

**E A R N**

**ELLINGTON RESIDENTIAL MORTGAGE REIT**

**Third Quarter 2018  
Earnings Conference Call  
November 6, 2018**



## 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 14, 2018 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, 2018 unless otherwise indicated. We undertake no duty or obligation to update this presentation to reflect subsequent events or developments.

# Third Quarter Market Update

EARN

ELLINGTON RESIDENTIAL MORTGAGE REIT

Quarter Ended:	9/30/2018	6/30/2018	Q/Q	3/31/2018	Q/Q	12/31/2017	Q/Q	9/30/2017	Q/Q	6/30/2017
<u>UST (%)<sup>(1)</sup></u>										
2Y UST	2.82	2.53	+0.29	2.27	+0.26	1.88	+0.38	1.48	+0.40	1.38
5Y UST	2.95	2.74	+0.22	2.56	+0.18	2.21	+0.36	1.94	+0.27	1.89
10Y UST	3.06	2.86	+0.20	2.74	+0.12	2.41	+0.33	2.33	+0.07	2.30
30Y UST	3.21	2.99	+0.22	2.97	+0.02	2.74	+0.23	2.86	-0.12	2.83
2Y10Y Spread	0.24	0.33	-0.09	0.47	-0.14	0.52	-0.05	0.85	-0.33	0.92
<u>US Dollar Swaps (%)<sup>(1)</sup></u>										
2Y SWAP	2.99	2.79	+0.20	2.58	+0.21	2.08	+0.50	1.74	+0.34	1.62
5Y SWAP	3.07	2.89	+0.18	2.71	+0.18	2.24	+0.46	2.00	+0.24	1.96
10Y SWAP	3.12	2.93	+0.19	2.79	+0.14	2.40	+0.39	2.29	+0.11	2.28
<u>LIBOR (%)<sup>(1)</sup></u>										
1mo	2.26	2.09	+0.17	1.88	+0.21	1.56	+0.32	1.23	+0.33	1.22
3mo	2.40	2.34	+0.06	2.31	+0.02	1.69	+0.62	1.33	+0.36	1.30
1mo3mo Spread	0.14	0.25	-0.11	0.43	-0.18	0.13	+0.30	0.10	+0.03	0.08
<u>Mortgage Rates (%)<sup>(2)</sup></u>										
15Y	4.39	4.22	+0.17	4.09	+0.13	3.64	+0.45	3.42	+0.22	3.43
30Y	4.72	4.55	+0.17	4.44	+0.11	3.99	+0.45	3.83	+0.16	3.88
<u>FNMA Pass-Thrus<sup>(1)</sup></u>										
30Y 3.5	\$98.39	\$99.45	-\$1.06	\$100.20	-\$0.75	\$102.73	-\$2.53	\$103.05	-\$0.31	\$102.67
30Y 4.0	\$100.95	\$101.92	-\$0.97	\$102.61	-\$0.69	\$104.61	-\$2.00	\$105.27	-\$0.66	\$105.14
30Y 4.5	\$103.14	\$104.08	-\$0.94	\$104.70	-\$0.63	\$106.42	-\$1.72	\$107.33	-\$0.91	\$107.27
<u>Libor-based OAS (bps)<sup>(3)</sup></u>										
FNMA 30Y 3.5 OAS	22.0	21.5	0.5	23.8	-2.3	17.2	6.6	20.0	-2.8	29.4
FNMA 30Y 4.0 OAS	28.2	26.9	1.3	28.3	-1.4	19.9	8.4	18.4	1.5	28.5
FNMA 30Y 4.5 OAS	34.3	31.3	3.0	32.7	-1.4	15.4	17.3	8.6	6.8	30.5
<u>Libor-based ZSpread (bps)<sup>(4)</sup></u>										
FNMA 30Y 3.5 ZSpread	58.3	62.7	-4.4	67.4	-4.7	65.5	1.9	72.9	-7.4	81.1
FNMA 30Y 4.0 ZSpread	73.1	75.8	-2.7	78.6	-2.8	67.7	10.9	72.1	-4.4	83.4
FNMA 30Y 4.5 ZSpread	81.0	78.1	2.9	79.0	-0.9	50.2	28.8	53.1	-2.9	72.9

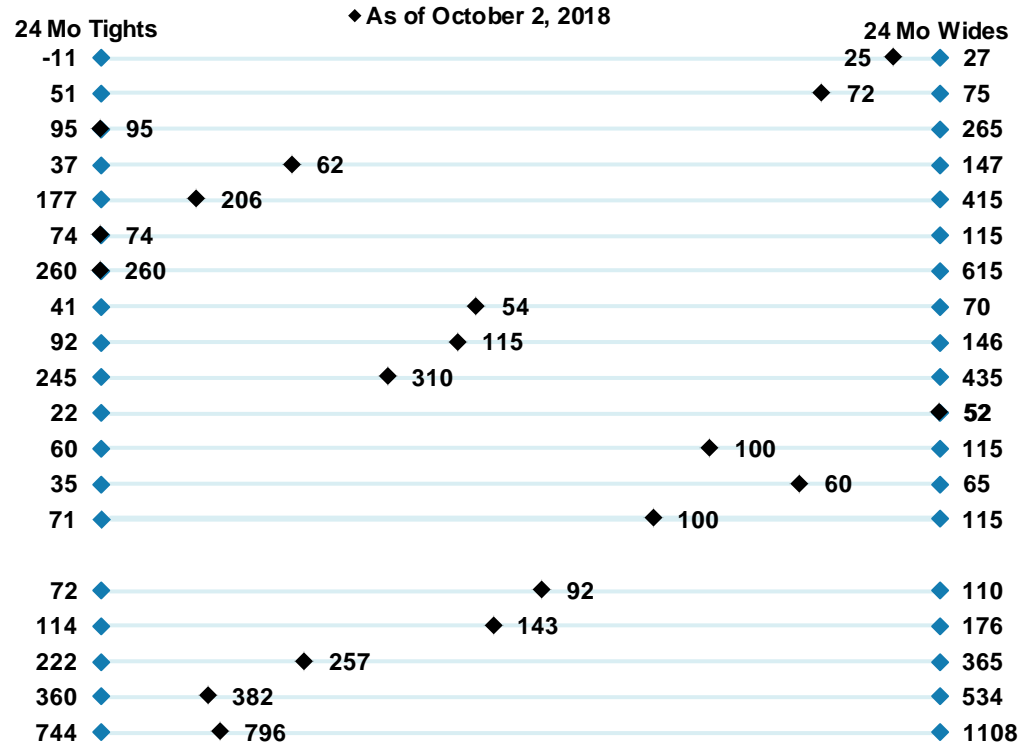
<b>Overall Results</b>	<ul style="list-style-type: none"> <li>▪ Net income: \$0.9 million or \$0.07 per share</li> <li>▪ Economic return: 0.5% for the quarter</li> <li>▪ Net Interest Margin: 1.02%; Adjusted Net Interest Margin<sup>(1)</sup>: 1.12%</li> </ul>
<b>Core Earnings<sup>(2)</sup></b>	<ul style="list-style-type: none"> <li>▪ Core Earnings: \$3.7 million or \$0.29 per share</li> <li>▪ Adjusted Core Earnings<sup>(1)</sup>: \$4.1 million or \$0.32 per share</li> </ul>
<b>Shareholders' Equity &amp; BVPS<sup>(3)</sup></b>	<ul style="list-style-type: none"> <li>▪ Shareholders' equity: \$170.2 million</li> <li>▪ Book value per share: \$13.40</li> </ul>
<b>Portfolio</b>	<ul style="list-style-type: none"> <li>▪ Agency RMBS Portfolio: \$1.56 billion<sup>(3)</sup> <ul style="list-style-type: none"> <li>○ Weighted average prepayment speed on fixed-rate specified pools of 8.4% CPR for the quarter</li> <li>○ Portfolio turnover of 18%</li> <li>○ Average pay-ups on specified pools of 0.56%<sup>(3)</sup></li> </ul> </li> <li>▪ Non-Agency RMBS Portfolio: \$12.0 million<sup>(3)</sup></li> </ul>
<b>Leverage<sup>(3)</sup></b>	<ul style="list-style-type: none"> <li>▪ Debt-to-equity ratio: 8.8:1</li> <li>▪ Net mortgage assets-to-equity ratio of 7.9:1<sup>(4)</sup></li> </ul>
<b>Dividend</b>	<ul style="list-style-type: none"> <li>▪ Declared third quarter dividend of \$0.37 per share (paid in October 2018)</li> <li>▪ Annualized dividend yield of 14.1% based on closing price of \$10.48 on November 2, 2018</li> </ul>
<b>Share Repurchase Program</b>	<ul style="list-style-type: none"> <li>▪ Repurchased 21,720 shares during the quarter, or approximately 0.2%, at an average price of \$10.82</li> </ul>
<b>Expense Ratio</b>	<ul style="list-style-type: none"> <li>▪ 3.0% of shareholders' equity on an annualized basis</li> </ul>

## Securitized Products

US Agency MBS TOAS  
 US Agency MBS TZV  
 US Non-Agency RMBS  
 CRT OTR M1  
 CRT OTR LCF  
 US CMBS AAA  
 US CMBS BBB-  
 Agy CMBS Freddie A2 (10yr)  
 US CLO 2.0 AAA  
 US CLO 2.0 BBB  
 UK Prime  
 UK NC Snr  
 ES RMBS AAA  
 EUR CLO 2.0 AAA

## US Corporate Credit

US IG Corp A OAS  
 US IG Corp BBB OAS  
 US HY Corp BB STW  
 US HY Corp B STW  
 US HY Corp CCC STW



Source: Morgan Stanley

- Option-adjusted Agency RMBS spreads remain near their 24-month widest levels, and wide relative to many credit-sensitive sectors

# Summary of Financial Results

**E A R N**

ELLINGTON RESIDENTIAL MORTGAGE REIT

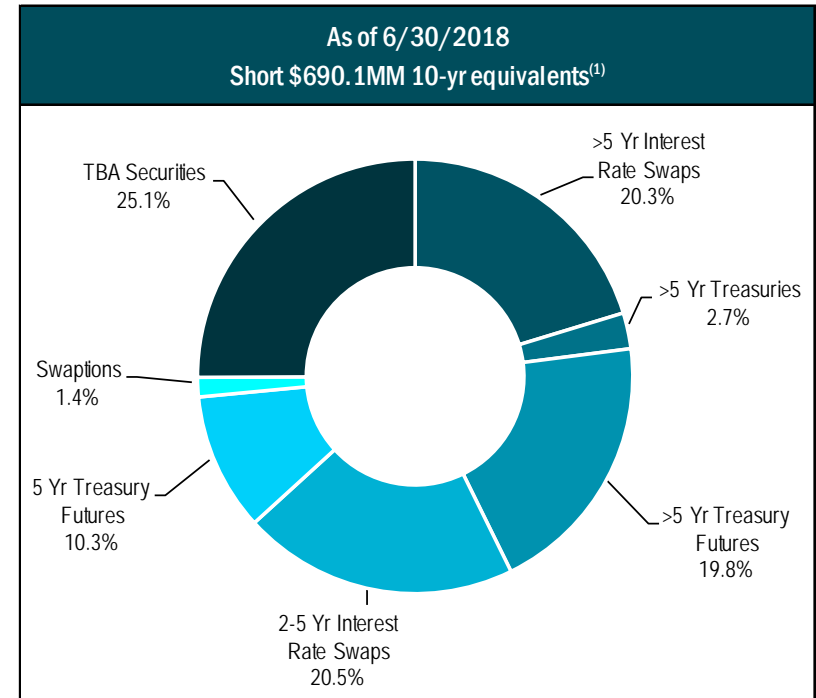
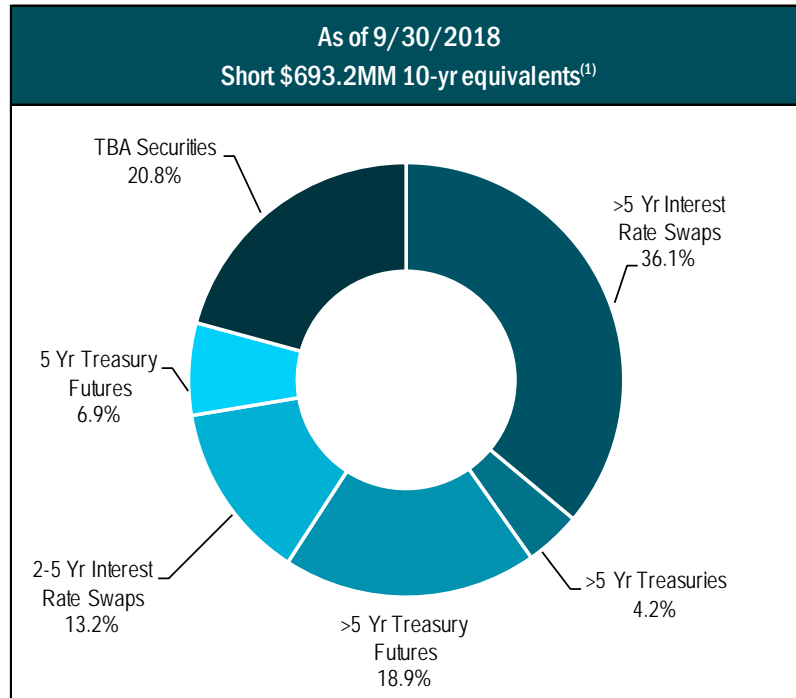
	Quarter Ended 9/30/2018		Quarter Ended 6/30/2018	
		Per Share <sup>(1)</sup>		Per Share <sup>(1)</sup>
<i>(\$ in thousands except per share amounts)</i>				
Interest Income	\$ 13,171		\$ 14,081	
Interest Expense	(8,519)		(7,668)	
Total Net Interest Income	\$ 4,652		\$ 6,413	
Total Other Gain (Loss) <sup>(2)</sup>	\$ 388		\$ 131	
Total Expenses	\$ 1,331		\$ 1,427	
Total Expenses as % of Average Equity, Annualized <sup>(3)</sup>	3.04%		3.22%	
<b>Core Earnings<sup>(4)</sup></b>	<b>\$ 3,709</b>	<b>\$ 0.29</b>	<b>\$ 5,117</b>	<b>\$ 0.40</b>
Less: Catch-up Premium Amortization Adjustment <sup>(5)</sup>	(398)		480	
<b>Adjusted Core Earnings<sup>(6)</sup></b>	<b>\$ 4,107</b>	<b>\$ 0.32</b>	<b>\$ 4,637</b>	<b>\$ 0.36</b>
<b>Net Realized and Unrealized Gain (Loss):</b>				
RMBS	\$ (11,180)		\$ (10,172)	
Interest Rate Hedges	8,417		6,841	
Total Net Realized and Unrealized Gain (Loss)	\$ (2,763)		\$ (3,331)	
<b>Net Income (Loss)</b>	<b>\$ 946</b>	<b>\$ 0.07</b>	<b>\$ 1,786</b>	<b>\$ 0.14</b>
Adjusted Weighted Average Yield <sup>(7)</sup>	3.26%		3.15%	
Cost of Funds	-2.14%		-1.98%	
Adjusted Net Interest Margin <sup>(6)</sup>	1.12%		1.17%	
<b>Shareholders' Equity</b>	<b>\$ 170,230</b>	<b>\$ 13.40</b>	<b>\$ 174,169</b>	<b>\$ 13.70</b>

# Portfolio Summary

EARN

ELLINGTON RESIDENTIAL MORTGAGE REIT

(In thousands)	September 30, 2018					June 30, 2018				
	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	\$ 145,249	\$ 145,769	\$ 100.36	\$ 151,319	\$ 104.18	\$ 147,080	\$ 148,499	\$ 100.96	\$ 153,512	\$ 104.37
20-year fixed rate mortgages	7,687	7,866	102.33	8,287	107.81	8,143	8,421	103.41	8,767	107.66
30-year fixed rate mortgages	1,273,788	1,297,612	101.87	1,335,573	104.85	1,263,388	1,294,483	102.46	1,329,912	105.27
ARMs	18,513	19,051	102.91	19,735	106.60	20,124	20,730	103.01	21,521	106.94
Reverse mortgages	70,938	75,049	105.80	77,510	109.26	71,781	76,831	107.04	78,603	109.50
Total Agency RMBS	1,516,175	1,545,347	101.92	1,592,424	105.03	1,510,516	1,548,964	102.55	1,592,315	105.42
Non-Agency RMBS	14,418	11,952	82.90	9,908	68.72	14,839	12,024	81.03	10,278	69.26
Total RMBS <sup>(2)</sup>	1,530,593	1,557,299	101.74	1,602,332	104.69	1,525,355	1,560,988	102.34	1,602,593	105.06
Agency Interest Only RMBS	n/a	18,684	n/a	17,601	n/a	n/a	19,115	n/a	18,583	n/a
Total mortgage-backed securities		1,575,983		1,619,933			1,580,103		1,621,176	
U.S. Treasury securities sold short	(26,816)	(26,367)	98.33	(26,412)	98.49	(16,300)	(16,195)	99.36	(15,999)	98.15
Reverse repurchase agreements	26,769	26,769	100.00	26,769	100.00	21,373	21,373	100.00	21,373	100.00
Total		<u>\$1,576,385</u>		<u>\$1,620,290</u>			<u>\$1,585,281</u>		<u>\$1,626,550</u>	

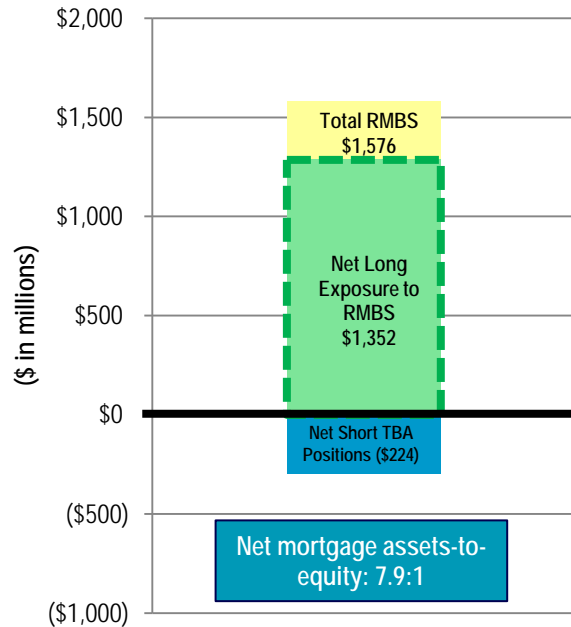


- Shorting “generic” pools (or TBAs) allows EARN to significantly reduce interest rate risk and basis risk in its Agency portfolio
- We also hedge interest rate risk with swaps, U.S. Treasury securities, futures, and swaptions
- We hedge along the entire yield curve to protect against volatility, defend book value and more thoroughly control interest rate risk

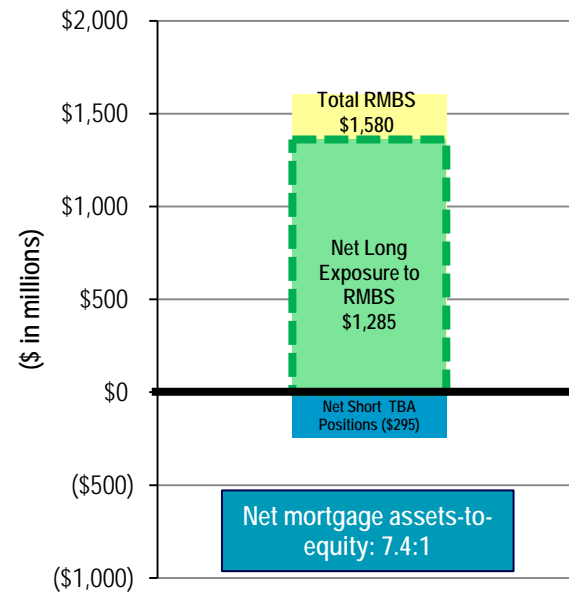


## Exposure to RMBS Based on Fair Value of TBA Portfolio<sup>(1)</sup>

As of 9/30/2018

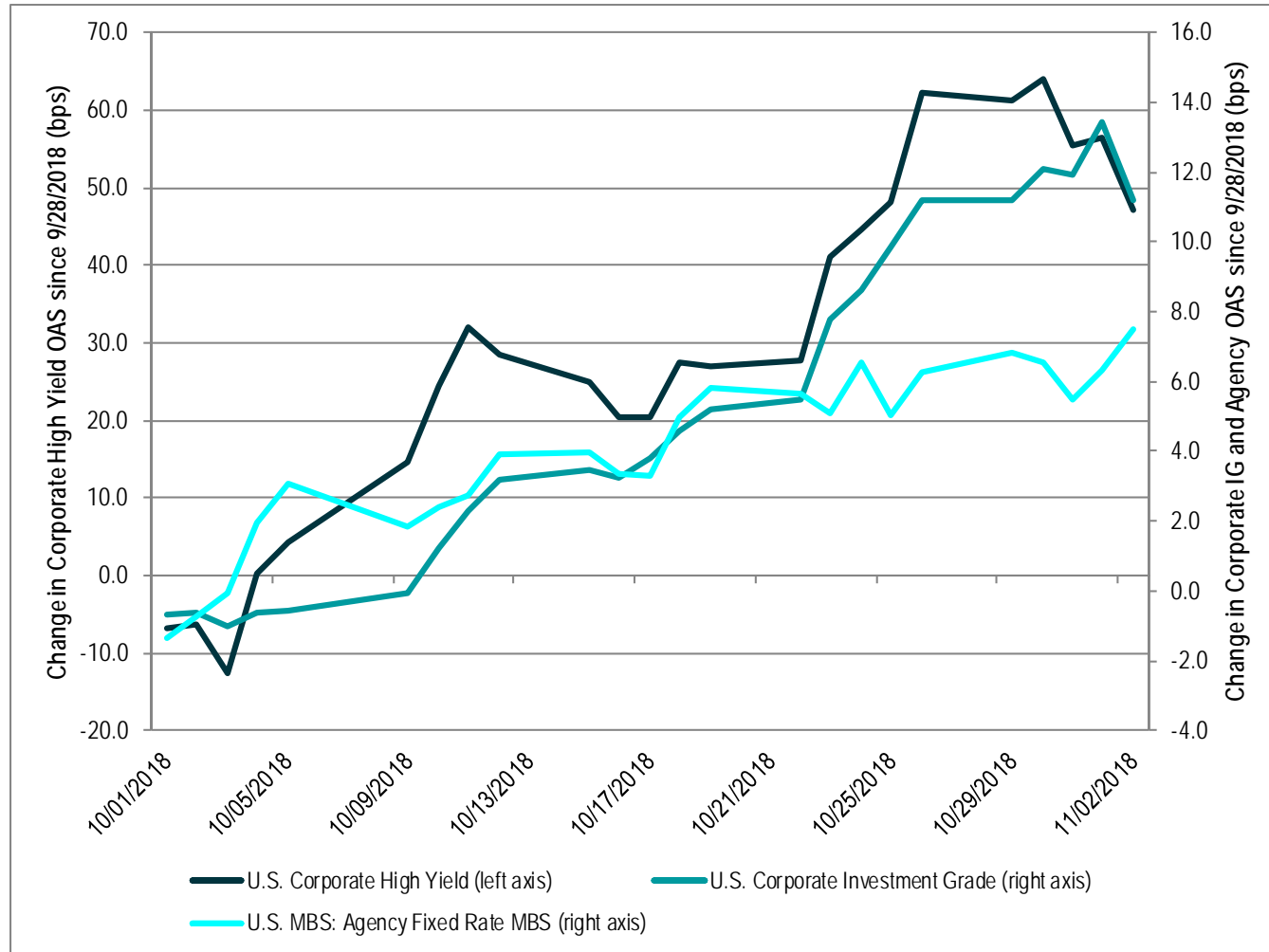


As of 6/30/2018

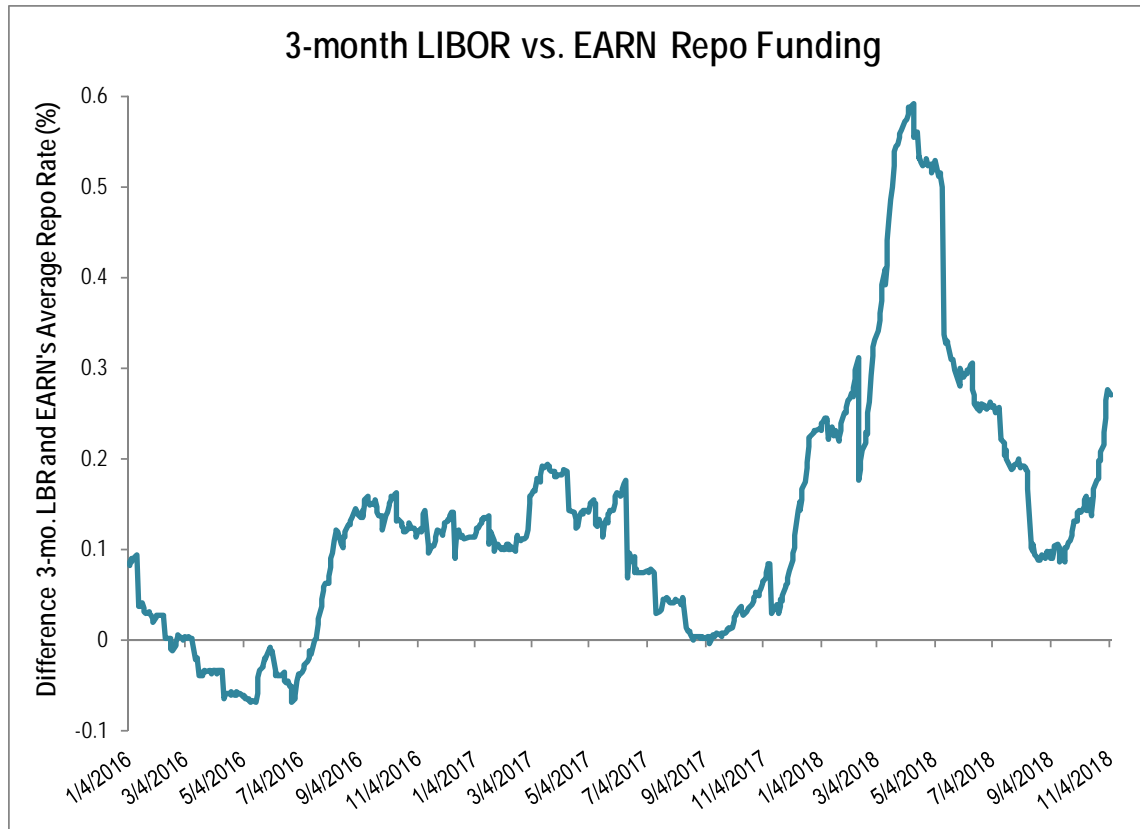


- EARN carries lower net effective mortgage exposure than our “headline” leverage would suggest
  - Our net mortgage assets-to-equity<sup>(2)</sup> ratio was 7.9:1 versus our debt-to-equity ratio of 8.8:1 as of September 30, 2018
- Use of TBA short positions as hedges:
  - Helps drive outperformance in especially volatile 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 large portion of our specified pool portfolio

# Option-Adjusted Spreads in Q4



Source: Bloomberg

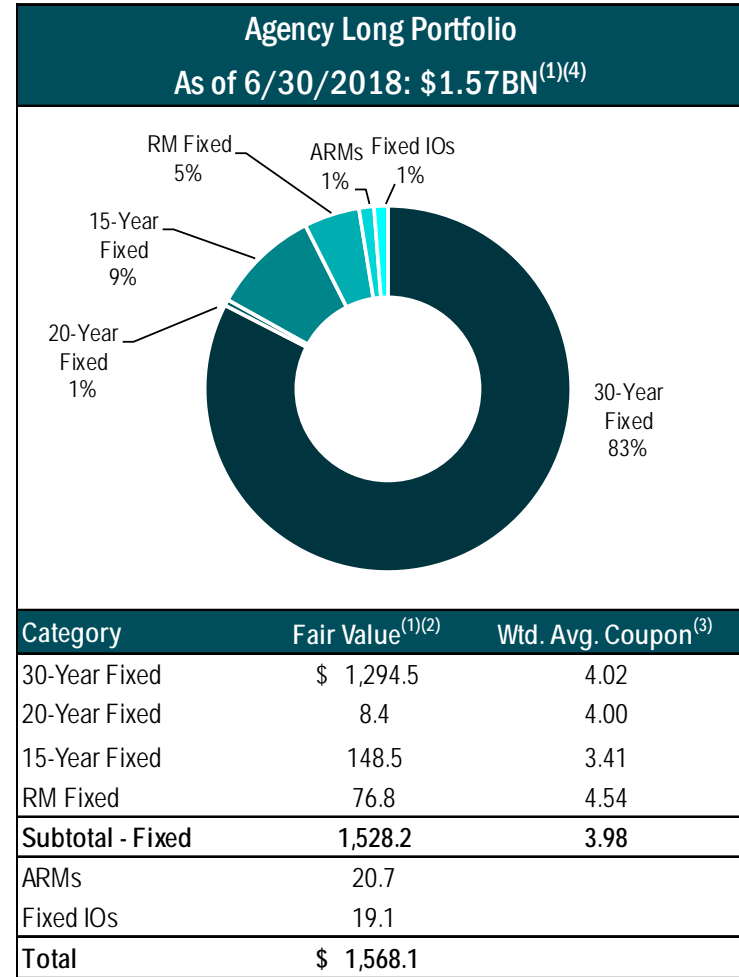
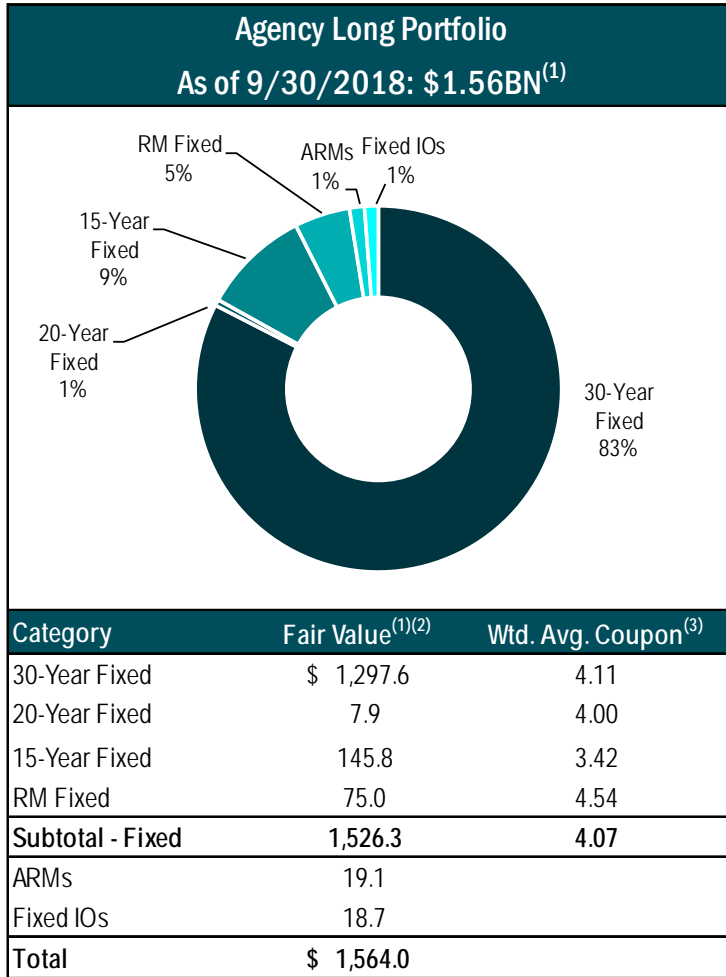


- The spread between the Agency repo funding rate and 3-month LIBOR has widened significantly since the end of 2017
- EARN's cost of funds should benefit from the spread differential between our repo rate and 3-month LIBOR as the floating/receiving leg of our swaps reset higher
  - This funding advantage is only available to the leveraged investor
  - Only a small portion of the Agency investor base uses leverage: notably, mREITs and hedge funds
  - Funding advantage is supportive of Core Earnings

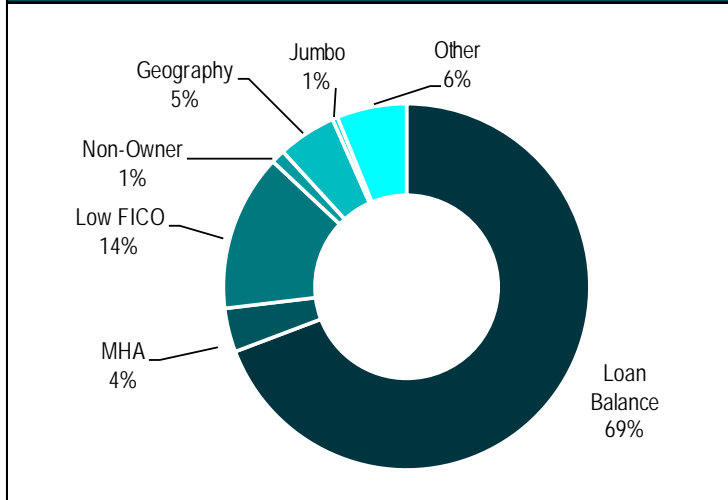
1. Take advantage of relative value trading opportunities that we believe will emerge as a diminishing Fed footprint and potential continued interest rate hikes lead to more pricing dislocations
2. Dial up and down our MBS exposure aggressively in response to market opportunities
3. Supplement earnings with book value accretion via share repurchases when stock price is deeply discounted
4. Capitalize on investment opportunities that emerge as volatility returns to the market
  - 2018 has been marked by rising bond yields and a flattening yield curve
  - Our hedging strategy and the high liquidity of our current portfolio enable us to take advantage of investment opportunities

# Supplemental Slides



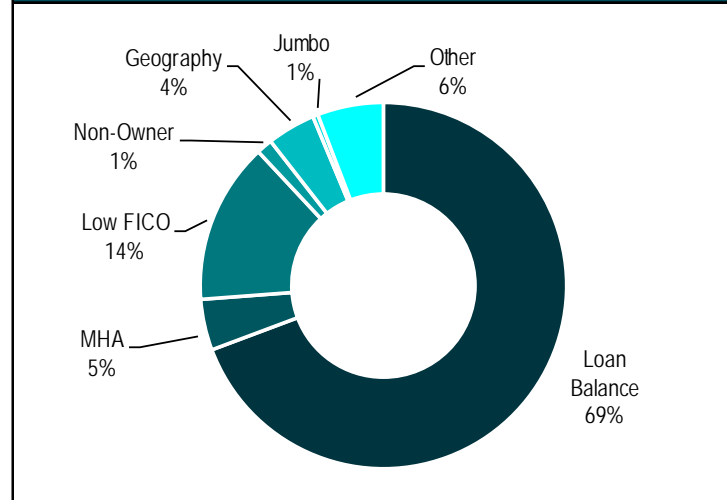


**Agency Fixed Long Portfolio**  
Collateral Characteristics and Historical 3-Mo CPR:  
Average for Quarter Ended 9/30/2018<sup>(1)</sup>

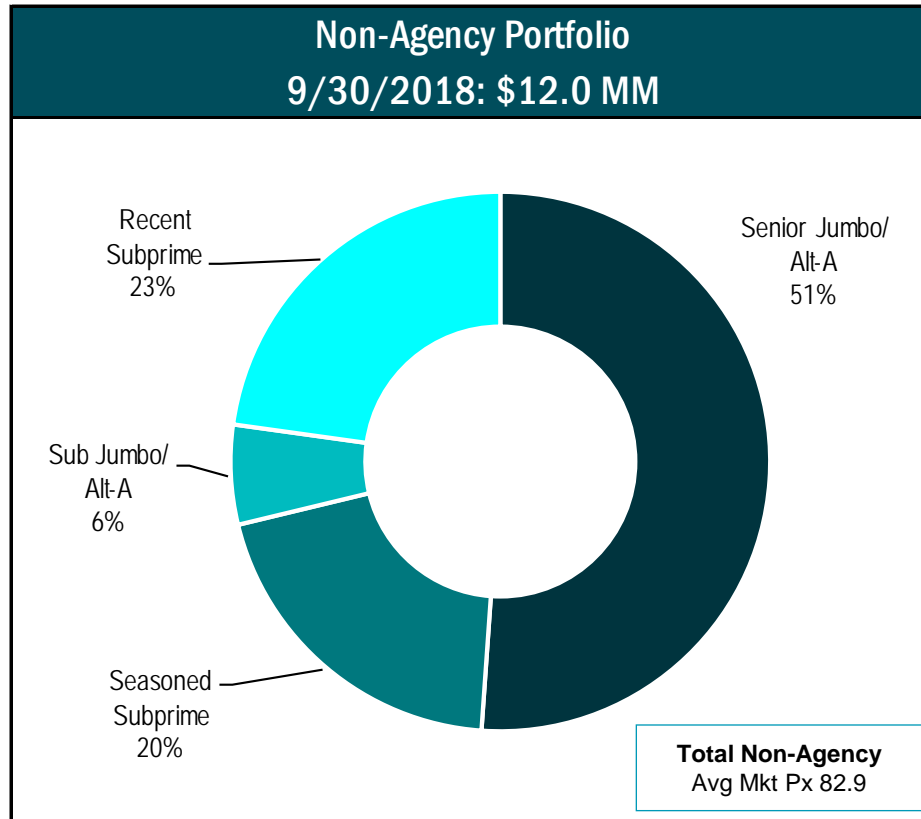


Characteristic <sup>(2)</sup>	Fair Value <sup>(1)(3)</sup>	3-Month CPR %
Loan Balance	\$ 1,000.8	9.7
MHA <sup>(4)</sup>	55.9	10.3
Low FICO	200.5	3.5
Non-Owner	17.8	16.7
Geography	74.6	3.5
Jumbo	6.6	5.7
Other	89.1	4.4
<b>Total</b>	<b>\$ 1,445.4</b>	<b>8.4</b>

**Agency Fixed Long Portfolio**  
Collateral Characteristics and Historical 3-Mo CPR:  
Average for Quarter Ended 6/30/2018<sup>(1)</sup>



Characteristic <sup>(2)</sup>	Fair Value <sup>(1)(3)</sup>	3-Month CPR %
Loan Balance	\$ 1,030.8	8.8
MHA <sup>(4)</sup>	67.0	10.1
Low FICO	211.9	5.6
Non-Owner	20.9	10.4
Geography	63.4	6.1
Jumbo	6.9	28.4
Other	86.6	5.1
<b>Total</b>	<b>\$ 1,487.6</b>	<b>8.2</b>



- We continue to maintain a small but high-yielding portfolio of non-Agency RMBS
- May increase allocation to sector should more attractive entry points arise



Remaining Days to Maturity	September 30, 2018			June 30, 2018		
	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	\$ 346,841	2.21%	15	\$ 481,649	2.00%	16
31-60 days	721,514	2.25%	45	732,797	2.10%	45
61-90 days	342,650	2.36%	77	322,770	2.18%	76
91-120 days	89,627	2.30%	108	–	–	–
<b>Total</b>	<b>\$ 1,500,632</b>	<b>2.27%</b>	<b>49</b>	<b>\$ 1,537,216</b>	<b>2.09%</b>	<b>42</b>

- Outstanding borrowings are with 12 counterparties as of September 30, 2018
- Cost of repo increased as LIBOR increased
- Availability from both existing and new lending counterparties remains strong

# 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	\$ 169	0.10%	\$ (181)	-0.11%
Agency RMBS—Fixed Pools and IOs	27,365	16.07%	(34,818)	-20.45%
TBAs	(5,626)	-3.30%	6,462	3.80%
Non-Agency RMBS	280	0.16%	(274)	-0.16%
Interest Rate Swaps	(14,643)	-8.60%	14,058	8.25%
U.S. Treasury Securities	(1,258)	-0.74%	1,184	0.70%
U.S. Treasury Futures	(7,616)	-4.47%	7,384	4.34%
Repurchase and Reverse Repurchase Agreements	(1,054)	-0.62%	1,054	0.62%
<b>Total</b>	<b>\$ (2,383)</b>	<b>-1.40%</b>	<b>\$ (5,131)</b>	<b>-3.01%</b>

# Interest Rate Hedging as of September 30, 2018

(\$ in thousands)

Fixed Payer Interest Rate Swap						
Maturity	Notional Amount	Fair Value	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity	
2020-2022	\$ 287,880	\$ 7,106	1.83%	2.33%	2.58	
2023-2025	80,222	3,044	2.30%	2.33%	5.79	
2026-2043	209,328	8,026	2.58%	2.33%	10.16	
<b>Total</b>	<b>\$ 577,430</b>	<b>\$ 18,176</b>	<b>2.17%</b>	<b>2.33%</b>	<b>5.77</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 TBAs, net</b>	<b>\$ (224,919)</b>	<b>\$ (224,897)</b>	<b>\$ (223,770)</b>	<b>\$ 1,127</b>

Futures			
	Notional Amount	Fair Value	Remaining Months to Expiration
<b>U.S. Treasury Futures</b>	<b>\$ (246,700)</b>	<b>\$ 3,413</b>	<b>3</b>

# Consolidated Statement of Operations

(Unaudited)

E A R N

ELLINGTON RESIDENTIAL MORTGAGE REIT

	Three Month Period Ended		Nine Month
	September 30, 2018	June 30, 2018	Period Ended September 30, 2018
<i>(In thousands except share amounts)</i>			
<b>INTEREST INCOME (EXPENSE)</b>			
Interest income	\$ 13,171	\$ 14,081	\$ 40,677
Interest expense	(8,519)	(7,668)	(23,434)
Total net interest income	4,652	6,413	17,243
<b>EXPENSES</b>			
Management fees to affiliate	641	656	1,968
Professional fees	198	217	651
Compensation expense	136	187	511
Insurance expense	74	74	221
Other operating expenses	283	293	924
Total expenses	1,332	1,427	4,275
<b>OTHER INCOME (LOSS)</b>			
Net realized gains (losses) on securities	(8,402)	(7,114)	(13,590)
Net realized gains (losses) on financial derivatives	4,058	(3,702)	16,311
Change in net unrealized gains (losses) on securities	(2,636)	(3,218)	(32,915)
Change in net unrealized gains (losses) on financial derivatives	4,606	10,834	16,005
Total other income (loss)	(2,374)	(3,200)	(14,189)
<b>NET INCOME (LOSS)</b>	\$ 946	\$ 1,786	\$ (1,221)
<b>NET INCOME (LOSS) PER COMMON SHARE</b>			
Basic and Diluted	\$ 0.07	\$ 0.14	\$ (0.09)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	12,693,989	12,715,277	12,875,884
<b>CASH DIVIDENDS PER SHARE:</b>			
Dividends declared	\$ 0.37	\$ 0.37	\$ 1.11

# Consolidated Balance Sheet

(Unaudited)

EARN

ELLINGTON RESIDENTIAL MORTGAGE REIT

	As of		
	September 30, 2018	June 30, 2018	December 31, 2017 <sup>(1)</sup>
<i>(In thousands except share amounts)</i>			
<b>ASSETS</b>			
Cash and cash equivalents	\$ 41,016	\$ 41,402	\$ 56,117
Mortgage-backed securities, at fair value	1,575,983	1,580,103	1,685,998
Due from brokers	27,044	26,946	26,754
Financial derivatives-assets, at fair value	23,049	20,095	8,792
Reverse repurchase agreements	26,769	21,373	81,461
Receivable for securities sold	52,531	51,614	21,606
Interest receivable	5,675	5,988	5,784
Other assets	717	748	575
<b>Total Assets</b>	<b>\$ 1,752,784</b>	<b>\$ 1,748,269</b>	<b>\$ 1,887,087</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Repurchase agreements	\$ 1,500,632	\$ 1,537,216	\$ 1,597,206
Payable for securities purchased	36,539	1,387	3,830
Due to brokers	8,298	7,312	489
Financial derivatives-liabilities, at fair value	333	1,655	1,863
U.S. Treasury securities sold short, at fair value	26,367	16,195	81,289
Dividend payable	4,700	4,703	4,936
Accrued expenses	704	849	728
Management fee payable to affiliate	641	656	725
Interest payable	4,340	4,127	3,318
<b>Total Liabilities</b>	<b>\$ 1,582,554</b>	<b>\$ 1,574,100</b>	<b>\$ 1,694,384</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; (12,703,474, 12,712,050 and 13,340,217 shares issued and outstanding,	127	127	134
Additional paid-in-capital	232,967	233,152	240,062
Accumulated deficit	(62,864)	(59,110)	(47,493)
<b>Total Shareholders' Equity</b>	<b>170,230</b>	<b>174,169</b>	<b>192,703</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,752,784</b>	<b>\$ 1,748,269</b>	<b>\$ 1,887,087</b>
<b>Per Share Information</b>			
Common shares, par value \$0.01 per share	\$ 13.40	\$ 13.70	\$ 14.45

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

E A R N

ELLINGTON RESIDENTIAL MORTGAGE REIT

	Three Month Period Ended	
	September 30, 2018	June 30, 2018
<i>(In thousands except share amounts)</i>		
Net Income (Loss)	\$ 946	\$ 1,786
Less:		
Net realized gains (losses) on securities	(8,402)	(7,114)
Net realized gains (losses) on financial derivatives, excluding periodic payments <sup>(2)</sup>	2,777	(2,361)
Change in net unrealized gains (losses) on securities	(2,636)	(3,218)
Change in net unrealized gains and (losses) on financial derivatives, excluding accrued periodic payments <sup>(3)</sup>	5,499	9,362
Subtotal	(2,762)	(3,331)
Core Earnings	\$ 3,708	\$ 5,117
Catch-up Premium Amortization Adjustment	(398)	480
Adjusted Core Earnings	\$ 4,106	\$ 4,637
Weighted Average Shares Outstanding	12,693,989	12,715,277
Core Earnings Per Share	\$ 0.29	\$ 0.40
Adjusted Core Earnings Per Share	\$ 0.32	\$ 0.36

## Ellington Profile

As of 9/30/2018

<b>Founded:</b>	<b>1994</b>
<b>Employees:</b>	<b>&gt;150</b>
<b>Investment Professionals:</b>	<b>65</b>
<b>Global offices:</b>	<b>3</b>

### \$7.5

Billion in  
assets under  
management as of  
9/30/2018<sup>(1)</sup>

### 16

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

### 18

Years of average  
industry experience  
of senior portfolio  
managers

### 23%

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 and its affiliates manage Ellington Residential Mortgage REIT (EARN), Ellington Financial LLC (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 25% of employees dedicated to research and infrastructure development
- Structured credit trading experience and analytical skills developed since the firm's founding 23 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 23-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) The LIBOR-based Zero-volatility spread (Z-spread) is the constant spread over LIBOR that makes the price of a security equal to the present value of its cash flows when added to the yield at each point on the spot rate Treasury curve where cash flows are received.

## Slide 4 – Third Quarter Highlights

- (1) Adjusted Core Earnings and Adjusted Net Interest Margin represent Core Earnings and Net Interest Margin, respectively, in each case excluding the effect of the Catch-Up Premium Amortization Adjustment on interest income.
- (2) Core Earnings and Adjusted Core Earnings are non-GAAP financial measures. See slide 22 for a reconciliation of Core Earnings to Net Income (Loss).
- (3) As of September 30, 2018.
- (4) 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, 2018 the market value of our mortgage-backed securities and our net short TBA position was \$1.576 billion and \$(223.8) million, respectively, and total shareholders' equity was \$170.2 million.

## Slide 6 – 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) Average equity is calculated using month end values.
- (4) Core Earnings is a non-GAAP financial measure. See slide 22 for a reconciliation of Core Earnings to Net Income (Loss).
- (5) See slide 22, endnote 1 for definition of Catch-up Premium Amortization Adjustment.
- (6) Adjusted Core Earnings and Adjusted Net Interest Margin represent Core Earnings and Net Interest Margin, respectively, in each case excluding the effect of the Catch-Up Premium Amortization Adjustment on interest income.
- (7) Adjusted Weighted Average Yield represents the weighted average yield on our portfolio, excluding the impact of the Catch-up Premium Amortization Adjustment.

## 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 – Agency 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, 2018 and June 30, 2018. The net carrying value of the TBA positions as of September 30, 2018 and June 30, 2018 on the Consolidated Balance Sheet was \$1.1 million and \$(1.0) 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 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 14 – Agency Portfolio Summary

- (1) Does not include long TBA positions with a notional value of \$128.0 million and a market value of \$129.3 million as of September 30, 2018. Does not include long TBA positions with a notional value of \$149.5 million and a market value of \$153.7 million as of June 30, 2018.
- (2) Fair value shown in millions.
- (3) Represents weighted average net pass-through rate.
- (4) Conformed to current period presentation

## Slide 15 – 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 17 – Repo Borrowings

- (1) As of September 30, 2018 and June 30, 2018, the Company had no outstanding borrowings other than under repurchase agreements.

## Slide 18 – Interest Rate Sensitivity Analysis

- (1) Based on the market environment as of September 30, 2018. 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 19 - Interest Rate Hedging as of September 30, 2018

- (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, 2018.
- (4) Net carrying value represents the difference between the market value of the TBA contract as of September 30, 2018 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 21 – Balance Sheet

- (1) Derived from audited financial statements as of December 31, 2017.

## Slide 22 – 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, 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. Adjusted Core Earnings represents Core Earnings excluding 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 assumptions about cashflows and prepayments, and can vary significantly from quarter to quarter. Core Earnings and Adjusted Core Earnings are supplemental non-GAAP financial measures. We believe that Core Earnings and Adjusted Core Earnings 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 Adjusted Core Earnings are used to help measure the extent to which this objective is being achieved. However, because Core Earnings and Adjusted Core Earnings 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 September 30, 2018 and June 30, 2018, our Core Earnings and Adjusted Core Earnings on a consolidated basis to the line on our Consolidated Statement of Operations entitled Net Income (Loss), which we believe is the most directly comparable GAAP measure on our Consolidated Statement of Operations to Core Earnings and Adjusted Core Earnings.
- (2) For the three month period ended September 30, 2018, represents Net realized gains (losses) on financial derivatives of \$4.1 million less Net realized gains (losses) on periodic settlements of interest rate swaps of \$1.3 million. For the three month period ended June 30, 2018, represents Net realized gains (losses) on financial derivatives of \$(3.7) million less Net realized gains (losses) on periodic settlements of interest rate swaps of \$(1.3) million.
- (3) For the three month period ended September 30, 2018, represents Change in net unrealized gains (losses) on financial derivatives of \$4.6 million less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of \$(0.9) million. For the three month period ended June 30, 2018, represents Change in net unrealized gains (losses) on financial derivatives of \$10.8 million less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of \$1.5 million.

## Slide 23 – About Ellington

- (1) \$7.5 billion in assets under management includes approximately \$1.0 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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