

A dark blue background image featuring a sailboat on the left side, sailing on the water. The sailboat's sail has the number '5683' and '3883' visible. On the right side, there is a large, stylized 'X' logo composed of several overlapping geometric shapes in shades of blue and green.

First Quarter 2020 Earnings Presentation

May 6, 2020



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, statements regarding our financial performance in future periods, future interest rates, our views on expected characteristics of future investment environments, prepayment rates and investment risks, 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 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 Annual Report on Form 10-K for the year ended December 31, 2019 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption “Risk Factors”.

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Market Snapshot

	May 5, 2020		
	<u>Common</u>	<u>Preferred Stocks</u>	
NYSE Ticker	<u><i>DX</i></u>	<u><i>DXPrB</i></u>	<u><i>DXPrC</i></u>
Shares Outstanding (<i>in millions</i>)	23.0	2.8	4.5
1Q20 Dividends Declared	\$0.45	\$0.4765625	\$0.259
Annualized Dividend Yield	13.20%	8.19%	7.81%
Book Value per share (as of 3/31/20)	\$16.07	—	—
Share Price	\$13.64	\$23.27	\$22.10
Market Capitalization (<i>in millions</i>)	\$313.47	\$64.88	\$98.57
Price to Book	84.9%	—	

Dynex Guiding Principles

- Simple and executable strategy
- Strong leadership and well-defined culture of ethics and integrity that permeates all activities
- Internally managed to assure alignment of incentives and long-term success
- Disciplined top-down approach to analysis and capital allocation
- Multi-asset, nimble investment strategy that provides flexibility to generate returns with an acceptable level of risk
- Manageable risk at the enterprise level with a robust, unified, integrated process that allows for recognition that types of risks are always changing
- Leverage technology to attract top performers and to provide employees with work-life balance

Performance Highlights

- Comprehensive loss of (\$1.45) per common share and GAAP net loss of (\$4.63) per common share
- Core net operating income⁽¹⁾ of \$0.51 per common share
- Book value per common share of \$16.07 at March 31, 2020 compared to \$18.01 at December 31, 2019, reflecting spread widening on assets
- Quarterly economic return⁽²⁾ to common shareholders of a negative \$1.49, or (8.3)%
- Net interest spread and adjusted net interest spread⁽¹⁾ of 1.32% and 1.47%, respectively, for the first quarter of 2020 compared to 1.10% and 1.53%, respectively, for the fourth quarter of 2019
- Leverage⁽³⁾ of 8.8x shareholders' equity at March 31, 2020 compared to 9.0x at December 31, 2019
 - Leverage as of April 30, 2020 is approximately 4x shareholders' equity due to the paydown in April 2020 of \$2.7 billion of borrowings using proceeds from asset sales

(1) Reconciliations for non-GAAP measures are presented on slide 31.

(2) Equals sum of common stock dividend of \$0.45 per share plus the decline in book value of \$(1.94) per common share divided by beginning book value per common share of \$18.01.

(3) Leverage equals the sum of (i) total liabilities and (ii) amortized cost basis of TBA long positions (if settled) divided by total shareholders' equity. The Company did not have any TBA long positions at March 31, 2020 and had \$442.2 billion at December 31, 2019.

Macroeconomic Thesis - Long-term

- The global economy is fragile and downside risks are increasing; this remains the core of our long-term macro economic and investment thesis.
- The combination of global debt, demographics, technology, human conflict and climate change continue to impose a drag on global growth and inflation.
- Global economies and the global financial system cannot stand on their own without the central banks continuing to play a major role. Risk factors at play are increasing in complexity and number.
- Fiscal policy remains an important potential factor for stimulating growth and inflation. If financed with debt, the increased supply of bonds acts as a governor for how low interest rates can fall and puts liquidity pressure on markets.
- Interest rates should remain in their narrower range with significant pools of negative yielding debt globally, and a global economy that is functioning largely with the continued support of central banks.

This is the view we communicated last quarter. It remains our thesis and is further supported by impacts from the COVID-19 pandemic and oil price collapse.

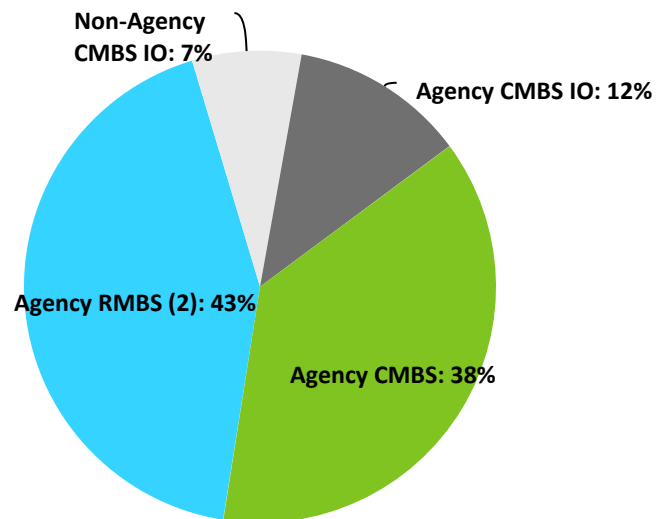
Current Environment - Short to Medium Term

- An already fragile global economy is absorbing the impact of twin exogenous shocks - the COVID-19 pandemic and the collapse in oil prices – of enormous magnitude with far reaching repercussions that will be felt well into the future.
- The world faces unprecedented uncertainty and upheaval across the social, political, economic, and financial landscape. It is too early to discern the broad based impact of the shocks across the economy.
- We are still in the early stages of a health and economic crisis. A financial crisis has been avoided to date, due to central banks and governments responding aggressively to mitigate immediate economic fallout from the shocks. These actions will likely cushion short-term damage to the economy.
- The preponderance of the response by central banks and governments results in increased leverage and debt issuance, which may ultimately prove to be a headwind to sustained economic growth in the future.
- Financial markets have bifurcated into sectors supported by the Fed versus unsupported. The risk of policy error, and unintended consequences is high and government policy will be a major driver of returns going forward.
- Given the many factors currently in play that can evolve in several directions, we favor a risk posture of patient, opportunistic and disciplined redeployment of capital.

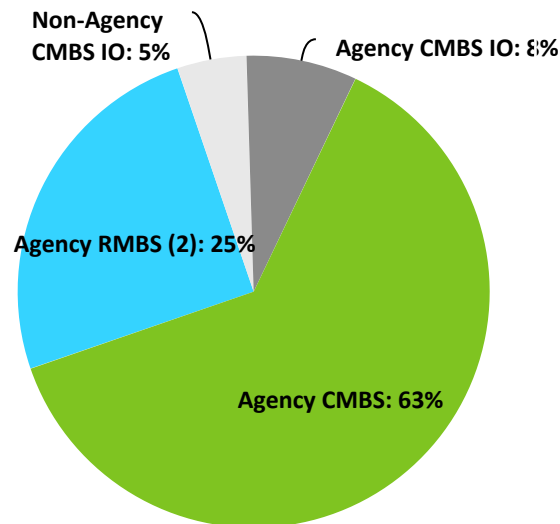
Investment Portfolio *(as of dates indicated)*

- 93% of Agency guaranteed assets as of April 30, 2020
- \$312mm of cash and unencumbered assets, of which \$190mm is cash

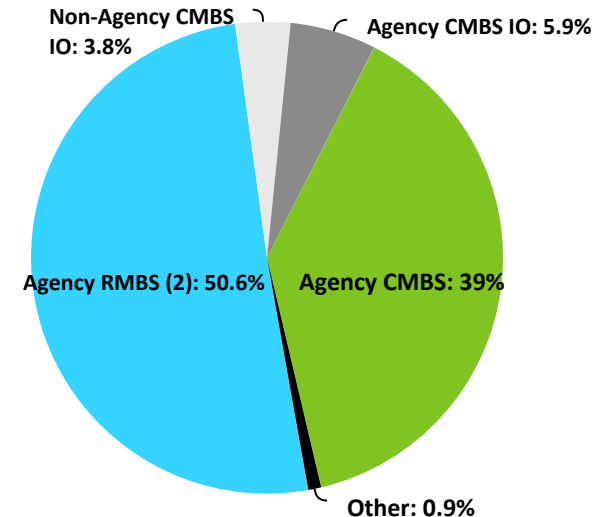
April 30, 2020 ⁽¹⁾



March 31, 2020



December 31, 2019



1) Based on Company estimates of fair value as the Company has not completed its standard month-end procedures

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

Portfolio Characteristics *(as of March 31, 2020)*

Par Value											
(\$ in millions)	Pools	TBA ⁽⁵⁾	Total Par Value	Estimated Fair Value	% of Portfolio	WAVG Coupon ⁽¹⁾	Amortized cost (%) ⁽²⁾	Unamortized Premium Balance ⁽²⁾	3-month CPR ⁽²⁾	3-month WAVG yield ⁽²⁾	
Agency RMBS											
2.5% coupon	\$ 109,577	\$ —	\$ 109,577	\$ 113,571	3.6 %	2.50 %	98.9 %	(\$1,247)	—%	2.61 %	
4.0% coupon	758,614	—	758,614	268,344	8.5 %	4.00 %	102.7 %	20,488	—%	3.16 %	
Total Agency RMBS	\$ 868,191	\$ —	\$ 868,191	\$ 381,915	12.0 %		102.2 %	\$ 19,241	—%	3.07 %	
Agency CMBS	\$ 2,104,738	—	\$ 2,104,738	\$ 2,328,219	73.4 %	3.14 %	100.8 %	\$ 16,937	(4)	3.16 %	
CMBS Interest-only	(3)	—	(3)	458,489	14.5 %	— %	n/a	462,675	(4)	3.73 %	
Other non-Agency MBS	1,833	—	1,833	1,562	— %	— %	62.6 %	(686)	-	32.63 %	
Total	\$ 2,974,762	\$ —	\$ 2,974,762	\$ 3,170,185	100 %	-	-	\$ 498,167	-	3.17 %	

(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).

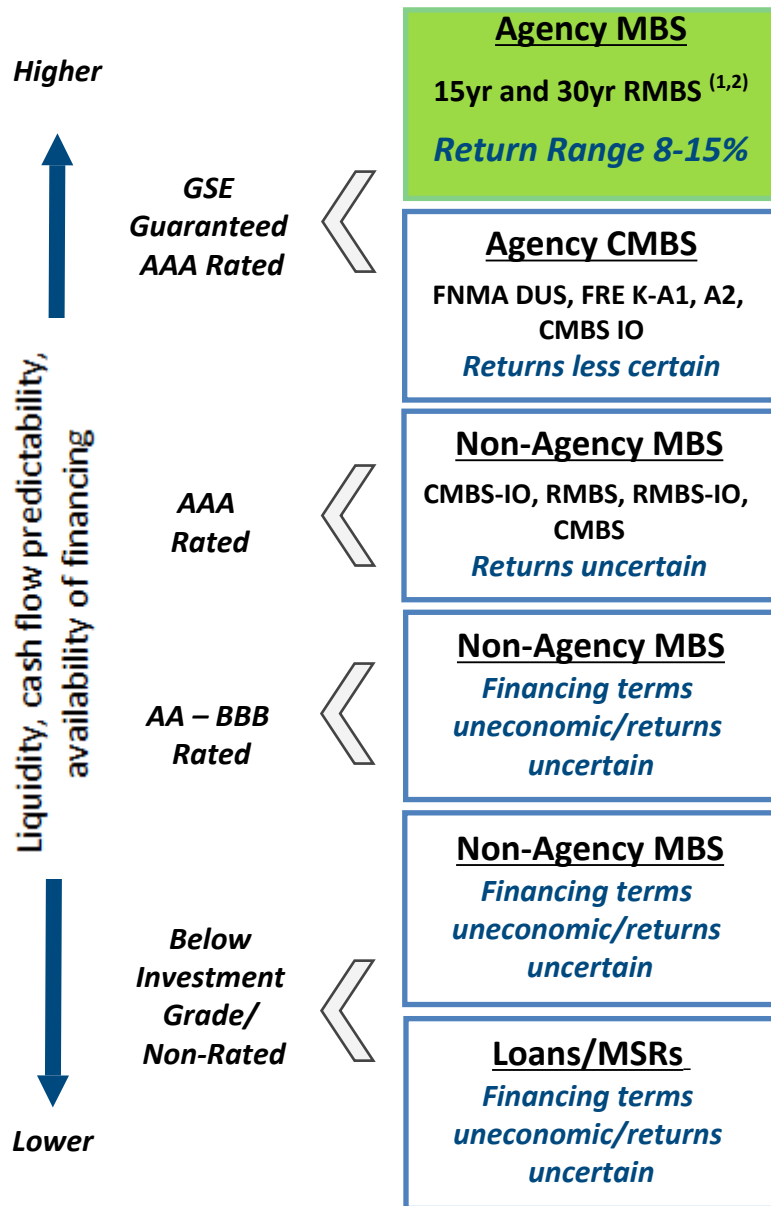
(2) Amortized cost %, unamortized premium balance, 3-month CPR and WAVG yield exclude TBA securities.

(3) CMBS IO do not have underlying par values. The total notional value underlying CMBS IO is \$23.0 billion.

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

(5) TBA long positions only.

Return Environment *(as of April 30, 2020)*



Agency RMBS offer attractive returns

- The most compelling levered risk-adjusted 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.
- Investing in more liquid MBS allows us the flexibility to rapidly pivot to other opportunities when they arise.

⁽¹⁾ Range of levered returns based on Company assumptions and calculations

⁽²⁾ Includes specified pools and TBAs

Key Takeaways

- Our disciplined approach served us well through the market disruption in March. The challenge now will be to navigate the short, medium and long-term impacts of the exogenous shocks.
- We see current opportunities to earn net interest income in sectors where government policy has been implemented to mitigate cash flow disruption like Agency RMBS.
- A major factor driving returns is low financing rates. Hedged static ROE for 15- and 30- year Agency RMBS is in the 8-15% range. We believe the appropriate leverage for this environment in the short-term is between 6-7x.
- In the near term we see the potential for disruption to cash flows. While this has been mitigated somewhat by central bank and fiscal policy actions, it is as yet unclear if the government actions will be enough to minimize the impact.
- Given the many factors currently in play that can evolve in several directions, we favor a risk posture of patient, opportunistic and disciplined redeployment of capital. Capital preservation is a major focus.
- In the medium to long-term, we expect accretive return opportunities to develop across the credit spectrum in various asset classes.
- Investors should seek and favor experienced management teams and Dynex brings significant experience and expertise in managing leveraged securitized real estate assets through multiple economic cycles.
- Internally managed, strong shareholder alignment, and higher insider ownership relative to peers.

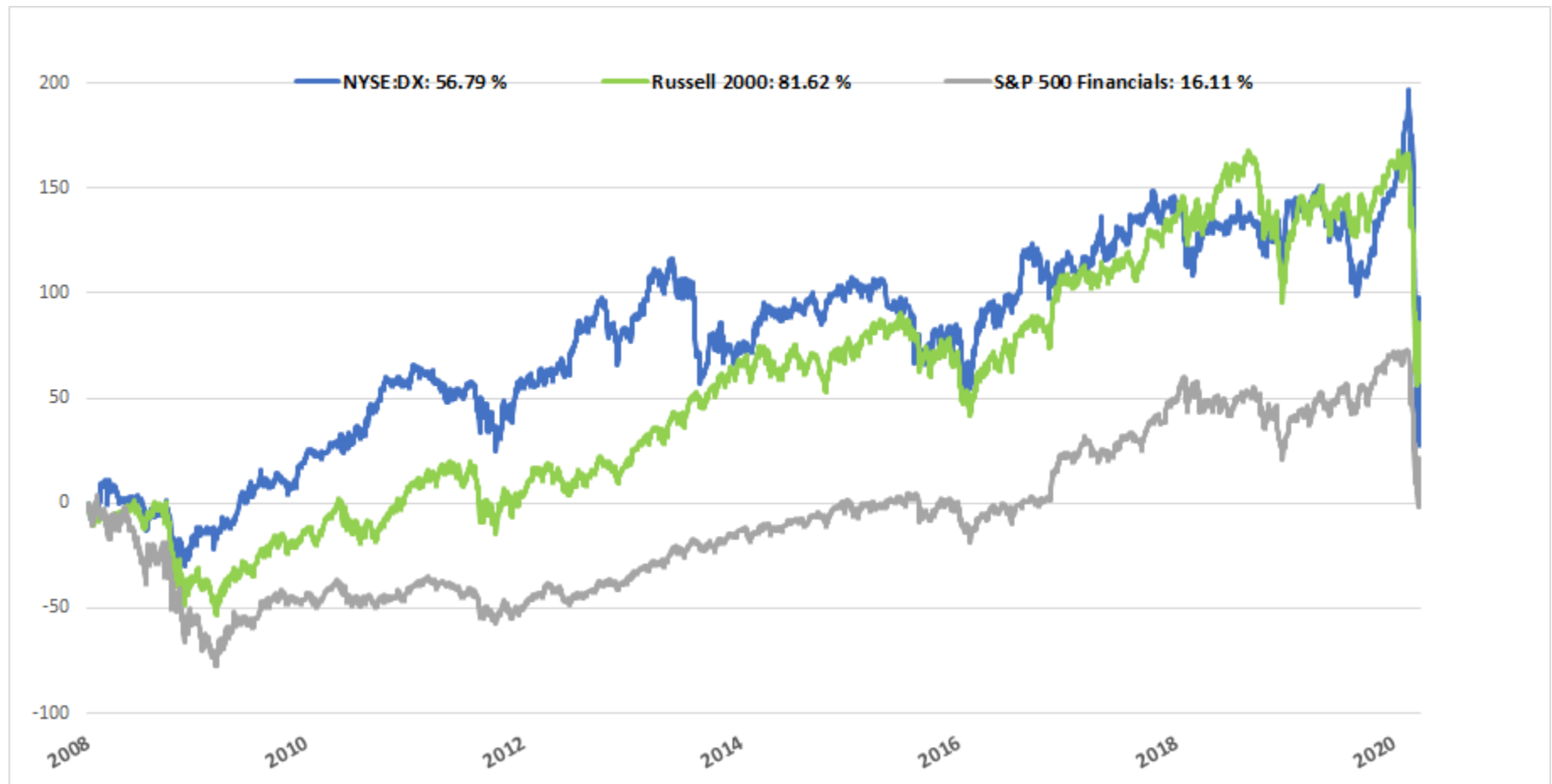
Positive Industry Trends

Long-term trends should support our business model

- Substantial 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

Focused on the Long-Term

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



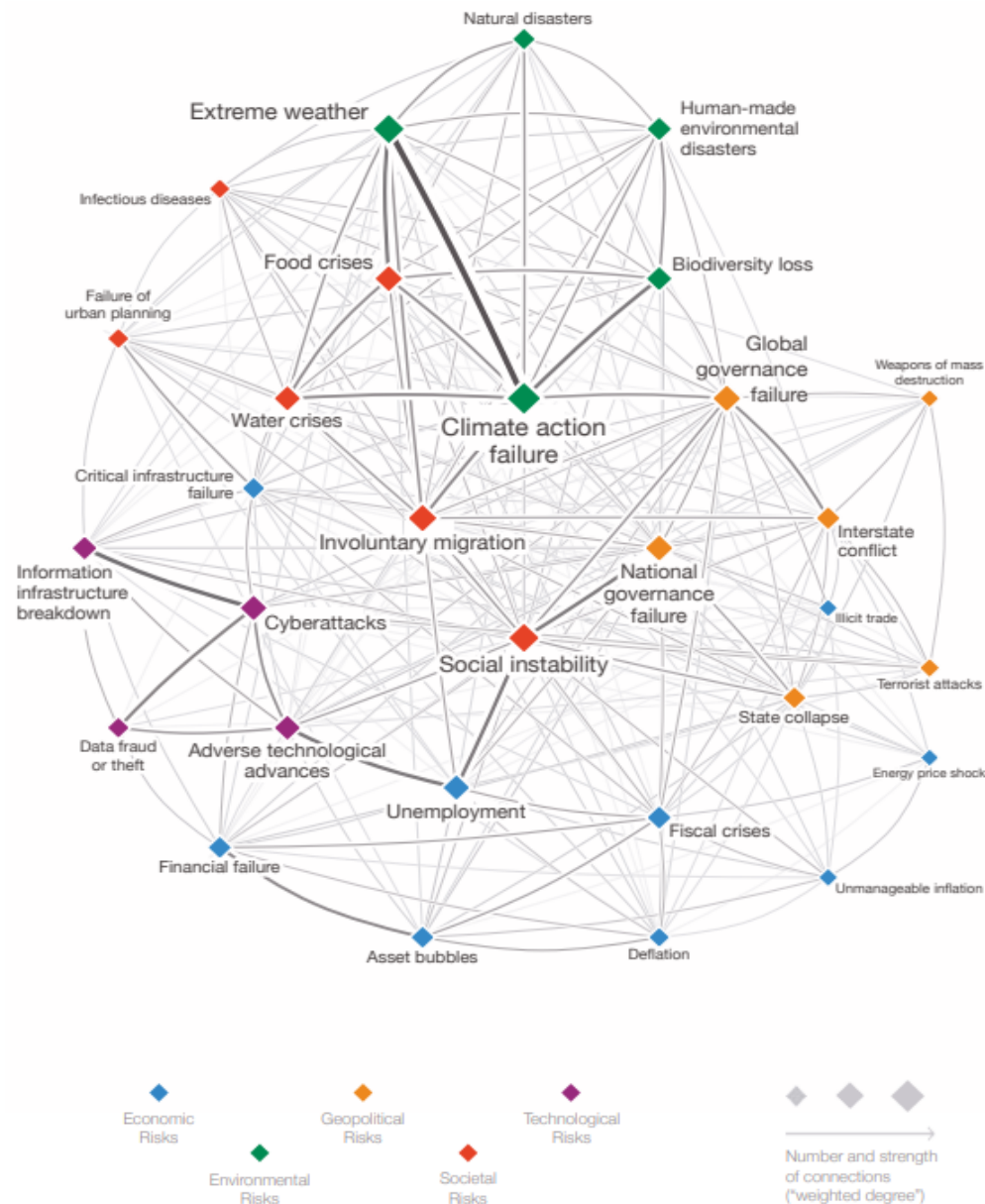
Source: SNL



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.

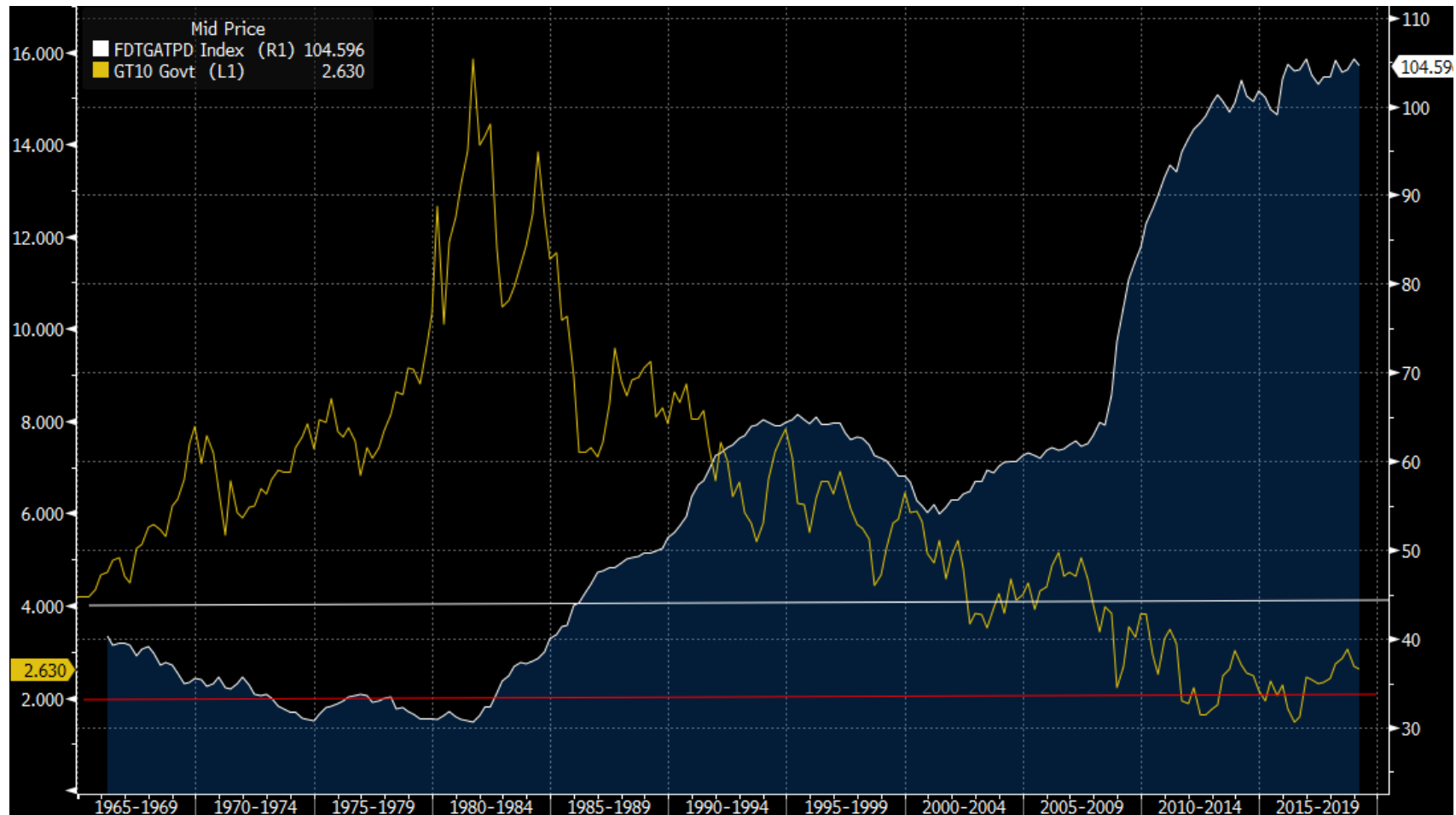
Negative Yielding Global Debt

The global stock of negative-yielding debt is now in excess of \$14 trillion as rising market volatility lends extra force to this year's unprecedented bond rally.



US Government Debt vs 10 Year Treasury Yields

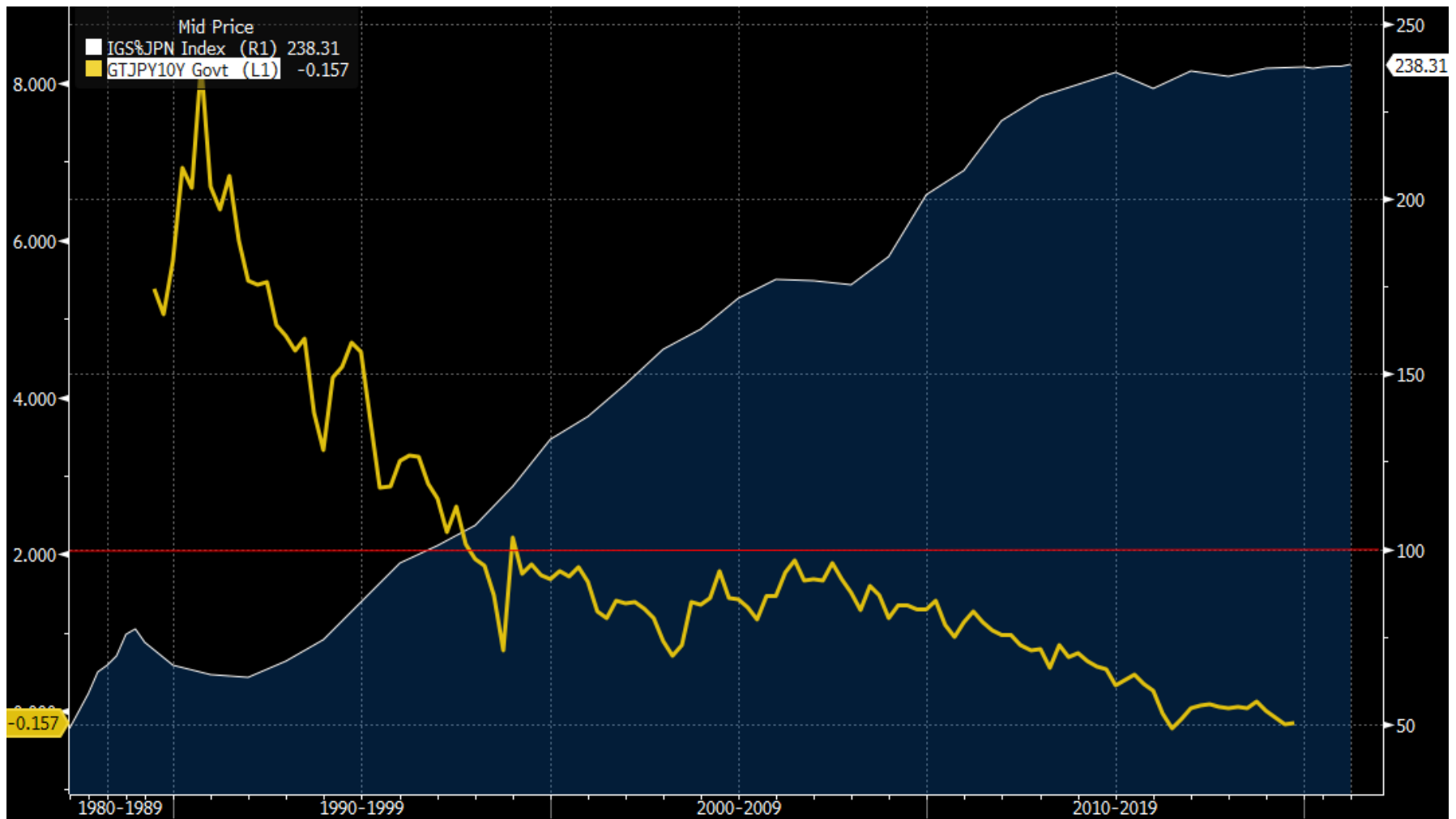
As debt has increased it is difficult for interest rates to rise without having a negative impact on global growth, ultimately putting downward pressure on rates.



Source: Bloomberg

Japan Government Debt % to GDP vs 10 Year Yields

As debt has risen, Japanese 10yr yields have remained below 2% for 20 years



Source: Bloomberg

Fixed Income Market Update

Security	3/31/20	1/31/20	12/31/19	9/30/19	6/30/19	3/31/19	12/31/18	Change during 2019
Treasury ⁽²⁾								
IOER rate	0.10%	1.60%	1.55%	1.80%	2.35%	2.40%	2.40%	(0.85)%
1m repo ⁽¹⁾	0.35%	1.75%	2.06%	2.43%	2.63%	2.70%	2.49%	(0.43)%
3m T-bill	0.09%	1.54%	1.54%	1.81%	2.09%	2.38%	2.36%	(0.82)%
2 yr	0.25%	1.31%	1.57%	1.62%	1.76%	2.26%	2.49%	(0.92)%
5 yr	0.38%	1.31%	1.69%	1.54%	1.77%	2.23%	2.51%	(0.82)%
10 yr	0.67%	1.51%	1.92%	1.67%	2.01%	2.41%	2.68%	(0.76)%
30 yr	1.32%	2.00%	2.39%	2.11%	2.53%	2.81%	3.02%	(0.63)%
Swaps ⁽²⁾								
1m Libor	0.99%	1.66%	1.76%	2.02%	2.40%	2.49%	2.50%	(0.74)%
3m Libor	1.45%	1.75%	1.91%	2.09%	2.32%	2.60%	2.81%	(0.90)%
2 yr	0.49%	1.38%	1.70%	1.63%	1.81%	2.38%	2.66%	(0.96)%
5 yr	0.46%	1.32%	1.73%	1.50%	1.75%	2.29%	2.57%	(0.84)%
10 yr	0.72%	1.46%	1.90%	1.56%	1.96%	2.41%	2.71%	(0.81)%
30 yr	0.88%	1.67%	2.09%	1.71%	2.21%	2.58%	2.84%	(0.75)%
30 Year MBS OAS ⁽³⁾								
3.0%	5	20	26	25	22	11	11	15
3.5%	(1)	27	33	40	23	15	16	17
4.0%	(16)	28	44	43	32	25	23	21
4.5%	(5)	19	51	30	39	33	38	13
FHFA Primary Mortgage ⁽²⁾	3.63%	3.74%	3.56%	3.71%	3.99%	4.36%	4.83%	(1.12)%
Fn 30yr Current Cpn ⁽²⁾	1.978%	2.376%	2.710%	2.610%	2.742%	3.108%	3.495%	(0.785)%
CMBS ⁽⁴⁾								
DUS 10/9.5	95	53	60	65	64	66	78	(18)
DUS 12/11.5	110	64	68	76	74	74	88	(20)
10 yr Freddie K A2	80	48	56	59	59	60	67	(11)

(1) Average rate for Agency MBS per 20 counterparty survey

(2) Source: Bloomberg

(3) Source: BlackRock 6.0 model

(4) Spread to swap, new issue, Source: JPMDataQuery

Specified Pool Pricing Matrix - *Specified Pools vs. TBAs*

30 Year MBS		3/31/20	1/31/20	12/31/19	9/30/19	6/30/19	3/31/19	12/31/18	Change during 2019
3% coupon	TBA Price	104.81	102.27	101.44	101.98	100.85	99.54	97.79	3.65
	85K Max	1.25	2.38	1.88	1.59	1.03	0.28	0.28	1.60
	150K Max	0.93	1.69	1.38	1.09	0.72	0.16	0.16	1.22
	200k Max	0.25	1.09	0.84	0.69	0.22	0.06	0.06	0.78
	NY only	0.53	1.59	1.06	0.94	0.63	0.00	0.00	1.06
	95 LTV	0.16	0.44	0.28	0.47	0.02	0.02	0.02	0.26
	Low WALA/new	0.06	0.09	0.31	0.03	0.00	0.00	0.00	0.31
3.5% coupon	TBA Price	105.72	103.23	102.84	102.49	102.24	101.34	100.16	2.68
	85K Max	1.97	4.00	3.22	3.00	2.00	1.00	0.59	2.63
	150K Max	1.19	2.94	2.19	2.06	1.44	0.69	0.34	1.85
	200k Max	0.78	1.94	1.50	1.28	0.94	0.34	0.16	1.34
	NY only	1.09	3.13	2.34	2.13	1.59	0.47	0.09	2.25
	95 LTV	0.34	0.78	0.72	0.66	0.53	0.03	0.02	0.70
	Low WALA/new	0.19	0.50	0.42	0.34	0.03	0.00	0.00	0.42
4% coupon	TBA Price	106.70	104.46	103.96	103.73	103.35	102.84	102.10	1.86
	85K Max	2.81	5.38	4.78	4.38	3.50	1.88	1.25	3.53
	150K Max	1.56	3.28	2.94	2.66	2.50	1.38	0.75	2.19
	200k Max	1.25	2.34	1.94	1.75	1.53	0.88	0.44	1.50
	NY only	1.47	3.66	3.63	3.19	2.59	1.50	0.84	2.79
	95 LTV	0.50	0.88	0.88	0.88	0.66	0.25	0.09	0.79
	Low WALA/new	0.23	0.72	0.72	0.56	0.34	0.03	0.01	0.71
4.5% coupon	TBA Price	107.52	105.78	105.22	105.31	104.19	104.19	103.65	1.57
	85K Max	3.06	5.94	5.56	5.38	4.47	2.91	2.22	3.34
	150K Max	1.72	3.56	3.22	2.97	3.03	2.19	1.53	1.69
	200k Max	1.56	2.13	2.00	1.78	1.75	1.25	0.78	1.22
	NY only	1.94	4.09	4.25	3.69	3.25	2.28	1.84	2.41
	95 LTV	0.53	0.84	0.84	0.84	0.81	0.59	0.34	0.50
	Low WALA/new	0.17	0.69	0.72	0.47	0.47	0.19	0.05	0.67

Source: JPM DataQuery, Bloomberg

*Specified Pool Payups are quoted in percentage points of price above TBAs

Risk Position - Interest Rates

Changes in interest rates impact the market value of our investments, net of hedges, and shareholders' equity. The estimated percentage change in these values incorporates duration and convexity inherent in our investment portfolio as it existed as of the dates indicated.

Parallel Change in Treasury Yields (bps)	As of March 31, 2020		As of December 31, 2019	
	Percentage Change in		Percentage Change in	
	Market Value of Investments & Hedges	Shareholders' Equity	Market Value of Investments & Hedges	Shareholders' Equity
+100	(1.6)%	(10.9)%	(0.2)%	(1.5)%
+50	(1.2)%	(7.4)%	(0.3)%	(2.1)%
-50	1.4%	9.1%	0.8%	6.8%
-100	2.1%	14.0%	1.1%	9.8%

Curve Shift 2 year Treasury (bps)	Curve Shift 10 year Treasury (bps)	As of March 31, 2020		As of December 31, 2019	
		Percentage Change in		Percentage Change in	
		Market Value of Investments & Hedges	Shareholders' Equity	Market Value of Investments & Hedges	Shareholders' Equity
+25	+50	(1.1)%	(7.7)%	(0.3)%	(2.9)%
+50	+25	(0.6)%	(4.1)%	(0.2)%	(1.9)%
-25	0	0.1%	0.9%	—%	(0.3)%
-50	-10	5.0%	3.2%	0.1%	1.0%

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.

Risk Position - Credit Spreads

Changes in market credit spreads impacts 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 March 31, 2020		As of December 31, 2019	
	Percentage Change in			
	Market Value of Investments ⁽¹⁾	Shareholders' Equity	Market Value of Investments ⁽¹⁾	Shareholders' Equity
+20/+50 ⁽²⁾	(1.3)%	(8.8)%	(1.2)%	(11.1)%
+10	(0.6)%	(4.1)%	(0.6)%	(5.2)%
-10	0.6%	4.1%	0.6%	5.4%
-20/-50 ⁽²⁾	1.3%	8.8%	1.3%	11.6%

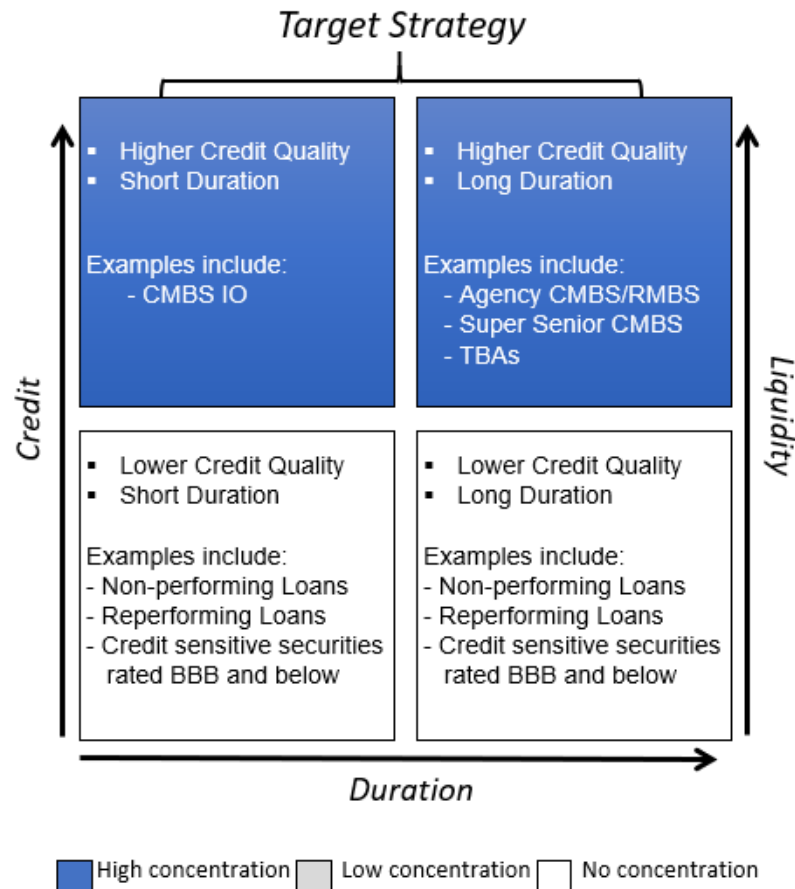
(1) Includes changes in market value of our MBS investments and TBA securities.

(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

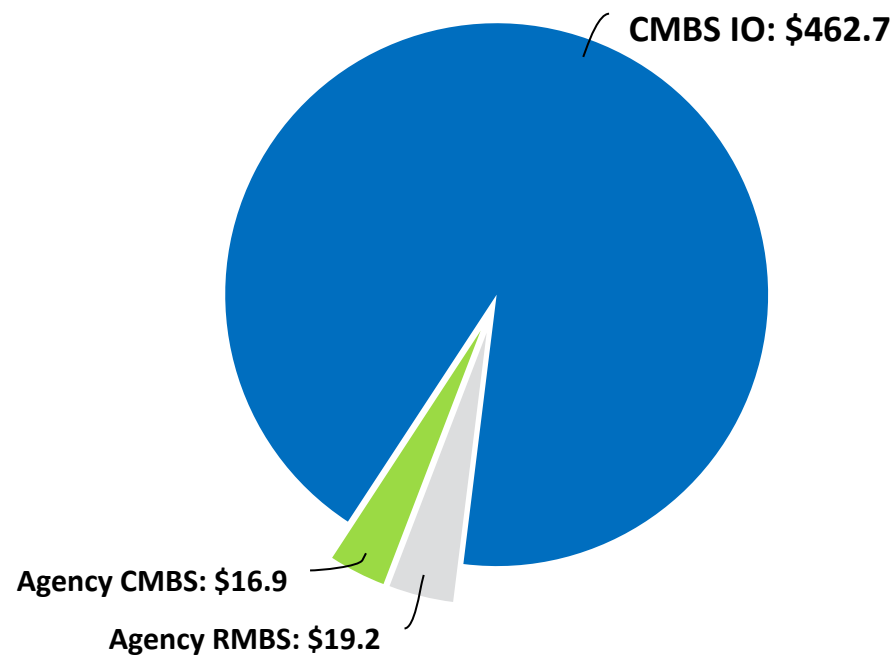


- Dynamic and disciplined capital allocation model enables capturing long-term value
- Invest in a high quality, liquid asset portfolio of primarily Agency investments
- Diversification is a key benefit
 - Balance between commercial and residential sectors provides diversified cash flow and prepayment 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

Prepayment Protection on Unamortized Premium

Investment Premium by Asset Type (as of March 31, 2020)

(\$ in millions)



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

Unamortized Premium (as of 3/31/20)		\$ in Millions	% of Total
<i>Explicit prepayment protection:</i>	CMBS/CMBS IO	\$479.6	96%
<i>Favorable prepayment</i>	RMBS	19.2	4%

Hedge Position *(as of March 31, 2020)*

Interest Rate Swaps			
Years to Maturity- Swaps	Notional Amount (in millions)	WAVG Pay-Fixed Rate	WAVG Life Remaining (in years)
≤ 3 years	\$ 150	1.61%	0.3
>3 and ≤ 6 years	—	—%	—
>6 and ≤ 10 years	80	0.83%	9.9
Total	<u>\$ 230</u>	<u>1.34%</u>	<u>3.6</u>

Futures and Options		
(\$ in millions)	Notional Amount	Fair Value
Options on U.S. Treasury futures	\$1,700	\$ 3,031
U.S. Treasury futures	1,178	(8,438)

Funding Strategy *(as of March 31, 2020)*

(\$s in thousands)

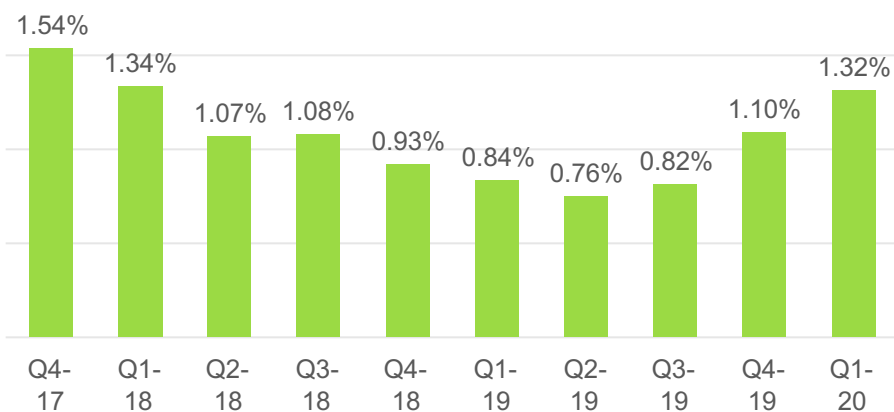
Collateral Type	Balance	Weighted Average Rate	Fair Value of Collateral
Agency RMBS	\$2,180,966	1.69 %	\$2,259,403
Agency CMBS	1,823,951	1.66 %	1,987,487
Agency CMBS IO	262,759	1.84 %	282,150
Non-Agency CMBS IO	140,430	2.30 %	170,782
Total	\$ 4,408,106	1.71 %	\$4,699,822

Remaining Term to Maturity	Balance	Percentage	Weighted Average Original Term to Maturity
< 30 days	\$4,203,459	95%	54
30 to 90 days	204,647	5%	93
	\$4,408,106	100%	56

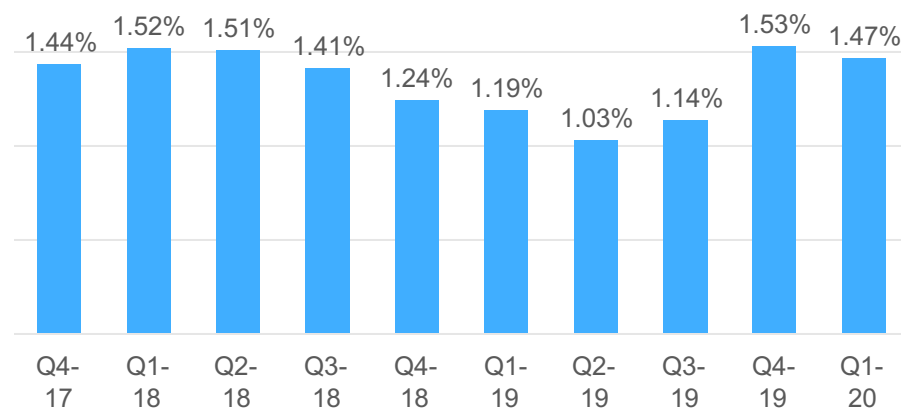
- Weighted average repo rate as of March 31, 2020 declined 30 basis points to 1.71% compared to 2.01% as of December 31, 2019 and the average repo rate was 1.86% for the first quarter of 2020 versus 2.10% for the prior quarter
- Active with 22 counterparties at March 31, 2020

Performance Statistics Overview

Net Interest Spread



Adjusted Net Interest Spread⁽¹⁾



(1) Adjusted net interest spread, a non-GAAP measure, includes the impact of drop income from TBA dollar roll positions after deducting adjusted cost of funds from average asset yield.

Financial Performance - Comparative Quarters

(\$ in thousands, except per share amounts)	1Q20		4Q19	
	Income (Expense)	Per Common Share	Income (Expense)	Per Common Share
Interest income	\$39,822	\$1.73	\$41,961	\$1.83
Interest expense	22,101	0.96	25,766	1.12
GAAP net interest income	17,721	0.77	16,195	0.71
TBA drop income ⁽¹⁾	739	0.03	1,582	0.07
Net periodic interest benefit of interest rate swaps ⁽¹⁾	2,064	0.09	4,660	0.20
Adjusted net interest income ⁽²⁾	20,524	0.89	22,437	0.98
Other operating expense, net	(423)	(0.02)	(28)	—
General and administrative expenses	(4,621)	(0.20)	(4,010)	(0.17)
Preferred stock dividends	(3,841)	(0.16)	(3,361)	(0.15)
Core net operating income to common shareholders ⁽²⁾	11,639	0.51	15,038	0.66
Change in fair value of derivatives ⁽¹⁾	(198,370)	(8.64)	36,750	1.60
Realized gain on sale of investments, net	84,783	3.69	—	—
Preferred stock redemption charge to common shareholders	(3,914)	(0.17)	—	—
Fair value adjustments, net	(372)	(0.02)	(14)	—
GAAP net income (loss) to common shareholders	(106,234)	(4.63)	51,774	2.26
Unrealized (loss) gain on MBS	72,972	3.18	(43,204)	(1.89)
Comprehensive income to common shareholders	(\$33,262)	(\$1.45)	\$8,570	\$0.37
WAVG common shares outstanding	22,963		22,946	

(1) TBA drop income, net periodic interest benefit, 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 31..

Book Value Rollforward

(\$ in thousands, except per share amounts)		Per Common Share
Common shareholders' equity, December 31, 2019 ⁽¹⁾	\$414,739	\$18.01
GAAP net income to common shareholders:		
Core net operating income to common ⁽²⁾	11,639	
Realized gain on sale of MBS, net	84,783	
Change in fair value of derivatives	(198,370)	
Preferred stock redemption charge	(3,914)	
Other	(372)	
Unrealized net gain on MBS	72,972	
Dividends declared	(10,330)	
Stock transactions ⁽³⁾	(1,749)	
Common shareholders' equity, March 31, 2020 ⁽¹⁾	<u>\$369,398</u>	\$16.07

(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 31..

(3) Includes cumulative adjustment to retained earnings for electing fair value option for loans, amortization of stock issuance costs and restricted stock as well as impact on common equity from preferred shares issued below liquidation value of \$25.00 per share.

Reconciliation of GAAP Measures to Non-GAAP Measures

(\$ in thousands except per share data)	Quarter Ended				
	3/31/2020	12/31/2019	09/30/2019	06/30/2019	3/31/2019
GAAP net income (loss) to common shareholders	(\$106,234)	\$51,774	(\$39,945)	(\$122,191)	(\$55,273)
Adjustments:					
Change in fair value of derivatives instruments, net ⁽¹⁾	198,370	(36,750)	56,079	122,370	67,557
(Loss) gain on sale of investments, net	(84,783)	—	(4,605)	10,360	—
Preferred stock redemption charge	3,914	—	—	—	—
Accretion of de-designated cash flow hedges ⁽²⁾	—	—	—	—	(165)
Fair value adjustments, net	372	14	13	16	13
Core net operating income to common shareholders	\$11,639	\$15,038	\$11,542	\$10,555	\$12,132
Core net operating income per common share	\$0.51	\$0.66	\$0.48	\$0.43	\$0.53

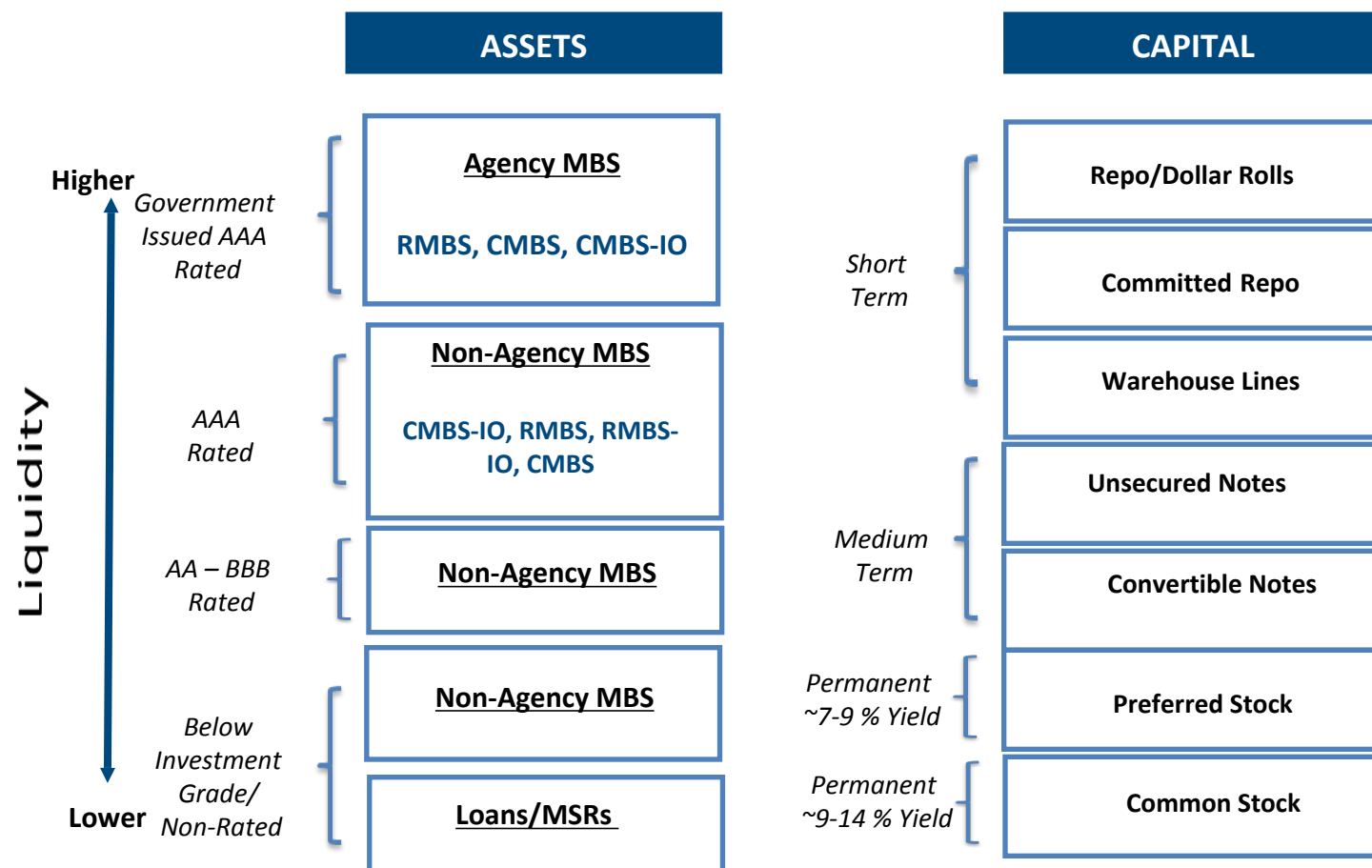
(\$ in thousands)	Quarter Ended				
	3/31/2020	12/31/2019	09/30/2019	06/30/2019	3/31/2019
GAAP net interest income	\$17,721	\$16,195	\$13,246	\$12,935	\$13,681
Add: TBA drop income	739	1,582	1,404	1,282	1,963
Add: net periodic interest benefit ⁽³⁾	2,064	4,660	3,966	3,553	3,897
Less: de-designated hedge accretion ⁽²⁾	—	—	—	—	(165)
Non-GAAP adjusted net interest income	\$20,524	\$22,437	\$18,616	\$17,770	\$19,376
GAAP interest expense	\$22,101	\$25,766	\$31,256	\$30,813	\$26,276
Add: net periodic interest benefit ⁽³⁾	(2,064)	(4,660)	(3,966)	(3,553)	(3,897)
Less: de-designated hedge accretion ⁽²⁾	—	—	—	—	165
Non-GAAP adjusted interest expense	\$20,037	\$21,106	\$27,290	\$27,260	\$22,544

(1) Amount represents net realized and unrealized gains and losses on derivatives and excludes net periodic interest benefits related to these instruments.

(2) Amount recorded as a portion of "interest expense" in accordance with GAAP related to the accretion of the balance remaining in accumulated other comprehensive income as a result of the Company's discontinuation of cash flow hedge accounting effective June 30, 2013.

(3) Amount represents net periodic interest 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

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

Bear Flattener: 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

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.

