



# Fourth Quarter & Full Year 2020 Earnings Presentation

*February 4, 2021*

# Safe Harbor Statement

## NOTE:

This presentation contains certain statements that are not historical facts and that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this presentation addressing expectations, assumptions, beliefs, projections, estimates, future plans, strategies, and events, developments that we expect or anticipate will occur in the future, and future operating results or financial condition are forward-looking statements. Forward-looking statements in this presentation may include, but are not limited to, our views in macroeconomic trends statements regarding our financial performance in future periods, future interest rates, our views on expected characteristics of future investment environments, and trends prepayment rates and investment risks and trends, our future investment strategies, our future leverage levels and financing strategies, the use of specific financing and hedging instruments and the future impacts of these strategies, the amount, timing or funding of future dividends, future actions by the Federal Reserve and other central banks and GSEs and the expected performance of our investments. The words “will,” “believe,” “expect,” “forecast,” “anticipate,” “intend,” “estimate,” “assume,” “project,” “plan,” “continue,” and similar expressions also identify forward-looking statements. These forward-looking statements reflect our current beliefs, assumptions and expectations based on information currently available to us, and are applicable only as of the date of this presentation. Forward-looking statements are inherently subject to risks, uncertainties, and other factors, some of which cannot be predicted or quantified and any of which could cause the Company’s actual results and timing of certain events to differ materially from those projected in or contemplated by these forward-looking statements. Not all of these risks, uncertainties and other factors are known to us. New risks and uncertainties arise over time, and it is not possible to predict those risks or uncertainties or how they may affect us. The projections, assumptions, expectations or beliefs upon which the forward-looking statements are based can also change as a result of these risks and uncertainties or other factors. If such a risk, uncertainty, or other factor materializes in future periods, our business, financial condition, liquidity and results of operations may differ materially from those expressed or implied in our forward-looking statements.

While it is not possible to identify all factors, some of the factors that may cause actual results to differ from historical results or from any results expressed or implied by our forward-looking statements, or that may cause our projections, assumptions, expectations or beliefs to change, include the risks and uncertainties referenced in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption “Risk Factors”.

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# Market Snapshot

	<u>Common Stock</u>	<u>Preferred Stock <sup>(1)</sup></u>
NYSE Ticker	<b><i>DX</i></b>	<b><i>DXPrC</i></b>
Shares Outstanding <i>(in millions) (as of 2/02/21)</i>	26.9	4.5
4Q20 Dividends Declared	\$0.39	\$0.43
Annualized Dividend Yield <sup>(2)</sup>	8.66%	6.92%
Book Value per share <i>(as of 12/31/20)</i>	\$19.08	—
Share Price <i>(close on 2/02/2021)</i>	\$18.02	\$24.93
Market Capitalization <i>(in millions) (as of 2/02/21)</i>	\$484.03	\$111.19
Price to Book <i>(based on 02/02/2021 stock price and 12/31/20 book value)</i>	94.4%	—

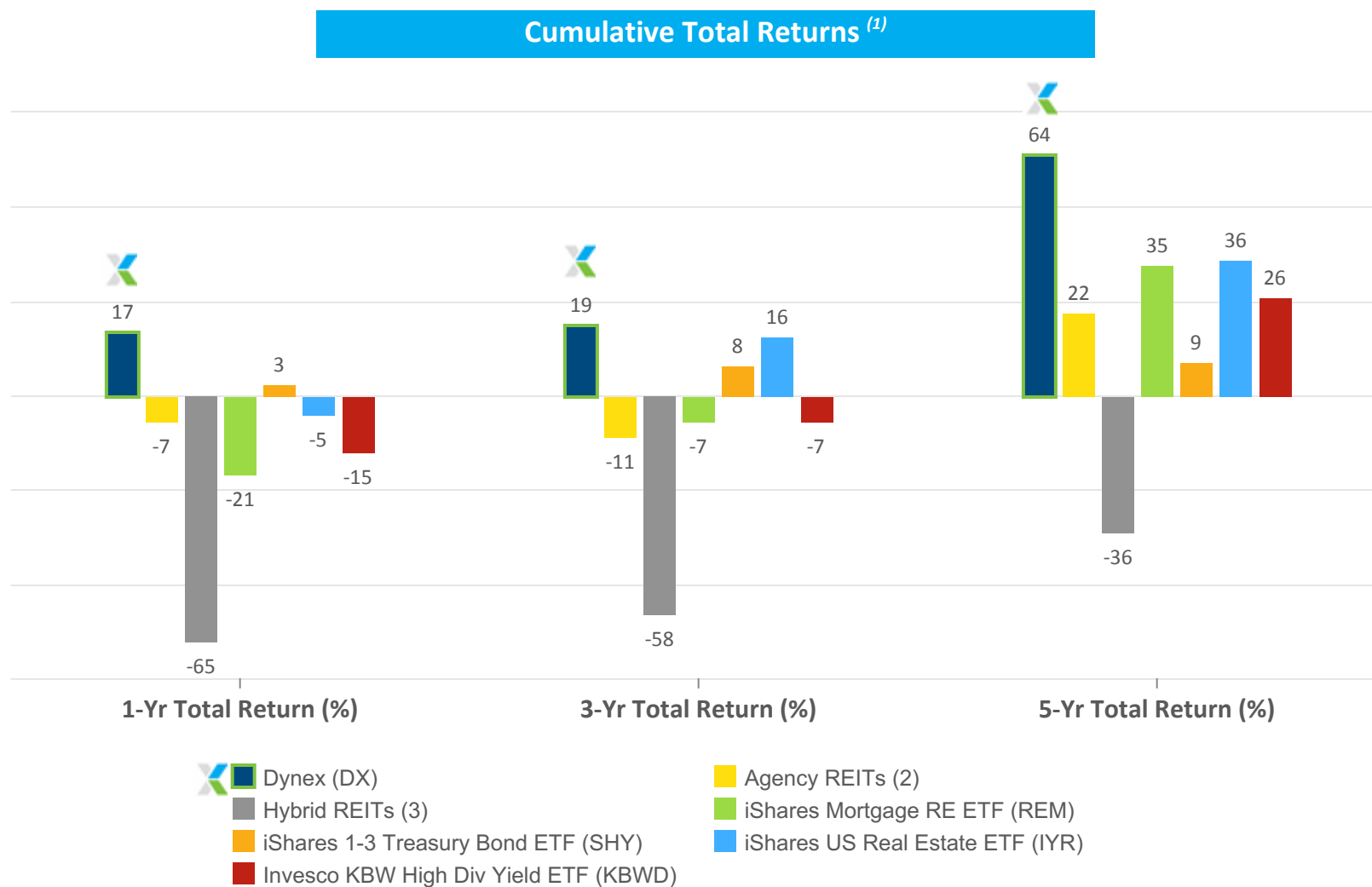
*(1) Preferred Series B is excluded as it will be redeemed February 15, 2021.*

*(2) Annualized dividend yield for Series C Preferred Stock is dividend adjusted.*

*Source: Bloomberg*

# Superior Performance

**Industry-leading performance versus other income-oriented vehicles for 1-, 3-, and 5-years**



(1) Ending period 12/31/2020

(2) Select Agency MREITS on an equal weight basis

(3) Select Hybrid MREITS on an equal weight basis

Source: Bloomberg. Assumes dividends are reinvested.

# Performance Highlights - Full Year 2020

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***Industry-leading Total Economic Return of 15.2% for the full year highlights our philosophy of managing for the long-term as we grew book value by 5.9% and generated solid cash income during 2020.***

- Comprehensive income of \$2.88 per common share and GAAP net income of \$6.93 per common share
- Total economic return<sup>(1)</sup> to common shareholders of 15.2%<sup>(1)</sup> for the full year
- Higher net interest spread and adjusted net interest spread<sup>(2)</sup> of 1.77% and 1.87%, respectively, for 2020 compared to 0.98% and 1.30%, respectively, for 2019
- Core net operating income<sup>(2)</sup> of \$1.94 per common share, including \$0.65 per common share of TBA drop income
- Book value per common share of \$19.08 at December 31, 2020 compared to \$18.01 at December 31, 2019, increase of \$1.07 per share or 5.9%
- Average earning assets, inclusive of TBA securities, were \$4.2 billion for 2020 versus \$5.4 billion for 2019
- Lower leverage<sup>(3)</sup> of 6.3x shareholders' equity at December 31, 2020 compared to 9.0x at December 31, 2019

(1) Equals sum of common stock dividend of \$1.66 per share plus the increase in book value of \$1.07 per common share divided by beginning book value per common share of \$18.01.

(2) Reconciliations for non-GAAP measures are presented on slide [34](#).

(3) Leverage equals the sum of (i) total liabilities and (ii) amortized cost basis of TBA long positions divided by total shareholders' equity.

# Performance Highlights- Q4 2020

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***Total Economic Return of 6.7% for the fourth quarter reflects portfolio allocation to lower coupons.***

***Book value per common share increased 4.6% in the fourth quarter.***

- Comprehensive income of \$1.23 per common share and GAAP net income of \$1.60 per common share
- Total economic return<sup>(1)</sup> to common shareholders of 6.7%<sup>(1)</sup> for the fourth quarter
- Net interest spread and adjusted net interest spread<sup>(2)</sup> of 1.94% and 1.98%, respectively, for the fourth quarter of 2020 compared to 1.96% and 2.00%, respectively, for the third quarter of 2020
- Core net operating income<sup>(2)</sup> of \$0.45 per common share, including \$0.28 per common share of TBA drop income
- Book value per common share increased to \$19.08, or 4.6%, at December 31, 2020 compared to \$18.25 at September 30, 2020
- Average earning assets, inclusive of TBA securities, were \$4.0 billion for the fourth quarter versus \$4.4 billion in the third quarter
- Leverage<sup>(3)</sup> of 6.3x shareholders' equity at December 31, 2020 compared to 6.2x at September 30, 2020

(1) Equals sum of common stock dividend of \$0.39 per share plus the increase in book value of \$0.83 per common share divided by beginning book value per common share of \$18.25.

(2) Reconciliations for non-GAAP measures are presented on slide [34](#).

(3) Leverage equals the sum of (i) total liabilities and (ii) amortized cost basis of TBA long positions divided by total shareholders' equity.

# Macroeconomic Thesis - Long-term

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***Our disciplined macroeconomic thought process leads us to prepare for a transition to a steeper yield curve as one of the more probable scenarios for 2021, which we believe is also a more favorable environment for higher returns.***

- The global economy is evolving but remains fragile as significant uncertainties remain on the pandemic's long-term effects across economic, social and political factors.
- Changing demographics, evolving technologies, human conflict and climate change remain key factors that increase complexity of the environment while also providing investment opportunities.
- Global economies and the global financial system are dependent on Central Banks continuing to play a major role. A large number of risk factors are further exacerbated by the pandemic.
- Fiscal policy remains an important driving force for stimulating growth and inflation. The increased supply of bonds must be absorbed as fiscal policy is financed with debt.
- The Federal Reserve's stated commitment to zero Federal Funds rate and explicit Average Inflation Targeting strategy may further impact steepness of the curve, volatility and level of interest rates.



# Current Environment and Positioning

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***The broader investment environment remains favorable with financing costs anchored well into 2022 and beyond.***

- Our returns for 2021 will be driven by the size of our balance sheet, realized prepayments and amount of drop income.
- Leverage stands at 6.3x; our risk posture of flexibility and liquidity should enable the rapid deployment of capital with strong earnings power.
- While MBS spreads are tight, the Federal Reserve's asset purchase program of Treasuries and Agency RMBS continues to be a strong technical factor. At current returns our leverage will stay around 6.5x with rate volatility contained and carry providing attractive returns. We will use small bouts of widening to add incremental assets and reinvest run-off.
- Our macroeconomic view leads us to prepare for a steeper curve and a more favorable return environment of 10-12% for Agency RMBS. Our target leverage will rise in this environment between one to three times. A 1x increase in leverage at 10% Total Economic Return produces \$0.24 per share of economic earnings.
- Drop income and prepayments are secondary factors which we consider very manageable.

# Risk Position - Interest Rates

***Our disciplined scenario planning process prepares us for navigating changes in interest rates that could impact the market value of our investments and hedges, and therefore shareholders' equity.***

The estimated changes in the tables below incorporate duration and convexity inherent in our investment portfolio as it existed as of the dates indicated.

Parallel shift in interest rates	Percentage Change in Common Shareholders' Equity	
	As of December 31, 2020	As of September 30, 2020
+100	(3.8)%	(0.1)%
+50	(1.7)%	(0.5)%
-50	1.3%	(0.2)%
-100	(5.1)%	1.2%

Curve Shift 2 year Treasury (bps)	Curve Shift 10 year Treasury (bps)	Percentage Change in Common Shareholders' Equity	
		As of December 31, 2020	As of September 30, 2020
+25	+50	(0.4)%	(0.6)%
+50	+25	(2.7)%	(2.3)%
-25	0	1.7%	2.3%
-50	-10	1.6%	2.3%

Source: Company models based on modeled option adjusted duration. Includes changes in market value of our investments and derivative instruments, including TBA securities, but excludes changes in market value of our financings because they are not carried at fair value on our balance sheet.

# Hedge Position *(as of December 31, 2020)*

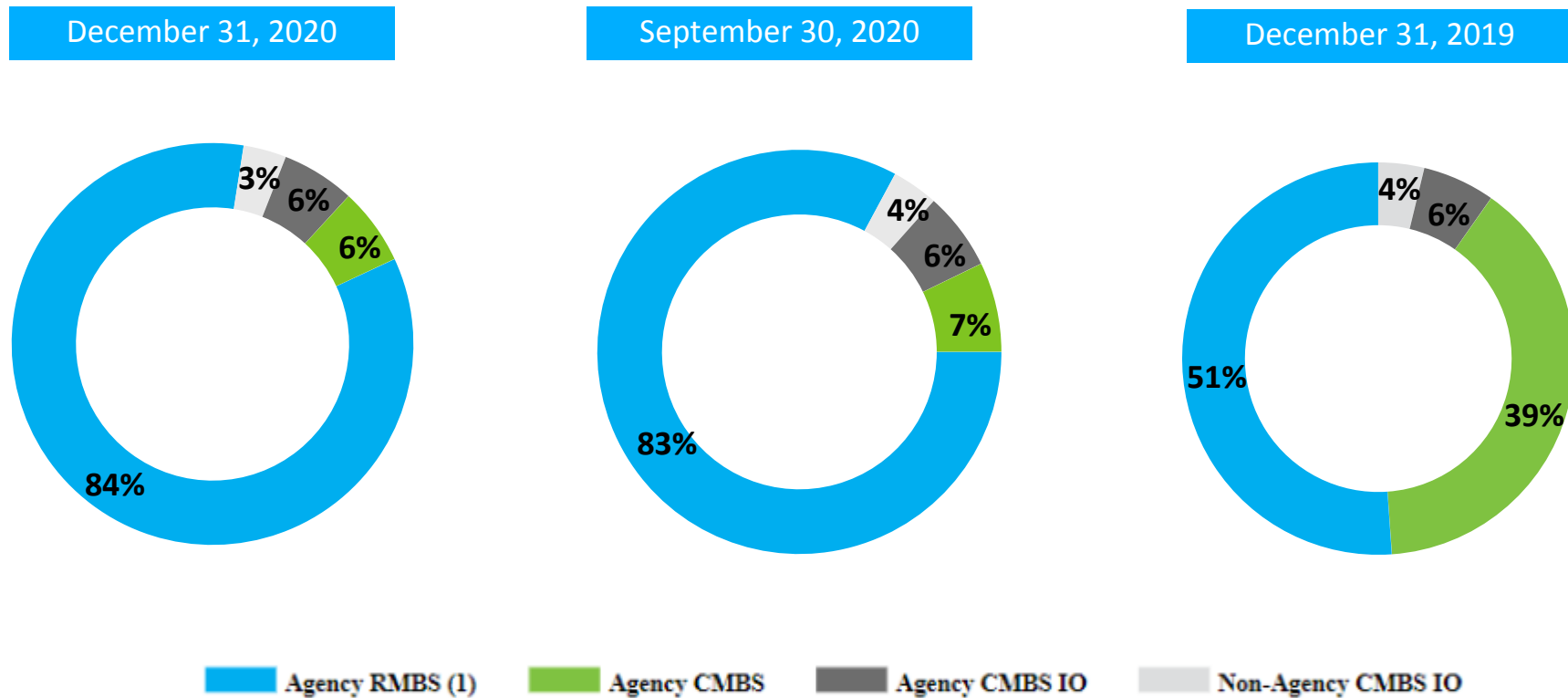
***Our hedge strategy is constructed to maximize liquidity and protection of the portfolio under various rate scenarios.***

- Futures offer hedge protection for higher rates with lower impact on liquidity and greater trading flexibility
- Options based strategy covers rising rate scenarios while minimizing liquidity draw if rates fall
- Swaptions cover rising rate scenarios while allowing for longer-term protection greater than options on futures

	December 31, 2020			September 30, 2020		
	Notional Amount/ Long (Short) (\$ in '000s)	Rate	Average Months to Expiration	Notional Amount/ Long (Short) (\$ in '000s)	Rate	Average Months to Expiration
Interest rate swaptions	1,250,000	1.07%	5	500,000	1.01%	6
Options on U.S. Treasury futures	500,000	1.02%	<1	1,225,000	0.91%	<1
U.S. Treasury futures	(825,000)	n/a	2	(1,025,000)	n/a	3
Interest rate swap	—	—%	—	\$ 50,000	1.35%	<1

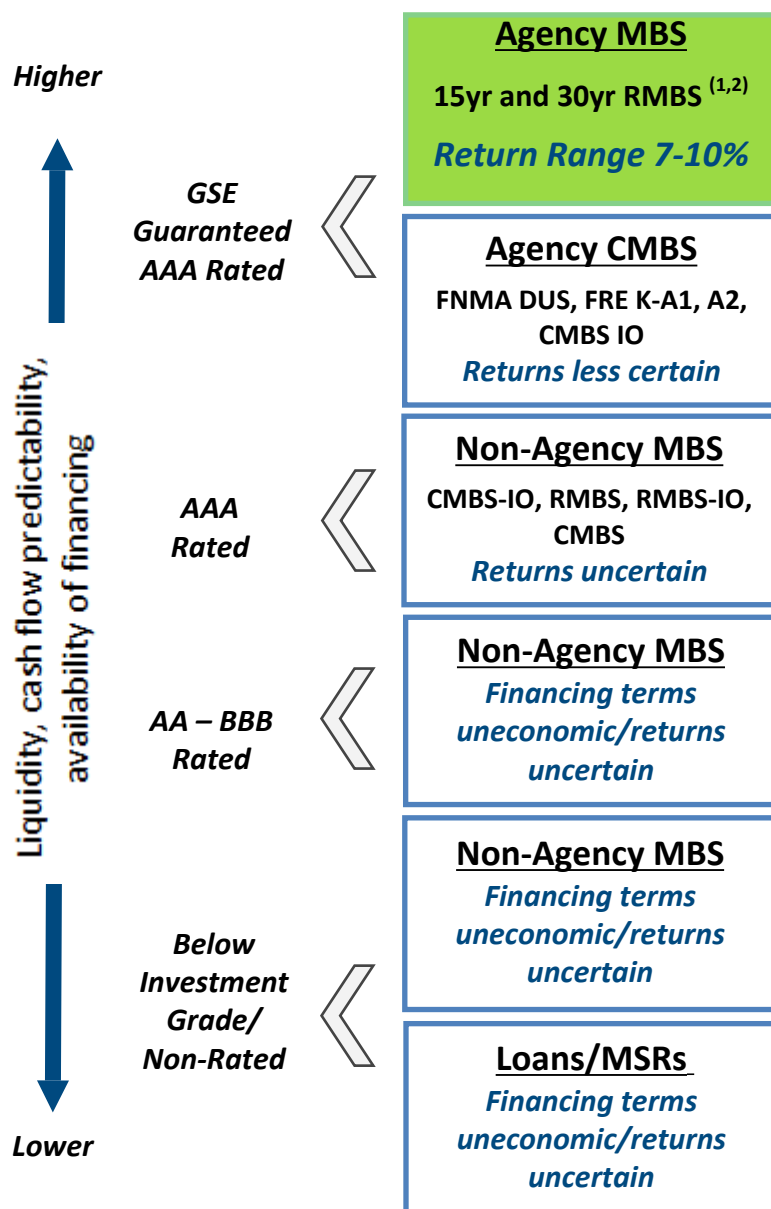
# Investment Portfolio *(as of dates indicated)*

***Disciplined capital allocation and portfolio constructed for flexibility.***



1) Includes TBA dollar roll positions at their implied market value which are accounted for as "derivative assets (liabilities)" on our consolidated balance sheet.

# Current Marginal Investment Returns *(as of December 31, 2020)*



## Agency RMBS offer attractive returns

- The most compelling levered risk and convexity adjusted marginal returns are still in the highest credit quality and the most liquid assets.
- Agency guaranteed RMBS offer attractive returns as funding costs are low, volatility is lower and the Federal Reserve is supporting this sector with purchases.
- TBA contracts offer additional financing advantage vs. repo and increased flexibility to maneuver portfolio size.
- Investing in more liquid MBS allows us the flexibility to rapidly pivot to other opportunities when they arise.
- Lower coupon Agency RMBS paired with options protect against prepayment risk and extension risk.

<sup>(1)</sup> Range of levered returns based on Company assumptions and calculations

<sup>(2)</sup> Includes returns for TBA specialness and specified pools.

# Long-Term Industry Trends

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***Positive long-term fundamental trends support our business model.***

- Global demand for cash yield supports long term valuations of mortgage REITs
  - Aging global population needs cash income
  - The debt overhang results in low to negative global yields reducing cash income available to aging populations
- Favorable investment environment
  - U.S. demographic trends will continue driving household formation/housing demand
  - Financing costs expected to be stable for multiple years on high quality assets
  - Market volatility has been significantly dampened by central bank actions and large scale asset purchases are supportive of market conditions and liquidity
- Further expansion of returns as counter cyclical emergency measures are tapered
  - Need for private capital to replace government balance sheets
  - Better risk premiums as Federal Reserve reduces its footprint over the long-term
  - Less competition from GSEs for assets if they are reformed

# Key Takeaways

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- We had a great year for our shareholders with a Total Economic Return to common shareholders of 15.2% for the full year 2020, highlighting the effectiveness of our skilled risk management and disciplined capital allocation.
  - Book value per common share increased \$1.07 from \$18.01 at year-end 2019 to \$19.08 at December 31, 2020
  - For the full year of 2020 dividends paid are \$1.66, or 9.2% of beginning book value
- We believe the environment remains favorable to earn attractive returns from high-quality assets. We expect that the market will evolve with a steeper curve and wider spreads putting returns between 10-12%.
- Funding costs are low, including TBA dollar rolls, and we expect them to remain low.
- Our hedging position respects the current environment and we believe the interest rate risk profile is relatively insulated from changes in rates.
- Our leverage, including TBAs, stands at 6.3x. We have tremendous upside earnings power on the balance sheet with the ability to increase leverage 1-3x.
- Long-term trends continue to strongly support the business model.

# Why Dynex

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## ***Industry-leader with a Compelling Long-Term Track Record of Delivering Shareholder Value***

Excellent track record with industry- leading 1-, 3-, and 5-year total returns

Attractive dividend yield at a discounted price-to-book valuation on Agency focused strategy

Earnings power to drive upside with opportunistic deployment of capital

Experienced management with a track record of disciplined capital deployment through multiple economic cycles



Strong alignment of interests with shareholders due to high ownership and owner-operator structure

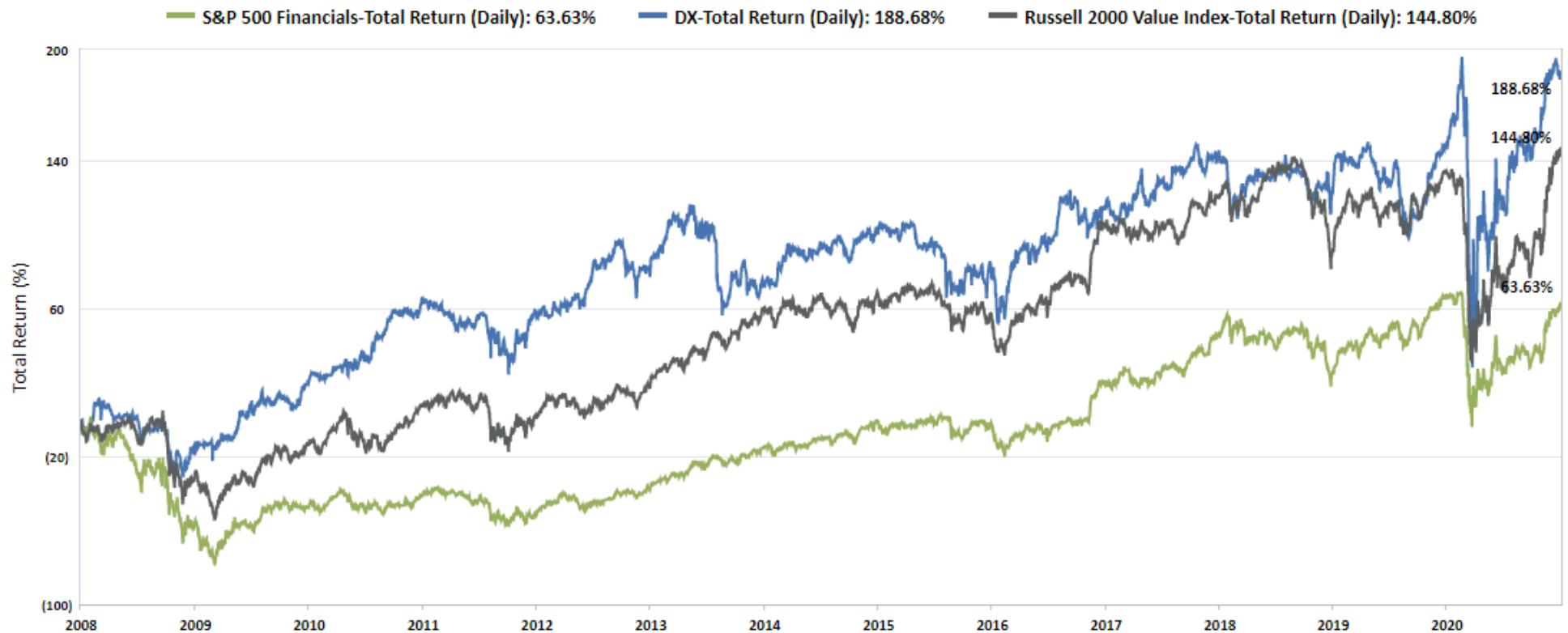
Macroeconomic environment with low funding costs is supportive of generating returns and cash income

Resilient, flexible and liquid balance sheet designed to weather market volatility



# Focused on the Long-Term

**Total Return (%)**  
*January 1, 2008 - December 31, 2020*



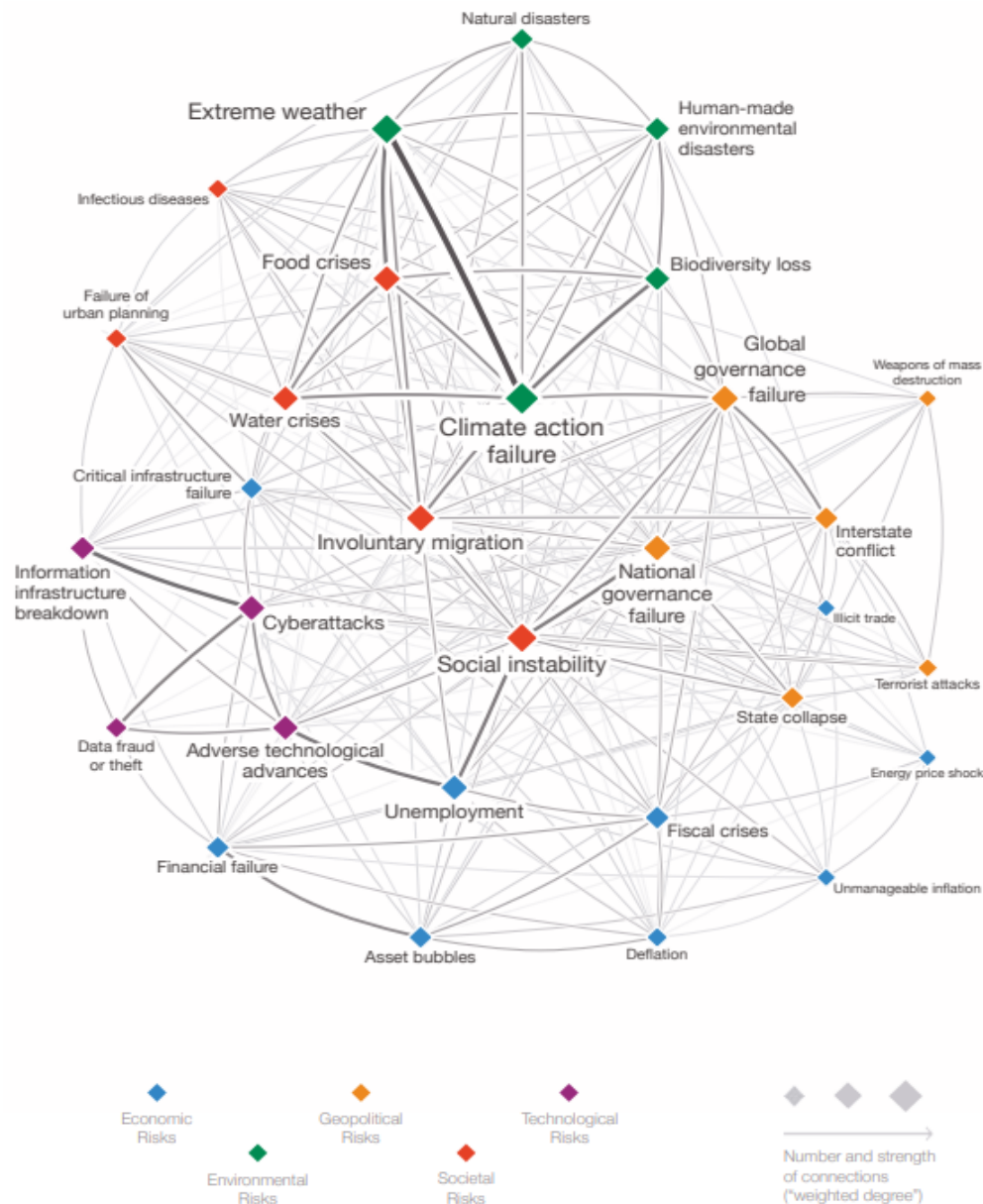
Source: S&P Global



# Supplemental Information

# Global Risk Landscape

World Economic Forum Global Risk Report 2020



Source: World Economic Forum Global Risks Perception Survey 2019-2020.

Note: Survey respondents were asked to select up to six pairs of global risks they believe to be most interconnected. See Appendix B of the full report for more details. To ensure legibility, the names of the global risks are abbreviated; see Appendix A for the full name and description.

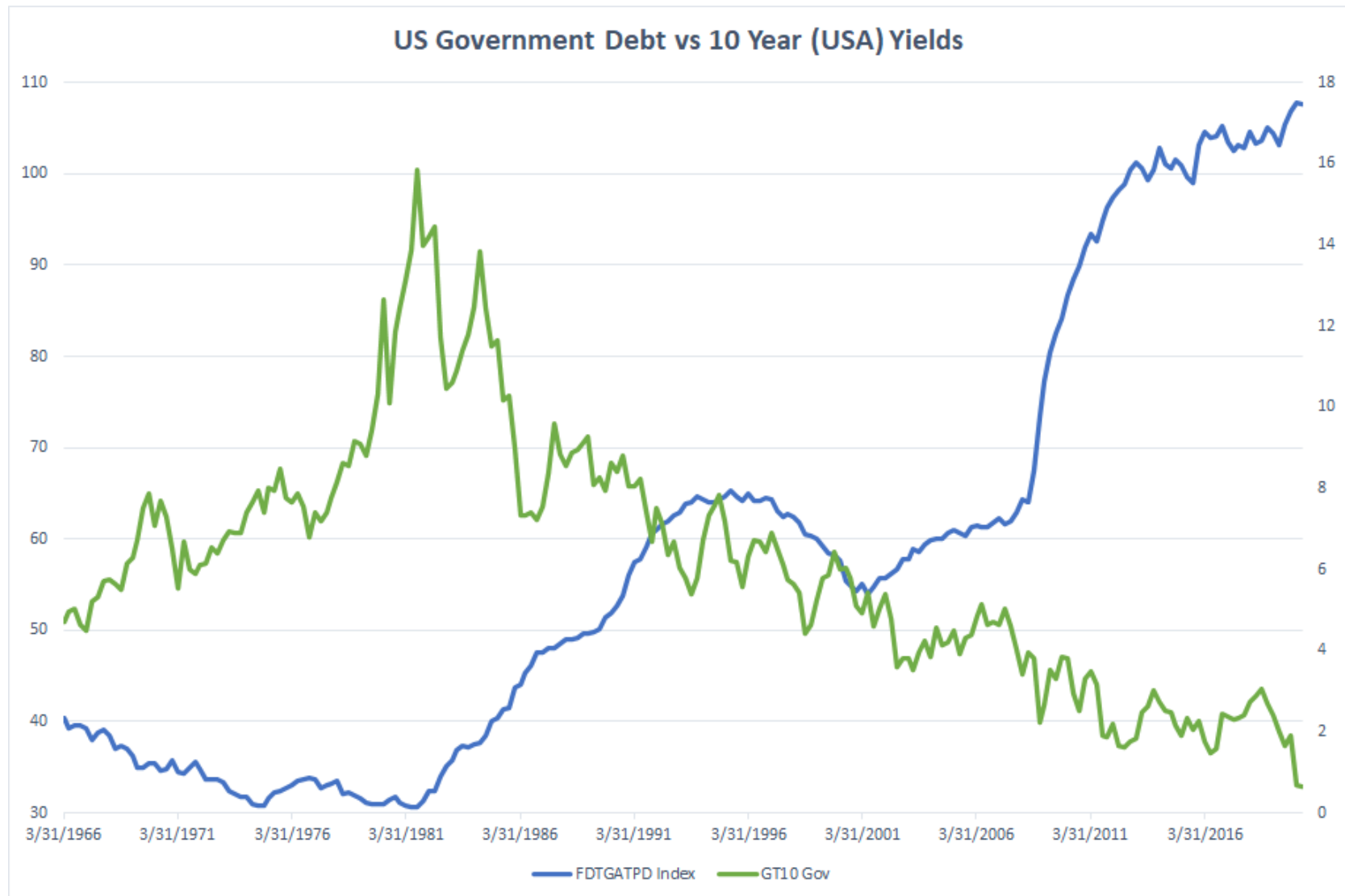
# Negative Yielding Global Debt



Source: Bloomberg

# US Government Debt vs 10 Year Treasury Yields

*As debt has increased it is difficult for interest rates to rise without having a negative impact on global growth, ultimately putting downward pressure on rates.*



Source: Bloomberg



# Fixed Income Market Update

Security	Change 2020	Change QoQ (4th)	12/30/20	9/30/20	8/31/20	7/31/20	6/30/20	3/31/20	1/31/20	12/31/19	9/30/19	Change YoY
<b>Treasury <sup>(2)</sup></b>												
IOER rate	-1.45%	0.00%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	1.60%	1.55%	1.80%	-1.70%
1m repo <sup>(1)</sup>	-1.85%	-0.02%	0.21%	0.23%	0.25%	0.25%	0.25%	0.35%	1.75%	2.06%	2.43%	-2.20%
3m T-bill	-1.47%	-0.02%	0.07%	0.09%	0.10%	0.09%	0.14%	0.09%	1.54%	1.54%	1.81%	-1.72%
2 yr	-1.45%	-0.01%	0.12%	0.13%	0.13%	0.11%	0.15%	0.25%	1.31%	1.57%	1.62%	-1.49%
5 yr	-1.33%	0.08%	0.36%	0.28%	0.27%	0.21%	0.28%	0.38%	1.31%	1.69%	1.54%	-1.26%
10 yr	-1.00%	0.23%	0.92%	0.69%	0.71%	0.53%	0.65%	0.67%	1.51%	1.92%	1.67%	-0.99%
30 yr	-0.74%	0.19%	1.65%	1.46%	1.48%	1.19%	1.41%	1.32%	2.00%	2.39%	2.11%	-0.65%
<b>Swaps <sup>(2)</sup></b>												
1m Libor	-1.62%	0.00%	0.14%	0.15%	0.16%	0.16%	0.17%	0.99%	1.66%	1.76%	2.02%	-1.87%
3m Libor	-1.67%	0.00%	0.24%	0.23%	0.24%	0.25%	0.29%	1.45%	1.75%	1.91%	2.09%	-1.86%
2 yr	-1.50%	-0.02%	0.20%	0.22%	0.22%	0.18%	0.22%	0.49%	1.38%	1.70%	1.63%	-1.41%
5 yr	-1.30%	0.08%	0.43%	0.35%	0.33%	0.25%	0.32%	0.46%	1.32%	1.73%	1.50%	-1.15%
10 yr	-0.97%	0.22%	0.93%	0.71%	0.71%	0.52%	0.63%	0.72%	1.46%	1.90%	1.56%	-0.85%
30 yr	-0.69%	0.22%	1.40%	1.18%	1.10%	0.77%	0.91%	0.88%	1.67%	2.09%	1.71%	-0.53%
<b>30 Year MBS OAS <sup>(3)</sup></b>												
2.0% <sup>(4)</sup>	-55	-10	-1	9	14	17	36	54	-	-	-	-
2.5%	-32	0	-2	-2	-15	-33	2	30	21	30	54	-56
3.0%	6	1	36	35	3	-19	6	32	30	30	32	3
3.5%	-9	-2	28	30	24	11	30	34	41	37	50	-20
4.0%	2	-13	51	64	57	65	48	27	47	49	56	8
FHFA Primary Mortgage <sup>(2)</sup>	-0.76%	-0.22%	2.80%	3.02%	3.20%	3.27%	3.32%	3.63%	3.74%	3.56%	3.71%	-0.69%
Fn 30yr Current Cpn <sup>(2)</sup>	-1.37%	-0.08%	1.34%	1.42%	1.41%	1.24%	1.57%	1.80%	2.38%	2.71%	2.61%	-1.19%
<b>CMBS <sup>(5)</sup></b>												
DUS 10/9.5	-27	-12	33	45	40	49	58	95	53	60	65	-20
DUS 12/11.5	-26	-11	42	53	47	60	68	110	64	68	76	-23
10 yr Freddie K A2	-28	-11	28	39	36	46	44	80	48	56	59	-20
Agency CMBS IO	5	-40	140	180	190	210	275	400	120	135	120	60
Non-Agency AAA CMBS IO	52	-60	165	225	220	240	300	450	113	-	-	-

(1) Average rate for Agency MBS per 20 counterparty survey (2) Source: Bloomberg (3) Source: BlackRock 6.04 model (4) UMBS 2.0's are compared from when they were added to BlackRock 6.04 (5) Spread to swap, new issue, Source: JP Morgan Data Query

# Pricing Matrix

30 Year MBS <sup>(1)</sup>		Change during 2020	Change QoQ (4th)	12/31/20	9/30/20	8/31/20	7/31/20	6/30/20	5/29/20	4/30/20	3/31/20	2/28/20	1/31/20	12/31/19
2.0% Cpn <sup>(2)</sup>	TBA Price	1.85	0.48	103.88	103.41	103.16	103.63	102.34	102.03	-	-	-	-	-
	85K Max	-0.10	-0.82	1.96	2.78	2.44	2.56	2.19	2.06	-	-	-	-	-
	150K Max	-0.09	-0.56	1.32	1.88	1.66	1.78	1.56	1.41	-	-	-	-	-
	200k Max	-0.21	-0.42	0.77	1.19	1.06	1.22	0.97	0.98	-	-	-	-	-
	NY only	-0.04	-0.73	1.02	1.75	1.78	1.47	1.34	1.06	-	-	-	-	-
	95 LTV	-0.23	-0.28	0.16	0.44	0.53	0.41	0.34	0.39	-	-	-	-	-
	Low WALA/new	-0.11	-0.25	0.03	0.28	0.19	0.16	0.08	0.14	-	-	-	-	-
2.5% Cpn <sup>(2)</sup>	TBA Price	1.11	0.35	105.27	104.92	105.25	105.08	104.26	103.75	104.16	-	-	-	-
	85K Max	1.26	-0.65	3.35	4.00	3.34	3.69	3.31	2.72	2.09	-	-	-	-
	150K Max	1.41	-0.12	2.47	2.59	2.13	2.53	2.5	2.03	1.06	-	-	-	-
	200k Max	0.85	-0.18	1.32	1.50	1.19	1.38	1.22	1.06	0.47	-	-	-	-
	NY only	1.50	-0.06	2.34	2.41	2.13	2.41	2.19	1.84	0.84	-	-	-	-
	95 LTV	0.09	-0.28	0.22	0.50	0.34	0.34	0.31	0.34	0.13	-	-	-	-
	Low WALA/new	0.06	-0.19	0.06	0.25	0.06	0.16	0.08	0.13	0	-	-	-	-
3% Cpn	TBA Price	3.44	0.13	104.88	104.75	105.42	105.80	105.31	105.2	105.57	104.81	102.99	102.27	101.44
	85K Max	4.43	-0.34	6.31	6.66	5.22	4.97	4.53	3.72	3.44	1.31	3.28	2.38	1.88
	150K Max	4.03	0.78	5.41	4.63	3.34	3.38	3.34	2.69	2.34	0.75	2.31	1.69	1.38
	200k Max	2.88	0.81	3.72	2.91	1.84	1.69	1.56	1.19	1	0.25	1.59	1.09	0.84
	NY only	4.17	1.23	5.23	4.00	3.06	3.06	3.06	2.34	1.81	0.78	2.25	1.59	1.06
	95 LTV	1.22	0.09	1.50	1.41	0.69	0.53	0.53	0.44	0.47	0.06	0.22	0.44	0.28
	Low WALA/new	1.07	0.13	1.38	1.25	0.47	0.31	0.28	0.19	0.19	0	0.19	0.09	0.31
3.5% Cpn	TBA Price	3.02	0.44	105.86	105.42	105.44	105.44	105.16	105.51	105.65	105.72	103.85	103.23	102.84
	85K Max	4.59	-0.19	7.81	8.00	7.44	7.38	6.84	0.88	5.22	1.97	4.84	4	3.22
	150K Max	3.12	-0.34	5.31	5.66	4.88	5.16	4.91	4.09	3.53	1.19	3.56	2.94	2.19
	200k Max	2.13	0.10	3.63	3.53	3.03	2.94	2.84	2.31	2.09	0.78	2.41	1.94	1.5
	NY only	2.60	0.19	4.94	4.75	4.59	4.75	4.78	3.88	3.16	1.09	3.75	3.13	2.34
	95 LTV	0.78	-0.09	1.50	1.59	1.53	1.59	1.38	1.13	1.53	0.34	0.53	0.78	0.72
	Low WALA/new	1.05	-0.06	1.47	1.53	1.34	1.53	1.25	0.88	0.94	0.19	0.66	0.5	0.42
4% Cpn	TBA Price	2.98	0.30	106.94	106.64	106.59	106.23	105.97	106.43	106.50	106.70	105.33	104.46	103.96
	85K Max	3.53	-0.53	8.31	8.84	8.28	8.41	8	7.19	5.78	2.81	5.88	5.38	4.78
	150K Max	1.75	-0.69	4.69	5.38	4.88	5.41	5.31	4.66	3.69	1.56	4.06	3.28	2.94
	200k Max	1.50	0.13	3.44	3.31	2.91	2.97	2.94	2.63	2.16	1.25	2.81	2.34	1.94
	NY only	2.72	1.25	6.35	5.09	4.88	5.16	5.44	4.5	3.5	1.47	4	3.66	3.63
	95 LTV	0.15	-0.38	1.03	1.41	1.47	1.47	1.25	1.19	1.72	0.5	0.56	0.88	0.88
	Low WALA/new	0.50	-0.13	1.22	1.34	1.06	1.31	1.22	1.06	1	0.23	0.66	0.72	0.72

\*UMBS 2.0/2.5 changes are compared from when Specified Pools in that coupon became available in the market.

1. Source: JP Morgan DataQuery, Bloomberg and internal company data. Specified Pool Payups are quoted in percentage points of price above TBAs

2. UMBS 2.0/2.5 changes are compared from when Specified Pools in that coupon became available in the market.

# Managing Prepayment Risk and Convexity

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***Asset selection, premium management, timing of reinvestments, and option hedges are strategies we use to mitigate convexity and prepayment risk***

- We mitigate the impact of prepayment speed changes through asset selection, premium management, timing of reinvestment and hedging
- To address the environment of lower rates and faster speeds:
  - Heavier capital allocation to lower coupons: 91% of the Agency RMBS portfolio is allocated in 2.0% and 2.5% coupons, as well as 15 year in 1.5% coupons
  - 89% of Specified Pools benefit from favorable prepayment characteristics
  - Allocation to TBA versus pools for flexibility in reducing leverage and to take advantage of dollar roll “specialness”
  - Lower premium at risk to faster prepayments
    - Lower basis in specified pools provides a cushion for prepayment impact on core EPS as less premium is at risk versus par
- Timing of reinvestment decisions
  - As spreads widen, we pre-invest future runoff to lock in favorable returns
- Hedging strategies designed to address convexity risk
  - Option based hedges to control duration extension risk
  - Active repositioning to control prepayment and duration contraction



# Dollar Rolls

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- TBAs are an important part of Dynex's actively managed Agency RMBS strategy. We use TBAs to quickly add or remove earning assets as they are among the most liquid tradeable instruments in the fixed income markets, even more than specified pools.
- Dollar rolls are the financing mechanism for TBA positions and can provide the additional benefit of lower implied financing rates ("trading special"), compared to traditional repo financing.
- Implied financing levels in the TBA market are driven by prepayment expectations and demand/supply dynamics by coupon and can be "special" (i.e. below the level of repo rates for substantial periods of time).
- Dynamic management of pools and TBA positions can allow us to capture incremental return versus purely owning Agency RMBS pools.
- TBA positions are hedged using similar instruments as Agency RMBS pools with varying duration estimates.
- Federal Reserve purchase activity and investor demand for Agency RMBS have caused implied financing rates from dollar rolls in "production" coupons to remain favorable versus repo rates.

# Risk Position - Credit Spreads

***Changes in market credit spreads impact the market value of our investments and shareholders' equity.***

The estimated percentage change in these values incorporates portfolio and hedge characteristics as they existed at the dates indicated.

Change in Market Credit Spreads	As of December 31, 2020		As of September 30, 2020	
	Percentage Change in		Percentage Change in	
	Market Value of Investments <sup>(1)</sup>	Common Shareholders' Equity	Market Value of Investments <sup>(1)</sup>	Common Shareholders' Equity
+20/+50 <sup>(2)</sup>	(1.6)%	(9.5)%	(1.4)%	(10.1)%
+10	(0.8)%	(4.4)%	(0.7)%	(4.6)%
-10	0.8%	4.4%	0.7%	4.6%
-20/-50 <sup>(2)</sup>	1.6%	9.5%	1.4%	10.1%

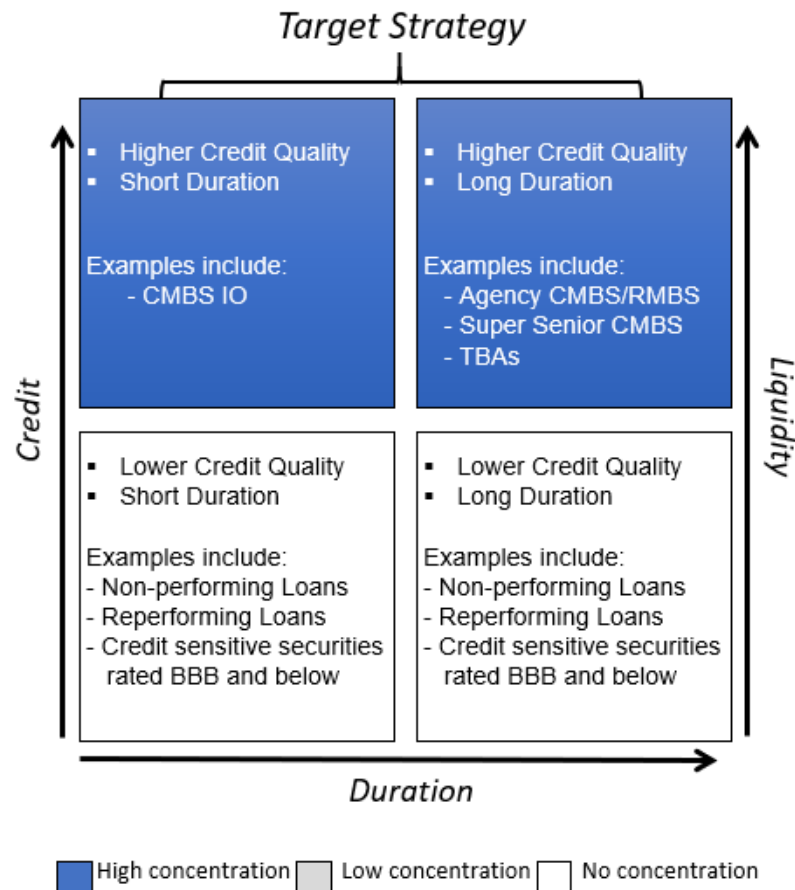
(1) Includes changes in market value of our MBS investments and TBA securities.

(2) Incorporates a 20-basis point shift in Agency and non-Agency RMBS/CMBS and a 50-basis point shift in CMBS IO.

Source: Company models based on modeled option adjusted duration. Includes changes in market value of our investments and derivative instruments, including TBA securities, but excludes changes in market value of our financings because they are not carried at fair value on our balance sheet. The projections for market value do not assume any change in credit spreads.

# Investment Strategy

***Diversified investment approach that performs in a variety of market environments***



- Dynamic and disciplined capital allocation model enables capturing long-term value
- Invest in a high quality, liquid asset portfolio of primarily Agency investments
- Diversification is a key benefit
  - Balance between commercial and residential sectors provides diversified cash flow and prepayment profile
  - Agency CMBS protect the portfolio from extension risk. High quality CMBS IO add yield and are intended to limit credit exposure and prepayment volatility vs. lower rated tranches
  - Agency fixed rate RMBS allow opportunistic balance sheet growth in high quality liquid assets
- Flexible portfolio duration position to reflect changing market conditions

# Portfolio Characteristics *(as of December 31, 2020)*

Par Value											
(\$ in millions)	Pools	TBA <sup>(5)</sup>	Total Par Value	Estimated Fair Value	% of Portfolio	WAVG Coupon <sup>(1)</sup>	Amortized cost (%) <sup>(2)</sup>	Unamortized Premium Balance <sup>(2)</sup>	3-month CPR <sup>(2)</sup>	3-month WAVG yield <sup>(2)</sup>	
Agency RMBS											
1.5% coupon	\$ —	\$ 250,000	\$250,000	\$ 257,305	6.2 %	1.50 %	n/a	n/a	n/a	n/a	
2.0% coupon	620,238	1,265,000	1,885,238	1,962,388	47.1 %	2.00 %	102.4 %	14,858	n/a	1.66 %	
2.5% coupon	938,334	—	938,334	995,889	23.9 %	2.50 %	103.7 %	34,782	13.5%	1.90 %	
4.0% coupon	280,474	—	280,474	303,758	7.3 %	4.00 %	103.0 %	8,357	46.8%	2.04 %	
Total Agency RMBS	\$ 1,839,046	\$ 1,515,000	\$ 3,354,046	\$ 3,519,340	84.4 %		103.2 %	\$ 57,997	17.1%	1.83 %	
Agency CMBS	\$ 235,801	—	\$ 235,801	\$ 258,550	6.2 %	3.18 %	101.3 %	\$ 3,152	<sup>(4)</sup>	2.90 %	
CMBS Interest-only	<sup>(3)</sup>	—	<sup>(3)</sup>	390,039	9.4 %	0.56 %	n/a	378,940	<sup>(4)</sup>	4.27 %	
Other non-Agency MBS	1,499	—	1,499	1,275	— %	5.22 %	70.6 %	(440)	-	28.68 %	
Total	\$ 2,076,346	\$ 1,515,000	\$ 3,591,346	\$ 4,169,204	100 %		-	\$ 439,649	-	2.28 %	

(1) The weighted average coupon ("WAC") is the gross interest rate of the security weighted by the outstanding principal balance (or by notional amount for CMBS IO).

(2) Amortized cost %, unamortized premium balance, 3-month CPR and WAVG yield exclude TBA securities.

(3) CMBS IO do not have underlying par values. The total notional value underlying CMBS IO is \$20.6 billion.

(4) Structurally, we are compensated for CMBS prepayments, but there are exceptions under certain circumstances.

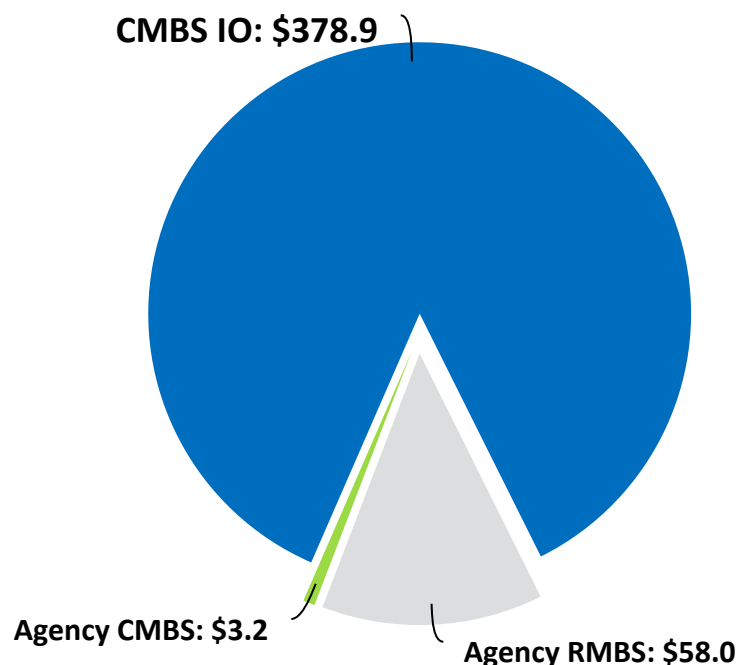
(5) Consists of 15- and 30-year TBA long positions only.

# Prepayment Protection on Unamortized Premium

(as of December 31, 2020)

## Investment Premium by Asset Type

(\$ in millions)



100% of investment premium exposure in CMBS has structural prepayment protection

Unamortized Premium		\$ in Millions	% of Total
Explicit prepayment protection:	CMBS/CMBS IO	\$382.1	87%
Favorable prepayment	RMBS	58.0	13%

# Funding Strategy *(as of December 31, 2020)*

*(\$s in thousands)*

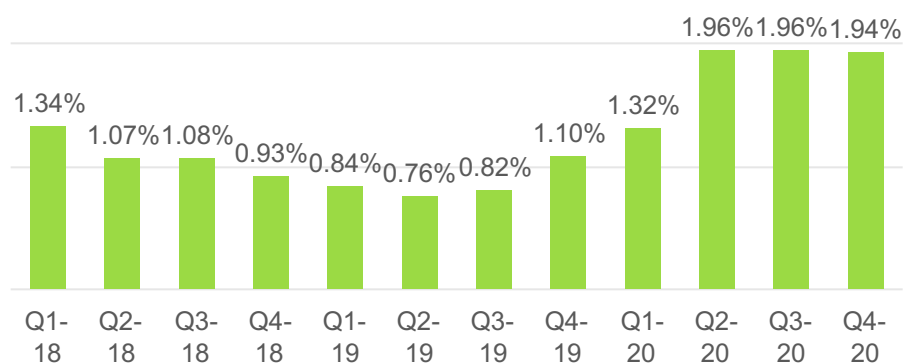
Collateral Type	Balance	Weighted Average Rate	Fair Value of Collateral
Agency RMBS	\$1,874,176	0.23 %	\$1,973,608
Agency CMBS	237,649	0.23 %	255,741
Agency CMBS IO	209,393	0.90 %	243,042
Non-Agency CMBS IO	115,945	1.28 %	136,684
Total	\$ 2,437,163	0.34 %	\$2,609,075

Remaining Term to Maturity	Balance	Percentage	Weighted Average Original Term to Maturity
< 30 days	\$1,416,608	58%	53
30 to 90 days	845,394	35%	35
91 to 180 days	175,161	7%	13
	<u>\$2,437,163</u>	<u>100%</u>	<u>44</u>

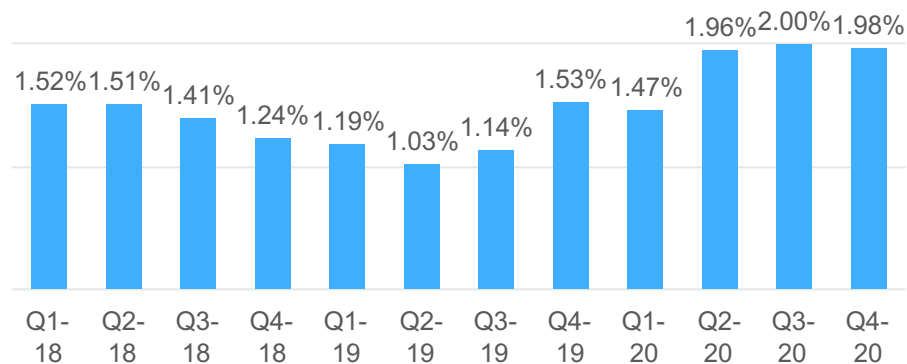
- Weighted average repo rate for the fourth quarter of 2020 was 0.35%, a decline of 3 basis points compared to the third quarter weighted average rate of 0.38%.
- Active with 20 counterparties at December 31, 2020.
- Maximum equity at risk with any one counterparty is less than 5%.

# Performance Statistics Overview

**Net Interest Spread**



**Adjusted Net Interest Spread (1)**



(1) Adjusted net interest spread, a non-GAAP measure, includes the impact of net periodic interest cost/benefit from interest rate swaps and drop income from TBA dollar roll positions. Reconciliations for non-GAAP measures are presented on slide [34](#).

# Financial Performance - Comparative Quarters

	4Q20		3Q20	
(\$ in thousands, except per share amounts)	Income (Expense)	Per Common Share*	Income (Expense)	Per Common Share*
Interest income	\$16,705	\$0.72	\$20,088	\$0.87
Interest expense	2,289	0.10	3,375	0.15
<b>GAAP net interest income</b>	<b>14,416</b>	<b>0.62</b>	<b>16,713</b>	<b>0.72</b>
TBA drop income <sup>(1)</sup>	6,445	0.28	6,087	0.26
Net periodic interest cost of interest rate swaps <sup>(1)</sup>	(7)	—	(371)	(0.02)
<b>Adjusted net interest income <sup>(2)</sup></b>	<b>20,854</b>	<b>0.90</b>	<b>22,429</b>	<b>0.96</b>
Other operating expense, net	(205)	(0.01)	(207)	(0.01)
General and administrative expenses	(6,853)	(0.29)	(4,795)	(0.21)
Preferred stock dividends	(3,253)	(0.14)	(3,252)	(0.14)
<b>Core net operating income to common shareholders <sup>(2)</sup></b>	<b>10,543</b>	<b>0.45</b>	<b>14,175</b>	<b>0.61</b>
Change in fair value of derivatives <sup>(1)</sup>	17,428	0.75	2,258	0.10
Realized gain on sale of AFS investments	9,356	0.40	20,846	0.90
(Loss) gain on investments, net <sup>(3)</sup>	(134)	(0.01)	194	0.01
<b>GAAP net income to common shareholders</b>	<b>37,193</b>	<b>1.60</b>	<b>37,473</b>	<b>1.62</b>
Net unrealized (loss) gain on AFS investments	(8,468)	(0.36)	6,998	0.30
<b>Comprehensive income to common shareholders</b>	<b>\$28,725</b>	<b>\$1.23</b>	<b>\$44,471</b>	<b>\$1.92</b>
WAVG common shares outstanding	23,262		23,141	

\*Per common share amounts may not foot due to \$'s presented in '000s.

(1) TBA drop income, net periodic interest cost, and change in fair value of derivatives are components of "gain (loss) on derivative instruments, net" reported in the comprehensive income statement.

(2) See reconciliations for non-GAAP measures on slide [34](#).

(3) "(Loss) gain on investments, net" was previously titled "fair value adjustments, net" on the consolidated statement of comprehensive income.



# Book Value Rollforward

	Quarter Ended December 31, 2020		Year Ended December 31, 2020	
	\$ in thousands	Per Common Share	\$ in thousands	Per Common Share
Common shareholders' equity, beginning of period <sup>(1)</sup>	\$422,345	\$18.25	\$413,280	\$18.01
GAAP net income to common shareholders:				
Core net operating income to common <sup>(2)</sup>	10,543		44,763	
Realized gain on sale of MBS, net	9,356		308,084	
Change in fair value of derivatives	17,428		(188,936)	
Preferred stock redemption charge	—		(3,914)	
Other	(134)		20	
Net unrealized loss on MBS	(8,468)		(93,545)	
Dividends declared	(9,092)		(38,372)	
Stock transactions <sup>(3)</sup>	10,266		10,864	
Common shareholders' equity, end of period <sup>(1)</sup>	<u>\$452,244</u>	<u>\$19.08</u>	<u>\$452,244</u>	<u>\$19.08</u>

(1) Common shareholders' equity represents total shareholders' equity less the liquidation value of preferred stock outstanding as of the date indicated.

(2) Reconciliations for non-GAAP measures are presented on slide [34](#).

(3) Includes issuance of common stock and vesting of restricted stock, net of stock issuance costs.

# Reconciliation of GAAP Measures to Non-GAAP Measures

(\$ in thousands except per share data)	4Q20	3Q20	2Q20	1Q20	2020
<b>Comprehensive income (loss) to common shareholders</b>	\$28,725	\$44,471	\$26,538	(\$33,262)	\$66,472
Adjustments:					
Change in fair value of available for sale investments	(888)	(27,844)	(28,052)	(157,755)	(214,539)
Change in fair value of derivatives instruments, net <sup>(1)</sup>	(17,428)	(2,258)	10,252	198,370	188,936
Gain (loss) on investments, net <sup>(2)</sup>	134	(194)	(332)	372	(20)
Preferred stock redemption charge	—	—	—	3,914	3,914
<b>Core net operating income to common shareholders</b>	<u>\$10,543</u>	<u>\$14,175</u>	<u>\$8,406</u>	<u>\$11,639</u>	<u>\$44,763</u>
<b>Core net operating income per common share</b>	\$0.45	\$0.61	\$0.36	\$0.51	\$1.99

(\$ in thousands)	4Q20	3Q20	2Q20	1Q20	2020
<b>Net interest income</b>	\$14,416	\$16,713	\$15,003	\$17,721	\$63,853
TBA drop income	6,445	6,087	1,796	739	15,067
Net periodic interest (cost) benefit <sup>(2)</sup>	(7)	(371)	(107)	2,064	1,579
<b>Adjusted net interest income</b>	<u>\$20,854</u>	<u>\$22,429</u>	<u>16,692</u>	<u>\$20,524</u>	<u>\$80,499</u>
Other operating expense, net	(205)	(207)	(222)	(423)	(1,057)
General and administrative expenses	(6,853)	(4,795)	(4,811)	(4,621)	(21,080)
Preferred stock dividends	(3,253)	(3,252)	(3,253)	(3,841)	(13,599)
<b>Core net operating income to common shareholders</b>	<u>\$10,543</u>	<u>\$14,175</u>	<u>\$8,406</u>	<u>\$11,639</u>	<u>\$44,763</u>

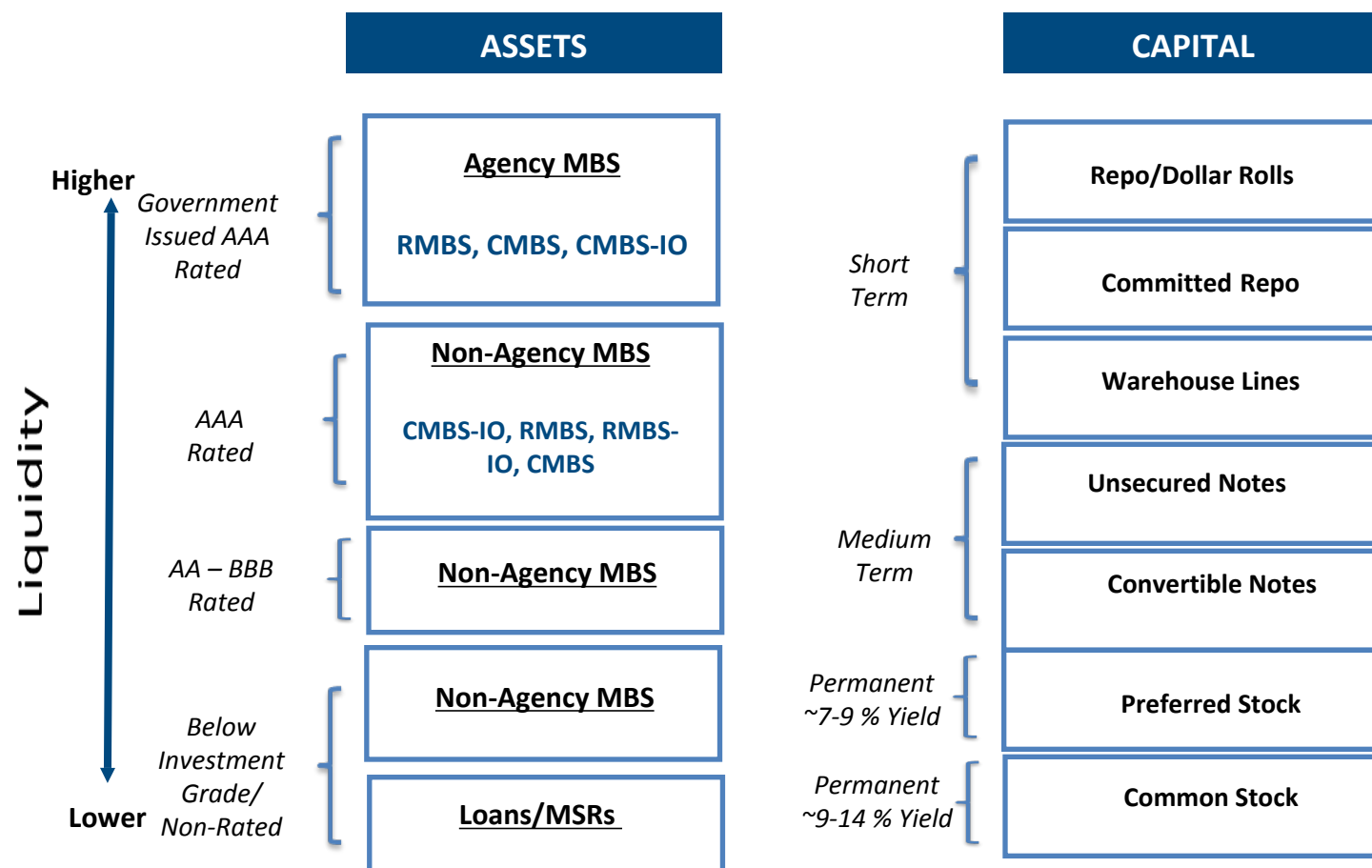
	4Q20	3Q20
<b>Net interest spread</b>	1.94 %	1.96 %
TBA drop income	0.04 %	0.09 %
Net periodic interest cost	— %	(0.05)%
<b>Adjusted net interest spread</b>	<u>1.98 %</u>	<u>2.00 %</u>

(1) Amount represents net realized and unrealized gains and losses on derivatives and excludes net periodic interest cost/benefit related to these instruments and TBA drop income.

(2) "Gain (loss) on investments, net" was previously titled "fair value adjustments, net" on the Company's consolidated statement of comprehensive income.

(3) Amount represents net periodic interest cost/benefit of effective interest rate swaps outstanding during the period and excludes changes in fair value and termination costs of derivative instruments.

# Mortgage REIT Business Model



# MREIT Glossary of Terms

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**Commercial Mortgage-Backed Securities (CMBS)** are a type of mortgage-backed security that is secured by the mortgage on a commercial property. CMBS can be Agency issued and issued by a private enterprise (non-Agency).

**Credit Risk** is the risk of loss of principal or interest stemming from a borrower's failure to repay a loan.

**Curve Twist Terms:**

**Bull Flatteners:** Is a rate environment in which long-term interest rates are declining faster than short-term interest rates.

**Bear Flatteners:** Is a yield-rate environment in which short-term interest rates are rising faster rate than long-term interest rates.

**Bear Steepener:** Is a rate environment in which long-term interest rates are rising faster than short-term interest rates.

**Bull Steepener:** Is a rate environment in which short-term interest rates are declining faster than long-term interest rates.

**Duration** is a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

**Duration Drift** is a measure of the change in duration for a change in interest rates

**Interest Only Securities (IOs)** are securities backed by a portion of the excess interest of a securitization and sold individually from the principal component.

**Interest Rate Risk** is the risk that an investment's value will change due to a change in the absolute level of interest rates, the shape of the yield curve or in any other interest rate relationship. Interest rate risk can also manifest itself through the purchase of fixed rate instruments funded with floating rate, or very short maturity, instruments.

**Leverage** is the use of borrowed money to finance assets including TBA dollar rolls.

**Prepayment Risk** is the risk associated with the early unscheduled return of principal.

# MREIT Glossary of Terms

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**Repurchase Agreements** are a short-term borrowing that uses loans or securities as collateral. The lender advances only a portion of the value of the asset (the advance rate). The inverse of the advance rate is the equity contribution of the borrower (the haircut).

**Residential Mortgage-Backed Securities (RMBS)** are a type of mortgage-backed debt obligation whose cash flows come from residential debt, such as mortgages, home-equity loans and subprime mortgages. Each security is typically backed by a pool of mortgage loans created by US government agencies, banks, or other financial institutions. RMBS can be Agency issued or issued by a private enterprise (non-Agency).

**Specified Mortgage Backed Securities Pools** are pools created with loans that have similar characteristics, or “stories.”

**Spread Risk** is the potential price volatility resulting from the expansion and contraction of the security’s risk premium over a benchmark (or risk-free) interest rate.

**TBA Dollar Roll** is a financing mechanism for long positions in TBAs whereby an investor enters into an offsetting short position and simultaneously enters into an identical TBA with a later settlement date.

**To Be Announced (TBA) Securities** are forward contracts involving the purchase or sale of non-specified Agency RMBS or CMBS.

