



Third Quarter 2021 Earnings Presentation

**October 27, 2021**



# Safe Harbor Statement

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## **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 on longer-term returns, macroeconomic and industry trends, statements regarding our financial performance in future periods, future interest rates and their impact on our financial measures, our views on expected characteristics of future investment environments, prepayment rates and investment risks and trends, our future investment strategies, our future leverage levels and financing strategies and costs, 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 Annual Report on Form 10-K for the year ended December 31, 2020 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption “Risk Factors”.

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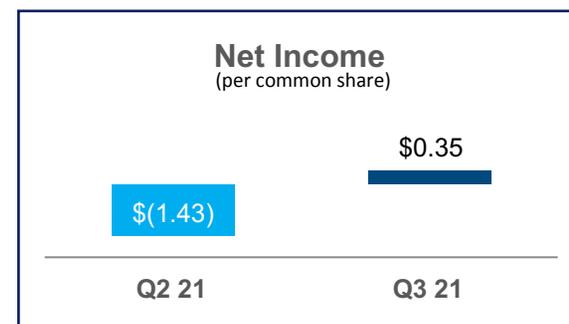
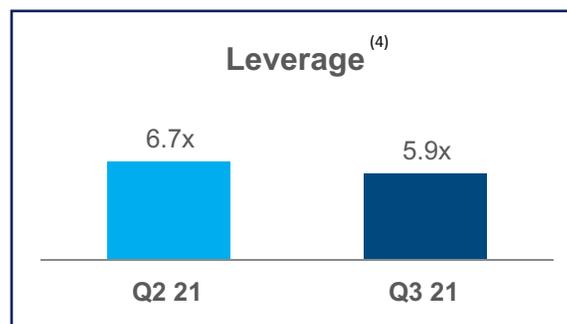
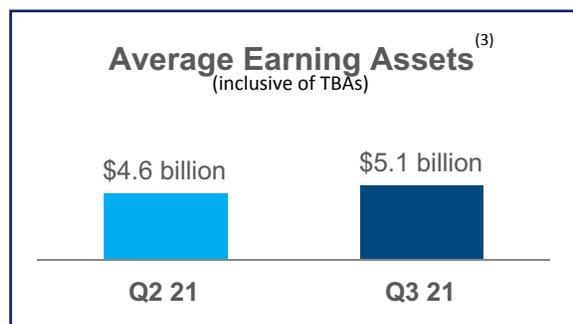
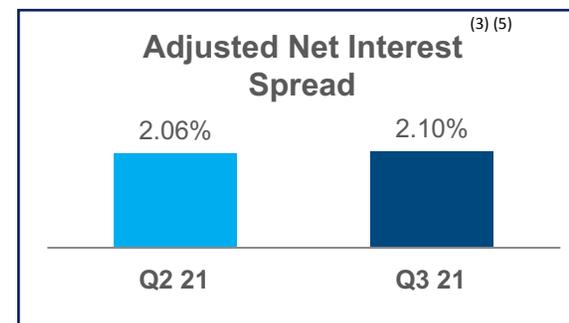
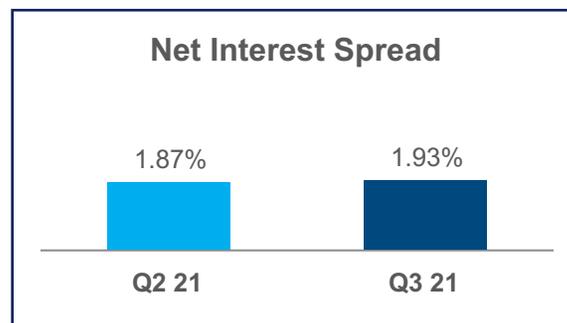
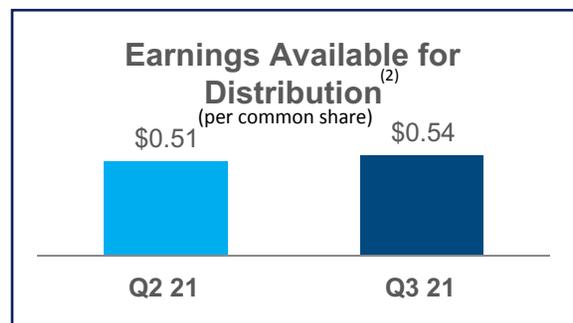
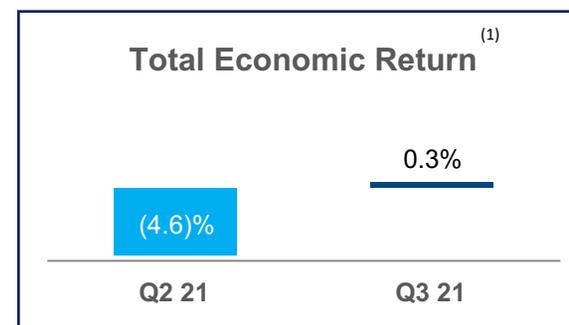
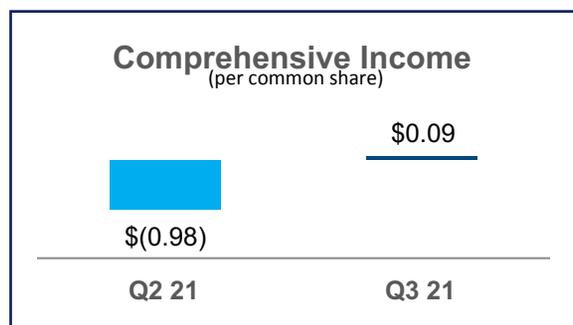
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# Market Snapshot

	Common Stock	Series C Preferred Stock
NYSE Ticker	<b><i>DX</i></b>	<b><i>DXPrC</i></b>
Shares Outstanding <i>(in millions) (as of 9/30/21)</i>	35.9	4.5
3Q21 Dividends Declared	\$0.39	\$0.43
Annualized Dividend Yield	8.76%	6.71%
Book Value per share <i>(as of 9/30/21)</i>	\$18.42	—
Share Price <i>(close on 10/22/21)</i>	\$17.81	\$25.69
Market Capitalization <i>(in millions) (as of 10/22/21)</i>	\$639.4	\$115.6
Price to Book <i>(based on 10/22/21 stock price and 9/30/21 book value)</i>	96.7%	—

Source: Bloomberg

# Performance Highlights- Q3 2021



1. Equals sum of dividend declared per common share during the quarter plus the increase in book value per common share during the quarter divided by beginning book value per common share.
2. Reconciliations for non-GAAP measures are presented on slide 28.
3. Amounts shown for Q2 21 have been updated from prior quarter due to an error in the calculation of the average notional balance of TBA dollar roll positions outstanding during the three months ended June 30, 2021.
4. Leverage equals the sum of (i) total liabilities and (ii) amortized cost basis of TBA long positions divided by total shareholders' equity.
5. 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.

# Macroeconomic Thesis

## Long-term

*The global economy is evolving but remains fragile as significant uncertainties remain about the pandemic's long-term effects across economic, social and political factors.*

- Changing demographics, rising global debt, evolving technologies, human conflict, and climate change all remain key factors that increase the complexity of the macro-environment while also providing investment opportunities.
- Global economies and financial systems are dependent on Central Banks continuing to play a major role. A large number of risk factors have been further exacerbated by the pandemic.
- Fiscal policy remains an important driving force for stimulating growth and inflation. As this policy is being financed with incremental borrowing, the increased supply of bonds must be absorbed by the market.
- The Federal Reserve's stated commitment to keep the Federal Funds rate at zero and its explicit Average Inflation Targeting strategy may further impact the steepness of the curve, volatility, and level of interest rates.
- Longer-term demographic trends, and the growing amount of global debt, are factors that will limit the extent to which interest rates can rise.

# Current Environment and Positioning



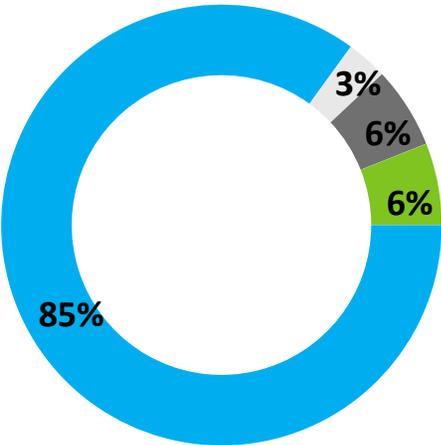
*We believe the broader investment environment remains favorable with financing costs anchored well into 2022.*

- In the short-term we are focused on specific risk events on the horizon, including the implementation of the taper, debt ceiling resolution, passage of any fiscal stimulus, a possible leadership transition at the Federal Reserve, the composition of the Federal Reserve, and international risks.
- Global central banks are adjusting their post-pandemic strategies as inflation and growth trajectories are uneven and disparate across the globe.
- We believe it is premature to arrive at conclusions on long term trends for inflation, labor market and growth, and thus the timing and pace of hikes is less clear.
- In the medium term, we believe 10-year Treasury yields could move higher as we transition to a global reopened economy, a higher percentage of vaccinated populations, stable or rising inflation and a rising supply of global sovereign bonds due to tapering, continued deficit spending, and fiscal stimulus.
- We maintain a flexible portfolio, substantial liquidity, and a significant capacity to increase leverage. We believe we remain positioned to generate returns that exceed the dividend, which also provide a capital cushion while generating solid long-term returns.

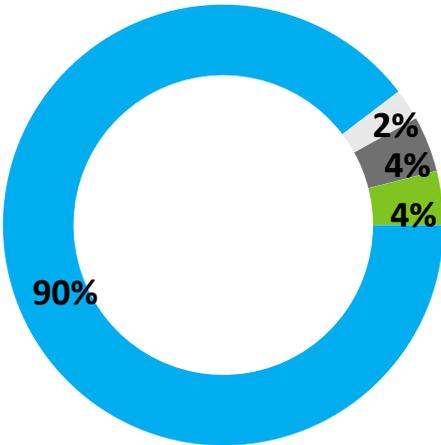
# Investment Portfolio *(as of dates indicated)*

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

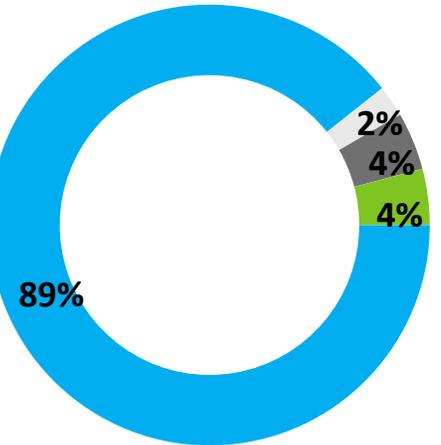
December 31, 2020



June 30, 2021



September 30, 2021



■ Agency RMBS (1)   ■ Agency CMBS   ■ Agency CMBS IO   ■ Non-Agency CMBS IO

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

# Risk Position - Interest Rates

***We have maintained a portfolio structure hedged with the long end of the yield curve.***

Parallel Curve Shift	Percentage Change in Common Shareholders' Equity	
	As of	
	September 30, 2021	As of June 30, 2021
+100	0.2%	(1.8)%
+50	1.4%	(0.5)%
-50	(6.3)%	(2.4)%
-100	(19.3)%	(13.5)%

Curve Shift 2 year Treasury (bps)	Curve Shift 10 year Treasury (bps)	Percentage Change in Common Shareholders' Equity	
		As of	
		September 30, 2021	As of June 30, 2021
+25	+50	0.5%	(1.6)%
+50	+25	1.7%	0.3%
0	-25	(1.2)%	0.4%
-10	-50	(3.5)%	(0.2)%
-25	-75	(8.2)%	(3.6)%

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

*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. Percentage changes do not reflect any potential changes in market credit spreads.*

# Risk Position - Credit Spreads

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 September 30, 2021	As of June 30, 2021
	Percentage Change in Common Shareholders' Equity	Percentage Change in Common Shareholders' Equity
+20/+50 <sup>(2)</sup>	(9.7)%	(10.9)%
+10	(4.7)%	(5.2)%
-10	4.7%	5.2%
-20/-50 <sup>(2)</sup>	9.7%	10.9%

(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.

# Long-Term Industry Trends

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

**1**

Global demand for cash yield supports long term valuations of mortgage REITs

- Low and negative global yields have severely limited positive yielding cash income alternatives available to investors
- Global and domestic demographic trends show a rising aging global population that needs cash income

**2**

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
- Steeper yield curve environment with stable financing costs is ideal for generating attractive net interest spreads

**3**

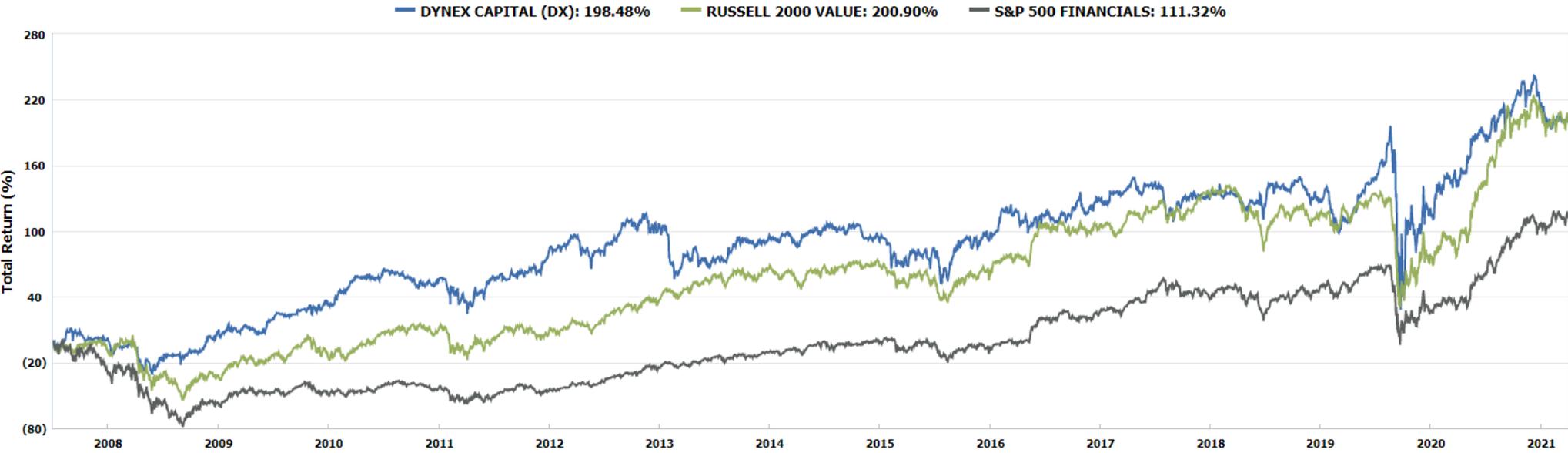
Further expansion of returns as counter cyclical emergency measures are tapered

- Need for private capital to replace government balance sheets
- Higher returns as Federal Reserve reduces its footprint over the long-term

# Disciplined Focus on the Long-Term

*Dynex has generated long-term returns comparable to the S&P 500 Financials and Russell 2000 Value indices.*

## Total Return (%) January 1, 2008 - September 30, 2021



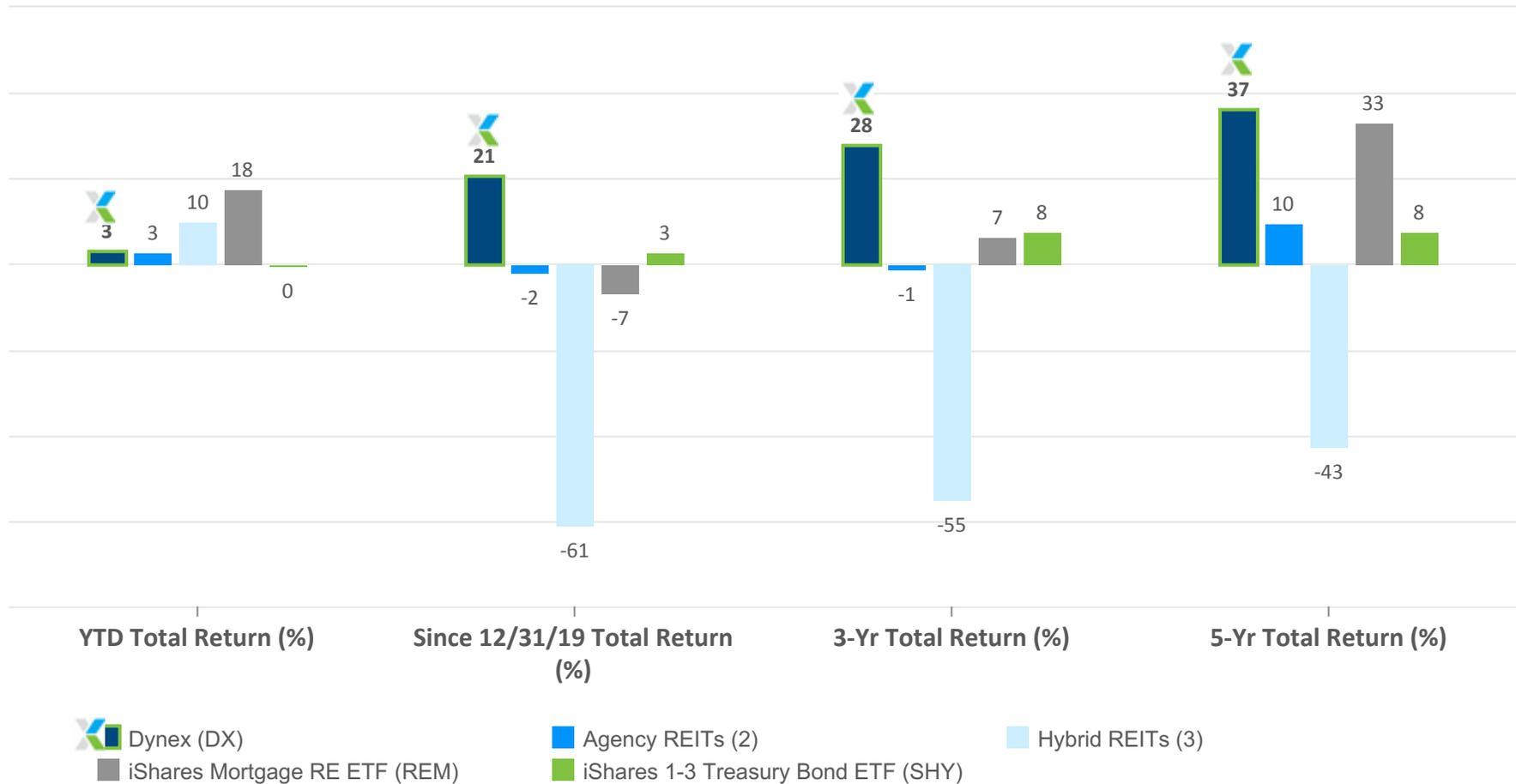
	Cumulative	Annualized Equivalent
<b>DX - Total Return</b>	198.48%	8.3%
<b>Russell 2000 Value Index - Total Return</b>	200.90%	8.3%
<b>S&amp;P 500 Financials - Total Return</b>	111.32%	5.6%

*Source: S&P Capital IQ  
Assumes reinvestment of dividends*

# Dynex Outperforms

## Track record of industry outperformance

### Cumulative Total Shareholder Returns <sup>(1)</sup>



(1) Ending period 9/30/2021  
 (2) Select Agency MREITS on an equal weight basis  
 (3) Select Hybrid MREITS on an equal weight basis

Source: Bloomberg. Assumes dividends are reinvested in the respective security.

# Key Takeaways

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-  We believe the global economy is transitioning to a post pandemic environment and our team is prepared for elevated volatility and the increased probability of surprise factors.
-  We believe we are entering a period with the potential for additional opportunities to invest capital at higher returns.
-  Currently, we are positioned with over \$500m in liquidity, 5.6x leverage that limits risk to the existing portfolio, and the flexibility to rapidly deploy capital for significant upside in returns.
-  We expect Earnings Available for Distribution<sup>(1)</sup> to continue to exceed the level of the dividend and believe the Company is well-positioned for the remainder of 2021 and into 2022.
-  We generated a total economic return of 9.5% and a total shareholder return of 23.8% during the last 12 months.
-  We continue to manage our business with a long-term view. We remain confident in our ability to generate attractive risk-adjusted returns that support our above average dividend yield.

<sup>(1)</sup> A non-GAAP measure formerly referred to as "core net operating income." Reconciliations for non-GAAP measures are presented on slide [28](#).

# 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 a high-quality, liquid balance sheet

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 interest with shareholders due to high insider ownership and owner-operated structure

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

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

# Supplemental Information

# Fixed Income Market Update

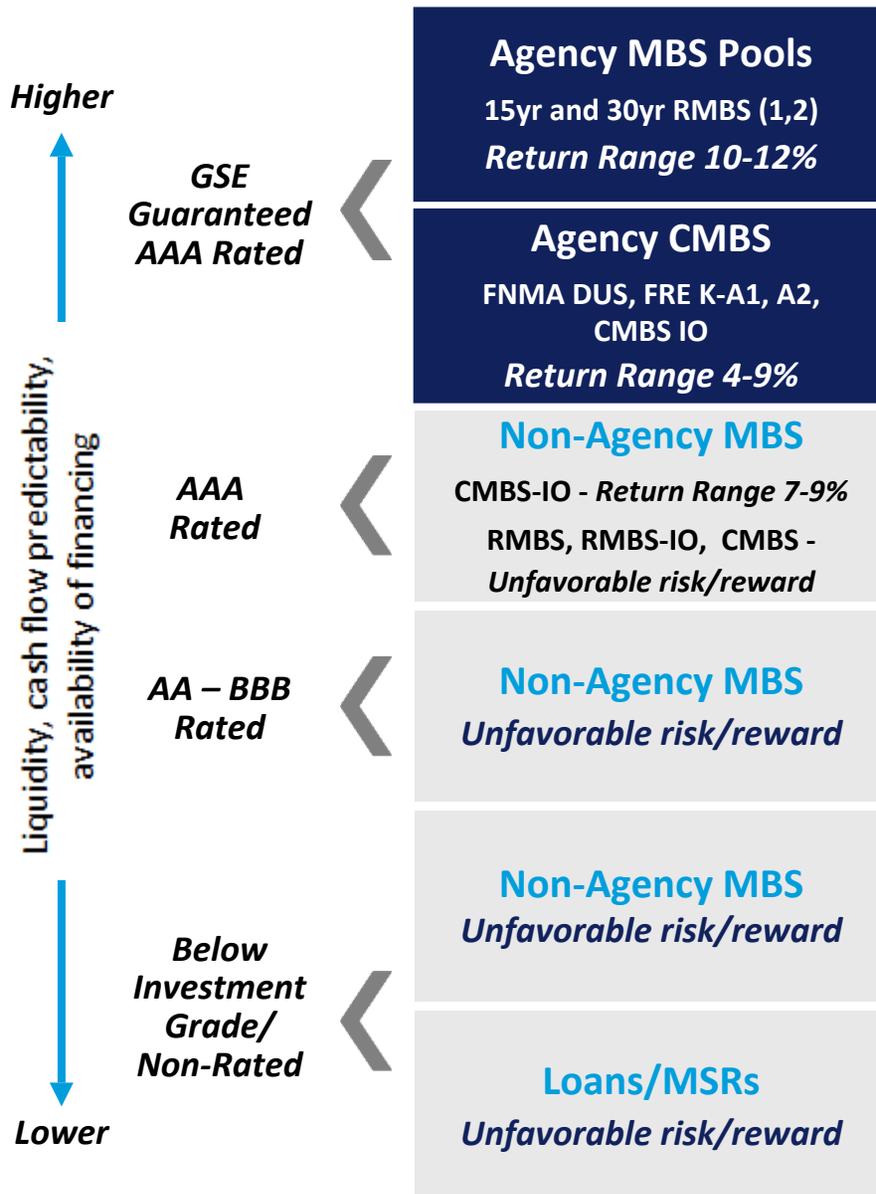
Security	Change 2021	Change QoQ	9/30/2021	8/31/2021	7/31/2021	6/30/2021	3/31/21	12/30/20	9/30/20	6/30/20	3/31/20	12/31/19	Change YoY
<b>Treasury <sup>(2)</sup></b>													
IOER rate	0.05%	0.00%	0.15%	0.15%	0.15%	0.15%	0.10%	0.10%	0.10%	0.10%	0.10%	1.55%	0.05%
1m repo <sup>(1)</sup>	-0.10%	0.00%	0.11%	0.11%	0.11%	0.11%	0.14%	0.21%	0.23%	0.25%	0.35%	2.06%	-0.12%
3m T-bill	-0.03%	0.00%	0.04%	0.05%	0.05%	0.04%	0.01%	0.07%	0.09%	0.14%	0.09%	1.54%	-0.05%
2 yr	0.15%	0.03%	0.28%	0.21%	0.18%	0.25%	0.16%	0.12%	0.13%	0.15%	0.25%	1.57%	0.15%
5 yr	0.60%	0.08%	0.96%	0.78%	0.69%	0.89%	0.94%	0.36%	0.28%	0.28%	0.38%	1.69%	0.69%
10 yr	0.57%	0.02%	1.49%	1.31%	1.22%	1.47%	1.74%	0.92%	0.69%	0.65%	0.67%	1.92%	0.80%
30 yr	0.40%	-0.04%	2.04%	1.93%	1.89%	2.09%	2.41%	1.65%	1.46%	1.41%	1.32%	2.39%	0.59%
<b>3M10Y Treasury Vol (15DP)</b>	<b>1.46</b>	<b>0.75</b>	<b>5.35</b>	<b>4.79</b>	<b>4.91</b>	<b>4.60</b>	<b>6.70</b>	<b>3.89</b>	<b>4.54</b>	<b>3.89</b>	<b>5.32</b>	<b>4.18</b>	<b>0.81</b>
<b>Swaps <sup>(2)</sup></b>													
1m Libor	-0.06%	-0.02%	0.08%	0.08%	0.09%	0.10%	0.11%	0.14%	0.15%	0.17%	0.99%	1.76%	-0.07%
3m Libor	-0.11%	-0.02%	0.13%	0.12%	0.12%	0.15%	0.19%	0.24%	0.23%	0.29%	1.45%	1.91%	-0.10%
2 yr	0.18%	0.05%	0.38%	0.30%	0.26%	0.33%	0.29%	0.20%	0.22%	0.22%	0.49%	1.70%	0.16%
5 yr	0.62%	0.09%	1.05%	0.87%	0.78%	0.96%	1.06%	0.43%	0.35%	0.32%	0.46%	1.73%	0.71%
10 yr	0.58%	0.06%	1.51%	1.33%	1.25%	1.44%	1.78%	0.93%	0.71%	0.63%	0.72%	1.90%	0.80%
30 yr	0.39%	0.02%	1.79%	1.66%	1.65%	1.77%	2.20%	1.40%	1.18%	0.91%	0.88%	2.09%	0.61%
<b>3M10Y Swaption Vol</b>	<b>13.1</b>	<b>2.3</b>	<b>73.4</b>	<b>71.9</b>	<b>74.4</b>	<b>71.1</b>	<b>85.4</b>	<b>60.3</b>	<b>61.5</b>	<b>65.7</b>	<b>90.1</b>	<b>64.6</b>	<b>11.9</b>
<b>30 Year MBS OAS <sup>(3)</sup></b>													
2.0% <sup>(4)</sup>	-9	-4	-10	-5	-9	-6	-20	-1	9	36	54	-	-
2.5%	-2	-5	-4	2	-2	1	-16	-2	-2	2	30	30	-2
3.0%	-22	-13	14	33	26	27	2	36	35	6	32	30	-21
3.5%	-6	-18	22	41	31	40	8	28	30	30	34	37	-8
4.0%	-12	-15	39	49	54	54	11	51	64	48	27	49	-25
FHFA Primary Mortgage <sup>(2)</sup>	0.15%	-0.17%	TBD	2.95%	2.93%	3.12%	2.64%	2.80%	3.02%	3.32%	3.63%	3.56%	-0.07%
Fn 30yr Current Cpn <sup>(2)</sup>	0.62%	0.14%	1.97%	1.79%	1.68%	1.83%	2.04%	1.34%	1.42%	1.57%	1.80%	2.71%	0.55%
<b>CMBS <sup>(3)</sup></b>													
DUS 10/9.5	-10	8	26	24	28	18	22	36	45	58	95	60	-19
DUS 12/11.5	-10	8	34	35	38	26	29	44	53	68	110	68	-19
10 yr Freddie K A2	-11	2	17	16	20	15	18	28	39	44	80	56	-22
Agency CMBS IO	-75	0	65	65	70	65	95	140	180	275	400	135	-115
Non-Agency AAA CMBS IO	-57	3	108	110	100	105	130	165	190	300	450	113	-82

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

(2) Source: Bloomberg

(3) Source: BlackRock 6.04 model prior to 03/31/2021 and BlackRock 6.1 on 3/31/2021 and after

# Current Marginal Investment Returns *(as of September 30, 2021)*



## 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.

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

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

# Pricing Matrix

30 Year MBS <sup>(1)</sup>		Change during 2021	Change QoQ	9/30/2021	8/31/2021	7/31/2021	6/30/2021	3/31/21	12/31/20	9/30/20	6/30/20	3/31/20	12/31/19
2.0% Cpn <sup>(2)</sup>	TBA Price	-3.51	-0.60	100.38	101.34	102.05	100.98	99.67	103.88	103.41	102.34	-	-
	85K Max	-0.52	0.53	1.44	1.59	1.34	0.91	1.13	1.96	2.78	2.19	-	-
	150K Max	-0.32	0.50	1.00	1.03	0.84	0.50	0.63	1.32	1.88	1.56	-	-
	200k Max	-0.08	0.41	0.69	0.69	0.53	0.28	0.41	0.77	1.19	0.97	-	-
	NY only	-0.30	0.47	0.72	0.72	0.59	0.25	0.25	1.02	1.75	1.34	-	-
	95 LTV	-0.13	0.00	0.03	0.06	0.06	0.03	0.03	0.16	0.44	0.34	-	-
	Low WALA/new	0.03	0.03	0.06	0.00	0.00	0.03	0.03	0.03	0.03	0.28	0.08	-
2.5% Cpn <sup>(2)</sup>	TBA Price	-2.05	-0.20	103.22	103.84	104.20	103.41	102.51	105.27	104.92	104.26	-	-
	85K Max	-1.07	0.44	2.28	2.66	2.50	1.84	2.03	3.35	4.00	3.31	-	-
	150K Max	-0.97	0.19	1.50	1.66	1.72	1.31	1.44	2.47	2.59	2.5	-	-
	200k Max	-0.35	0.22	0.97	1.06	1.13	0.75	0.94	1.32	1.50	1.22	-	-
	NY only	-0.81	0.47	1.53	1.66	1.66	1.06	0.97	2.34	2.41	2.19	-	-
	95 LTV	-0.16	-0.03	0.06	0.09	0.13	0.09	0.13	0.22	0.50	0.31	-	-
	Low WALA/new	-0.03	0.00	0.03	0.03	0.03	0.03	0.09	0.06	0.25	0.08	-	-
3% Cpn	TBA Price	-0.20	0.45	104.67	104.60	104.86	104.22	104.13	104.88	104.75	105.31	104.81	101.44
	85K Max	-1.63	0.69	4.69	5.16	5.03	4.00	3.41	6.31	6.66	4.53	1.31	1.88
	150K Max	-2.19	0.34	3.22	3.47	3.53	2.88	2.72	5.41	4.63	3.34	0.75	1.38
	200k Max	-1.44	-0.13	2.28	2.56	2.56	2.41	2.16	3.72	2.91	1.56	0.25	0.84
	NY only	-1.64	0.59	3.59	3.91	3.91	3.00	2.59	5.23	4.00	3.06	0.78	1.06
	95 LTV	-0.75	-0.19	0.75	0.75	0.84	0.94	0.94	1.50	1.41	0.53	0.06	0.28
	Low WALA/new	-0.63	0.00	0.75	0.59	0.63	0.75	1.00	1.38	1.25	0.28	0	0.31
3.5% Cpn	TBA Price	-0.03	0.56	105.83	105.79	106.00	105.27	105.72	105.86	105.42	105.16	105.72	102.84
	85K Max	-1.75	1.00	6.06	5.88	5.94	5.06	4.41	7.81	8.00	6.84	1.97	3.22
	150K Max	-1.38	0.44	3.94	3.81	4.03	3.50	3.22	5.31	5.66	4.91	1.19	2.19
	200k Max	-0.94	-0.09	2.69	2.78	2.91	2.78	2.59	3.63	3.53	2.84	0.78	1.5
	NY only	-0.88	0.44	4.06	4.22	4.38	3.63	3.22	4.94	4.75	4.78	1.09	2.34
	95 LTV	-0.60	-0.19	0.91	1.00	0.97	1.09	1.06	1.50	1.59	1.38	0.34	0.72
	Low WALA/new	-0.50	0.06	0.97	0.75	0.81	0.91	1.03	1.47	1.53	1.25	0.19	0.42
4% Cpn	TBA Price	0.23	0.63	107.17	107.13	106.87	106.54	107.32	106.94	106.64	105.97	106.70	103.96
	85K Max	-1.97	0.59	6.34	6.44	6.31	5.75	4.91	8.31	8.84	8	2.81	4.78
	150K Max	-0.78	0.13	3.91	4.03	3.91	3.78	3.31	4.69	5.38	5.31	1.56	2.94
	200k Max	-0.79	-0.31	2.66	2.94	2.59	2.97	2.56	3.44	3.31	2.94	1.25	1.94
	NY only	-2.25	0.00	4.09	4.53	4.31	4.09	3.41	6.35	5.09	5.44	1.47	3.63
	95 LTV	-0.13	-0.16	0.91	1.00	0.91	1.06	0.84	1.03	1.41	1.25	0.5	0.88
	Low WALA/new	-0.25	0.13	0.97	0.78	0.91	0.84	0.81	1.22	1.34	1.22	0.23	0.72

(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.

# Hedge Position Changes

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

- Futures offer hedge protection for higher rates with lower impact on liquidity and greater trading flexibility.

	September 30, 2021			June 30, 2021		
	Notional Amount/ Long (Short) (\$ in '000s)	Rate	Average Months to Expiration	Notional Amount/ Long (Short) (\$ in '000s)	Rate	Average Months to Expiration
U.S. Treasury futures	\$ (3,540,000)	n/a	3	\$ (3,250,000)	n/a	3
Interest rate payer swaptions	750,000	1.46%	7	500,000	1.16%	2
Put options on U.S. Treasury futures	—	—%		850,000	1.69%	3

# Funding Strategy *(as of September 30, 2021)*

(\$s in thousands)

Collateral Type	Balance	Weighted Average Rate	Fair Value of Collateral
Agency RMBS	\$2,069,312	0.13 %	\$2,166,848
Agency CMBS	186,575	0.13 %	198,487
Agency CMBS IO	180,425	0.68 %	203,319
Non-Agency CMBS IO	90,753	0.98 %	108,998
Total	\$ 2,527,065	0.20 %	\$2,677,652

Remaining Term to Maturity	Balance	Percentage	Weighted Average Original Term to Maturity
< 30 days	\$479,019	19%	110
30 to 90 days	620,085	25%	125
91 to 180 days	1,122,552	44%	168
181 to 365 dats	305,409	12%	318
Total	\$2,527,065	100%	165

- Weighted average repo rate for the third quarter of 2021 was 0.20%, a decline of 3 basis points compared to the second quarter 2021 weighted average rate of 0.23%.
- Active with 23 counterparties at September 30, 2021.
- Maximum equity at risk with any one counterparty is less than 5%.

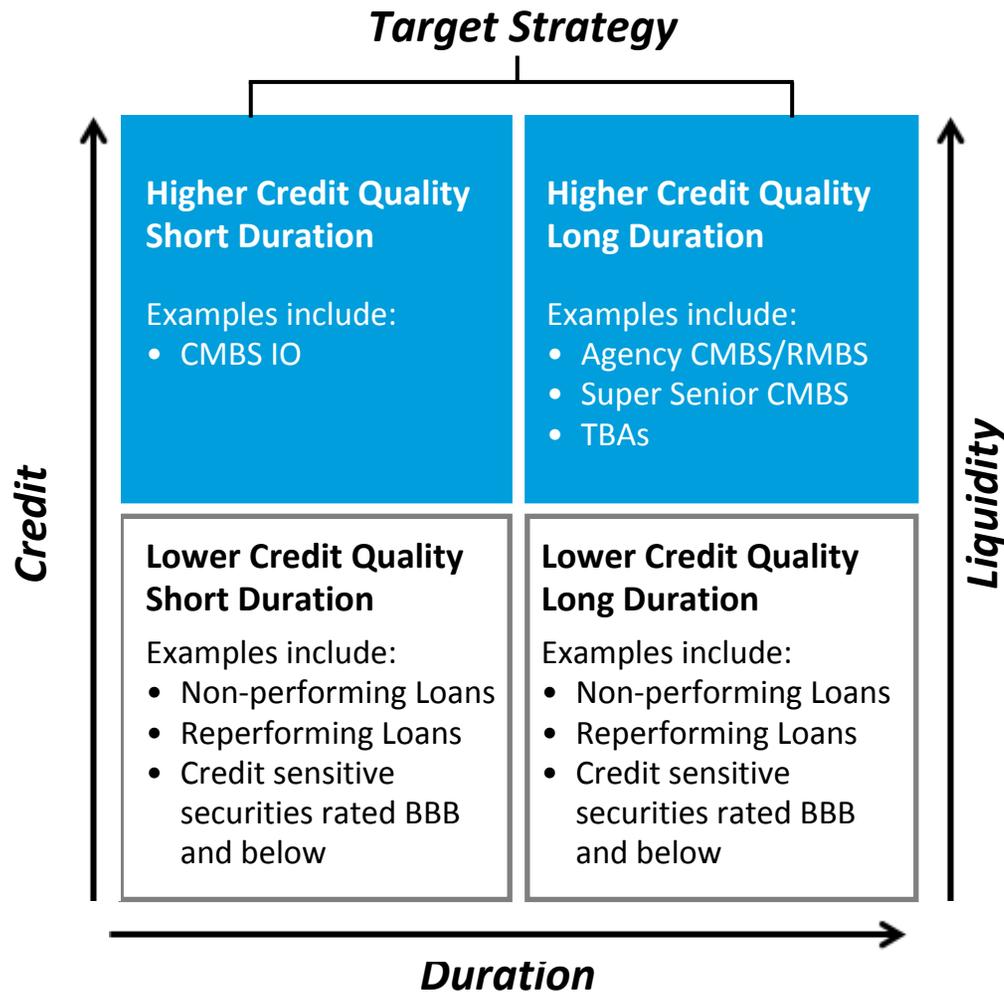
# Dollar Rolls

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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 supply/demand 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.

# Long-term Investment Strategy

Dynamic and disciplined capital allocation model enables us to capture long-term value



- In the current environment invest in a high quality, liquid asset portfolio of primarily Agency investments
- Longer-term diversification is key
  - 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

High concentration
  Low concentration
  No concentration

# Portfolio Characteristics *(as of September 30, 2021)*

(\$ in millions)	Par Value		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)(3)</sup>	3-month WAVG Yield <sup>(2)</sup>
	Pools	TBA								
<b>Agency RMBS</b>										
1.5% coupon	\$ —	\$ 375,000	\$ 375,000	\$ 377,212	7.8 %	1.50 %	n/a	n/a	n/a	n/a
2.0% coupon	880,915	1,415,000	2,295,915	2,302,365	47.5 %	2.00 %	102.0 %	\$ 17,387	9.0%	1.64 %
2.5% coupon	1,209,644	190,000	1,399,644	1,452,139	30.0 %	2.50 %	104.3 %	52,291	8.4%	1.79 %
4.0% coupon	181,897	—	181,897	197,413	4.1 %	4.00 %	103.0 %	5,459	40.5%	2.21 %
<b>Total Agency RMBS</b>	<b>\$ 2,272,457</b>	<b>\$ 1,980,000</b>	<b>\$ 4,252,456</b>	<b>\$ 4,329,129</b>	<b>89.3 %</b>		<b>103.3 %</b>	<b>\$ 75,137</b>	<b>11.3%</b>	<b>1.77 %</b>
<b>Agency CMBS</b>	\$ 185,603	—	\$ 185,603	\$ 198,434	4.1 %		101.4 %	\$ 2,608	<sup>(5)</sup>	3.02 %
<b>CMBS Interest-only</b>	<sup>(4)</sup>	—	<sup>(4)</sup>	317,604	6.6 %		n/a	304,374	<sup>(5)</sup>	4.23 %
<b>Other non-Agency MBS</b>	1,087	—	1,087	906	— %		77.4 %	(246)	-	26.87 %
<b>Total</b>	<b>\$ 2,459,147</b>	<b>\$ 1,980,000</b>	<b>\$ 4,439,146</b>	<b>\$ 4,846,073</b>	<b>100 %</b>		<b>-</b>	<b>\$ 381,873</b>	<b>-</b>	<b>2.13 %</b>

(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) 3-month CPRs exclude recent purchases of securities which do not have a prepayment history.

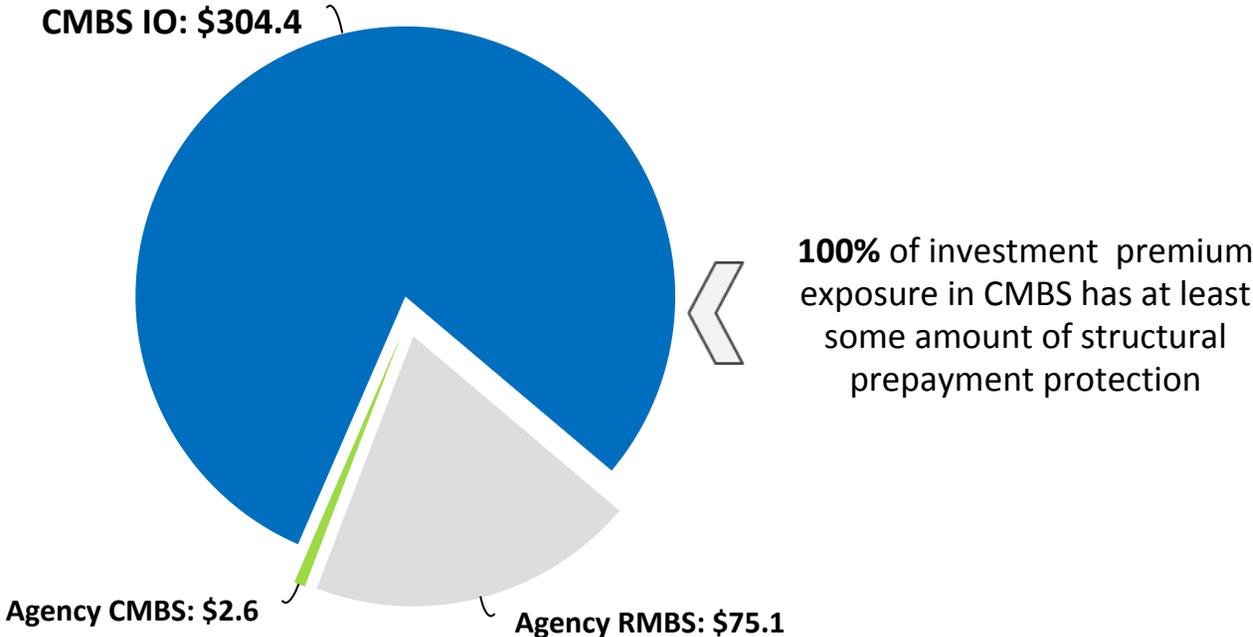
(4) CMBS IO do not have underlying par values. The total notional value underlying CMBS IO was \$19.4 billion as of September 30, 2021.

(5) Structurally, we are compensated for CMBS prepayments except under certain circumstances.

# Prepayment Protection on Unamortized Premium

(as of September 30, 2021)

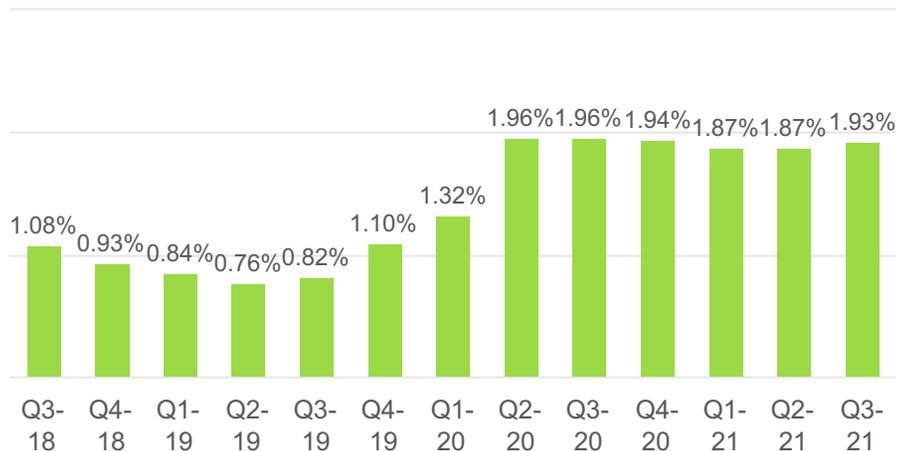
## Investment Premium by Asset Type (\$ in millions)



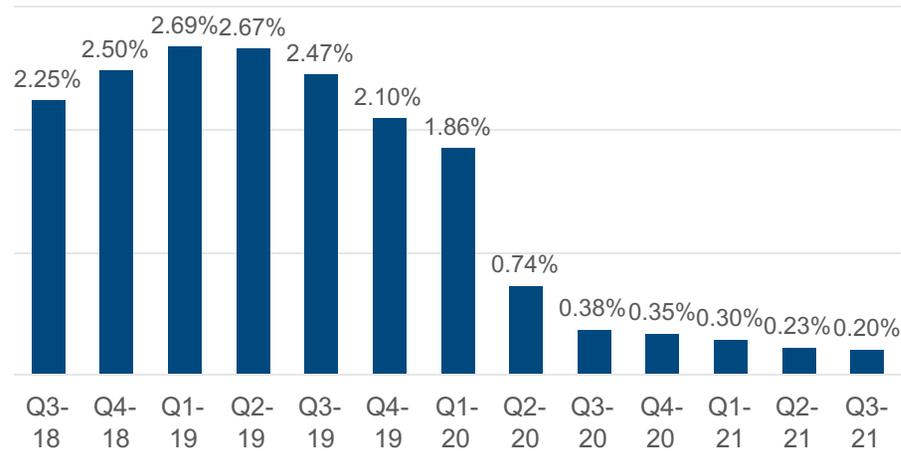
Unamortized Premium		\$ in Millions	% of Total
<i>Explicit prepayment protection:</i>	CMBS/CMBS IO	\$307.0	80%
<i>Favorable prepayment characteristics:</i>	RMBS	75.1	20%

# Performance Statistics Overview

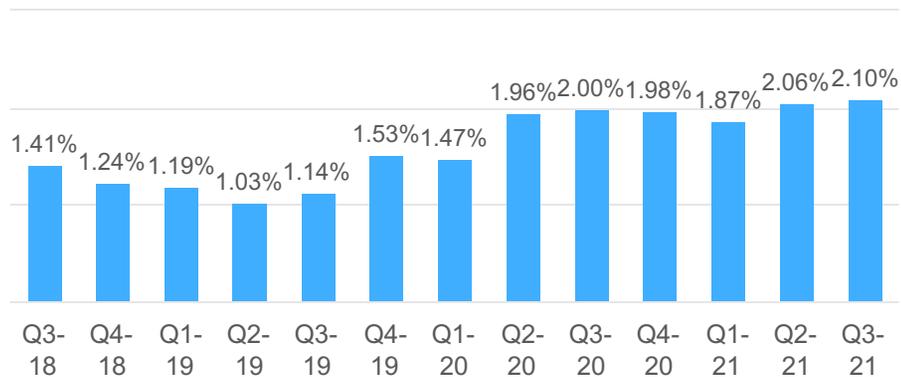
## Net Interest Spread



## Repo and Other Financing Costs



## Adjusted Net Interest Spread<sup>(1)</sup>



■ Adjusted net interest spread

(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.

# Financial Performance - Comparative Quarters

(\$ in thousands, except per share amounts)	3Q21		2Q21	
	Income (Expense)	Per Common Share*	Income (Expense)	Per Common Share*
Interest income	\$ 15,714	\$ 0.45	\$ 13,393	\$ 0.42
Interest expense	(1,320)	(0.04)	(1,275)	(0.04)
<b>GAAP net interest income</b>	14,394	0.41	12,118	0.38
TBA drop income <sup>(1)</sup>	13,319	0.38	12,177	0.38
<b>Adjusted net interest income <sup>(2)</sup></b>	27,713	0.79	24,295	0.76
General and administrative expenses	(6,549)	(0.19)	(5,706)	(0.18)
Other operating expense, net	(330)	(0.01)	(323)	(0.01)
Preferred stock dividends	(1,923)	(0.06)	(1,923)	(0.06)
<b>Earnings available for distribution <sup>(2)</sup></b>	18,911	0.54	16,343	0.51
Realized gain on sale of investments, net	—	—	2,008	0.06
Unrealized (loss) gain on investments, net	(3,085)	(0.09)	1,084	0.03
Change in fair value of derivatives <sup>(1)</sup>	(3,716)	(0.11)	(65,118)	(2.04)
<b>GAAP net income (loss) to common shareholders</b>	12,110	0.35	(45,683)	(1.43)
Net unrealized (loss) gain on AFS investments	(9,139)	(0.26)	14,270	0.45
<b>Comprehensive income (loss) to common shareholders</b>	\$ 2,971	\$ 0.09	\$ (31,413)	\$ (0.98)
WAVG common shares outstanding	34,924		31,974	

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

1. TBA drop income 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 [28](#).

# Book Value Rollforward

	Quarter Ended September 30, 2021	
	\$ in thousands	Per Common Share
Common shareholders' equity, beginning of period <sup>(1)</sup>	\$644,130	\$18.75
<b>GAAP net income to common shareholders:</b>		
Earnings available for distribution <sup>(2)</sup>	18,911	
Unrealized loss on trading investments including TBAs, net	(18,769)	
Change in fair value of derivatives	11,968	
Other comprehensive loss (MBS designed as AFS)	(9,139)	
Dividends declared	(13,731)	
Stock transactions <sup>(3)</sup>	28,641	
Common shareholders' equity, end of period <sup>(1)</sup>	\$662,011	\$18.42

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

(2) See reconciliations for non-GAAP measures on slide [28](#).

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

# Reconciliation of GAAP Measures to Non-GAAP Measures

<i>(\$ in thousands except per share data)</i>	<u>3Q21</u>	<u>2Q21</u>	<u>1Q21</u>	<u>4Q20</u>	<u>3Q20</u>
<b>Comprehensive income (loss) to common shareholders</b>	\$2,971	(\$31,412)	\$47,227	\$28,725	\$44,471
Adjustments:					
Change in fair value of investments <sup>(1)</sup>	12,224	(17,362)	61,439	(754)	(28,038)
Change in fair value of derivatives instruments, net <sup>(2)</sup>	3,716	65,117	(99,233)	(17,428)	(2,258)
Preferred stock redemption charge	—	—	2,987	—	—
<b>EAD to common shareholders</b>	<b>\$18,911</b>	<b>\$16,343</b>	<b>\$12,420</b>	<b>\$10,543</b>	<b>\$14,175</b>
<b>EAD per common share</b>	<b>\$0.54</b>	<b>\$0.51</b>	<b>\$0.46</b>	<b>\$0.45</b>	<b>\$0.61</b>

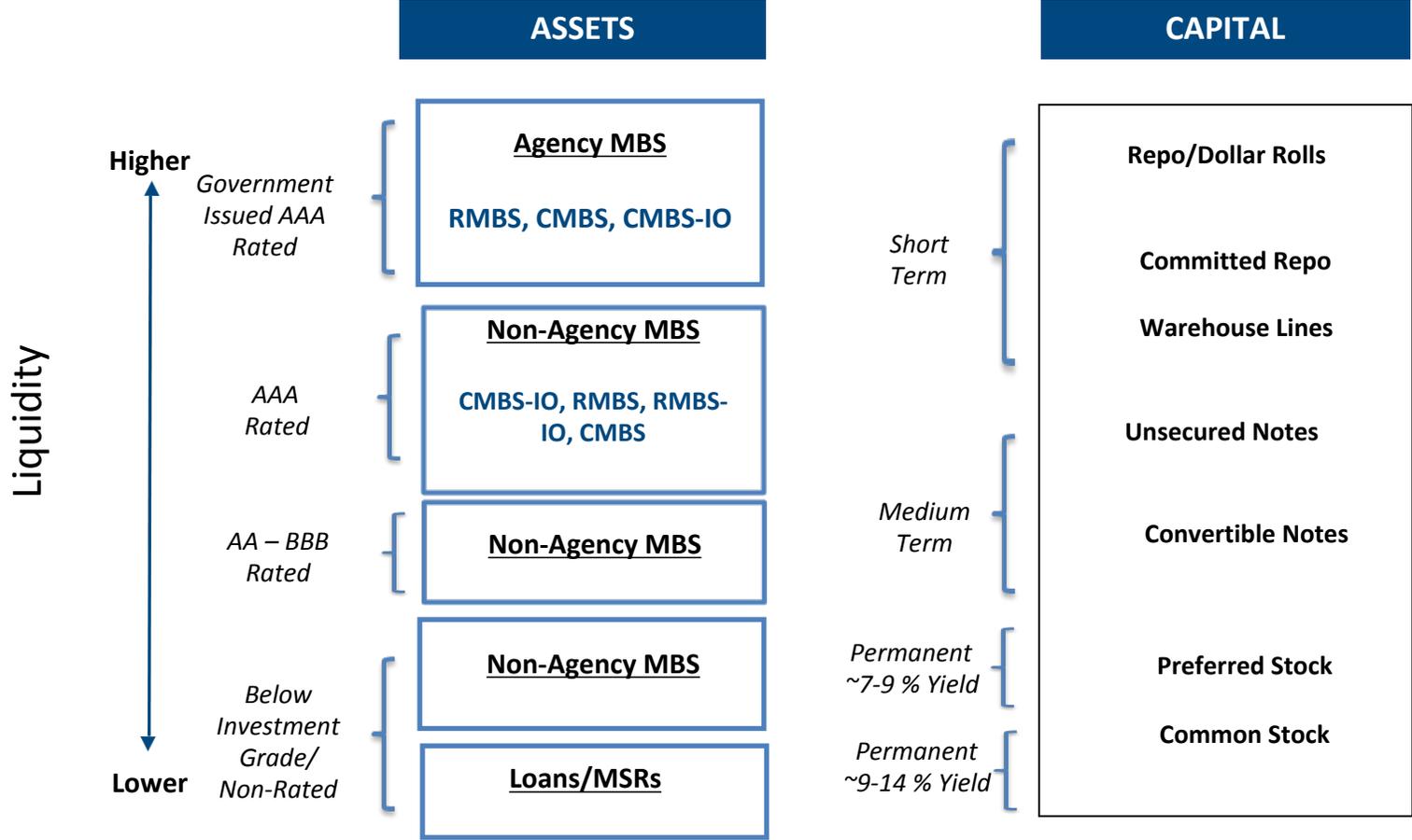
<i>(\$ in thousands)</i>	<u>3Q21</u>	<u>2Q21</u>	<u>1Q21</u>	<u>4Q20</u>	<u>3Q20</u>
<b>Net interest income</b>	\$14,394	\$12,118	\$12,259	\$14,416	\$16,713
TBA drop income	13,319	12,177	8,568	6,445	6,087
Net periodic interest cost <sup>(2)</sup>	—	—	—	(7)	(371)
<b>Adjusted net interest income</b>	<b>\$27,713</b>	<b>\$24,295</b>	<b>\$20,827</b>	<b>\$20,854</b>	<b>\$22,429</b>
Other operating expense, net	(330)	(323)	(380)	(205)	(207)
General and administrative expenses	(6,549)	(5,706)	(5,468)	(6,853)	(4,795)
Preferred stock dividends	(1,923)	(1,923)	(2,559)	(3,253)	(3,252)
<b>EAD to common shareholders</b>	<b>\$18,911</b>	<b>\$16,343</b>	<b>\$12,420</b>	<b>\$10,543</b>	<b>\$14,175</b>

(1) Amount represents realized and unrealized gains and losses on the Company's MBS and other investments.

(2) Amount represents realized and unrealized gains and losses on derivatives and excludes TBA drop income and net periodic interest costs of interest rate swaps.

(3) Amount represents net periodic interest cost of interest rate swaps outstanding during the period.

# 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 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

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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.

**Whipsaw** describes the movement of a security when, at a particular time, the security's price is moving in one direction, but then quickly pivots to move in the opposite direction.



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