DYNEX CAPITAL INC.

# Second Quarter 2019 Earnings Presentation

*July 31, 2019*

# 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 future interest rates, our views on expected characteristics of future investment environments and expected economic trends, prepayment rates on our investment portfolio and risks posed by our investment portfolio, 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, 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, 2018 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption "Risk Factors".**

# Market Snapshot

| | *as of June 30, 2019* | | |
|---|---|---|---|
| | Common Stock | Preferred Stocks | |
| NYSE Ticker | ***DX*** | ***DXPrA*** | ***DXPrB*** |
| Shares Outstanding *(in millions)* | 24.6 | 2.3 | 4.2 |
| 2Q19 Dividends per share | $0.54 | $0.53125 | $0.4765625 |
| Annualized Dividend Yield | 12.90% | 8.31% | 7.73% |
| Book Value | $17.68 | — | — |
| Share Price | $16.75 | $25.56 | $24.65 |
| Market Capitalization *(in millions)* | $412.84 | $58.79 | $103.88 |
| Price to Book | 94.7% | — | — |

# Second Quarter 2019 Highlights

- Comprehensive loss of ($0.45) per common share and GAAP net loss of ($4.98) per common share
- Core net operating income[(1)] of $0.43 per common share versus $0.53 per share in the first quarter of 2019
- Book value per common share decreased 5.6%, to $17.68 at June 30, 2019 compared to $18.71 at March 31, 2019
- Net interest spread and adjusted net interest spread of 0.76% and 1.03%, respectively, for the second quarter of 2019, a decline compared to 0.84% and 1.19%, respectively, for the first quarter of 2019
- Investment portfolio including TBA dollar roll positions of $6.1 billion at June 30, 2019 from $5.6 billion at the end of the first quarter
- Leverage[(2)] including TBA dollar roll positions increased to 9.4x shareholders' equity at June 30, 2019 compared to 8.5x at March 31, 2019
- Total economic return[(3)] for the quarter was (2.6)% and for the year is 3.8%

*(1) Reconciliations for non-GAAP measures are presented on slide 31.*
*(2) Equals sum of (i) total liabilities and (ii) amortized cost basis of TBA dollar roll positions (if settled) divided by total shareholders' equity.*
*(3) Equals sum of dividend s paid year-to-date $1.08 per common share plus the decrease in book value of $(0.39) per common share divided by beginning book value per common share for the year of $18.07*

# Positioning for the Future

- Core EPS was impacted by elevated repo rates relative to lower asset yields and declining 3 month LIBOR, an environment we continue to experience since January. The compression between funding and asset yields is expected to persist and will gradually be relieved if the Federal Reserve actually reduces the Federal Funds rate, as widely expected.
- Book value declined over the quarter primarily due to underperformance in the 30-year Agency RMBS portfolio relative to hedges. Book value is estimated to have recovered post quarter end by approximately 1% reflecting spread tightening and hedge gains. Central banks are key to asset price levels and their large balance sheets should continue to support spreads.
- The market is expecting the yield curve inversion to be a short-lived phenomenon. Assuming the Federal Reserve eases by 25bps at the July meeting, the forward curve indicates a drop in the Federal Funds rate of an additional 75 bps by the end of 2020, with a steeper curve by mid-2020.
- Nonetheless, it is as yet unclear that financing conditions will evolve exactly as the market has priced. As a result, we anticipate reducing the common stock dividend to $0.15 per share beginning with the August dividend.
- Our macroeconomic opinion is that the inversion is temporary and that conditions will evolve such that our financing costs will be materially reduced in the future.
- As such, we have rebalanced our hedge portfolio to reduce hedge costs and benefit from anticipated future lower financing rates; improved the prepayment risk profile of our assets and positioned the overall portfolio to reflect our long-term macroeconomic opinion.

# Macro Economic Thesis

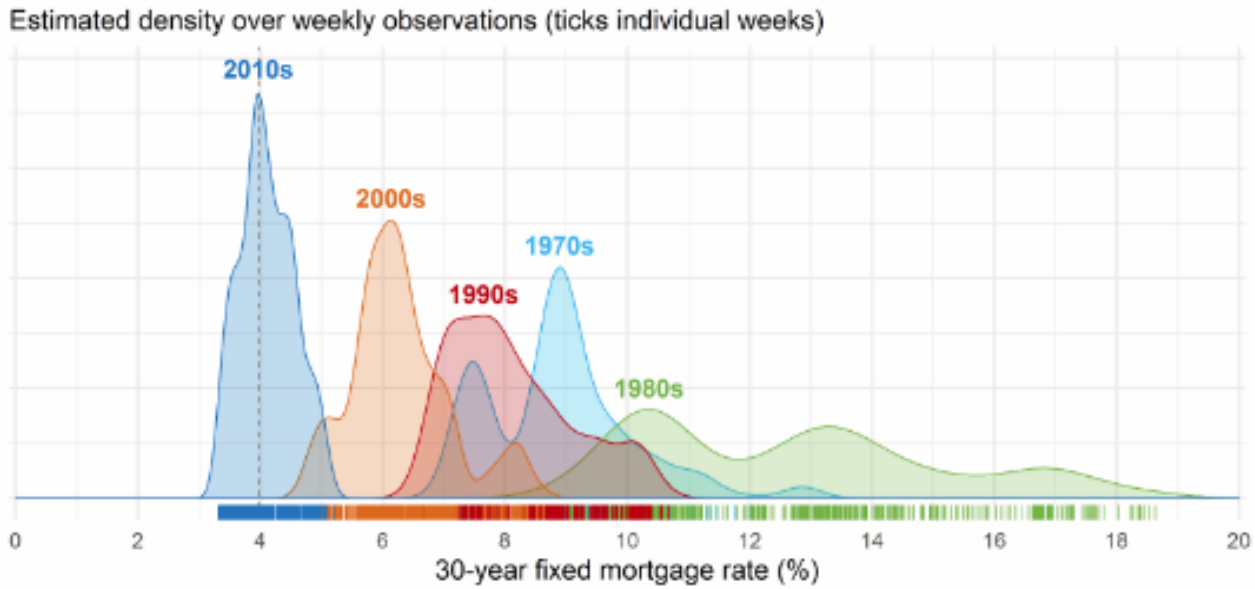
- The global economy is fragile; this remains the core of our long-term investment thesis.
  - For several years now our view that the combination of global debt, demographics and technology will impose a drag on global growth and inflation, continues to play out.
  - Our view that government policy responses, including central bank activity, have been and will continue to be, important factors in shifting the trajectory of economic activity while injecting uncertainty in the near term, has also held.
  - We added human conflict and climate change to this list of factors in 2018, creating an environment where surprises are more highly probable than in pre-crisis periods.
  - The markets have coalesced around this view and according to the World Economic Forum's 2019 Global Risk Report, "Global risks are intensifying."
- We continue to be in a low return environment characterized by interest rates that could spend more time in a narrower range than in recent history, with large pools globally of negative yielding debt, and a global economy still needing the continued support of central banks.
- The ability of governments to enact fiscal policy will be an important factor in determining the extent to which central bank actions continue to be necessary to stimulate growth and inflation. Increasing supply of debt acts a governor of how low interest rates can fall, in the absence of a crisis.
- Given the combination of these factors, we believe it is highly probable that the yield range on the 10-year Treasury will shift to 1.5% - 2.5%, with a steeper yield curve and lower financing costs.
- In the context of this view, we are focused on managing liquidity, prepayment and interest rate risk.

# Managing Prepayment Risk

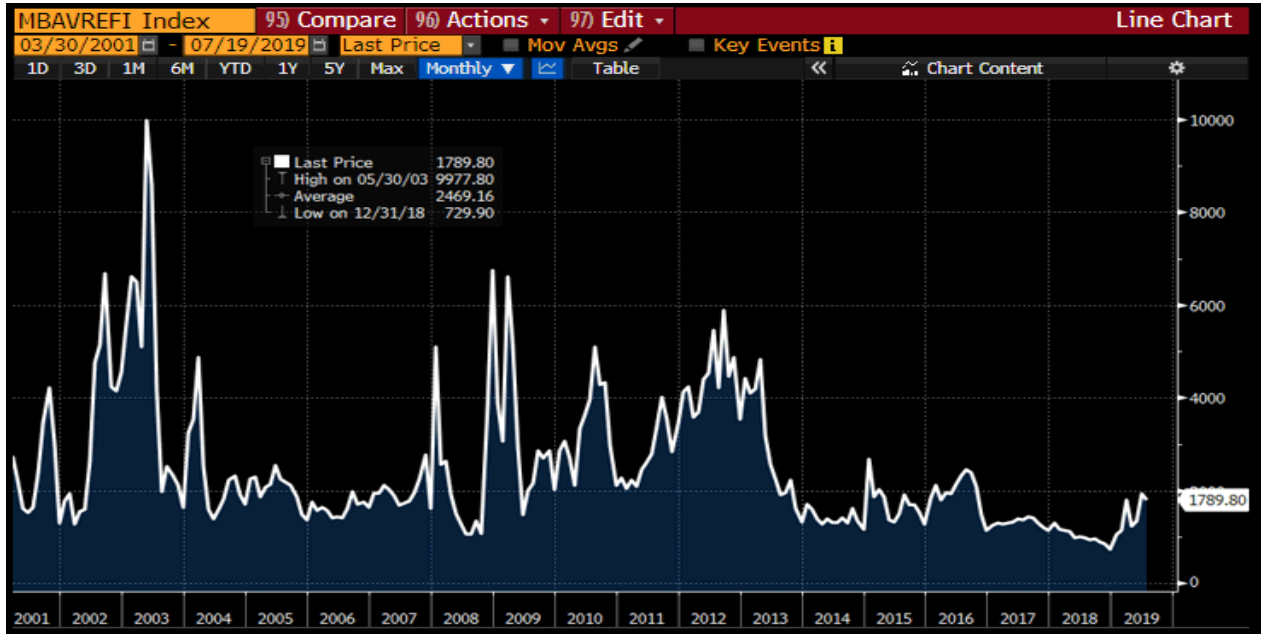
- Diversification has been a key foundation of our portfolio construction since 2008. The current portfolio is diversified across residential and commercial securities that have complementary prepayment risk profiles.
- Constructing portfolios that perform in a range of environments has been a core principle at Dynex since 2008. Through the years we have invested in assets with complementary profiles across credit, prepayment and liquidity risk.
- Prepayment risk is a particular focus given our macroeconomic view and the recent trajectory of interest rates. This risk is mitigated in our portfolio as follows:
  - Diversification between agency RMBS and agency CMBS is designed to mitigate the impact on earnings as interest rates decline.
  - Agency CMBS have built-in structural prepayment protection with yield maintenance or defeasance provisions that reimburse us for early prepayments which preserves cash flows as rates decline.
  - While no structural protection exists in agency RMBS, it is possible to mitigate prepayment risk using specified pools and coupon diversification
- Active Hedge management: longer duration position cushions book value and liquidity as rates decline and spreads widen on Agency RMBS reflecting higher prepayment risk. Option related strategies protect extension risk. Diversification with CMBS reduces hedge costs over the long term.

# Unique Environment for Prepayment Risk

- Mortgage rates have spent most of the last decade between 3% and 5% creating a concentrated loan rate profile of loans outstanding.
- This means mortgage rates must fall below a certain threshold for the majority of existing outstanding mortgages to be refinanceable.
- When rates do fall below this threshold, it creates a wave (last seen in 2003) in the second chart.
- As shown in the second chart, the current level of refinancing activity is materially lower than the last three major prepayment events.
- This type of coupon concentration requires a multiple pronged mitigation strategy.
- Experienced management teams can be a key differentiating factor in performance.
- Dynex's top down macroeconomic approach and diversified portfolio construction are a competitive advantage in this type of market cycle.




@lenkiefer Source: Freddie Mac Primary Mortgage Market Survey April 2, 1971 through May 30, 2019
Dotted line at 3.99% average for week of May 30, 2019



# Managing Interest Rate Risk

- Diversification of the portfolio between commercial and residential securities creates an asset profile that reduces overall hedging costs in the long-term.
- The tables below show the aggregate duration extension or contraction as a percentage of today's duration in various interest rate scenarios.
- As shown, the combination of CMBS and RMBS greatly reduces duration variability and therefore cash flow variability and hedging costs, relative to a portfolio of 100% Agency RMBS.

| | | Duration Drift as a % of Base Case Duration | | | | |
|---|---|---|---|---|---|---|
| **Sector** | **% Market Value** | **-100** | **-50** | **Base** | **50** | **100** |
| **Total** | 100% | 64% | 75% | 100% | 123% | 143% |
| **RMBS** | 59% | -147% | 5% | 100% | 188% | 262% |
| **CMBS** | 41% | 102% | 101% | 100% | 99% | 98% |

| | | Duration Drift as a % of Base Case Duration | | | | | |
|---|---|---|---|---|---|---|---|
| **Sector** | **% Market Value** | **Bull Steep (-50/-10)** | **Bull Steep (-75/-25)** | **Base** | **Bull Flat (0/-25)** | **Bull Flat (-10/-50)** | **Bull Flat (-25/-75)** |
| **Total** | 100% | 89% | 79% | 100% | 87% | 76% | 67% |
| **RMBS** | 59% | 65% | 30% | 100% | 58% | 18% | -115% |
| **CMBS** | 41% | 99% | 99% | 100% | 100% | 100% | 100% |

| | | Duration Drift as a % of Base Case Duration | | | | | |
|---|---|---|---|---|---|---|---|
| **Sector** | **% Market Value** | **Bear Steep (25/50)** | **Bear Steep (50/100)** | **Base** | **Bear Flat (25/0)** | **Bear Flat (50/25)** | **Bear Flat (100/50)** |
| **Total** | 100% | 123% | 144% | 100% | 101% | 113% | 124% |
| **RMBS** | 59% | 188% | 265% | 100% | 108% | 149% | 192% |
| **CMBS** | 41% | 99% | 98% | 100% | 99% | 99% | 99% |

* Curve shifts represent shocks to 2year and 10year points on the yield curve with interpolated shocks for intermediate points

*Source: Company data*

- Since quarter end, we have further reduced exposure to extension risk using swaptions.

# Portfolio Characteristics *(as of June 30, 2019)*

| Security | Par value [1] [4] | Estimated Fair value [1] | % of Portfolio | WAVG[2][3] Coupon | WAVG Amortized cost (%) [4] | Unamortized Premium Balance | WALA[2][3] | 3-month CPR (Uncompensated CPR) [2][3] | 1-month WAVG yield [2][3] |
|---|---|---|---|---|---|---|---|---|---|
| **Agency RMBS** | | | | | | | | | |
| 3.0% Coupon | $458,194 | $463,422 | 7.6% | 3.00 | 100.7% | $1,477 | 6.53 | 8.3 | 2.86% |
| 3.5% Coupon | 636,703 | 656,386 | 10.8% | 3.50 | 101.9% | 9,785 | 5.07 | 2.7 | 3.26% |
| 4.0% Coupon | 1,659,795 | 1,737,797 | 28.5% | 4.00 | 102.5% | 42,305 | 4.84 | 10.1 | 3.47% |
| 4.5% Coupon | 684,300 | 722,723 | 11.9% | 4.50 | 104.1% | 27,777 | 3.45 | 12.8 | 3.36% |
| Adjustable-rate | 26,415 | 27,664 | 0.5% | 4.72 | 102.6% | 691 | 4.26 | 24.1 | 3.65% |
| **Agency CMBS** | 1,875,117 | 1,982,635 | 32.6% | 3.33 | 100.8% | 15,793 | 9.57 | *(5)* | 3.21% |
| **CMBS Interest-only** | n/a | 495,956 | 8.1% | 0.65 | n/a | 482,431 | 5.04 | *(5)* | 3.61% |
| **Other non-Agency MBS** | 2,166 | 1,894 | —% | 5.93 | 54.9% | (977) | 2.76 | - | 40.90% |
| **Totals** | **$5,342,692** | **$6,088,477** | **100%** | | | **$579,282** | | | **3.36%** |

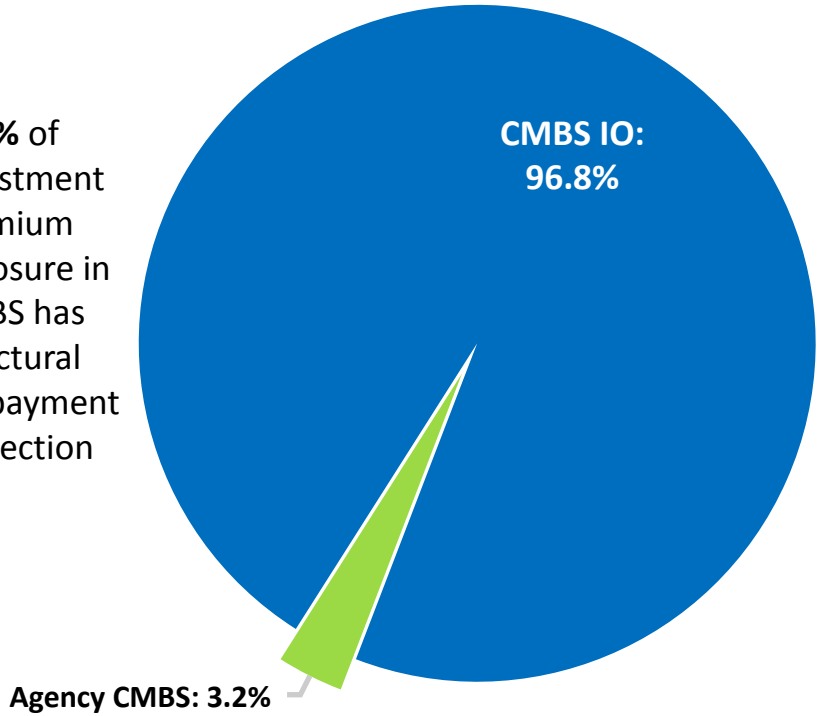
(1) Agency RMBS includes TBA securities totaling $370.0 million in par value and $374.7 million in fair value.
(2) WAVG coupon, WALA, 3-month CPR and 1-month WAVG yield exclude TBA securities.
(3) WAVG coupon represents the weighted average coupon of the underlying collateral.
(4) Excludes CMBS IO (which do not have underlying par values) and TBA securities.
(5) Structurally we are compensated for CMBS prepayments, but there are exceptions under certain circumstances.

# Prepayment Protection on Unamortized Premium

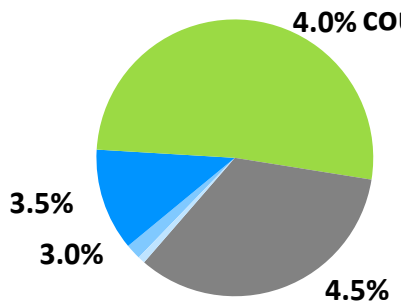
**Investment Premium by Asset Type**
***as of June 30, 2019***

## CMBS: unamortized premium $500mm

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



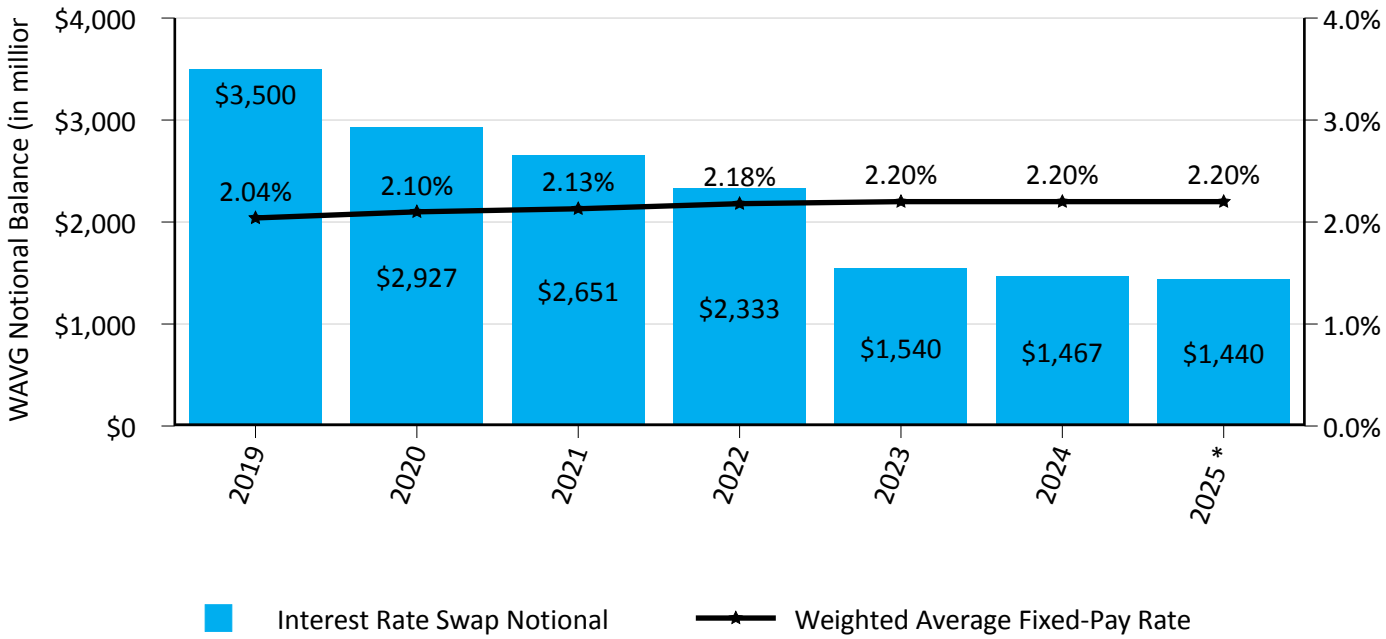

## RMBS: unamortized premium $81mm




Investment premium protection in Agency RMBS, while non-structural, is achieved through careful selection of pool characteristics[1]

[1] *Includes Agency RMBS collateralized by low loan balance, high LTV or geographically favorable loans*

# Hedge Position *(as of June 30, 2019)*




** Additional interest rate swaps outstanding from 2026-2047 had an average balance of $307.6 million at a weighted average pay-fixed rate of 2.23% as of June 30, 2019.*

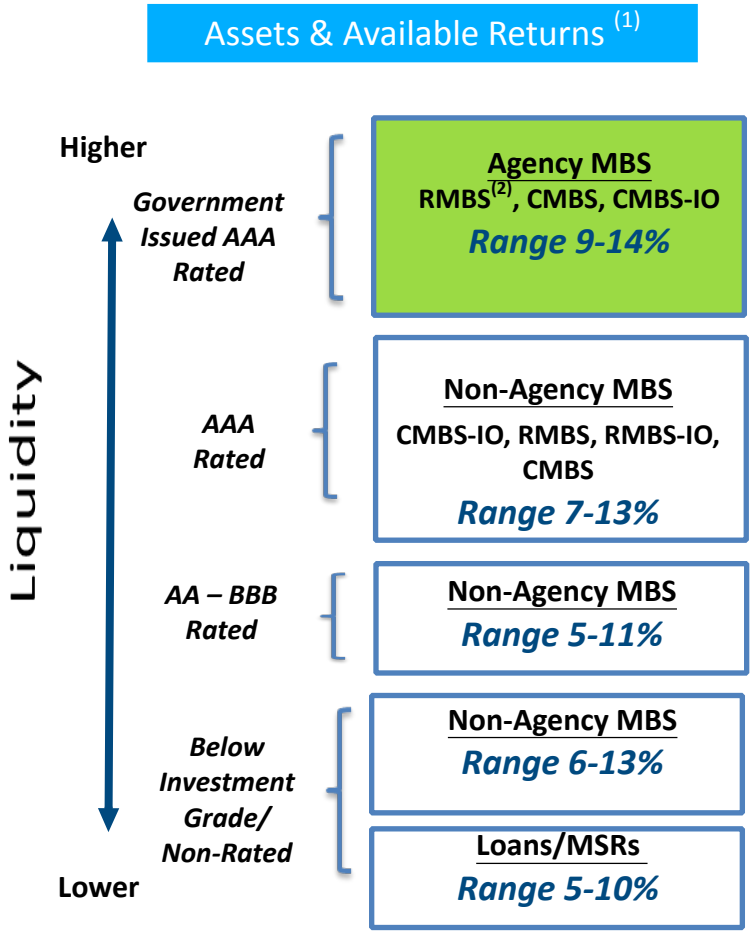
| Years to Maturity-Swaps | Notional Amount [1] | WAVG Pay-Fixed Rate |
|---|---|---|
| ≤ 3 years | $ 1,150 | 1.76% |
| >3 and ≤ 6 years | 910 | 2.15% |
| >6 and ≤ 10 years | 1,320 | 2.14% |
| >10 years | 120 | 2.84% |
| Total | $ 3,500 | 2.04% |

During the second quarter of 2019, the Company entered into Eurodollar futures as additional hedges of its book value exposure in the event interest rates subsequently increase.

| Effective Period-Eurodollar Futures | Notional Amount [1] | WAVG Rate |
|---|---|---|
| 2020 | $ 225 | 1.56% |
| 2021 | $ 530 | 1.57% |

[1] *$ in millions.*

# Return Environment *(as of July 17, 2019)*




***Agency RMBS and CMBS offer attractive returns***

- The most compelling levered risk-adjusted returns are in the highest credit quality and the most liquid assets.
- Agency CMBS are an attractive long term investment due to the prepayment protection, stable cash flow and roll down.
- Agency RMBS offer attractive returns as the Federal Reserve reduces its investment in this sector - we expect to be opportunistic in this sector.
- 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

- Long-term we continue to have a macroeconomic view that the global economy is fragile, that we are in a low return environment and that our financing costs will be reduced substantially in the future.
- Near-term, elevated funding costs and the inverted curve will continue to pressure earnings. As such, we have right sized the dividend to reflect this near-term environment.
- We have observed that historically, flat or inverted yield curves resolve themselves within a 6-9 month period to a steeper yield curve and we have positioned the portfolio to benefit from that event. We continue to believe the current environment will evolve in a manner over the long-term that will ultimately support higher net interest margins.
- Book value is estimated to have recovered post quarter end by approximately 1% reflecting spread tightening and hedge gains. Central banks are key to asset price levels and their large balance sheets should continue to support the spread environment.
- We believe it is highly probable that the yield range on the 10-year Treasury will shift to 1.5% - 2.5%, with a steeper yield curve and lower financing costs.
- Based on our macro view and our current portfolio structure, we are focused on managing liquidity, prepayment and interest rate risk. The optimal portfolio for the environment in our opinion is a diversified pool of highly liquid mortgage investments with minimal credit risk.

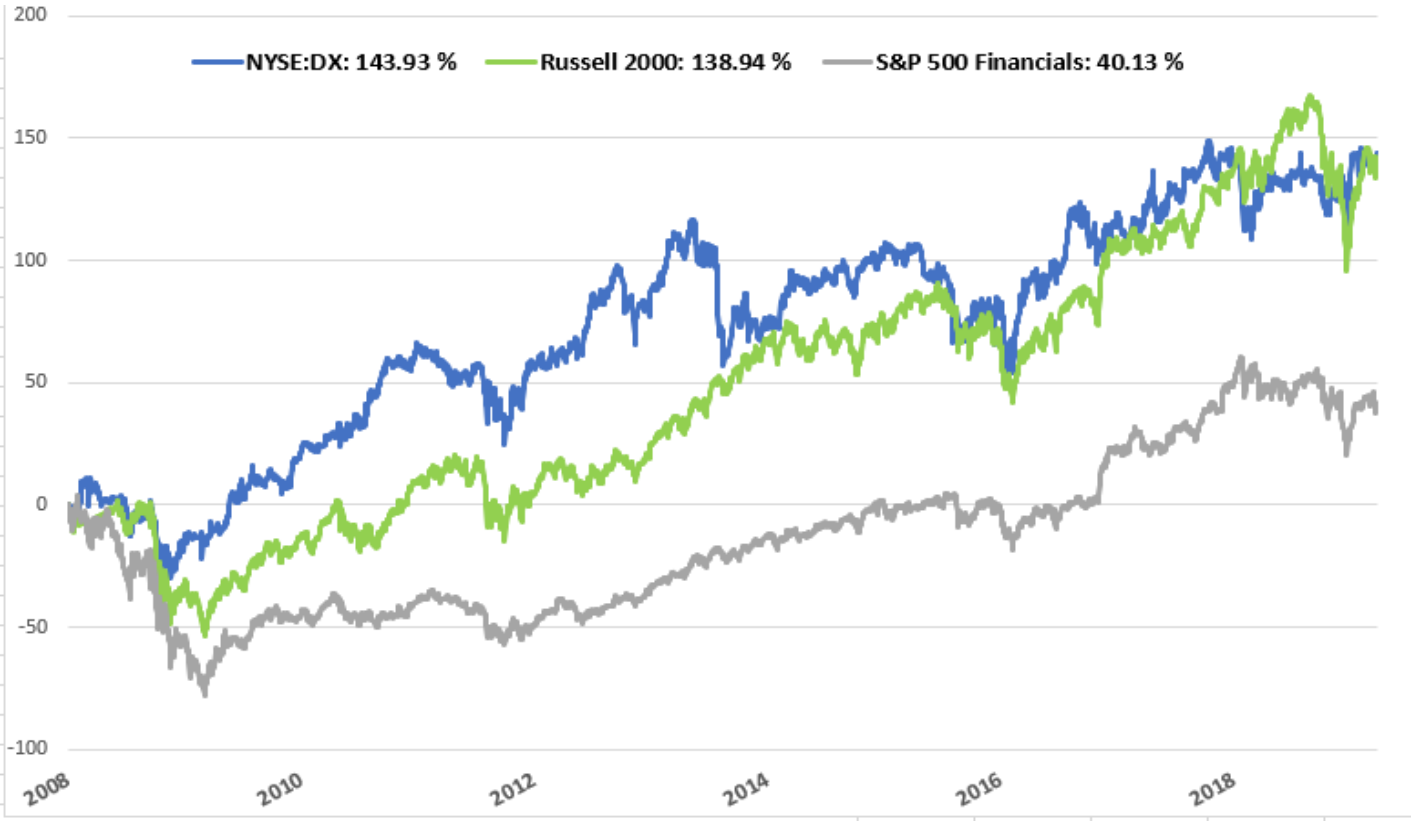
# Long-Term Tailwinds

- Long-term factors favor diversified investments in U.S. real estate and our business model:
  - Demographics support a growing demand for cash yield as the world's population ages
  - Favorable U.S. demographic trends driving household formation/housing demand
- Private capital's role in the US housing finance system should expand as the Federal Reserve and GSEs reduce their footprint.
  - Expanding investment opportunities from growing RMBS/CMBS supply.
- Potential for greater levered returns on investments in the future:
  - Lower funding costs as the Fed eases.
  - Better risk premiums and wider availability of assets as GSE footprint re-defined.
  - Anticipated lower regulatory costs over the long-term.
- Alternatives for generating an attractive cash yield globally have declined materially over the past 10 years, increasing the relative attractiveness of MREITs.
- Long-term investors should seek and favor experienced management teams and Dynex brings significant experience and expertise in managing securitized real estate assets through multiple economic cycles.

# U.S. Real Estate Assets Provide Attractive Returns

- In a world of growing uncertainty and intensifying global risk, generating cash income from US real estate related assets and the US housing finance system is the most attractive investment in our view in global capital markets.
- We believe experienced management teams will be a key factor in differentiating performance.
- Investors should focus on the long-term total returns of mortgage REITs and the power of dividends over time.

**Total Return (%)**
***January 1, 2008 - July 15, 2019***




Source: SNL

# Supplemental Information

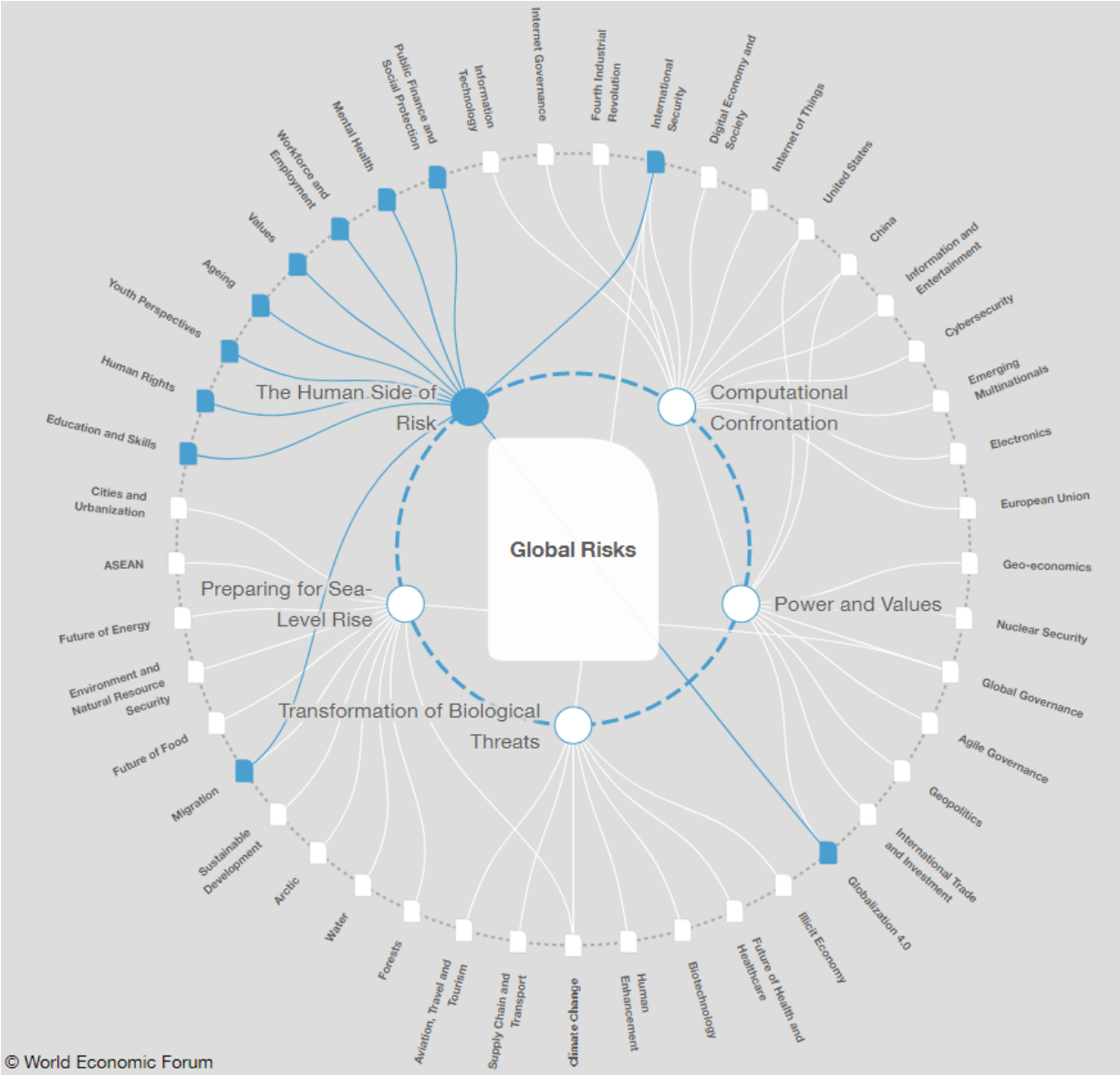


DYNEX CAPITAL INC.

# "Global Risks Are Intensifying" World Economic Forum Global Risk Report 2019

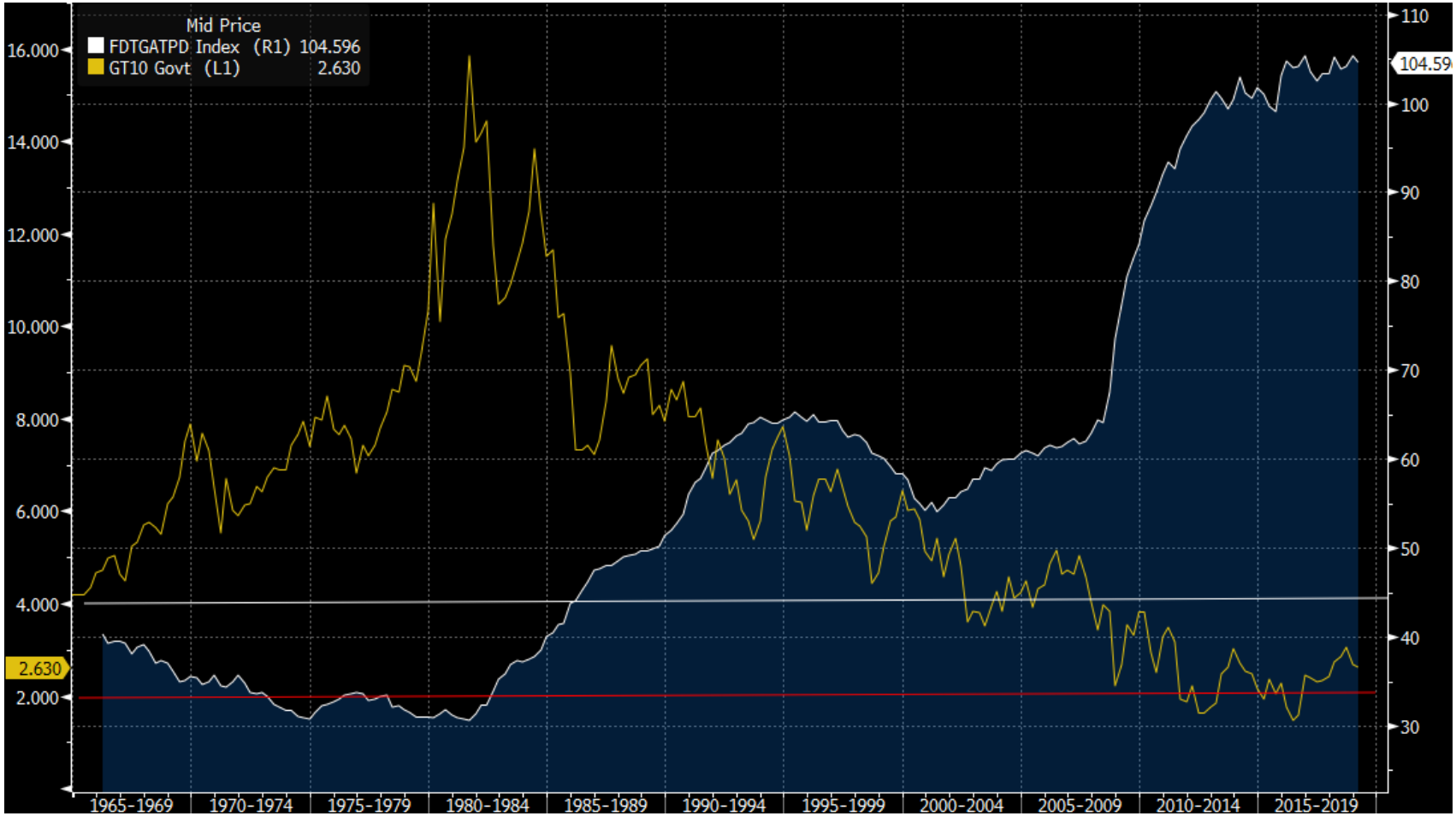
According to the 2019 World Economic Forum's Global Risks Report...

*"The world is facing a growing number of complex and interconnected challenges-from slowing global growth and persistent economic inequality to climate change, geopolitical tensions and the accelerating pace of the Fourth Industrial Revolution."*



# US Government Debt vs 10 Year Treasury Yields

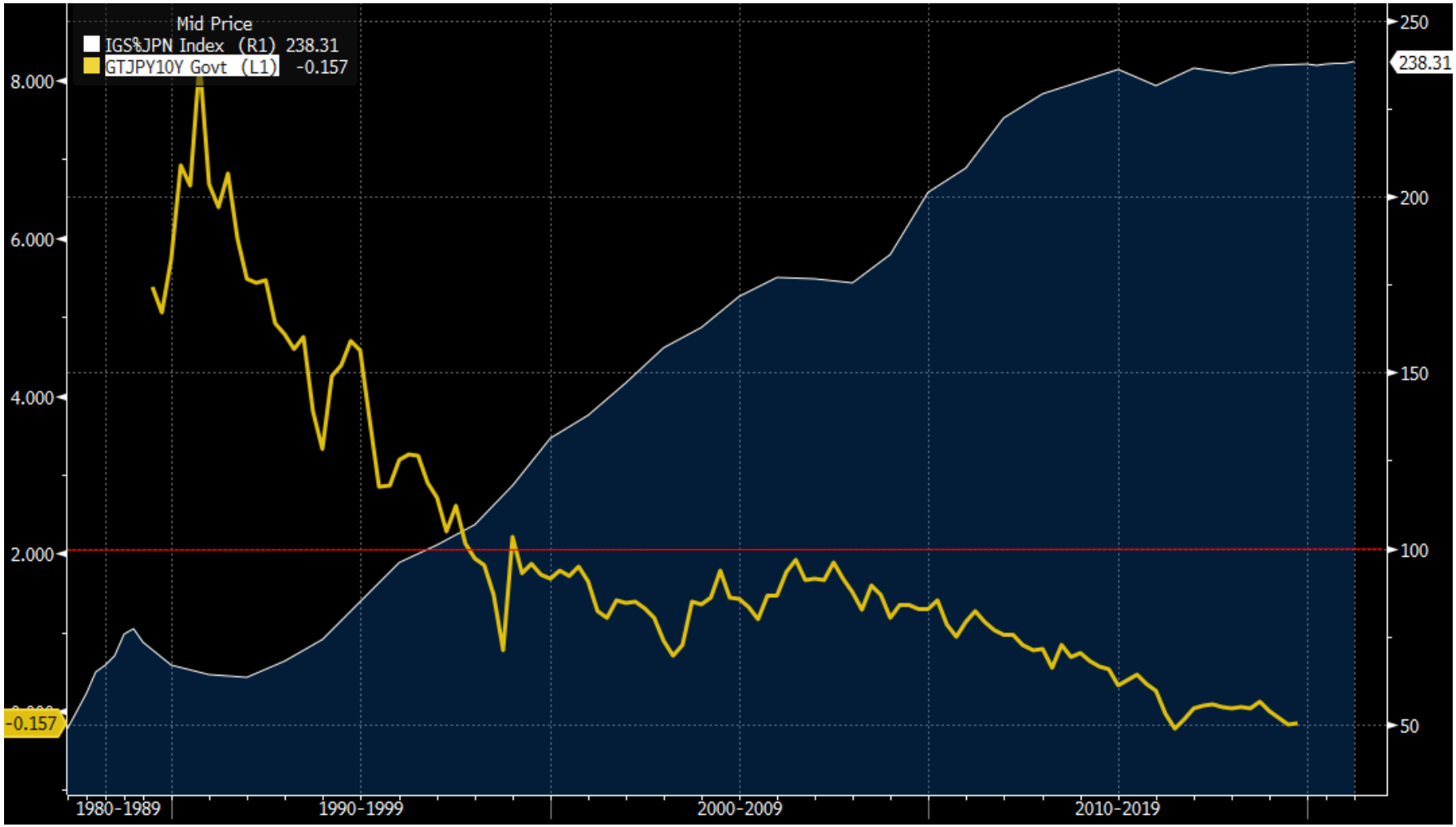
*As debt has increased it is difficult for interest rates to rise without having a negative impact on global growth, ultimately putting downward pressure on rates.*




*Source: Bloomberg*

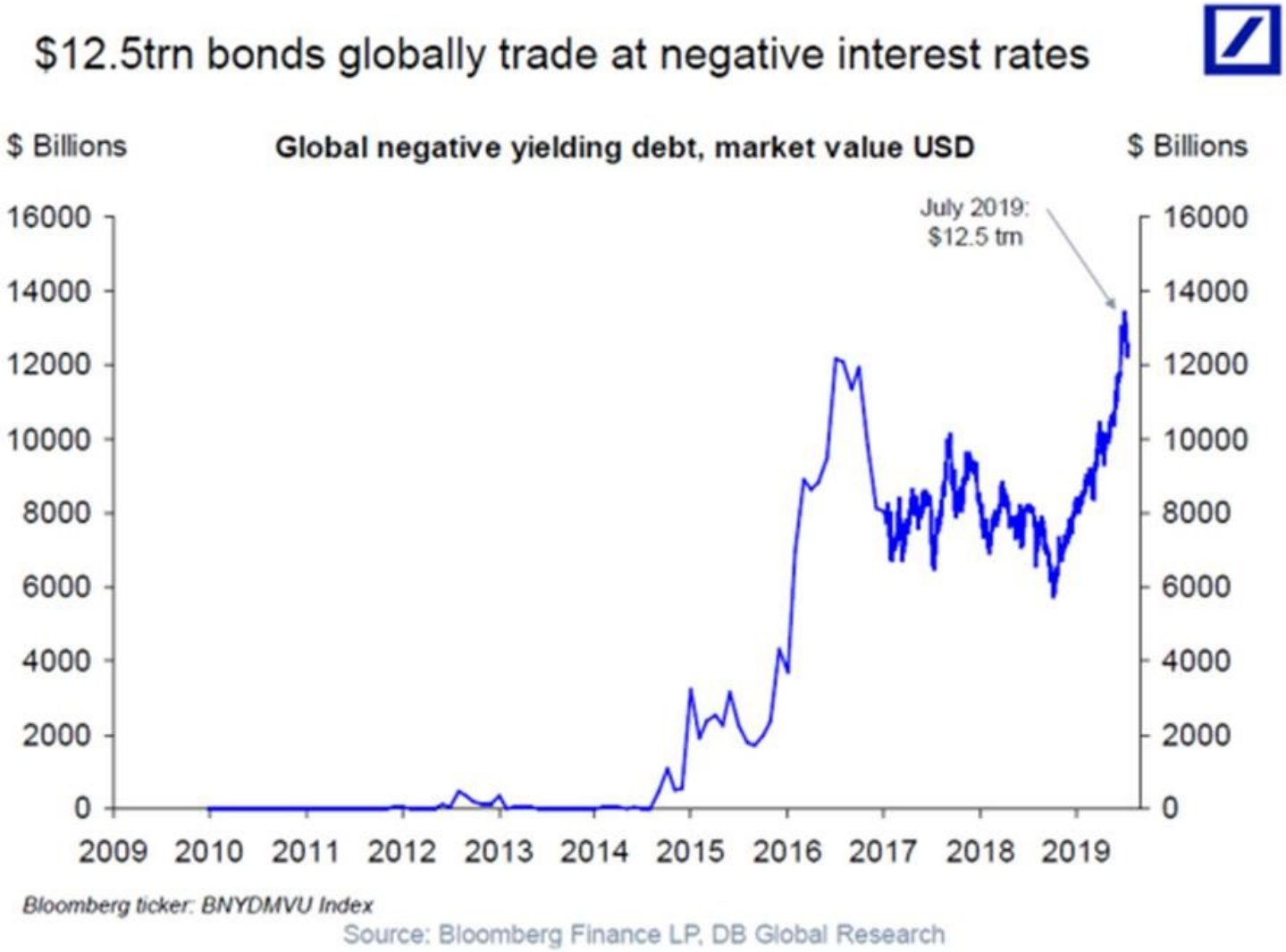
# Japan Government Debt % to GDP vs 10 Year Yields

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

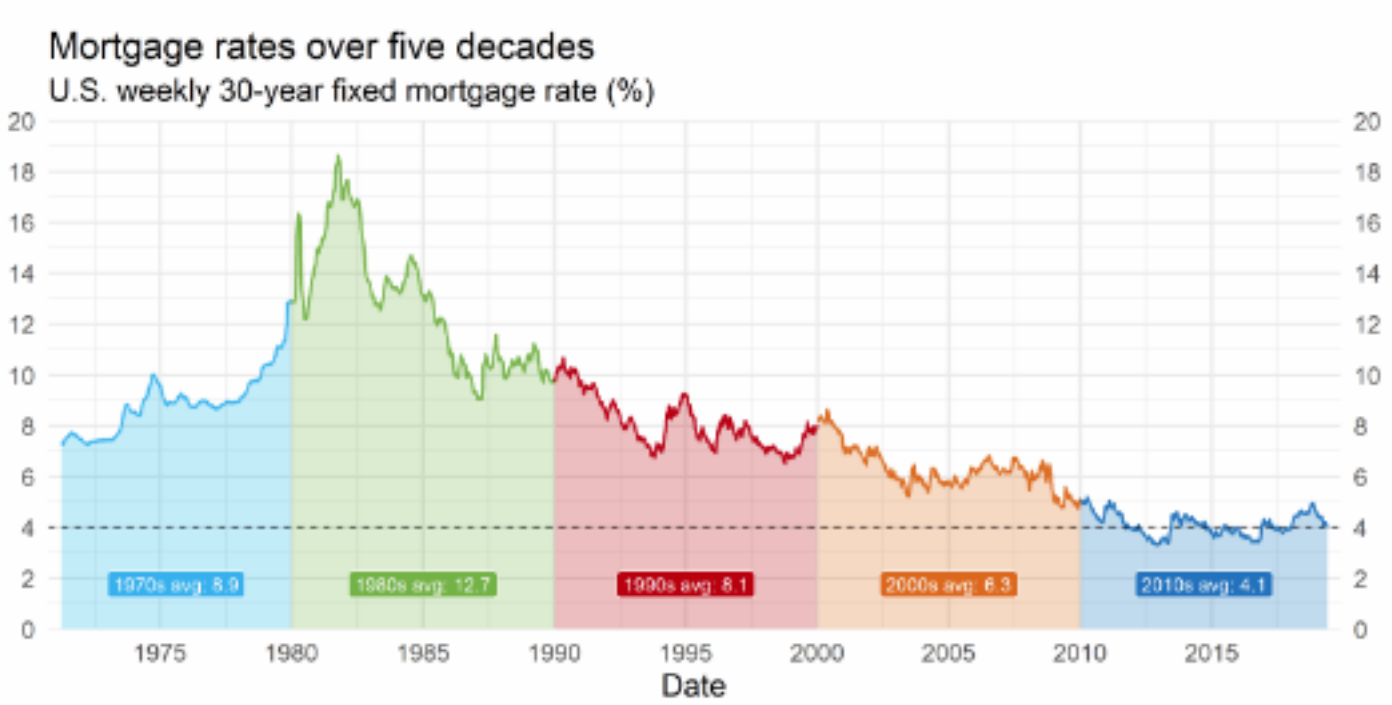



*Source: Bloomberg*

# Negative Yielding Global Debt

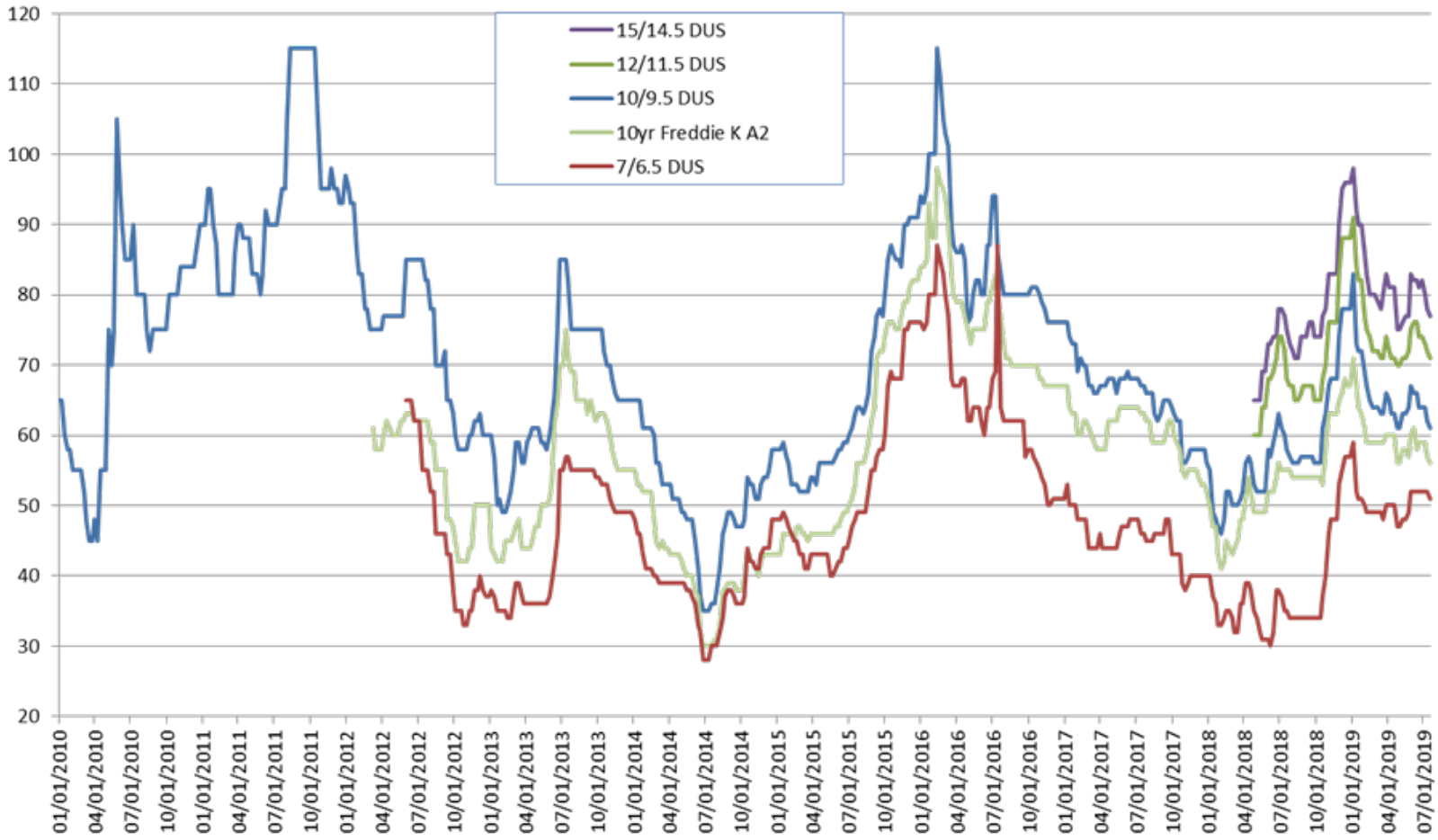


# Mortgage Rates Over the Decades




@lenkiefer Source: Freddie Mac Primary Mortgage Market Survey April 2, 1971 through May 30, 2019

# Agency CMBS Spreads to Swaps



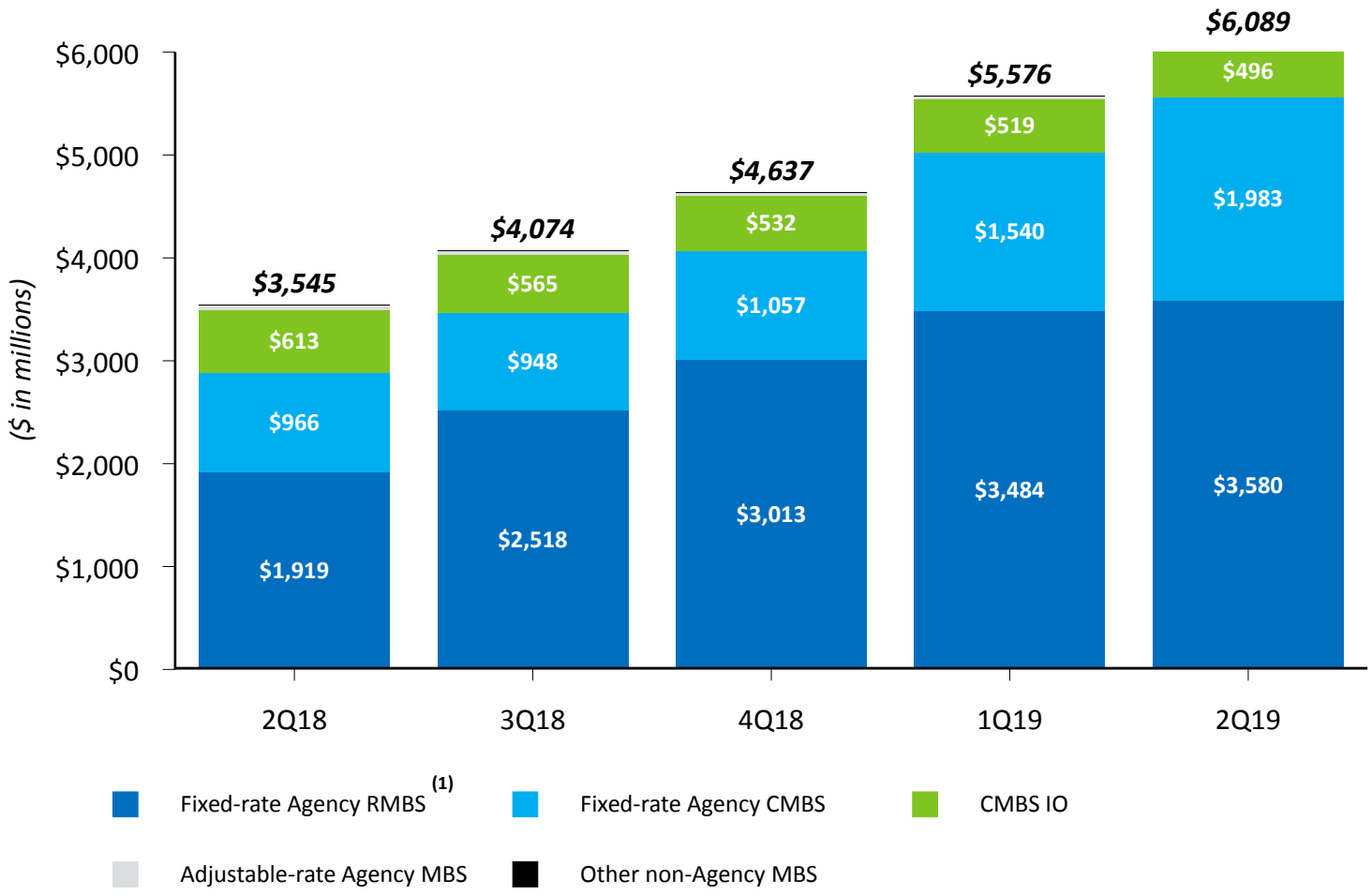

Source: Bloomberg and Company data

# Agency CMBS and 30-year Current Coupon Nominal Spreads to Swaps


Source: Bloomberg and Company data

# MBS Portfolio Construction

*Emphasizing Higher Liquidity, Credit Quality, and Flexibility*




*(1) Includes 30-year fixed-rate Agency RMBS and TBAs on an if-settled basis.*

# Risk Position - Interest Rates

Changes in interest rates impact the market value of our investments, net of hedges, and shareholders' equity. The estimated percentage changes 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 June 30, 2019 | | As of March 31, 2019 | |
|---|---|---|---|---|
| | Percentage Change in | | | |
| | Market Value of Investments & Hedges | Shareholders' Equity | Market Value of Investments & Hedges | Shareholders' Equity |
| +100 | (1.8)% | (17.3)% | (0.7)% | (5.5)% |
| +50 | (0.7)% | (6.5)% | —% | (0.7)% |
| +25 | (0.2)% | (2.1)% | —% | 0.2% |
| -25 | 0.1% | 0.8% | (0.2)% | (1.5)% |
| -50 | 0.1% | 1.0% | (0.5)% | (4.3)% |
| -100 | (0.4)% | (3.4)% | (1.7)% | (13.9)% |

| Curve Shift 2 year Treasury (bps) | Curve Shift 10 year Treasury (bps) | As of June 30, 2019 | | As of March 31, 2019 | |
|---|---|---|---|---|---|
| | | Percentage Change in | | | |
| | | Market Value of Investments & Hedges | Shareholders' Equity | Market Value of Investments & Hedges | Shareholders' Equity |
| +25 | +50 | (0.5)% | (5.0)% | —% | (0.2)% |
| +50 | +25 | (0.4)% | (4.1)% | —% | —% |
| -25 | 0 | 0.1% | 1.1% | (0.1)% | (0.5)% |
| -50 | -10 | 0.2% | 2.3% | (0.2)% | (1.4)% |
| -75 | -25 | 0.3% | 2.8% | (0.4)% | (3.0)% |

*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.

| | As of June 30, 2019 | | As of March 31, 2019 | |
|---|---|---|---|---|
| | Percentage Change in | | | |
| Parallel Change in Market Credit Spreads | Market Value of Investments [1] | Shareholders' Equity | Market Value of Investments [1] | Shareholders' Equity |
| +20/+50 [2] | (1.1)% | (10.7)% | (1.3)% | (10.2)% |
| +10 | (0.5)% | (5.0)% | (0.6)% | (4.8)% |
| -10 | 0.5% | 5.2% | 0.6% | 5.0% |
| -20/-50 [2] | 1.2% | 11.0% | 1.3% | 10.6% |

*(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.*

# Financial Performance - Comparative Quarters

| ($ in thousands, except per share amounts) | 2Q 2019 Income (Expense) | 2Q 2019 Per Common Share | 1Q 2019 Income (Expense) | 1Q 2019 Per Common Share |
|---|---|---|---|---|
| Interest income | $43,748 | $1.78 | $39,957 | $1.75 |
| Interest expense | 30,813 | 1.25 | 26,276 | 1.15 |
| **GAAP net interest income** | 12,935 | 0.53 | 13,681 | 0.60 |
| TBA drop income [(1)] | 1,282 | 0.05 | 1,963 | 0.09 |
| Net periodic interest benefit of interest rate swaps [(1)] | 3,553 | 0.14 | 3,897 | 0.17 |
| Less: accretion of de-designated hedges [(2)] | — | — | (165) | (0.01) |
| **Adjusted net interest income [(3)]** | 17,770 | 0.72 | 19,376 | 0.85 |
| Other operating income (expense), net | 256 | 0.01 | (231) | (0.01) |
| General and administrative expenses | (4,265) | (0.17) | (3,954) | (0.17) |
| Preferred stock dividends | (3,206) | (0.13) | (3,059) | (0.14) |
| **Core net operating income to common shareholders [(3)]** | 10,555 | 0.43 | 12,132 | 0.53 |
| Change in fair value of derivatives [(1)] | (122,370) | (4.99) | (67,557) | (2.96) |
| Realized loss on sale of investments, net | (10,360) | (0.42) | — | — |
| Accretion of de-designated hedges | — | — | 165 | 0.01 |
| Fair value adjustments, net | (16) | — | (13) | — |
| **GAAP net loss to common shareholders** | (122,191) | (4.98) | (55,273) | (2.42) |
| Unrealized gain (loss) on MBS | 111,127 | 4.53 | 86,632 | 3.80 |
| Accretion of de-designated hedges | — | — | (165) | (0.01) |
| **Comprehensive income (loss) to common shareholders** | ($11,064) | ($0.45) | $31,194 | $1.37 |
| WAVG common shares outstanding | 24,541 | | 22,812 | |

*(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)* Accretion of de-designated hedges is included in GAAP interest expense, but is excluded in calculating adjusted net interest income as it represents a portion of interest expense incurred by cash flow hedges prior to 2013 and therefore not an expense related to current period.

*(3)* See reconciliations for non-GAAP measures on slide 31.

# Book Value Rollforward

| ($ in thousands, except per share amounts) | | Per Common Share |
|---|---|---|
| Common shareholders' equity, March 31, 2019 [1] | $450,472 | $18.71 |
| GAAP net loss to common shareholders: | | |
| Core net operating income to common [2] | 10,555 | |
| Realized loss on sale of MBS, net | (10,360) | |
| Change in fair value of derivatives | (122,370) | |
| Other | (16) | |
| Unrealized net gain on MBS | 111,127 | |
| Dividends declared | (13,292) | |
| Stock transactions [3] | 9,669 | |
| Common shareholders' equity, June 30, 2019 [1] | $435,785 | $17.68 |

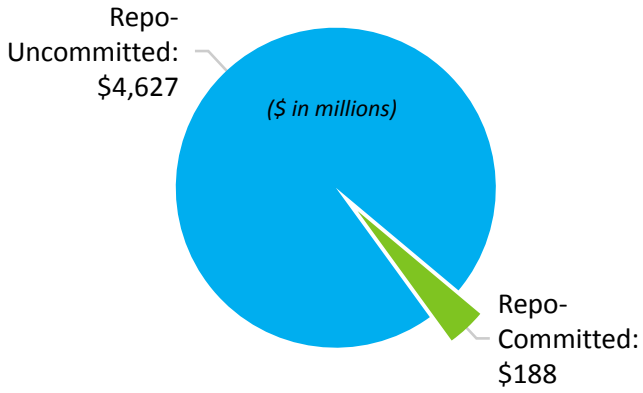
*(1) Common shareholders' equity represents total shareholders' equity less the liquidation value of preferred stock outstanding as of the date indicated.*
*(2) Reconciliations for non-GAAP measures are presented on slide 29.*
*(3) Includes proceeds received from common stock issuance, net of stock issuance cost, restricted stock amortization, and impact on common equity from preferred shares issued below liquidation value of $25.00 per share.*

# Repo Financing *(as of June 30, 2019)*

| Collateral Type | Balance ($ in thousands) | Weighted Average Rate | Fair Value of Collateral Pledged ($ in thousands) |
|---|---|---|---|
| Agency RMBS | $2,938,383 | 2.65% | $3,073,151 |
| Agency CMBS | 1,448,977 | 2.66% | 1,569,019 |
| Agency CMBS IO | 241,552 | 2.97% | 270,668 |
| Non-Agency CMBS IO | 186,540 | 3.30% | 219,562 |
| Total | $4,815,452 | 2.69% | $5,132,400 |

| Remaining Term to Maturity | Balance ($ in thousands) | Percentage | Weighted Average Original Term to Maturity |
|---|---|---|---|
| < 30 days | $4,175,623 | 87% | 56 |
| 30 to 90 days | 537,763 | 11% | 90 |
| 91 to 180 days | 102,066 | 2% | 183 |
| | $4,815,452 | 100% | 62 |

| Counterparty by Region (based on outstanding balance) | # | % of all REPO Balances |
|---|---|---|
| North America | 13 | 65% |
| Asia | 4 | 20% |
| Europe | 3 | 15% |
| Total | 20 | 100% |



# Reconciliation of GAAP Measures to Non-GAAP Measures

*($ in thousands except per share data)*

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| | 06/30/2019 | 3/31/2019 | 12/31/2018 | 9/30/18 | 6/30/18 |
| **GAAP net (loss) income to common shareholders** | ($122,191) | ($55,273) | ($81,485) | $22,630 | $12,710 |
| Adjustments: | | | | | |
| Change in fair value of derivatives instruments, net [2] | 122,370 | 67,557 | 86,993 | (13,460) | (14,715) |
| Loss on sale of investments, net | 10,360 | — | 5,428 | 1,726 | 12,444 |
| Accretion of de-designated cash flow hedges [1] | — | (165) | (75) | (66) | (48) |
| Fair value adjustments, net | 16 | 13 | 16 | (12) | (27) |
| **Core net operating income to common shareholders** | $10,555 | $12,132 | $10,877 | $10,818 | $10,364 |
| **Core net operating income per common share** | $0.43 | $0.53 | $0.54 | $0.56 | $0.55 |

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| | 06/30/2019 | 3/31/2019 | 12/31/2018 | 9/30/18 | 6/30/18 |
| **GAAP net interest income** | $12,935 | $13,681 | $12,961 | $12,174 | $11,747 |
| Add: TBA drop income | 1,282 | 1,963 | 3,072 | 4,262 | 3,619 |
| Add: net periodic interest benefit [3] | 3,553 | 3,897 | 1,940 | 1,777 | 2,333 |
| Less: de-designated hedge accretion [1] | — | (165) | (75) | (66) | (48) |
| **Non-GAAP adjusted net interest income** | $17,770 | $19,376 | $17,898 | $18,147 | $17,651 |
| | | | | | |
| **GAAP interest expense** | $30,813 | $26,276 | $19,053 | $14,751 | $14,175 |
| Add: net periodic interest benefit [3] | (3,553) | (3,897) | (1,940) | (1,777) | (2,333) |
| Less: de-designated hedge accretion [1] | — | 165 | 75 | 66 | 48 |
| **Non-GAAP adjusted interest expense** | $27,260 | $22,544 | $17,188 | $13,040 | $11,890 |

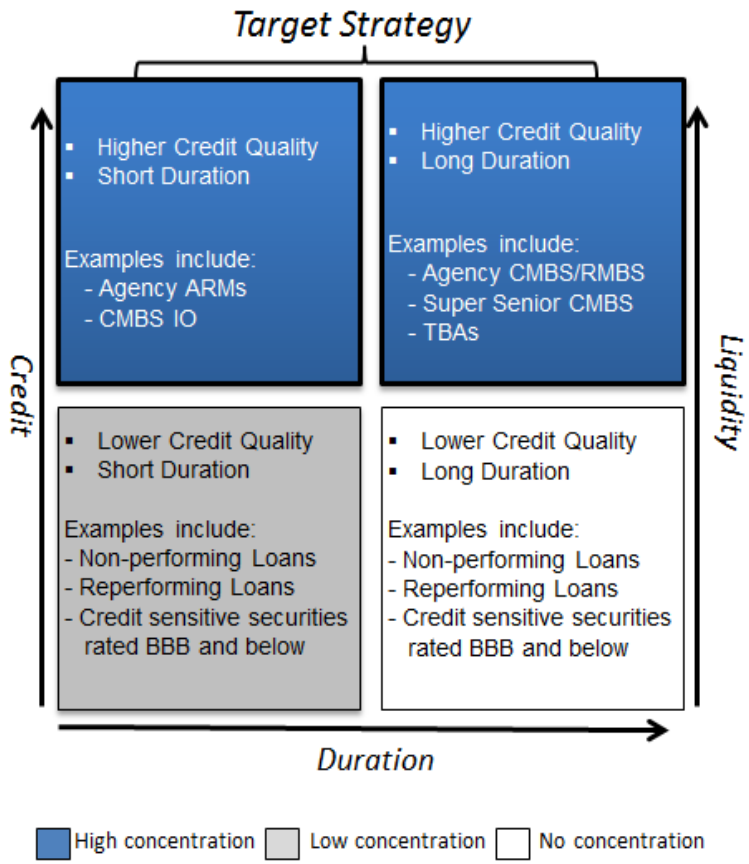
*(1) Amount recorded as a portion of "interest expense" in accordance with GAAP related to the accretion of the balance remaining in accumulated other comprehensive income as a result of the Company's discontinuation of cash flow hedge accounting effective June 30, 2013.*

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

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

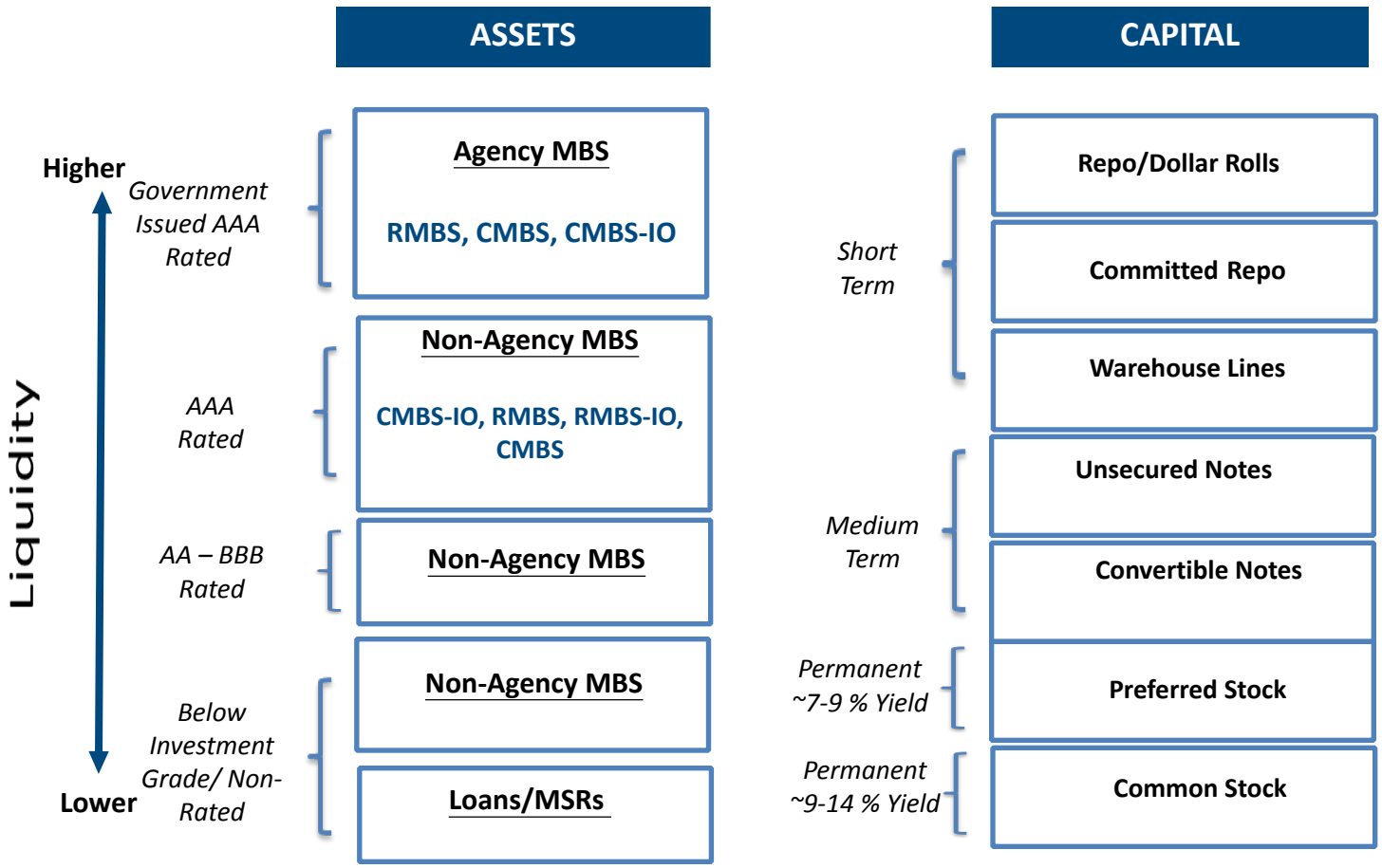
# Investment Strategy

***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 will allow us to grow our balance sheet opportunistically
- Flexible portfolio duration position to reflect changing market conditions

# 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).

**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.