



**E A R N**

ELLINGTON RESIDENTIAL MORTGAGE REIT

# Third Quarter 2014 Earnings Conference Call November 10, 2014

## Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Actual results may differ from the Company's beliefs, expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are not historical in nature and can be identified by words such as "believe," "expect," "anticipate," "estimate," "project," "plan," "continue," "intend," "should," "would," "could," "goal," "objective," "will," "may," "seek," or similar expressions or their negative forms, or by references to strategy, plans, or intentions.

The Company's results can fluctuate from month to month and from quarter to quarter depending on a variety of factors, some of which are beyond the Company's control and/or are difficult to predict, including, without limitation, changes in interest rates and the market value of the Company's securities, changes in mortgage default rates and prepayment rates, the Company's ability to borrow to finance its assets, changes in government regulations affecting the Company's business, the Company's ability to maintain its exemption from registration under the Investment Company Act of 1940 and other changes in market conditions and economic trends. Furthermore, forward-looking statements are subject to risks and uncertainties, including, among other things, those described under Item 1A of our Annual Report on Form 10-K filed on March 21, 2014 which can be accessed through the link to our SEC filings under "For Our Shareholders" on our website ([www.earnreit.com](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, 2014 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

# Third Quarter 2014

---

# Ellington Residential: Third Quarter Highlights

<b>Overall Results</b>	<ul style="list-style-type: none"> <li>▪ Third quarter net income of \$3.5 million or \$0.39 per share</li> <li>▪ Book value decrease of 1.0% to \$18.53 per share as of September 30, 2014 from \$18.71 per share as of June 30, 2014, after giving effect to \$0.55 third quarter dividend</li> <li>▪ Economic return on book value of 2.0% for the quarter</li> </ul>
<b>Core Earnings<sup>(1)</sup></b>	<ul style="list-style-type: none"> <li>• Core Earnings of \$6.9 million or \$0.76 per share</li> <li>• Net Interest Margin of 2.38%             <ul style="list-style-type: none"> <li>• “Catch-up” positive premium amortization adjustment increased our interest income by \$0.1 million</li> </ul> </li> </ul>
<b>Shareholders’ Equity</b>	<ul style="list-style-type: none"> <li>• Shareholders’ equity of \$169.5 million as of September 30, 2014, or \$18.53 per share</li> </ul>
<b>Portfolio</b>	<ul style="list-style-type: none"> <li>• Agency RMBS Portfolio: \$1.334 billion as of September 30, 2014             <ul style="list-style-type: none"> <li>• \$1.253 billion fixed rate “specified” pools</li> <li>• \$46.1 million ARM pools</li> <li>• \$21.2 million in reverse mortgage pools</li> <li>• \$14.2 million IOs</li> </ul> </li> <li>• Non-Agency RMBS Portfolio: \$33.7 million as of September 30, 2014</li> </ul>
<b>Leverage</b>	<ul style="list-style-type: none"> <li>• Debt to equity ratio: approximately 7.3:1 as of September 30, 2014, down from 7.5:1 as of June 30, 2014</li> <li>• Weighted average cost of funds 0.34% for the quarter or 1.02% including interest rate swaps</li> </ul>
<b>Dividend</b>	<ul style="list-style-type: none"> <li>• Declared third quarter dividend of \$0.55 per share (paid in October 2014)</li> <li>• Annualized dividend yield of 12.4% based on closing price of \$17.71 on November 6, 2014</li> </ul>

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

# Ellington Residential: Agency RMBS

E A R N

ELLINGTON RESIDENTIAL MORTGAGE REIT

## Overall Market Conditions

- Yield curve flattened during the third quarter
- As expected, the Federal Reserve concluded its net monthly purchases of Agency RMBS and U.S. Treasury securities, although it will continue to reinvest principal proceeds received into additional Agency RMBS and U.S. Treasury securities
- During the quarter, the reduction in Federal Reserve purchases of TBAs helped specified pools outperform their TBA counterparts
- New mortgage origination and refinancing activity remained relatively low given the level of mortgage rates

## Portfolio Trends and Outlook

- Average pay-up of 0.63% as of September 30, 2014, compared to 0.49% as of June 30, 2014
- Turned over approximately 25% of the portfolio as measured by sales, excluding principal paydowns
- We expect that the Federal Reserve's reduced presence in the Agency RMBS market will continue to be supportive of specified pools relative to TBAs
- Yield spreads on reverse mortgage pools remained tight during the third quarter and IOs have also continued to perform well as prepayment speeds remain subdued relative to the drop in interest rates

## Overall Market Conditions

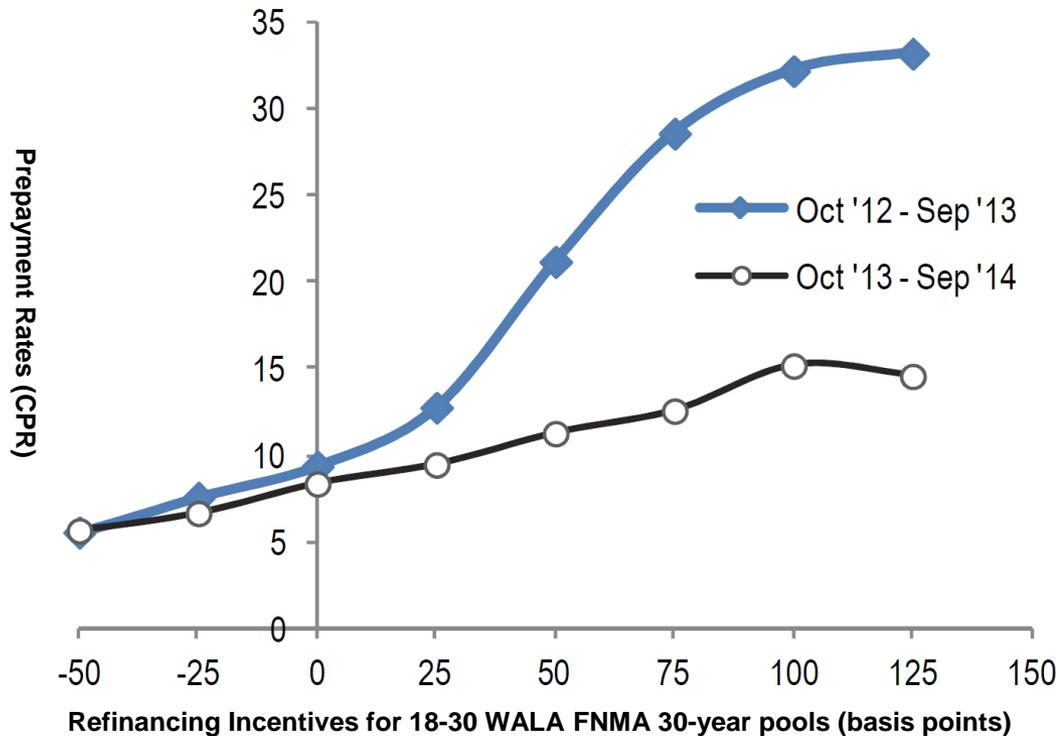
- Non-Agency RMBS exhibited relative resilience during the third quarter, particularly compared to other asset classes, such as high yield credit
- Investor appetite for fixed income assets, especially higher-yielding assets, remains strong
- Fundamentals such as home prices and declining foreclosure inventory remain supportive of asset valuations

## Portfolio Trends and Outlook

- Non-Agency RMBS
  - Continue to find attractive opportunities to buy and sell legacy assets
- As Wall Street balance sheets and risk-taking appetites decline as a result of Basel III and Dodd Frank, we expect continued trading opportunities

## Dramatic Fall off in Rate-Adjusted Call Risk

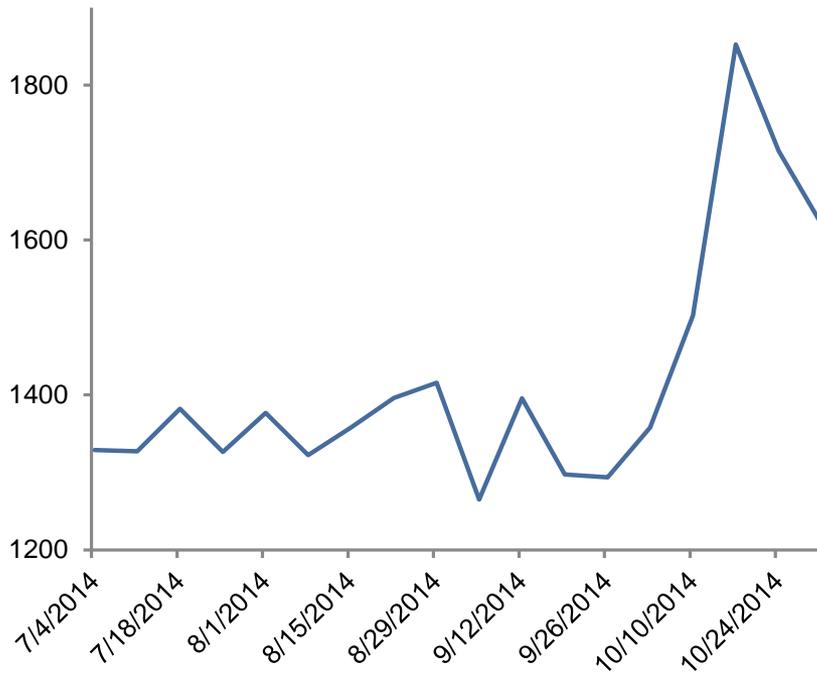
Prepayment rates vs. refinancing incentives for 18-30 WALA FNMA 30-year pools (<\$150k loan size, ≤80% Original LTV), observed in October 2012 to September 2013 and October 2013 to September 2014



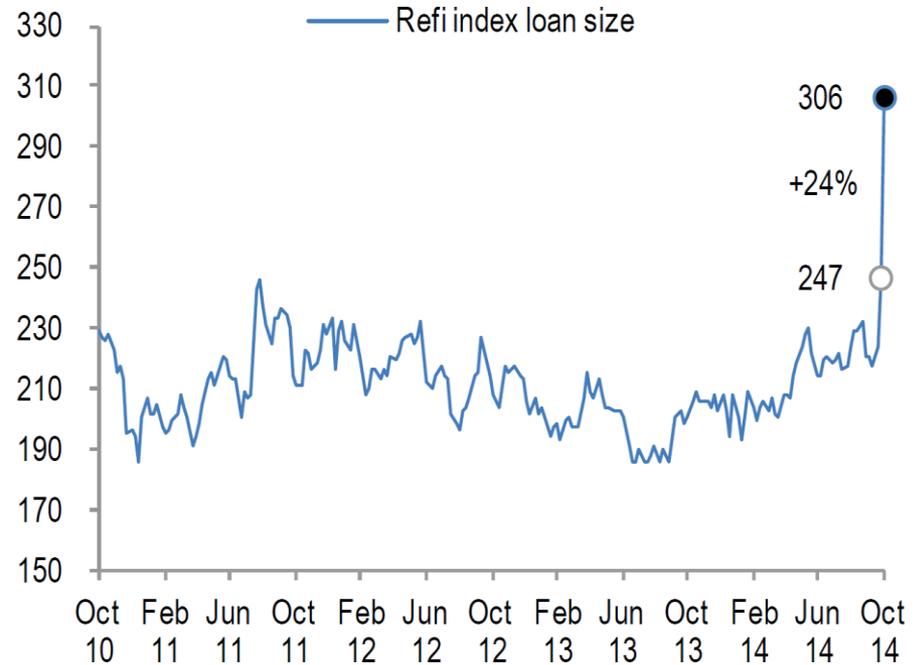
- Even for the same incentive, prepayment speeds are much slower than one year ago
- Contemplated policy changes from FHFA could change this
- We think borrower response to lower mortgage rates will increase going forward

# Rate Drop in October Showed Surprising Refi Reponse

MBA Refinancing Index



MBA Refinancing Index average loan size (\$ thousand), with the last two data points labeled



- For a small, short-lived drop in mortgage rates, the response was surprising
- Loan sizes have gone up with home prices, and larger loans are quite responsive
- Market has become accustomed to sluggish prepay response

# Portfolio



# Ellington Residential: Portfolio Summary

E A R N

ELLINGTON RESIDENTIAL MORTGAGE REIT

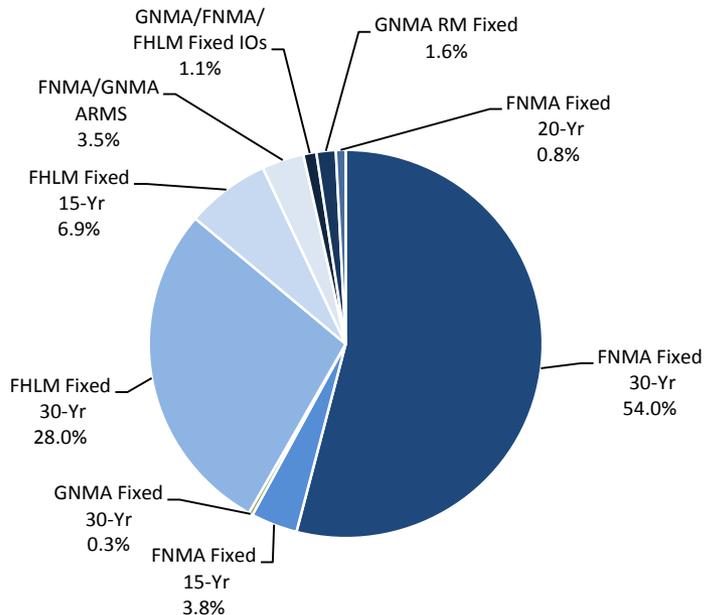
(In thousands)	September 30, 2014					June 30, 2014				
	Current Principal	Fair Value	Average Price <sup>(1)</sup>	Cost	Average Cost <sup>(1)</sup>	Current Principal	Fair Value	Average Price <sup>(1)</sup>	Cost	Average Cost <sup>(1)</sup>
Agency RMBS <sup>(2)</sup>										
15-year fixed rate mortgages	136,558	143,357	104.98	143,056	104.76	166,910	175,583	105.20	174,726	104.68
20-year fixed rate mortgages	9,974	10,662	106.90	10,570	105.98	10,158	10,936	107.66	10,762	105.95
30-year fixed rate mortgages	1,036,799	1,098,761	105.98	1,092,290	105.35	957,162	1,020,084	106.57	1,009,739	105.49
ARMs	43,288	46,121	106.54	46,233	106.80	66,864	70,540	105.50	70,586	105.57
Reverse mortgages	19,523	21,217	108.68	21,103	108.09	15,824	17,357	109.69	17,108	108.11
Total Agency RMBS	1,246,142	1,320,118	105.94	1,313,252	105.39	1,216,918	1,294,500	106.38	1,282,921	105.42
Non-Agency RMBS	52,785	33,732	63.90	31,217	59.14	55,395	35,668	64.39	32,088	57.93
Total RMBS <sup>(2)</sup>	1,298,927	1,353,850	104.23	1,344,469	103.51	1,272,313	1,330,168	104.55	1,315,009	103.36
Agency interest only RMBS	n/a	14,242	n/a	12,108	n/a	n/a	14,276	n/a	12,469	n/a
U.S. Treasury securities sold short	(2,500)	(2,483)	99.32	(2,479)	99.16	—	—	—	—	—
Reverse repurchase agreements	2,484	2,484	100.00	2,484	100.00	—	—	—	—	—
Total		<u>\$ 1,368,093</u>		<u>\$ 1,356,582</u>			<u>\$ 1,344,444</u>		<u>\$ 1,327,478</u>	

(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

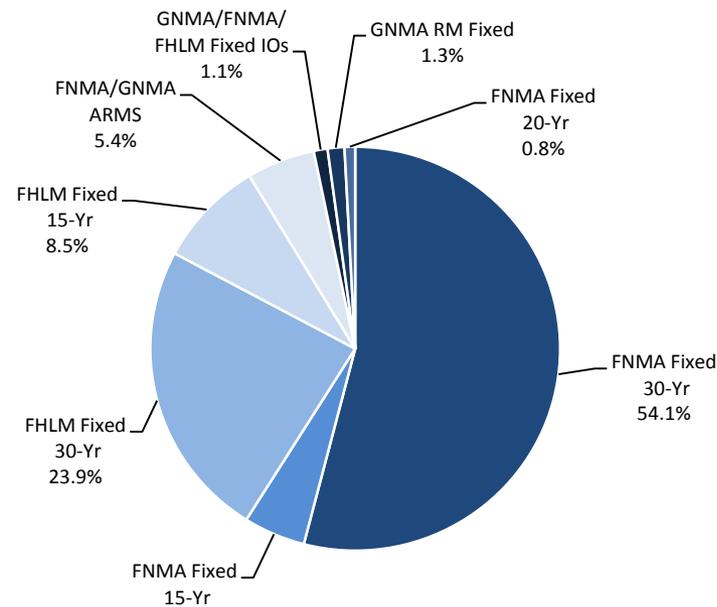
**Current Quarter Agency Long Portfolio**  
As of 9/30/14: \$1.33BN<sup>(1)</sup>



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

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

**Previous Quarter Agency Long Portfolio**  
As of 6/30/14: \$1.31BN<sup>(1)</sup>



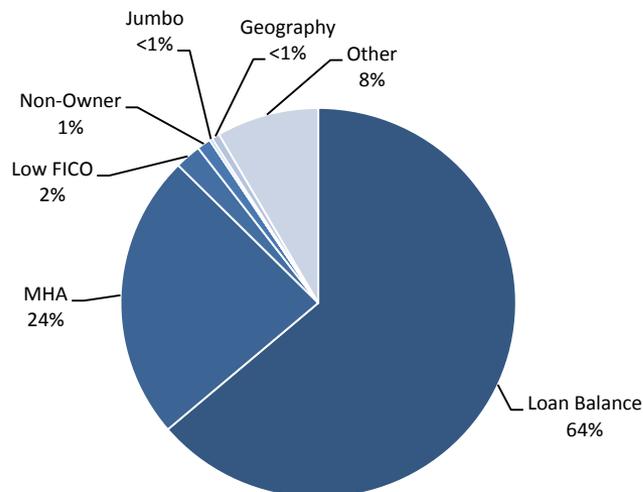
Fixed Portfolio<sup>(2)</sup>

Category	Fair Value <sup>(1)</sup>	Weighted Average Coupon <sup>(3)</sup>
FNMA Fixed - 30-Yr	\$707.3	4.08
FNMA Fixed - 20-Yr	10.9	4.00
FNMA Fixed - 15-Yr	63.9	3.49
FHLM Fixed - 30-Yr	312.8	4.03
FHLM Fixed - 15-Yr	111.7	3.28
GNMA Fixed - 30-Yr	-	-
GNMA RM Fixed	17.4	4.77
<b>Total</b>	<b>\$1,224.0</b>	<b>3.97</b>

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

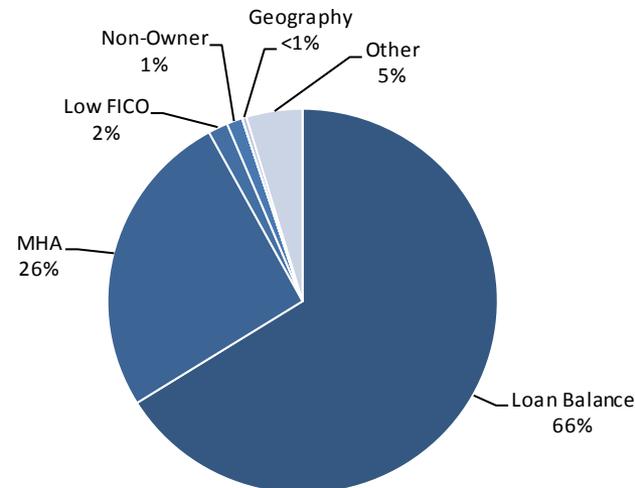
# Ellington Residential: Agency Long Portfolio

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



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

**Collateral Characteristics and Historical 3-month CPR**  
Agency Fixed Rate Pool Portfolio 6/30/14: \$1.21BN<sup>(1)</sup>



Characteristic <sup>(2)</sup>	Fair Value <sup>(1)(3)</sup>	3-Month CPR % <sup>(4)</sup>
Loan Balance	\$797.9	4.3
MHA <sup>(5)</sup>	312.7	2.1
Low FICO	19.7	0.3
Non-Owner	15.9	6.5
Geography	4.3	0.2
Jumbo	-	-
Other	56.1	13.0
<b>Total</b>	<b>\$1,206.6</b>	<b>4.0</b>

(1) Does not include long TBA positions, reverse mortgage pools, or fixed rate IOs.

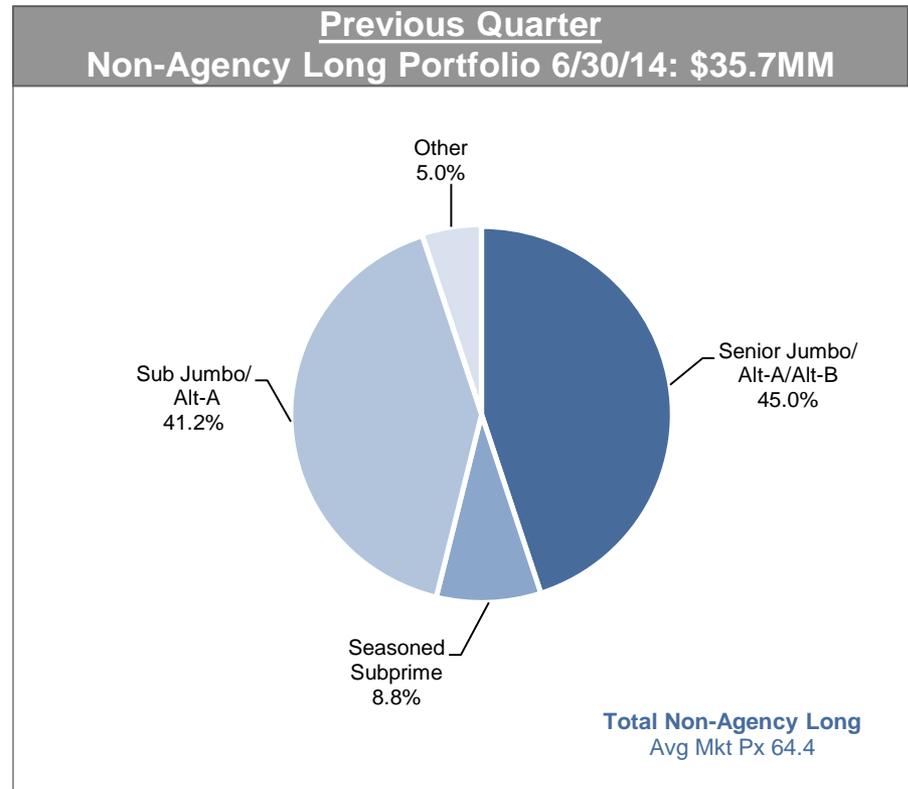
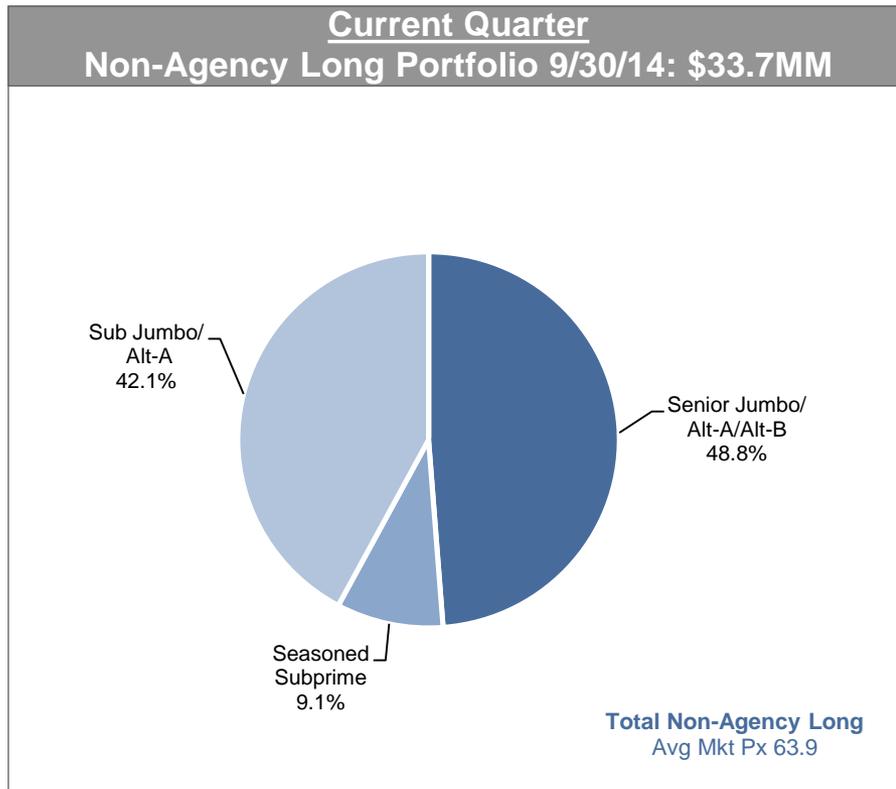
(2) Classification methodology may change over time as market practices change.

(3) Fair value shown in millions.

(4) Excludes Agency fixed rate RMBS without any prepayment history with a total value of \$105.4 million as of September 30, 2014 and \$120.5 million as of June 30, 2014.

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

# Ellington Residential: Non-Agency Long Portfolio



- **Average book yield for the third quarter was 10.26% as compared to 10.64% for the second quarter**
  - **Continue to see opportunities to buy and sell assets**
  - **Prudent asset selection remains critical, as yield spreads remain tight**

# Borrowings and Hedges

---

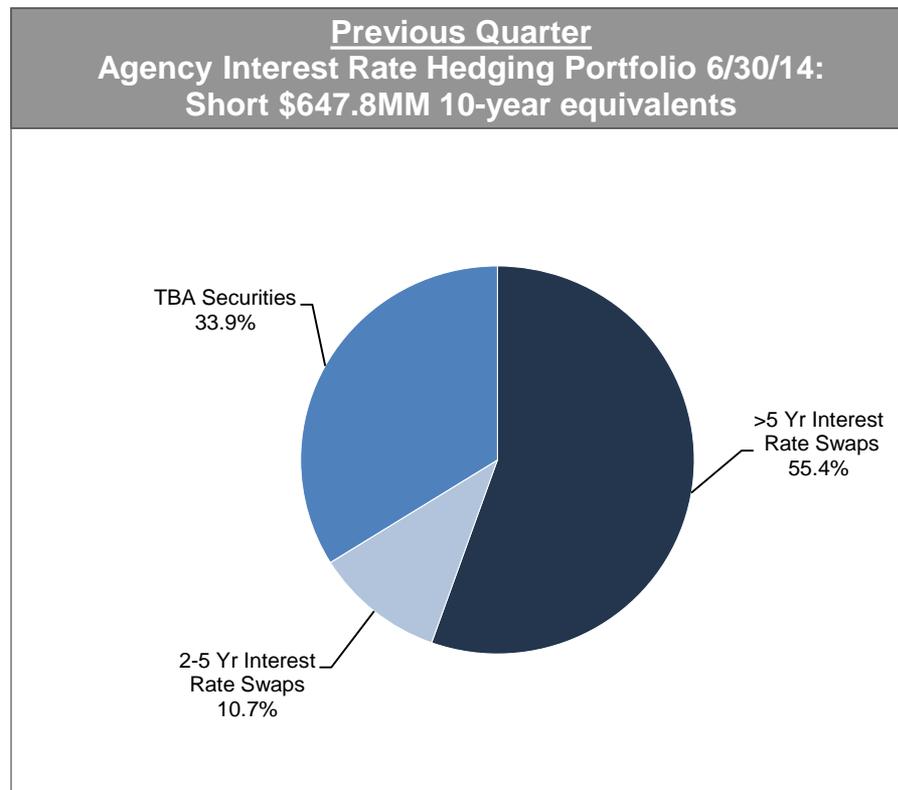
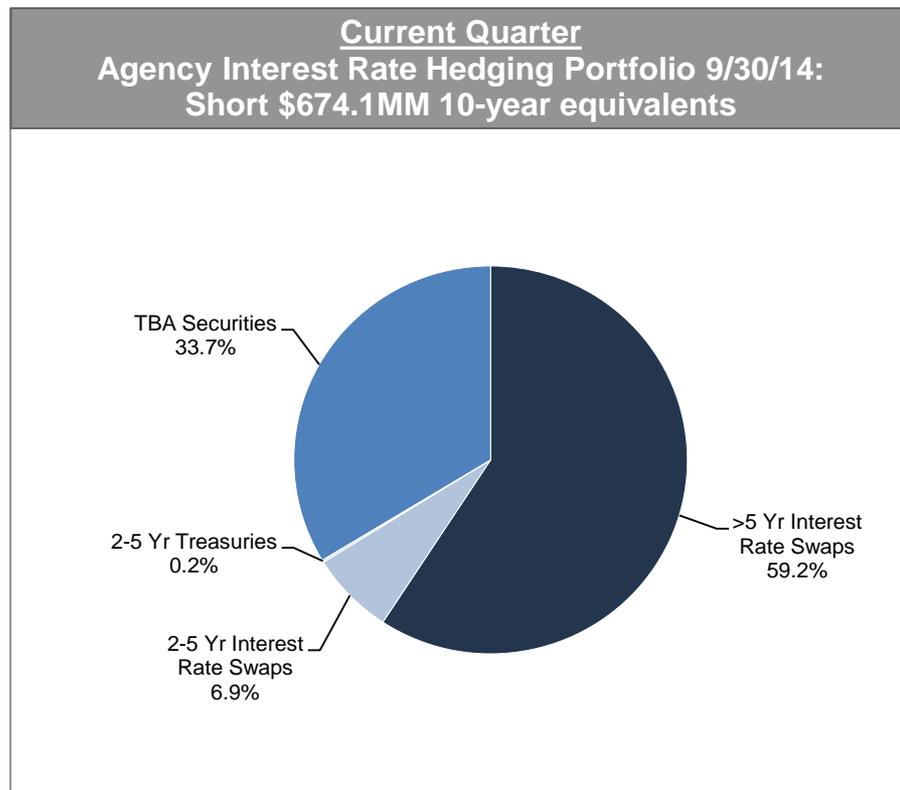
# Ellington Residential: Repo Borrowings

Remaining Days to Maturity	September 30, 2014				June 30, 2014		
	Borrowings Outstanding <i>(In thousands)</i>	Weighted Average		Borrowings Outstanding <i>(In thousands)</i>	Weighted Average		
		Interest Rate	Remaining Days to Maturity		Interest Rate	Remaining Days to Maturity	
30 days or less	\$ 325,079	0.34%	16	\$ 397,482	0.33%	15	
31-60 days	519,999	0.33%	45	469,254	0.32%	44	
61-90 days	338,669	0.33%	73	327,111	0.35%	74	
91-120 days	22,192	0.38%	106	29,512	0.38%	106	
121-150 days	27,394	0.38%	135	23,005	0.35%	136	
151-180 days	—	—%	—	39,229	0.36%	169	
<b>Total</b>	<b>\$ 1,233,333</b>	<b>0.33%</b>	<b>48</b>	<b>\$ 1,285,593</b>	<b>0.33%</b>	<b>50</b>	

- As of September 30, 2014:
  - Outstanding borrowings with 10 counterparties
  - Repo remains readily available, with new and existing counterparties willing to provide capacity
  - Debt-to-equity ratio of approximately 7.3:1

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

# 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 third quarter:
  - Interest rate hedging portfolio continues to be predominantly made up of TBAs and interest rate swaps
  - Weighted average remaining term of swap book at September 30, 2014: 9.08 years

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.

# Ellington Residential: Interest Rate Hedging

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

<i>(In millions)</i>				
<b>Agency-related Portfolio</b>	<b>9/30/2014</b>		<b>6/30/2014</b>	
Long Agency RMBS	\$	1,334	\$	1,309
Net Short TBA Positions <sup>(1)</sup>		(511)		(523)
Net Long Exposure to Agency RMBS	\$	823	\$	786

- 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 0.63% as of September 30, 2014 compared to 0.49% as of June 30, 2014

## Estimated Change in Fair Value as of September 30, 2014 if Interest Rates Move<sup>(2)</sup>:

<i>(In thousands)</i>	<b>Down 50 bps</b>		<b>Up 50 bps</b>	
Agency RMBS - ARM Pools	\$	477	\$	(593)
Agency RMBS - Fixed Pools and IOs		24,948		(32,798)
TBAs		(8,328)		11,284
Non-Agency RMBS		487		(470)
Interest Rate Swaps		(19,882)		18,629
Swaptions		193		66
U.S. Treasury Securities		(59)		58
Repurchase and Reverse Repurchase Agreements		(540)		803
Total	\$	(2,704)	\$	(3,021)

(1) Net short TBA positions represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of September 30, 2014 and June 30, 2014. The net carrying value of the TBA positions as of September 30, 2014 and June 30, 2014 on the Consolidated Balance Sheet was (0.1) million and \$(3.0) million, respectively.

(2) Based on the market environment as of September 30, 2014. Results are based on forward-looking models, which are inherently imperfect, and incorporate various simplifying assumptions. Therefore, the table above is for illustrative purposes only and actual changes in interest rates would likely cause changes in the actual value of our portfolio that would differ from those presented above, and such differences might be significant and adverse.

# Ellington Residential: Interest Rate Hedging (Continued)

September 30, 2014						
Interest Rate Swap						
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	\$ (37)	0.80%	0.23%	2.02	
2017	74,750	(96)	1.21%	0.24%	2.84	
2018	33,500	695	0.88%	0.24%	3.63	
2020	43,200	1,313	1.42%	0.23%	5.62	
2021	27,000	(150)	2.29%	0.23%	6.77	
2023	210,600	5,034	2.13%	0.23%	8.65	
2024	27,700	(340)	2.74%	0.21%	9.83	
2043	54,500	(119)	3.15%	0.23%	28.68	
2044	9,820	(591)	3.48%	0.23%	29.66	
<b>Total</b>	<b>\$ 529,070</b>	<b>\$ 5,709</b>	<b>1.91%</b>	<b>0.23%</b>	<b>9.08</b>	

TBA Securities				
<i>(In thousands)</i>	Notional Amount <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Net Carrying Value <sup>(4)</sup>
Total TBAs, Net	(479,237)	(510,609)	(510,704)	(95)

Interest Rate Swaptions						
	Option			Underlying Swap		
<i>(\$ in thousands)</i>	Fair Value	Months to Expiration	Notional Amount	Term (Years)	Fixed Rate	
Straddle	\$ (25)	9.5	\$ 9,700	10.0	3.00%	

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

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

(3) Market value represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of September 30, 2014.

(4) Net carrying value represents the difference between the market value of the TBA contract as of September 30, 2014 and the cost basis, and is reported in Financial derivatives-assets, at fair value and Financial derivatives-liabilities, at fair value on the Consolidated Balance Sheet.

# Supplemental Information



# Ellington Residential: Income Statement (Unaudited)

E A R N

ELLINGTON RESIDENTIAL MORTGAGE REIT

## CONSOLIDATED STATEMENT OF OPERATIONS

	Three Month Period Ended		Nine Month Period Ended
	September 30, 2014	June 30, 2014	September 30, 2014
<i>(In thousands except share amounts)</i>			
<b>INTEREST INCOME (EXPENSE)</b>			
Interest income	\$ 11,484	\$ 11,575	\$ 35,018
Interest expense	(1,121)	(1,070)	(3,346)
<b>Total net interest income</b>	<b>10,363</b>	<b>10,505</b>	<b>31,672</b>
<b>EXPENSES</b>			
Management fees	574	567	1,733
Professional fees	123	137	399
Other operating expenses	597	613	1,873
<b>Total expenses</b>	<b>1,294</b>	<b>1,317</b>	<b>4,005</b>
<b>OTHER INCOME (LOSS)</b>			
Net realized gains (losses) on mortgage-backed securities	2,030	382	(613)
Net realized losses on financial derivatives	(4,391)	(11,155)	(18,955)
Change in net unrealized gains (losses) on mortgage-backed securities	(5,455)	25,424	37,550
Change in net unrealized gains (losses) on financial derivatives	2,280	(12,789)	(28,305)
<b>Total other income (loss)</b>	<b>(5,536)</b>	<b>1,862</b>	<b>(10,323)</b>
<b>NET INCOME</b>	<b>\$ 3,533</b>	<b>\$ 11,050</b>	<b>\$ 17,344</b>
<b>NET INCOME PER COMMON SHARE:</b>			
Basic	\$ 0.39	\$ 1.21	\$ 1.90
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>9,141,892</b>	<b>9,139,842</b>	<b>9,140,533</b>
<b>CASH DIVIDENDS PER SHARE:</b>			
Dividends declared	\$ 0.55	\$ 0.55	\$ 1.65

# Ellington Residential: Balance Sheet (Unaudited)

E A R N

ELLINGTON RESIDENTIAL MORTGAGE REIT

## CONSOLIDATED BALANCE SHEET

	As of		
	September 30, 2014	June 30, 2014	December 31, 2013 <sup>(1)</sup>
<i>(In thousands except share amounts)</i>			
<b>ASSETS</b>			
Cash and cash equivalents	\$ 51,063	\$ 49,908	\$ 50,112
Mortgage-backed securities, at fair value	1,368,092	1,344,444	1,326,036
Due from brokers	20,071	13,338	18,347
Financial derivatives—assets, at fair value	8,439	10,115	34,963
Reverse repurchase agreements	2,484	—	—
Receivable for securities sold	25,945	100,267	76,692
Interest receivable	5,601	5,769	4,766
Other assets	497	468	174
<b>Total Assets</b>	<b>\$ 1,482,192</b>	<b>\$ 1,524,309</b>	<b>\$ 1,511,090</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Repurchase agreements	\$ 1,233,333	\$ 1,285,593	\$ 1,310,347
Payable for securities purchased	63,143	46,467	2,776
Due to brokers	3,889	7,320	22,788
Financial derivatives—liabilities, at fair value	2,850	6,807	1,069
U.S. Treasury securities sold short, at fair value	2,483	—	—
Dividend payable	5,032	5,027	4,570
Accrued expenses	754	930	996
Management fee payable	574	567	600
Interest payable	591	605	764
<b>Total Liabilities</b>	<b>1,312,649</b>	<b>1,353,316</b>	<b>1,343,910</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; (9,149,274, 9,139,842, and 9,139,842 shares issued and outstanding, respectively)	91	91	91
Additional paid-in-capital	181,252	181,203	181,147
Accumulated deficit	(11,800)	(10,301)	(14,058)
<b>Total Shareholders' Equity</b>	<b>169,543</b>	<b>170,993</b>	<b>167,180</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,482,192</b>	<b>\$ 1,524,309</b>	<b>\$ 1,511,090</b>

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

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

<i>(In thousands except share amounts)</i>	Three Month Period Ended September 30, 2014		Three Month Period Ended June 30, 2014	
<b>Net Income</b>	\$	3,533	\$	11,050
<b>Less:</b>				
Net realized gains (losses) on mortgage-backed securities		2,030		382
Net realized gains (losses) on financial derivatives, excluding periodic payments <sup>(2)</sup>		(3,713)		(7,053)
Change in net unrealized gains (losses) on mortgage-backed securities		(5,455)		25,424
Change in net unrealized gains (losses) on financial derivatives, excluding accrued periodic payments <sup>(3)</sup>		3,755		(14,533)
Subtotal		(3,383)		4,220
<b>Core Earnings</b>	<b>\$</b>	<b>6,916</b>	<b>\$</b>	<b>6,830</b>
<b>Weighted Average Shares Outstanding</b>		9,141,892		9,139,842
<b>Core Earnings Per Share</b>	<b>\$</b>	<b>0.76</b>	<b>\$</b>	<b>0.75</b>

(1) Core Earnings consists of net income (loss), excluding realized and unrealized gains and losses on mortgage-backed securities and financial derivatives, and, if applicable, items of income or loss that are of a non-recurring nature. Core Earnings includes net realized and unrealized gains (losses) associated with payments and accruals of periodic payments on interest rate swaps. Core Earnings is a supplemental non-GAAP financial measure. We believe 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 periods ended September 30, 2014 and June 30, 2014, our Core Earnings on a consolidated basis to the line on our consolidated statement of operations entitled Net Income, 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 September 30, 2014, represents Net realized gains (losses) on financial derivatives of \$(4,391) less Net realized gains (losses) on periodic settlements of interest rate swaps of \$(678). For the three month period ended June 30, 2014, represents Net realized gains (losses) on financial derivatives of \$(11,155) less Net realized gains (losses) on periodic settlements of interest rate swaps of \$(4,102).

(3) For the three month period ended September 30, 2014, represents Net change in unrealized gains (losses) on financial derivatives of \$2,280 less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of \$(1,475). For the three month period ended June 30, 2014, represents Net change in unrealized gains (losses) on financial derivatives of \$(12,789) less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of \$1,744.

- **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 140 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 September 30, 2014**
- **EMG's portfolio managers are among the most experienced in the MBS sector and the firm's analytics have been developed over a 19-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**

**E A R N**

**ELLINGTON RESIDENTIAL MORTGAGE REIT**

Investor Contact:  
Lindsay Tragler, Vice President  
Investor Relations or  
Lisa Mumford, Chief Financial Officer  
Ellington Residential Mortgage REIT  
(203) 409-3773

Media Contact:  
Steve Bruce or Taylor Ingraham  
ASC Advisors, for  
Ellington Residential Mortgage REIT  
(203) 992-1230

Ellington Residential Mortgage REIT  
53 Forest Ave  
Old Greenwich, CT 06870  
[www.earnreit.com](http://www.earnreit.com)

---