation methodology has been conformed to current period calculation.

# Ellington Residential: Non-Agency Long Portfolio



- We continue to maintain small but high-yielding portfolio of non-Agency RMBS
- Yield spread widening in non-Agency RMBS may present attractive opportunities; we may increase our allocation to this sector

# Borrowings and Hedges

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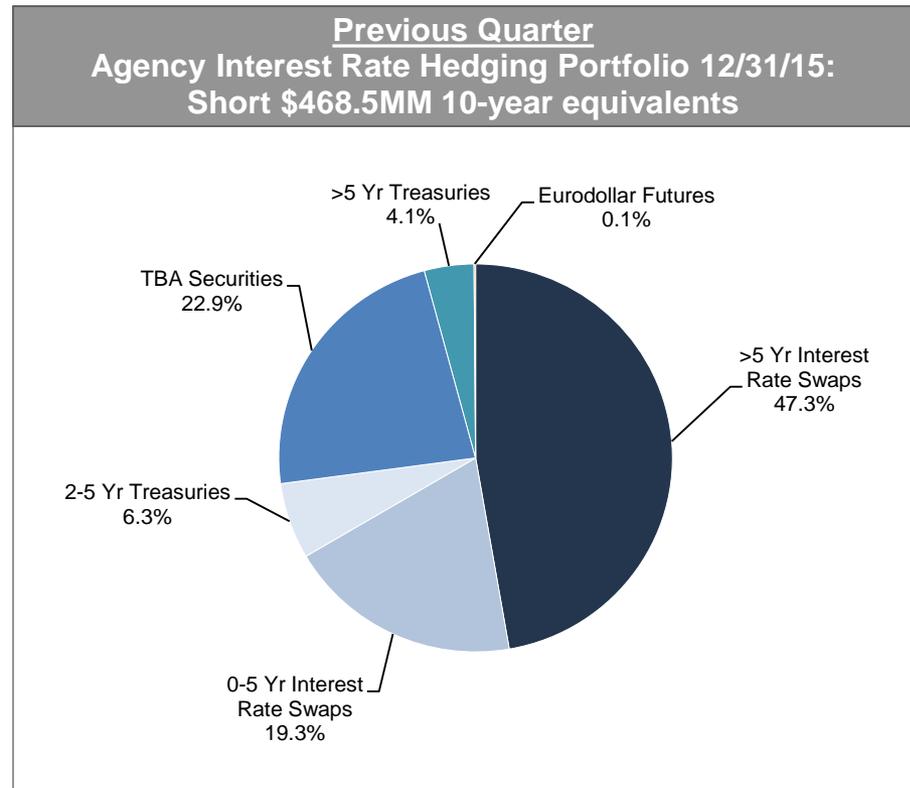
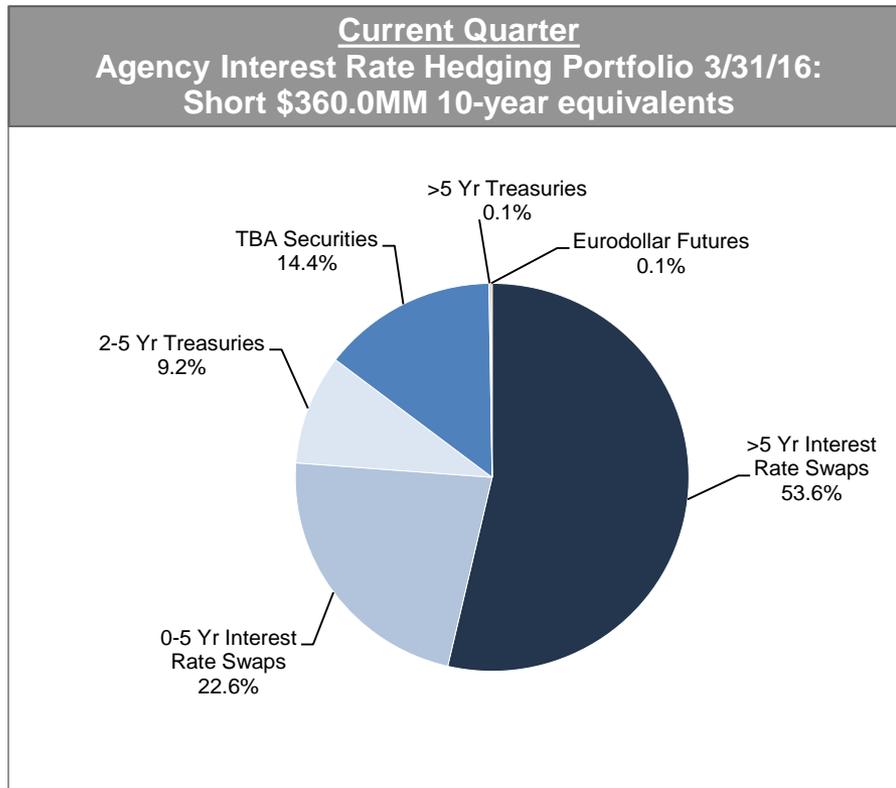
# Ellington Residential: Repo Borrowings

Remaining Days to Maturity	March 31, 2016			December 31, 2015		
	Borrowings Outstanding	Interest Rate	Remaining Days to Maturity	Borrowings Outstanding	Interest Rate	Remaining Days to Maturity
	Weighted Average			Weighted Average		
	(In thousands)			(In thousands)		
30 days or less	\$ 537,508	0.63%	15	\$ 666,124	0.52%	14
31-60 days	268,670	0.67%	43	336,350	0.53%	45
61-90 days	292,395	0.71%	74	89,142	0.70%	74
91-120 days	-	-	-	131,103	0.53%	106
151-180 days	35,268	0.82%	167	-	-	-
<b>Total</b>	<b>\$ 1,133,841</b>	<b>0.66%</b>	<b>42</b>	<b>\$ 1,222,719</b>	<b>0.54%</b>	<b>37</b>

- Outstanding borrowings with 12 counterparties
- Following decision by the Federal Reserve to raise the target federal funds rate, the cost of repo has increased
- While cost of repo increased, availability from both existing and new counterparties remains strong
- Decision by FHFA to ban captive insurers from membership in FHLBs could put additional upward pressure on repo rates in the near term

Note: As of March 31, 2016 and December 31, 2015, the Company had no outstanding borrowings other than under repurchase agreements.

# Ellington Residential: Interest Rate Hedging Portfolio



- Agency interest rate hedges are shown in normalized units of risk, with each group of positions measured in “10-year equivalents”
- During the first quarter:
  - Interest rate hedging portfolio continues to be predominantly comprised of fixed payer interest rate swaps and short TBAs
  - Slightly Increased swap hedge relative to TBA
  - Weighted average remaining term of swap book declined: 5.2 years as of March 31, 2016 as compared to 5.7 years as of December 31, 2015

# Ellington Residential: Interest Rate Hedging

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

<i>(In millions)</i>	3/31/2016	12/31/2015
<b>Agency-related Portfolio</b>		
<b>Long Agency RMBS</b>	\$ 1,146	\$ 1,211
<b>Net Short TBA Positions<sup>(1)</sup></b>	(254)	(365)
<b>Net Long Exposure to Agency RMBS</b>	\$ 892	\$ 846

- 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 0.88% as of March 31, 2016, as compared to 0.73% as of December 31, 2015

## Estimated Change in Fair Value as of March 31, 2016 if Interest Rates Move<sup>(2)</sup>:

<i>(In thousands)</i>	Down 50 bps	Up 50 bps
<b>Agency RMBS - ARM Pools</b>	\$ 175	\$ (277)
<b>Agency RMBS - Fixed Pools and IOs</b>	13,296	(19,127)
<b>TBAs</b>	(1,381)	3,252
<b>Non-Agency RMBS</b>	191	(185)
<b>Interest Rate Swaps</b>	(12,556)	11,986
<b>U.S. Treasury Securities</b>	(1,515)	1,478
<b>Eurodollar Futures</b>	(22)	22
<b>Repurchase and Reverse Repurchase Agreements</b>	(650)	650
<b>Total</b>	\$ (2,462)	\$ (2,201)

(1) Net short TBA positions represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of March 31, 2016 and December 31, 2015. The net carrying value of the TBA positions as of March 31, 2016 and December 31, 2015 on the Consolidated Balance Sheet was \$(0.8) million and \$53 thousand, respectively.

(2) Based on the market environment as of March 31, 2016. 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.

# Ellington Residential: Interest Rate Hedging (Continued)

March 31, 2016					
Fixed Payer Interest Rate Swaps					
Maturity	Notional Amount	Fair Value	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
	<i>(In thousands)</i>				
2016	\$ 48,000	\$ (79)	0.80 %	0.62 %	0.5
2017	74,750	(546)	1.21 %	0.63 %	1.3
2018	71,529	(559)	1.11 %	0.62 %	2.0
2020	107,461	(2,371)	1.50 %	0.62 %	4.1
2021	10,400	1	1.15 %	0.62 %	4.9
2022	19,444	(587)	1.76 %	0.62 %	6.3
2023	131,400	(7,080)	2.10 %	0.63 %	7.1
2024	9,200	(428)	1.99 %	0.61 %	8.0
2025	34,022	(1,503)	2.05 %	0.62 %	8.9
2043	19,047	(3,966)	3.02 %	0.62 %	27.1
<b>Total</b>	<b>\$ 525,253</b>	<b>\$ (17,118)</b>	<b>1.59 %</b>	<b>0.62 %</b>	<b>5.2</b>

Fixed Receiver Interest Rate Swaps					
Maturity	Notional Amount	Fair Value	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
	<i>(In thousands)</i>				
2025	\$ 9,700	\$ 1,255	0.62 %	3.00 %	9.3
2026	3,000	10	0.63 %	1.68 %	10.0
<b>Total</b>	<b>\$ 12,700</b>	<b>\$ 1,265</b>	<b>0.62 %</b>	<b>2.69 %</b>	<b>9.5</b>

TBA Securities				
	Notional Amount <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Net Carrying Value <sup>(4)</sup>
	<i>(In thousands)</i>			
<b>Total TBAs, Net</b>	<b>\$ (234,342)</b>	<b>\$ (252,815)</b>	<b>\$ (253,607)</b>	<b>\$ (792)</b>

Eurodollar Futures				
Remaining Maturity	Notional Amount	Fair Value	Remaining Months to Expiration	
	<i>(In thousands)</i>			
2016	\$ (9,000)	\$ 1	5.7	
2017	(9,000)	(5)	14.8	
<b>Total</b>	<b>\$ (18,000)</b>	<b>\$ (4)</b>	<b>10.2</b>	

(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 March 31, 2016.

(4) Net carrying value represents the difference between the market value of the TBA contract as of March 31, 2016 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



# Ellington Residential: Income Statement (Unaudited)

## CONSOLIDATED STATEMENT OF OPERATIONS

	Three Month Period Ended	
	March 31, 2016	December 31, 2015
<i>(In thousands except share amounts)</i>		
<b>INTEREST INCOME (EXPENSE)</b>		
Interest income	\$ 9,651	\$ 9,315
Interest expense	(2,051)	(1,816)
<b>Total net interest income</b>	<b>7,600</b>	<b>7,499</b>
<b>EXPENSES</b>		
Management fees	528	545
Professional fees	218	152
Compensation expense	151	87
Other operating expenses	454	405
<b>Total expenses</b>	<b>1,351</b>	<b>1,189</b>
<b>OTHER INCOME (LOSS)</b>		
Net realized gains (losses) on securities	3,010	817
Net realized gains (losses) on financial derivatives	(3,996)	(7,595)
Change in net unrealized gains (losses) on securities	8,633	(11,230)
Change in net unrealized gains (losses) on financial derivatives	(14,135)	12,678
<b>Total other income (loss)</b>	<b>(6,488)</b>	<b>(5,330)</b>
<b>NET INCOME (LOSS)</b>	<b>\$ (239)</b>	<b>\$ 980</b>
<b>NET INCOME (LOSS) PER COMMON SHARE</b>		
Basic and Diluted	\$ (0.03)	\$ 0.11
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>9,121,198</b>	<b>9,135,219</b>
<b>CASH DIVIDENDS PER SHARE:</b>		
Dividends declared	\$ 0.45	\$ 0.45

# Ellington Residential: Balance Sheet (Unaudited)

## CONSOLIDATED BALANCE SHEET

	As of	
	March 31, 2016	December 31, 2015 <sup>(1)</sup>
<i>(In thousands except share amounts)</i>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 41,242	\$ 40,166
Mortgage-backed securities, at fair value	1,173,593	1,242,266
Due from brokers	30,206	33,297
Financial derivatives-assets, at fair value	1,635	2,183
Reverse repurchase agreements	69,575	78,632
Receivable for securities sold	64,243	155,526
Interest receivable	4,092	4,325
Other assets	523	289
<b>Total Assets</b>	<b>\$ 1,385,109</b>	<b>\$ 1,556,684</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Repurchase agreements	\$ 1,133,841	\$ 1,222,719
Payable for securities purchased	16,433	98,949
Due to brokers	127	439
Financial derivatives-liabilities, at fair value	18,284	4,725
U.S. Treasury securities sold short, at fair value	69,607	78,447
Dividend payable	4,103	4,111
Accrued expenses	447	533
Management fee payable	528	545
Interest payable	1,382	1,361
<b>Total Liabilities</b>	<b>\$ 1,244,752</b>	<b>\$ 1,411,829</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; (9,117,183 and 9,135,103 shares issued and outstanding, respectively)	92	92
Additional paid-in-capital	180,871	181,027
Accumulated deficit	(40,606)	(36,264)
<b>Total Shareholders' Equity</b>	<b>140,357</b>	<b>144,855</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,385,109</b>	<b>\$ 1,556,684</b>
<b>Per Share Information</b>		
Common shares, par value \$0.01 per share	\$ 15.39	\$ 15.86

(1) Derived from audited financial statements as of December 31, 2015.

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

<i>(In thousands except share amounts)</i>	<b>Three Month Period Ended</b>	
	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Net Income (Loss)</b>	\$ (239)	\$ 980
<b>Less:</b>		
<b>Net realized gains (losses) on securities</b>	3,010	817
<b>Net realized gains (losses) on financial derivatives, excluding periodic payments<sup>(2)</sup></b>	(3,324)	(4,467)
<b>Change in net unrealized gains (losses) on securities</b>	8,633	(11,230)
<b>Change in net unrealized gains and (losses) on financial derivatives, excluding accrued periodic payments<sup>(3)</sup></b>	(13,409)	11,380
<b>Subtotal</b>	<u>(5,090)</u>	<u>(3,500)</u>
<b>Core Earnings</b>	\$ 4,851	\$ 4,480
Catch-up Premium Amortization Adjustment	258	(1,087)
<b>Core Earnings excluding Catch-up Premium Amortization Adjustment</b>	<u>4,593</u>	<u>5,567</u>
<b>Weighted Average Shares Outstanding</b>	9,121,198	9,135,219
<b>Core Earnings Per Share</b>	\$ 0.53	\$ 0.49
<b>Core Earnings Per Share excluding Catch-up Premium Amortization Adjustment</b>	\$ 0.50	\$ 0.61

- (1) Core Earnings consists of net income (loss), excluding realized and change in net unrealized gains and losses on 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 excluding Catch-up Premium Amortization Adjustment consists of Core Earnings but excludes the effect of the Catch-up Premium Amortization Adjustment on interest income. Core Earnings and Core Earnings excluding the Catch-up Premium Amortization Adjustment are supplemental non-GAAP financial measures. We believe that Core Earnings and Core Earnings excluding Catch-up Premium Amortization Adjustment provide information useful to investors because they are metrics 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 and Core Earnings excluding Catch-up Premium Amortization Adjustment are used to help measure the extent to which this objective is being achieved. However, because Core Earnings and Core Earnings excluding Catch-up Premium Amortization Adjustment are incomplete measures of our financial results and differ from net income (loss) computed in accordance with GAAP, they should be considered as supplementary to, and not as substitutes for, net income (loss) computed in accordance with GAAP. The table above reconciles, for the three month periods ended March 31, 2016 and December 31, 2015, our Core Earnings and Core Earnings excluding Catch-up Premium Amortization Adjustment 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 March 31, 2016, represents Net realized gains (losses) on financial derivatives of \$(3,996) less Net realized gains (losses) on periodic settlements of interest rate swaps of \$(672). For the three month period ended December 31, 2015, represents Net realized gains (losses) on financial derivatives of \$(7,595) less Net realized gains (losses) on periodic settlements of interest rate swaps of \$(3,128).
- (3) For the three month period ended March 31, 2016, represents Change in net unrealized gains (losses) on financial derivatives of \$(14,135) less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of \$(726). For the three month period ended December 31, 2015, represents Change in net unrealized gains (losses) on financial derivatives of \$12,678 less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of \$1,298.

## 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 160 employees, giving EARN access to time-tested infrastructure and industry-leading resources in trading, research, risk management, and operational support**
    - **EMG has approximately \$5.9 billion in assets under management as of March 31, 2016**
  - **EMG's portfolio managers are among the most experienced in the MBS sector, and the firm's analytics have been developed over a 21-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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**E A R N**

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