UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2023

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 001-09819

DYNEX CAPITAL, INC.
(Exact name of registrant as specified in its charter)

Virginia	**52-1549373**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4991 Lake Brook Drive, Suite 100	
Glen Allen, Virginia	**23060-9245**
(Address of principal executive offices)	(Zip Code)

(804) 217-5800
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	DX	New York Stock Exchange
6.900% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, par value $0.01 per share	DXPRC	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

On April 24, 2023, the registrant had 54,113,514 shares outstanding of common stock, $0.01 par value, which is the registrant's only class of common stock.

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DYNEX CAPITAL, INC.
CONSOLIDATED BALANCE SHEETS
($s in thousands except per share data)

	March 31, 2023	December 31, 2022
ASSETS	*(unaudited)*	
Cash and cash equivalents	$ 279,028	$ 332,035
Cash collateral posted to counterparties	114,594	117,842
Mortgage-backed securities (including pledged of $3,012,970 and $2,810,957, respectively), at fair value	3,296,784	3,112,705
Due from counterparties	115,323	10,348
Derivative assets	37,179	7,102
Accrued interest receivable	17,234	15,260
Other assets, net	9,716	9,942
Total assets	$ 3,869,858	$ 3,605,234
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$ 2,937,124	$ 2,644,405
Due to counterparties	24,918	4,159
Derivative liabilities	—	22,595
Cash collateral posted by counterparties	27,125	435
Accrued interest payable	12,806	16,450
Accrued dividends payable	9,214	9,103
Other liabilities	3,843	6,759
Total liabilities	3,015,030	2,703,906
Shareholders' equity:		
Preferred stock, par value $0.01 per share; 50,000,000 shares authorized; 4,460,000 and 4,460,000 shares issued and outstanding, respectively ($111,500 and $111,500 aggregate liquidation preference, respectively)	107,843	107,843
Common stock, par value $0.01 per share, 90,000,000 shares authorized; 53,876,914 and 53,637,095 shares issued and outstanding, respectively	539	536
Additional paid-in capital	1,361,000	1,357,514
Accumulated other comprehensive loss	(166,553)	(181,346)
Accumulated deficit	(448,001)	(383,219)
Total shareholders' equity	854,828	901,328
Total liabilities and shareholders' equity	$ 3,869,858	$ 3,605,234

See notes to the consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)
($s in thousands except per share data)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
INTEREST INCOME (EXPENSE)		
Interest income	$ 30,846	$ 17,427
Interest expense	(31,308)	(1,748)
Net interest (expense) income	(462)	15,679
OTHER GAINS (LOSSES)		
Realized loss on sales of investments, net	(23,315)	—
Unrealized gain (loss) on investments, net	57,120	(111,251)
(Loss) gain on derivative instruments, net	(67,267)	220,211
Total other (losses) gains, net	(33,462)	108,960
EXPENSES		
Compensation and benefits	(3,750)	(3,466)
Other general and administrative	(3,622)	(3,643)
Other operating expenses	(426)	(321)
Total operating expenses	(7,798)	(7,430)
Net (loss) income	(41,722)	117,209
Preferred stock dividends	(1,923)	(1,923)
Net (loss) income to common shareholders	$ (43,645)	$ 115,286
Other comprehensive income:		
Unrealized gain (loss) on available-for-sale investments, net	$ 14,793	$ (91,340)
Total other comprehensive gain (loss)	14,793	(91,340)
Comprehensive (loss) income to common shareholders	$ (28,852)	$ 23,946
Weighted average common shares-basic	53,823,866	36,725,365
Weighted average common shares-diluted	53,823,866	37,111,733
Net (loss) income per common share-basic	$ (0.81)	$ 3.14
Net (loss) income per common share-diluted	$ (0.81)	$ 3.11
Dividends declared per common share	$ 0.39	$ 0.39

See notes to the consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)
($s in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2022	4,460,000	$ 107,843	53,637,095	$ 536	$ 1,357,514	$ (181,346)	$ (383,219)	$ 901,328
Stock issuance	—	—	199,274	2	2,769	—	—	2,771
Restricted stock granted, net of amortization	—	—	27,932	—	360	—	—	360
Other share-based compensation, net of amortization	—	—	33,213	1	649	—	—	650
Adjustments for tax withholding on share-based compensation	—	—	(20,600)	—	(276)	—	—	(276)
Stock issuance costs	—	—	—	—	(16)	—	—	(16)
Net loss	—	—	—	—	—	—	(41,722)	(41,722)
Dividends on preferred stock	—	—	—	—	—	—	(1,923)	(1,923)
Dividends on common stock	—	—	—	—	—	—	(21,137)	(21,137)
Other comprehensive income	—	—	—	—	—	14,793	—	14,793
Balance as of March 31, 2023	4,460,000	$ 107,843	53,876,914	$ 539	$ 1,361,000	$ (166,553)	$ (448,001)	$ 854,828

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
Balance as of December 31, 2021	4,460,000	$ 107,843	36,665,805	$ 367	$ 1,107,792	$ 6,729	$ (451,452)	$ 771,279
Stock issuance	—	—	267,288	3	4,242	—	—	4,245
Restricted stock granted, net of amortization	—	—	40,196	—	451	—	—	451
Other share-based compensation, net of amortization	—	—	—	—	395	—	—	395
Adjustments for tax withholding on share-based compensation	—	—	(15,407)	—	(236)	—	—	(236)
Stock issuance costs	—	—	—	—	(16)	—	—	(16)
Net income	—	—	—	—	—	—	117,209	117,209
Dividends on preferred stock	—	—	—	—	—	—	(1,923)	(1,923)
Dividends on common stock	—	—	—	—	—	—	(14,431)	(14,431)
Other comprehensive loss	—	—	—	—	—	(91,340)	—	(91,340)
Balance as of March 31, 2022	4,460,000	$ 107,843	36,957,882	$ 370	$ 1,112,628	$ (84,611)	$ (350,597)	$ 785,633

See notes to the consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
($s in thousands)

	Three Months Ended March 31,	
	2023	2022
Operating activities:		
Net (loss) income	$ (41,722)	$ 117,209
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Realized loss on sale of investments, net	23,315	—
Unrealized (gain) loss on investments, net	(57,120)	111,251
Loss (gain) on derivative instruments, net	67,267	(220,211)
Amortization of investment premiums, net	19,642	27,104
Other amortization and depreciation, net	585	566
Share-based compensation expense	1,010	846
Increase in accrued interest receivable	(1,974)	(1,730)
(Decrease) increase in accrued interest payable	(3,644)	159
Change in other assets and liabilities, net	(3,622)	(642)
Net cash provided by operating activities	3,737	34,552
Investing activities:		
Purchases of investments	(310,352)	(349,839)
Principal payments received on trading securities	30,233	27,118
Principal payments received on available-for-sale investments	22,318	59,745
Principal payments received on mortgage loans held for investment	279	512
Net (payments) receipts on derivatives, including terminations	(101,425)	259,180
Increase in cash collateral posted by counterparties	26,690	28,442
Net cash (used in) provided by investing activities	(332,257)	25,158
Financing activities:		
Borrowings under repurchase agreements	5,428,877	2,197,547
Repayments of repurchase agreement borrowings	(5,136,158)	(2,094,661)
Proceeds from issuance of common stock	2,771	4,245
Payments related to tax withholding for share-based compensation	(276)	(236)
Dividends paid	(22,949)	(16,223)
Net cash provided by financing activities	272,265	90,672
Net (decrease) increase in cash including cash posted to counterparties	(56,255)	150,382
Cash including cash posted to counterparties at beginning of period	449,877	421,307
Cash including cash posted to counterparties at end of period	$ 393,622	$ 571,689
Supplemental Disclosure of Cash Activity:		
Cash paid for interest	$ 34,952	$ 1,589

See notes to the consolidated financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Dynex Capital, Inc. was incorporated in the Commonwealth of Virginia on December 18, 1987 and commenced operations in February 1988. The Company is an internally managed mortgage real estate investment trust, or mortgage REIT, which primarily earns income from investing on a leveraged basis in Agency mortgage-backed securities ("Agency MBS") and in to-be-announced securities ("TBAs" or "TBA securities"). Agency MBS have a guaranty of principal and interest payments by a U.S. government-sponsored entity ("GSE") such as Fannie Mae and Freddie Mac, which are in conservatorship and are currently supported by a senior preferred stock purchase agreement from the U.S. Treasury. As of March 31, 2023, the majority of the Company's Agency MBS are secured by residential real property ("Agency RMBS"). The remainder of the Company's investments are in Agency commercial MBS ("Agency CMBS") and in both Agency and non-Agency CMBS interest-only ("CMBS IO"). Non-Agency MBS do not have a GSE guaranty of principal or interest payments.

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company and its subsidiaries (together, "Dynex" or, as appropriate, the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Article 10, Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all significant adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the consolidated financial statements have been included. Operating results for the three months ended March 31, 2023 are not necessarily indicative of the results that may be expected for any other interim periods or for the entire year ending December 31, 2023. The unaudited consolidated financial statements included herein should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K") filed with the SEC.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. The most significant estimates used by management include, but are not limited to, amortization of premiums and discounts and fair value measurements of its investments, including TBA securities accounted for as derivative instruments. These items are discussed further below within this note to the consolidated financial statements. The Company believes the estimates and assumptions underlying the consolidated financial statements included herein are reasonable and supportable based on the information available as of March 31, 2023.

Consolidation and Variable Interest Entities

The consolidated financial statements include the accounts of the Company and the accounts of its majority owned subsidiaries and variable interest entities ("VIE") for which it is the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation.

The Company consolidates a VIE if the Company is determined to be the VIE's primary beneficiary, which is defined as the party that has both: (i) the power to control the activities that most significantly impact the VIE's financial performance and (ii) the right to receive benefits or absorb losses that could potentially be significant to the VIE. The Company reconsiders its evaluation of whether to consolidate a VIE on an ongoing basis, based on changes in the facts and circumstances pertaining to the VIE. Though the Company invests in Agency and non-Agency MBS which are generally considered to be interests in VIEs, the Company does not consolidate these entities because it does not meet the criteria to be deemed a primary beneficiary.

Income Taxes

The Company has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 (the "Tax Code") and the corresponding provisions of state law. To qualify as a REIT, the Company must meet certain asset, income, ownership, and distribution tests. To meet these requirements, the Company's main source of income is interest earned from obligations secured by mortgages on real property, and the Company must distribute at least 90% of its annual REIT taxable income to shareholders. The Company's income will generally not be subject to federal income tax to the extent it is distributed as dividends to shareholders.

The Company assesses its tax positions for all open tax years and determines whether the Company has any material unrecognized liabilities and records these liabilities, if any, to the extent they are deemed more likely than not to have been incurred.

Net Income (Loss) Per Common Share

The Company calculates basic net income (loss) per common share by dividing net income (loss) to common shareholders for the period by weighted-average shares of common stock outstanding for that period. Please see Note 2 for the calculation of the Company's basic and diluted net income (loss) per common share for the periods indicated.

The Company currently has unvested restricted stock, service-based restricted stock units ("RSUs") and performance-based stock units ("PSUs") issued and outstanding. Restricted stock awards are considered participating securities and therefore are included in the computation of basic net income per common share using the two-class method because holders of unvested shares of restricted stock are eligible to receive non-forfeitable dividends. Holders of RSUs and PSUs accrue forfeitable dividend equivalent rights over the period outstanding, receiving dividend payments only upon the settlement date if the requisite service-based and performance-based conditions have been achieved, as applicable. As such, RSUs and PSUs are excluded from the computation of basic net income per common share, but are included in the computation of diluted net income per common share unless the effect is to reduce a net loss or increase the net income per common share (also known as "anti-dilutive"). Upon vesting (or settlement, in the case of units), restrictions on transfer expire on each share of restricted stock, RSU, and PSU, and each such share or unit becomes one unrestricted share of common stock and is included in the computation of basic net income per common share.

Because the Company's 6.900% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock") is redeemable at the Company's option for cash only and convertible into shares of common stock only upon a change of control of the Company (and subject to other circumstances) as described in Article IIIC of the Company's Restated Articles of Incorporation, the effect of those shares and their related dividends were excluded from the calculation of diluted net income per common share for the periods presented.

Cash and Cash Equivalents

Cash includes unrestricted demand deposits at highly rated financial institutions and highly liquid investments with original maturities of three months or less. The Company's cash balances fluctuate throughout the year and may exceed Federal Deposit Insurance Corporation ("FDIC") insured limits from time to time. Although the Company bears risk to amounts in excess of those insured by the FDIC, it does not anticipate any losses as a result due to the financial position and creditworthiness of the depository institutions in which those deposits are held.

Cash Collateral Posted To/By Counterparties

Cash collateral posted to/by counterparties represents amounts pledged/received to cover margin requirements related to the Company's financing and derivative instruments. If the amount pledged to a counterparty exceeds the amount received from a counterparty, the net amount is recorded as an asset within "cash collateral posted to counterparties", and if the amount received from a counterparty exceeds the amount pledged to a counterparty, the net amount is recorded as a liability within "cash collateral posted by counterparties" on the Company's consolidated balance sheets.

($s in thousands except per share data)

The following table provides a reconciliation of "cash" and "cash posted to counterparties" reported on the Company's consolidated balance sheet as of March 31, 2023, that sum to the total of the same such amounts shown on the Company's consolidated statement of cash flows for the three months ended March 31, 2023:

	March 31, 2023
Cash and cash equivalents	$ 279,028
Cash collateral posted to counterparties	114,594
Total cash including cash posted to counterparties shown on consolidated statement of cash flows	$ 393,622

Mortgage-Backed Securities

The Company's MBS are recorded at fair value on the Company's consolidated balance sheet. Changes in fair value of MBS purchased prior to January 1, 2021 are designated as available-for-sale ("AFS") with changes in fair value reported in other comprehensive income ("OCI") as an unrealized gain (loss) until the security is sold or matures. Effective January 1, 2021, the Company elected the fair value option ("FVO") for all MBS purchased on or after that date with changes in fair value reported in net income as "unrealized gain (loss) on investments, net" until the security is sold or matures. Upon the sale of an MBS, any unrealized gain or loss within OCI or net income is reclassified to "realized gain (loss) on sale of investments, net" within net income using the specific identification method.

Interest Income, Premium Amortization, and Discount Accretion. Interest income on MBS is accrued based on the outstanding principal balance (or notional balance in the case of IO securities) and the contractual terms. Premiums or discounts associated with the purchase of Agency MBS as well as any non-Agency MBS are amortized or accreted into interest income over the projected life of such securities using the effective interest method, and adjustments to premium amortization and discount accretion are made for actual cash payments. The Company's projections of future cash payments are based on input received from external sources and internal models and may include assumptions about the amount and timing of loan prepayment rates, fluctuations in interest rates, credit losses, and other factors. On at least a quarterly basis, the Company reviews and makes any necessary adjustments to its cash flow projections and updates the yield recognized on these assets.

Determination of MBS Fair Value. The Company estimates the fair value of the majority of its MBS based upon prices obtained from pricing services and broker quotes. The remainder of the Company's MBS are valued by discounting the estimated future cash flows derived from cash flow models that utilize information such as the security's coupon rate, estimated prepayment speeds, expected weighted average life, collateral composition, estimated future interest rates, expected losses, and credit enhancements as well as certain other relevant information. Please refer to Note 6 for further discussion of MBS fair value measurements.

Allowance for Credit Losses. On at least a quarterly basis, the Company evaluates any MBS designated as AFS with a fair value less than its amortized cost for credit losses. If the difference between the present value of cash flows expected to be collected on the MBS is less than its amortized cost, the difference is recorded as an allowance for credit loss through net income up to and not exceeding the amount that the amortized cost exceeds current fair value. Subsequent changes in credit loss estimates are recognized in earnings in the period in which they occur. Because the majority of the Company's investments are higher credit quality and most are guaranteed by a GSE, the Company is not likely to have an allowance for credit losses related to its MBS recorded on its consolidated balance sheet.

Repurchase Agreements

The Company's repurchase agreements are used to finance its purchases of MBS and are accounted for as secured borrowings. The Company pledges its securities as collateral to secure a loan, which is equal to a specified percentage of the estimated fair value of the pledged collateral. The Company retains beneficial ownership of the pledged collateral, which is disclosed parenthetically on the Company's consolidated balance sheets. At the maturity of a repurchase agreement borrowing, the Company is required to repay the loan and concurrently receives back its pledged collateral from the lender or, with the consent of the lender, the Company may renew the agreement at the then prevailing financing rate. A repurchase agreement lender may require the Company to pledge additional collateral in the event of a decline in the fair value of the collateral pledged. Repurchase agreement financing is recourse to the Company and the assets pledged.

Derivative Instruments

Derivative instruments are accounted for at fair value, and all benefits/costs and changes in fair value, including gains and losses realized upon termination, maturity, or settlement, are recorded in "gain (loss) on derivative instruments, net" on the Company's consolidated statements of comprehensive income (loss). Cash receipts and payments related to derivative instruments are classified in the investing activities section of the consolidated statements of cash flows in accordance with the underlying nature or purpose of the derivative transactions.

The Company's short positions in U.S. Treasury futures contracts are valued based on exchange pricing with daily margin settlements. The margin requirement varies based on the market value of the open positions and the equity retained in the account. Any margin excess or deficit outstanding is recorded as a receivable or payable as of the date of the Company's consolidated balance sheets. The Company realizes gains or losses on these contracts upon expiration at an amount equal to the difference between the current fair value of the underlying asset and the contractual price of the futures contract.

The Company's options on U.S. Treasury futures provide the Company the right, but not an obligation, to buy U.S. Treasury futures at a predetermined notional amount and stated term in the future and are valued based on exchange pricing. The Company records the premium paid for the option contract as a derivative asset on its consolidated balance sheet and adjusts the balance for changes in fair value through "gain (loss) on derivative instruments" until the option is exercised or the contract expires. If the option contract expires unexercised, the realized loss is limited to the premium paid. If exercised, the realized gain or loss on the options is equal to the difference between the fair value of the underlying U.S. Treasury future and the premium paid for the option contract.

The Company may also purchase swaptions, which provide the Company the right, but not an obligation, to enter into an interest rate swap at a predetermined notional amount with a stated term and pay and receive rates in the future. The accounting for swaptions is similar to options on U.S. Treasury futures.

A TBA security is a forward contract ("TBA contract") for the purchase ("long position") or sale ("short position") of a non-specified Agency MBS at a predetermined price with certain principal and interest terms and certain types of collateral, but the particular Agency securities to be delivered are not identified until shortly before the settlement date. The Company accounts for long and short positions in TBAs as derivative instruments because the Company cannot assert that it is probable at inception and throughout the term of an individual TBA transaction that its settlement will result in physical delivery of the underlying Agency RMBS or that the individual TBA transaction will settle in the shortest time period possible.

Please refer to Note 5 for additional information regarding the Company's derivative instruments as well as Note 6 for information on how the fair value of these instruments is calculated.

Share-Based Compensation

The Company's 2020 Stock and Incentive Plan (the "2020 Plan") reserves for issuance up to 2,300,000 common shares for eligible employees, non-employee directors, consultants, and advisors to the Company to be granted in the form of stock options, restricted stock, restricted stock units ("RSUs"), stock appreciation rights, performance-based stock units ("PSUs"), and performance-based cash awards (collectively, "awards"). As of March 31, 2023, 1,143,538 common shares are available for issuance under the 2020 Plan.

Currently, the Company has shares of restricted stock and RSUs issued and outstanding which are treated as equity awards and recorded at their fair value using the closing stock price on the grant date. The compensation cost is recognized over the vesting period with a corresponding credit to shareholders' equity using the straight-line method.

The Company also has PSUs issued and outstanding which contain Company performance-based and market performance-based conditions. PSUs subject to Company performance-based conditions are initially recognized as equity at their fair value which is measured using the closing stock price on the grant date multiplied by the number of units expected to vest based on an assessment of the probability of achievement of the Company performance-based conditions as of the grant date. The grant date fair value is recognized as expense on the Company's consolidated statements of comprehensive income within "Compensation and benefits" on a straight-line basis over the vesting period and adjusted if necessary based on any change in probability of achievement which is re-assessed as of each reporting date and on at least a quarterly basis.

PSUs subject to market performance-based conditions are recognized as equity at their grant date fair value determined through a Monte-Carlo simulation of the Company's common stock total shareholder return ("TSR") relative to the common stock TSR of the group of peer companies specified in the award agreement. Awards subject to market performance-based conditions are not assessed for probability of achievement and are not remeasured subsequent to issuance. The grant date fair value is recognized as expense on the Company's consolidated statements of comprehensive income within "Compensation and benefits" on a straight-line basis over the vesting period even if the market performance-based conditions are not achieved.

The Company does not estimate forfeitures for any of its share-based compensation awards, but adjusts for actual forfeitures in the periods in which they occur. Because RSUs and PSUs have forfeitable dividend equivalent rights that are paid only upon settlement, any accrued dividend equivalent rights ("DERs") on forfeited units are reversed with a corresponding credit to "Compensation and benefits."

Please see Note 7 for additional information about the Company's share-based compensation awards.

Contingencies

The Company did not have any pending lawsuits, claims, or other contingencies as of March 31, 2023 or December 31, 2022.

Recently Issued Accounting Pronouncements

The Company evaluates Accounting Standards Updates issued by the Financial Accounting Standards Board on at least a quarterly basis to evaluate applicability and significance of any impact on its financial condition and results of operations. There were no accounting pronouncements issued during the three months ended March 31, 2023, that are expected to have a material impact on the Company's financial condition or results of operations.

NOTE 2 – NET INCOME (LOSS) PER COMMON SHARE

Please refer to Note 1 for information regarding the Company's treatment of its preferred stock and stock awards in the calculation of its basic and diluted net income or loss per common share and to Note 7 for information regarding the Company's stock award activity for the periods presented. The following table presents the computations of basic and diluted net income or loss per common share for the periods indicated:

($s in thousands except per share data)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Weighted average number of common shares outstanding - basic	53,823,866	36,725,365
Incremental common shares-unvested RSUs	—	128,786
Incremental common shares-unvested PSUs	—	257,582
Weighted average number of common shares outstanding - diluted	53,823,866	37,111,733
Net (loss) income to common shareholders	$ (43,645)	$ 115,286
Net (loss) income per common share-basic	$ (0.81)	$ 3.14
Net (loss) income per common share-diluted	$ (0.81)	$ 3.11

For the three months ended March 31, 2023, 270,106 of potentially dilutive RSUs and PSUs were excluded from the computation of diluted net loss per common share because including them would have been anti-dilutive for the period.

NOTE 3 – MORTGAGE-BACKED SECURITIES

The following tables provide details on the Company's MBS by investment type as of the dates indicated:

	March 31, 2023			December 31, 2022		
	Par Value	Amortized Cost	Fair Value	Par Value	Amortized Cost	Fair Value
Agency RMBS	$ 3,251,563	$ 3,287,869	$ 2,966,891	$ 3,104,498	$ 3,150,873	$ 2,762,878
Agency CMBS	125,220	125,833	119,474	131,578	132,333	124,690
CMBS IO (1)	n/a	220,541	210,283	n/a	238,841	224,985
Non-Agency other	191	191	136	209	209	152
Total	$ 3,376,974	$ 3,634,434	$ 3,296,784	$ 3,236,285	$ 3,522,256	$ 3,112,705

(1) The notional balance for Agency CMBS IO and non-Agency CMBS IO was $9,017,704 and $5,019,210, respectively, as of March 31, 2023, and $9,711,981 and $6,280,761, respectively, as of December 31, 2022.

	March 31, 2023			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
MBS measured at fair value through OCI:				
Agency RMBS	$ 960,952	$ —	$ (153,711)	$ 807,241
Agency CMBS	110,539	—	(5,428)	105,111
CMBS IO	176,238	660	(8,019)	168,879
Non-Agency other	191	—	(55)	136
Total	$ 1,247,920	$ 660	$ (167,213)	$ 1,081,367

($s in thousands except per share data)

MBS measured at fair value through net income:				
Agency RMBS	$ 2,326,917	$ 6,070	$ (173,337)	$ 2,159,650
Agency CMBS	15,294	—	(931)	14,363
CMBS IO	44,302	—	(2,898)	41,404
Total	$ 2,386,513	$ 6,070	$ (177,166)	$ 2,215,417

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
MBS measured at fair value through OCI:				
Agency RMBS	$ 977,624	$ —	$ (164,949)	$ 812,675
Agency CMBS	117,031	—	(6,474)	110,557
CMBS IO	193,405	507	(10,373)	183,539
Non-Agency other	209	—	(57)	152
Total	$ 1,288,269	$ 507	$ (181,853)	$ 1,106,923
MBS measured at fair value through net income:				
Agency RMBS	$ 2,173,249	$ —	$ (223,046)	$ 1,950,203
Agency CMBS	15,302	—	(1,169)	14,133
CMBS IO	45,436	—	(3,990)	41,446
Total	$ 2,233,987	$ —	$ (228,205)	$ 2,005,782

The majority of the Company’s MBS are pledged as collateral for the Company’s repurchase agreements, which are disclosed in Note 4. Actual maturities of MBS are affected by the contractual lives of the underlying mortgage collateral, periodic payments of principal, prepayments of principal, and the payment priority structure of the security; therefore, actual maturities are generally shorter than the securities' stated contractual maturities.

The following table presents information regarding unrealized gains and losses on investments reported within net income (loss) on the Company’s consolidated statements of comprehensive income (loss) for the periods indicated:

	Three Months Ended March 31,	
	2023	2022
Agency RMBS	$ 55,779	$ (110,201)
Agency CMBS	237	—
CMBS IO	1,092	(1,130)
Other assets	12	80
Total unrealized gain (loss) on investments, net	$ 57,120	$ (111,251)

The following table presents information regarding realized gains and losses on sales of MBS reported in the Company’s consolidated statements of comprehensive income (loss) for the periods indicated:

($s in thousands except per share data)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Realized gains on sales of MBS - FVO	$ —	$ —
Realized losses on sales of MBS - FVO	(23,315)	—
Total realized loss on sales of investments, net	$ (23,315)	$ —

The following table presents certain information for MBS designated as AFS that were in an unrealized loss position as of the dates indicated:

	March 31, 2023			December 31, 2022		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
Continuous unrealized loss position for less than 12 months:						
Agency MBS	$ 106,279	$ 3,310	29	$ 346,064	$ 22,808	79
Non-Agency MBS	10,660	318	21	42,162	1,787	56
Continuous unrealized loss position for 12 months or longer:						
Agency MBS	$ 920,117	$ 161,809	64	$ 697,514	$ 156,411	17
Non-Agency MBS	36,560	1,776	54	12,195	847	22

The unrealized losses on the Company's MBS designated as AFS were the result of rising interests rates and declines in market prices and were not credit related; therefore, the Company did not have any allowance for credit losses as of March 31, 2023 or December 31, 2022. Although the unrealized losses are not credit related, the Company assesses its ability and intent to hold any MBS with an unrealized loss until the recovery in its value. This assessment is based on the amount of the unrealized loss and significance of the related investment as well as the Company's leverage and liquidity position. In addition, for its non-Agency MBS, the Company reviews the credit ratings, the credit characteristics of the mortgage loans collateralizing these securities, and the estimated future cash flows including projected collateral losses.

NOTE 4 – REPURCHASE AGREEMENTS

The Company's repurchase agreements outstanding as of March 31, 2023 and December 31, 2022 are summarized in the following tables:

	March 31, 2023			December 31, 2022		
Collateral Type	Balance	Weighted Average Rate	Fair Value of Collateral Pledged	Balance	Weighted Average Rate	Fair Value of Collateral Pledged
Agency RMBS	$ 2,675,157	4.90 %	$ 2,724,745	$ 2,349,181	4.15 %	$ 2,496,781
Agency CMBS	98,373	4.89 %	102,710	108,580	3.76 %	108,146
Agency CMBS IO	128,819	5.23 %	145,157	137,569	4.62 %	150,517
Non-Agency CMBS IO	34,775	5.76 %	40,358	49,075	5.26 %	55,513
Total repurchase agreements	$ 2,937,124	4.92 %	$ 3,012,970	$ 2,644,405	4.18 %	$ 2,810,957

($s in thousands except per share data)

The Company had borrowings outstanding under 25 different repurchase agreements as of March 31, 2023, and its equity at risk did not exceed 5% with any counterparty as of that date. The Company also had $24,918 and $4,159 payable to counterparties for transactions pending settlement as of March 31, 2023 and December 31, 2022, respectively.

The following table provides information on the remaining term to maturity and original term to maturity for the Company's repurchase agreements as of the dates indicated:

	March 31, 2023			December 31, 2022		
Remaining Term to Maturity	**Balance**	**Weighted Average Rate**	**WAVG Original Term to Maturity**	**Balance**	**Weighted Average Rate**	**WAVG Original Term to Maturity**
Less than 30 days	$ 1,288,034	4.96 %	35	$ 858,161	4.44 %	42
30 to 90 days	1,254,958	4.88 %	78	1,786,244	4.06 %	104
91 to 180 days	394,132	4.95 %	183	—	— %	—
Total	$ 2,937,124	4.92 %	73	$ 2,644,405	4.18 %	84

The increase in the Company's weighted average rate for its borrowings as of March 31, 2023 compared to December 31, 2022 resulted from the increase in the U.S. Federal Funds Target rate ("Fed Funds rate") set by the Federal Reserve. The Company's accrued interest payable related to its repurchase agreement borrowings was $12,806 as of March 31, 2023 compared to $16,450 as of December 31, 2022.

The Company has an agreement with Wells Fargo Bank, N.A. for a committed repurchase facility, which has an aggregate maximum borrowing capacity of $250,000 and a maturity date of June 8, 2023. As of March 31, 2023, the Company had $41,220 outstanding with this facility at a weighted average borrowing rate of 5.25%. The remaining repurchase facilities available to the Company are uncommitted with no guarantee of renewal or terms of renewal.

The Company's counterparties, as set forth in the master repurchase agreement with the counterparty, require the Company to comply with various customary operating and financial covenants, including, but not limited to, minimum net worth, maximum declines in net worth in a given period, and maximum leverage requirements as well as maintaining the Company's REIT status. In addition, some of the agreements contain cross default features, whereby default under an agreement with one lender simultaneously causes default under agreements with other lenders. To the extent that the Company fails to comply with the covenants contained in these financing agreements or is otherwise found to be in default under the terms of such agreements, the counterparty has the right to accelerate amounts due under the master repurchase agreement. The Company believes it was in full compliance with all covenants in master repurchase agreements under which there were amounts outstanding as of March 31, 2023.

The Company's repurchase agreements are subject to underlying agreements with master netting or similar arrangements, which provide for the right of offset in the event of default or in the event of bankruptcy of either party to the transactions. The Company reports its repurchase agreements to these arrangements on a gross basis. The following table presents information regarding the Company's repurchase agreements as if the Company had presented them on a net basis as of March 31, 2023 and December 31, 2022:

($s in thousands except per share data)

	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet (1)		Net Amount
				Financial Instruments Posted as Collateral	Cash Posted as Collateral	
March 31, 2023:						
Repurchase agreements	$ 2,937,124	$ —	$ 2,937,124	$ (2,937,124)	$ —	$ —
December 31, 2022:						
Repurchase agreements	$ 2,644,405	$ —	$ 2,644,405	$ (2,644,405)	$ —	$ —

(1) Amounts disclosed for collateral received by or posted to the same counterparty include cash and the fair value of MBS up to and not exceeding the net amount of the repurchase agreement liability presented in the balance sheet. The fair value of the total collateral received by or posted to the same counterparty may exceed the amounts presented.

Please see Note 5 for information related to the Company’s derivatives, which are also subject to underlying agreements with master netting or similar arrangements.

NOTE 5 – DERIVATIVES

Types and Uses of Derivatives Instruments

Interest Rate Derivatives. During the periods presented herein, the Company used short positions in U.S. Treasury futures, interest rate swaptions, and call options on U.S. Treasury futures to mitigate the impact of changing interest rates on its repurchase agreement financing costs and the fair value of its investments.

TBA Transactions. The Company purchases TBA securities as a means of investing in non-specified fixed-rate Agency RMBS and may also periodically sell TBA securities as a means of economically hedging its exposure to Agency RMBS. The Company holds long and short positions in TBA securities by executing a series of transactions, commonly referred to as “dollar roll” transactions, which effectively delay the settlement of a forward purchase (or sale) of a non-specified Agency RMBS by entering into an offsetting TBA position, net settling the paired-off positions in cash, and simultaneously entering into an identical TBA long (or short) position with a later settlement date. TBA securities purchased (or sold) for a forward settlement date are generally priced at a discount relative to TBA securities settling in the current month. This discount, often referred to as “drop income” represents the economic equivalent of net interest income (interest income less implied financing cost) on the underlying Agency security from trade date to settlement date. The Company accounts for all TBAs (whether net long or net short positions, or collectively “TBA dollar roll positions”) as derivative instruments because it cannot assert that it is probable at inception and throughout the term of an individual TBA transaction that its settlement will result in physical delivery of the underlying Agency RMBS, or that the individual TBA transaction will settle in the shortest period possible.

The table below provides detail of the Company’s “gain (loss) on derivative instruments, net” by type of derivative instrument for the periods indicated:

($s in thousands except per share data)

Type of Derivative Instrument	Three Months Ended March 31, 2023	2022
U.S. Treasury futures	$ (106,373)	$ 288,934
Interest rate swaptions	—	25,438
Options on U.S. Treasury futures	(4,258)	—
TBA securities-long positions	43,364	(94,161)
(Loss) gain on derivative instruments, net	$ (67,267)	$ 220,211

The table below provides the carrying amount by type of derivative instrument comprising the Company's derivative assets and liabilities on its consolidated balance sheets as of the dates indicated:

Type of Derivative Instrument	Balance Sheet Location	Purpose	March 31, 2023	December 31, 2022
Options on U.S. Treasury futures	Derivative assets	Economic hedging	$ 1,680	$ 5,859
TBA securities	Derivative assets	Investing	35,499	1,243
Total derivatives assets			$ 37,179	$ 7,102
TBA securities	Derivative liabilities	Investing	$ —	$ 22,595
Total derivatives liabilities			$ —	$ 22,595

The Company's short positions in U.S. Treasury futures are considered legally settled on a daily basis, therefore the carrying value on the Company's consolidated balance sheet nets to $0. As of March 31, 2023, the amount of cash posted by the Company to cover required initial margin for its U.S. Treasury futures was $114,590, which is recorded within "cash collateral posted to counterparties." The Company also had variation margin amount due of $17,337 as of March 31, 2023, which is recorded within "due to counterparties."

The Company's options on U.S. Treasury futures are recorded at fair value on its consolidated balance sheet as of March 31, 2023. The Company's cost basis as of March 31, 2023 was $4,034, which represents the premium paid.

The following table summarizes information about the Company's long positions in TBA securities as of the dates indicated:

	March 31, 2023	December 31, 2022
Implied market value (1)	$ 3,714,915	$ 2,751,568
Implied cost basis (2)	3,679,416	2,772,920
Net carrying value (3)	$ 35,499	$ (21,352)

(1) Implied market value represents the estimated fair value of the underlying Agency MBS as of the dates indicated.
(2) Implied cost basis represents the forward price to be paid for the underlying Agency MBS as of the dates indicated.
(3) Net carrying value is the amount included on the consolidated balance sheets within "derivative assets" and "derivative liabilities" and represents the difference between the implied market value and the implied cost basis of the TBA securities as of the dates indicated.

($s in thousands except per share data)

Volume of Activity

The table below summarizes changes in the Company's derivative instruments for the three months ended March 31, 2023:

Type of Derivative Instrument	Beginning Notional Amount-Long (Short)	Additions	Settlements, Terminations, or Pair-Offs	Ending Notional Amount-Long (Short)
U.S. Treasury futures	$ (4,920,000)	$ (5,440,000)	$ 5,040,000	$ (5,320,000)
Options on U.S. Treasury futures	250,000	250,000	(250,000)	250,000
TBA securities	2,869,000	11,034,000	(10,151,000)	3,752,000

Offsetting

The Company's derivatives are subject to underlying agreements with master netting or similar arrangements, which provide for the right of offset in the event of default or in the event of bankruptcy of either party to the transactions. The Company reports its derivative assets and liabilities subject to these arrangements on a gross basis. Please see Note 4 for information related to the Company's repurchase agreements, which are also subject to underlying agreements with master netting or similar arrangements. The following tables present information regarding those derivative assets and liabilities subject to such arrangements as if the Company had presented them on a net basis as of March 31, 2023 and December 31, 2022:

	Offsetting of Assets					
				Gross Amount Not Offset in the Balance Sheet [1]		
	Gross Amount of Recognized Assets	Gross Amount Offset in the Balance Sheet	Net Amount of Assets Presented in the Balance Sheet	Financial Instruments Received as Collateral	Cash Received as Collateral	Net Amount
March 31, 2023						
Options on U.S. Treasury futures	$ 1,680	$ —	$ 1,680	$ —	$ —	$ 1,680
TBA securities	35,499	—	35,499	—	(26,994)	8,505
Derivative assets	$ 37,179	$ —	$ 37,179	$ —	$ (26,994)	$ 10,185
December 31, 2022						
Options on U.S. Treasury futures	$ 5,859	$ —	$ 5,859	$ —	$ —	$ 5,859
TBA securities	1,243	—	1,243	(1,243)	—	—
Derivative assets	$ 7,102	$ —	$ 7,102	$ (1,243)	$ —	$ 5,859

($s in thousands except per share data)

	Offsetting of Liabilities					
				Gross Amount Not Offset in the Balance Sheet (1)		
	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet	Financial Instruments Posted as Collateral	Cash Posted as Collateral	Net Amount
March 31, 2023						
TBA securities	$ —	$ —	$ —	$ —	$ —	$ —
Derivative liabilities	$ —	$ —	$ —	$ —	$ —	$ —
December 31, 2022						
TBA securities	$ 22,595	$ —	$ 22,595	$ (1,243)	$ (16,639)	$ 4,713
Derivative liabilities	$ 22,595	$ —	$ 22,595	$ (1,243)	$ (16,639)	$ 4,713

(1) Amounts disclosed for collateral received by or posted to the same counterparty include cash and the fair value of MBS up to and not exceeding the net amount of the derivative asset or liability presented in the balance sheet. The fair value of the total collateral received by or posted to the same counterparty may exceed the amounts presented. Please refer to the consolidated balance sheets for the total fair value of financial instruments pledged as collateral for derivatives and repurchase agreements, which is shown parenthetically, and the total cash pledged or received as collateral which is disclosed in "cash collateral posted to/by counterparties."

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on the assumptions market participants would use when pricing an asset or liability and also considers all aspects of nonperformance risk, including the entity's own credit standing, when measuring fair value of a liability. ASC Topic 820 established a valuation hierarchy of three levels as follows:

- Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities as of the measurement date.
- Level 2 – Inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs either directly observable or indirectly observable through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 – Unobservable inputs are supported by little or no market activity. The unobservable inputs represent management's best estimate of how market participants would price the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The following table presents the Company's financial instruments that are measured at fair value on the Company's consolidated balance sheet by their valuation hierarchy levels as of the dates indicated:

($s in thousands except per share data)

	March 31, 2023				December 31, 2022			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets carried at fair value:								
MBS	$ 3,296,784	$ —	$ 3,296,648	$ 136	$ 3,112,705	$ —	$ 3,112,553	$ 152
Derivative assets:								
Options on U.S. Treasury futures	1,680	1,680	—	—	5,859	5,859	—	—
TBA securities-long position	35,499	—	35,499	—	1,243	—	1,243	—
Total assets carried at fair value	$ 3,333,963	$ 1,680	$ 3,332,147	$ 136	$ 3,119,807	$ 5,859	$ 3,113,796	$ 152
Liabilities carried at fair value:								
TBA securities-long position	$ —	$ —	$ —	$ —	$ 22,595	$ —	$ 22,595	$ —
Total liabilities carried at fair value	$ —	$ —	$ —	$ —	$ 22,595	$ —	$ 22,595	$ —

The fair value measurements for most of the Company's MBS are considered Level 2 because there are substantially similar securities actively trading or for which there has been recent trading activity in their respective markets and are based on prices received from pricing services and quotes from brokers. In valuing a security, the pricing service uses either a market approach, which uses observable prices and other relevant information that is generated by market transactions of identical or similar securities, or an income approach, which uses valuation techniques such as discounted cash flow modeling. The Company reviews the prices it receives from its pricing sources as well as the assumptions and inputs utilized by its pricing sources for reasonableness. Examples of the observable inputs and assumptions include market interest rates, credit spreads, and projected prepayment speeds, among other things.

Options on U.S. Treasury futures are valued based on closing exchange prices on these contracts and are classified accordingly as Level 1 measurements. The fair value of TBA securities is estimated using methods similar to those used to fair value the Company’s Level 2 MBS.

NOTE 7 – SHAREHOLDERS’ EQUITY AND SHARE-BASED COMPENSATION

Preferred Stock. The Company’s Board of Directors has designated 6,600,000 shares of the Company’s preferred stock for issuance as Series C Preferred Stock, of which the Company has 4,460,000 of such shares outstanding as of March 31, 2023. The Series C Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption, and will remain outstanding indefinitely unless redeemed, repurchased or converted into common stock pursuant to the terms of the Series C Preferred Stock. Except under certain limited circumstances described in Article IIIC of the Company’s Restated Articles of Incorporation, the Company may not redeem the Series C Preferred Stock prior to April 15, 2025. On or after that date, the Series C Preferred Stock may be redeemed at any time and from time to time at the Company's option at a cash redemption price of $25.00 per share plus any accumulated and unpaid dividends. Because the Series C Preferred Stock is redeemable only at the option of the issuer, it is classified as equity on the Company’s consolidated balance sheet.

The Series C Preferred Stock pays a cumulative cash dividend equivalent to 6.900% of the $25.00 liquidation preference per share each year until April 15, 2025. The terms of the Series C Preferred Stock state that upon April 15, 2025 and thereafter, the Company will pay cumulative cash dividends at a percentage of the $25.00 liquidation value per share equal to an annual floating rate of 3-month LIBOR plus a spread of 5.461%. When 3-month LIBOR ceases to be a published, the fallback provision provided in the terms of the Series C Preferred Stock will allow for the Company to appoint a third-party independent financial institution of national standing to select an industry accepted alternative base rate. The Company paid its regular quarterly dividend of $0.43125 per share of Series C Preferred Stock on April 17, 2023 to shareholders of record as of April 1, 2023.

($s in thousands except per share data)

Common Stock. During the three months ended March 31, 2023, the Company issued 199,274 shares of its common stock through its at-the-market ("ATM") program at an aggregate value of $2,771, net of broker commissions and fees. The Company currently pays a monthly dividend on its common stock. The Company's timing, frequency, and amount of dividends declared on its common stock are determined by its Board of Directors. When declaring dividends, the Board of Directors considers the Company's taxable income, the REIT distribution requirements of the Tax Code, and maintaining compliance with dividend requirements of the Series C Preferred Stock, along with other factors that the Board of Directors may deem relevant from time to time.

Share-Based Compensation. Total share-based compensation expense recognized by the Company was $1,010 for the three months ended March 31, 2023 compared to $846 for the three months ended March 31, 2022.

The following tables present a rollforward of share-based awards for the periods indicated:

	Three Months Ended March 31,			
	2023		2022	
Type of Award	**Shares**	**Weighted Average Grant Date Fair Value Per Share**	**Shares**	**Weighted Average Grant Date Fair Value Per Share**
Restricted stock:				
Awards outstanding, beginning of period	133,951	$ 15.22	197,804	$ 15.27
Granted	27,932	11.97	40,196	15.19
Vested	(36,573)	16.75	(44,805)	17.79
Awards outstanding, end of period	125,310	$ 14.05	193,195	$ 14.67
RSUs:				
Awards outstanding, beginning of period	86,666	$ 16.57	55,019	$ 19.40
Granted	106,850	11.97	73,767	15.19
Vested	(33,213)	13.50	—	—
Awards outstanding, end of period	160,303	$ 14.14	128,786	$ 16.99
PSUs:				
Awards outstanding, beginning of period	201,284	$ 16.60	110,040	$ 19.40
Granted	160,277	11.97	147,542	15.19
Vested	—	—	—	—
Awards outstanding, end of period	361,561	$ 16.60	257,582	$ 16.99

The number of RSUs that will potentially settle may range from 0% if the recipient's service-based vesting condition is not met to 100% if the service-based vesting condition is met. The number of PSUs that will potentially settle may range from 0% to 200% based on the achievement of the performance goals defined in the grant award. As of March 31, 2023, the Company expects 100% of the PSUs outstanding will be settled on their vesting dates. The Company has DERs accrued for RSUs and PSUs of $89 and $446, respectively, as of March 31, 2023 compared to

($s in thousands except per share data)

$152 and $354, respectively, as of December 31, 2022, which is included on the Company's consolidated balance sheet within "accrued dividends payable."

The following table discloses the grant date fair value of the Company's remaining unvested awards as of March 31, 2023, which will be amortized into compensation expense over the period disclosed:

	March 31, 2023	
	Remaining Compensation Cost	**WAVG Period of Recognition**
Restricted stock	$ 918	2.0 years
RSUs	2,083	2.4 years
PSUs	3,765	2.1 years
Total	$ 6,766	2.2 years

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

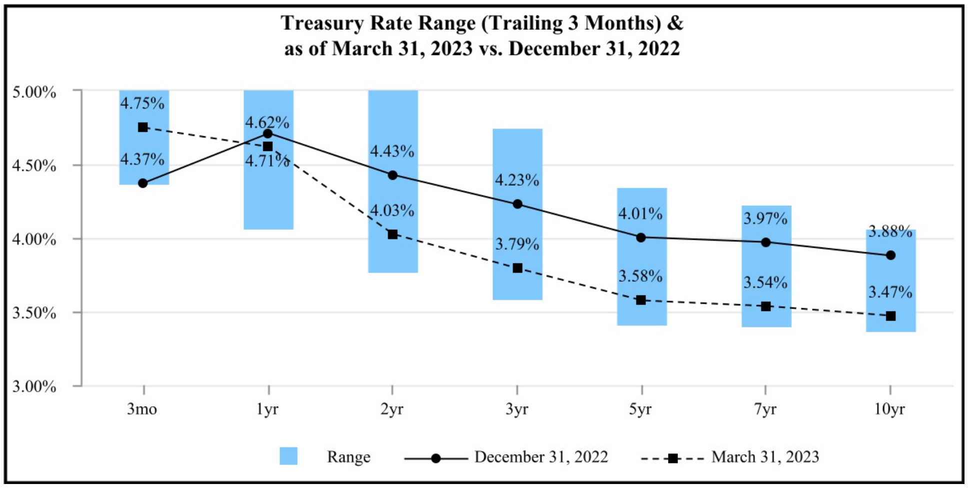
The following discussion should be read in conjunction with our unaudited consolidated financial statements and the accompanying notes included in Part I, Item 1. "Financial Statements" in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the accompanying notes included in Part II, Item 8 in our 2022 Form 10-K. References herein to "Dynex," the "Company," "we," "us," and "our" include Dynex Capital, Inc. and its consolidated subsidiaries, unless the context otherwise requires. In addition to current and historical information, the following discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our future business, financial condition or results of operations. For a description of certain factors that may have a significant impact on our future business, financial condition or results of operations, see "Forward-Looking Statements" at the end of this discussion and analysis.

For more information about our business including our operating policies, investment philosophy and strategy, financing and hedging strategies, and other important information, please refer to Part I, Item 1 of our 2022 Form 10-K.

EXECUTIVE OVERVIEW

Interest rate volatility experienced during 2022 continued in the first quarter of 2023. The last month of the quarter included a steep drop in medium and longer term interest rates as two banks collapsed, and financial system duress became the focus of regulators and market participants. The Federal Reserve's dual mandate of maximum employment and price stability while taming inflation is a difficult task. As the front end of the yield curve moves up with the continuation of Fed Funds rate increases, the back end has fallen while spreads have widened as smaller banks could be net sellers of MBS. Our hedging activities help insulate the Company's book value against rising interest rates, but do not protect the Company from widening spreads.

The charts below show the range of U.S. Treasury rates and information regarding market spreads as of and for the periods indicated:



Investment Type:	Market Spreads as of: March 31, 2023	December 31, 2022	Change in Spreads
Agency RMBS: (1)			
2.0% coupon	39	27	(12)
2.5% coupon	39	35	(4)
3.0% coupon	39	33	(6)
3.5% coupon	39	36	(3)
4.0% coupon	42	33	(9)
4.5% coupon	51	34	(17)
5.0% coupon	50	28	(22)
5.5% coupon	55	33	(22)
Agency DUS (Agency CMBS)(2)	78	74	(4)
Freddie K AAA IO (Agency CMBS IO)(2)	210	235	25
AAA CMBS IO (Non-Agency CMBS IO)(2)	350	315	(35)

(1) Option adjusted spreads ("OAS") are based on Company estimates using third-party models and market data. OAS shown for prior periods may differ from previous disclosures because.the Company regularly updates the third-party model used.

(2) Data represents the spread to swap rate on newly issued securities and is sourced from J.P. Morgan.

Summary of First Quarter 2023 Performance

Our total economic return for the first quarter of 2023 was a loss of \$(0.54) per common share, comprised of a \$(0.93) decline in book value offset by dividends declared of \$0.39 per common share. The loss in book value was driven primarily by spread widening on MBS as a result of turmoil in the banking sector during the first quarter of 2023. The impact of spread widening on our MBS muted the benefit gained from the decline in the 10-year U.S. Treasury rate during March 2023. The decline in the 10-year U.S. Treasury rate also resulted in losses in the fair value of our interest rate hedges, which exceeded net unrealized gains on our investment portfolio by \$(18.7) million, and comprised the majority of comprehensive loss to common shareholders of \$(28.9) million, or \$(0.54) per common share, for the first quarter of 2023. In addition to spread widening, our earnings continue to be impacted by increasing borrowing costs as the Federal Reserve continues raising the Fed Funds rate in its efforts to tame inflation. Our interest expense exceeded our interest income by $(0.5) million for the first quarter of 2023.

Prior to the decline in the 10-year U.S. Treasury rate in March 2023, we realized gains of $89.0 million when we rolled our interest rate hedges in February 2023. While included in our comprehensive loss for the first quarter of 2023, these realized gains will not be recognized in taxable income and therefore not distributable to our shareholders during the same period. Because these derivative instruments are designated for tax purposes as interest rate hedges, realized gains and losses are instead amortized into our taxable income over the original periods hedged by those derivatives. Our estimated REIT taxable income for the first quarter of 2023 includes an estimated benefit of approximately $18.2 million, or $0.34 per average common share outstanding during the period, from the amortization of accumulated deferred tax hedge gains, which were estimated to be $766.0 million as of March 31, 2023 compared to $695.2 million as of December 31, 2022. This benefit will be distributable to common shareholders as part of our taxable ordinary income in future periods. Additional information regarding the estimated impact of deferred tax hedge amortization on our estimated REIT taxable income is discussed in "Liquidity and Capital Resources" within this Item 2.

The following table provides details about the changes in our financial position during the first quarter of 2023:

	Net Change in Fair Value	Components of Comprehensive Loss	Common Book Value Rollforward	Per Common Share
Balance as of December 31, 2022 [(1)]			$ 789,828	$ 14.73
Net interest income		$ (462)		
TBA drop income		1,457		
G & A and other operating expenses		(7,798)		
Preferred stock dividends		(1,923)		
Changes in fair value:				
MBS and loans	$ 48,599			
TBAs	41,906			
U.S. Treasury futures	(106,373)			
Options on U.S. Treasury futures	(4,258)			
Total net change in fair value		(20,126)		
Comprehensive loss to common shareholders			(28,852)	(0.54)
Capital transactions:				
Net proceeds from stock issuance [(2)]			3,489	—
Common dividends declared			(21,137)	(0.39)
Balance as of March 31, 2023 [(1)]			$ 743,328	$ 13.80

(1) Amounts represent total shareholders' equity less the aggregate liquidation preference of the Company's preferred stock, in thousands and on a per common share basis.
(2) Net proceeds from stock issuance include $2.8 million from common stock ATM program and $0.8 million from share-based compensation grants, net of amortization. The amount shown for "per common share" includes the impact of the increase in the number of common shares outstanding.

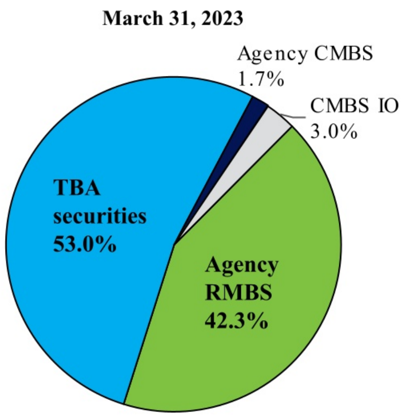
Current Outlook

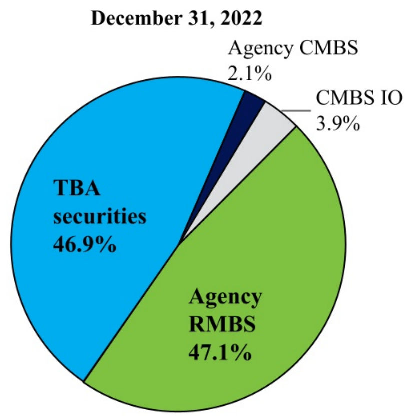
We believe market conditions will remain volatile as participants anticipate the Federal Reserve ending quantitative tightening and as the potential for quantitative easing begins. We believe liquidity and flexibility are necessary for navigating through this macroeconomic environment. The recent turmoil in the banking sector has caused spread widening on Agency RMBS, which is providing us additional opportunities to invest in new assets with yields at an attractive spread over U.S. Treasury securities. We believe there are compelling opportunities for investment as technical factors of supply and demand attempt to find equilibrium. In the medium and long term, we expect Agency RMBS are likely to remain attractive as an asset class that provides liquidity and flexibility with minimal credit risk due to the implicit guarantee by GSEs. There are several paths to recovery of recent drops in market value of MBS. In the event of a recession, demand for risk-free assets like Agency RMBS will increase. Any certainty about Federal Reserve policy will likely reduce interest rate volatility, which should help MBS spreads to tighten. Longer-term, if and when the Federal Reserve decides to reverse its policy and begins reducing the Fed Funds rate, the yield curve is likely to steepen, establishing a high-return environment for a levered Agency RMBS investor.

FINANCIAL CONDITION

Investment Portfolio

The following charts compare the composition of our MBS portfolio including TBA securities as of the dates indicated:





To minimize losses due to spread volatility, we frequently change the coupon distribution in our Agency RMBS and TBA portfolios. During the first quarter, we shifted the majority of our 4.0% TBA securities into TBA securities with higher coupons and sold a portion of our specified pools of Agency RMBS with coupons of 2.0% to purchase higher coupon Agency RMBS when spreads widened. The majority of those purchases were at a discount to par. We expect spreads will remain volatile and range-bound in the intermediate term while the Federal Reserve continues reducing MBS from its balance sheet. Longer term, as investors return to the MBS market and demand improves, we expect the fair value of our investment portfolio to increase and our book value to trend higher.

The following tables compare our fixed-rate Agency RMBS investments, including TBA dollar roll positions, as of the dates indicated:

	March 31, 2023						
				Weighted Average			
Coupon	**Par/Notional**	**Amortized Cost/ Implied Cost Basis (1)(3)**	**Fair Value (2)(3)**	**Loan Age (in months)(4)**	**3 Month CPR (4)(5)**	**Estimated Duration (6)**	**Market Yield (4)(7)**
30-year fixed-rate:		*($s in thousands)*					
2.0%	$ 1,051,974	$ 1,066,795	$ 875,432	26	3.3 %	7.00	4.46 %
2.5%	649,246	675,274	564,171	31	3.7 %	6.73	4.45 %
4.0%	319,350	323,220	308,733	28	5.8 %	5.53	4.51 %
4.5%	909,477	901,346	896,708	7	3.6 %	4.87	4.71 %
5.0%	321,515	321,233	321,846	4	3.2 %	3.93	4.98 %
TBA 4.0%	547,000	515,130	522,915	n/a	n/a	5.56	n/a
TBA 4.5%	460,000	446,074	450,441	n/a	n/a	4.67	n/a
TBA 5.0%	2,345,000	2,319,212	2,337,560	n/a	n/a	3.21	n/a
TBA 5.5%	400,000	399,000	404,000	n/a	n/a	2.41	n/a
Total	$ 7,003,562	$ 6,967,284	$ 6,681,806	19	3.7 %	4.60	4.60 %

	December 31, 2022						
				Weighted Average			
Coupon	**Par/Notional**	**Amortized Cost/ Implied Cost Basis (1)(3)**	**Fair Value (2)(3)**	**Loan Age (in months)(4)**	**3 Month CPR (4)(5)**	**Estimated Duration (6)**	**Market Yield (4)(7)**
30-year fixed-rate:		*($s in thousands)*					
2.0%	$ 1,193,344	$ 1,210,065	$ 982,387	23	5.2 %	7.14	4.53 %
2.5%	659,181	685,838	566,525	28	5.9 %	6.67	4.59 %
4.0%	325,726	329,725	309,940	25	7.2 %	5.56	4.75 %
4.5%	803,043	799,786	782,319	4	4.4 %	5.02	4.89 %
5.0%	123,204	125,460	121,707	4	7.2 %	3.99	5.19 %
TBA 4.0%	1,539,000	1,454,263	1,447,286	n/a	n/a	5.47	n/a
TBA 4.5%	380,000	371,173	366,759	n/a	n/a	4.79	n/a
TBA 5.0%	950,000	947,484	937,523	n/a	n/a	4.24	n/a
Total	$ 5,973,498	$ 5,923,794	$ 5,514,446	18	5.4 %	5.54	4.70 %

(1) Implied cost basis of TBAs represents the forward price to be paid for the underlying Agency MBS.
(2) Fair value of TBAs is the implied market value of the underlying Agency security as of the end of the period.
(3) TBAs are included on the consolidated balance sheet within "derivative assets/liabilities" at their net carrying value which is the difference between their implied market value and implied cost basis. Please refer to Note 5 of the Notes to the Consolidated Financial Statements for additional information.
(4) TBAs are excluded from this calculation as they do not have a defined weighted-average loan balance or age until mortgages have been assigned to the pool.
(5) Constant prepayment rate ("CPR") represents the 3-month CPR of Agency RMBS held as of date indicated.
(6) Duration measures the sensitivity of a security's price to the change in interest rates and represents the percent change in price of a security for a 100-basis point increase in interest rates. We calculate duration using third-party financial models and empirical data. Different models and methodologies can produce different estimates of duration for the same securities.
(7) Represents the weighted average market yield projected using cash flows generated off the forward curve based on market prices as of the date indicated and assuming zero volatility.

Approximately 5% of our MBS portfolio is comprised of Agency CMBS, Agency CMBS IO, and non-Agency CMBS IO. Our Agency CMBS and Agency CMBS IO are backed by loans collateralized by multifamily properties, which have performed well for the last decade versus other sectors of the commercial real estate market. Our Agency CMBS IO are Class X1 from Freddie Mac Series K deals from which interest continues to be advanced even in the event of an underlying default up until liquidation. According to Freddie Mac, 99.9% of the loans in K-deals are current as of February 2023. Our non-Agency CMBS IO were all originated prior to 2018 with a weighted average remaining life of less than 2 years. The underlying loans for the non-Agency CMBS IO securities are collateralized by a number of different property types including: 29% retail, 24% office, 14% multifamily, 13% hotel and 21% all other real estate categories. In the current macroeconomic environment, we are not actively purchasing CMBS or CMBS IO as current risk versus reward remains unattractive relative to Agency RMBS.

The following table provides certain information regarding our CMBS and CMBS IO as of the dates indicated:

	March 31, 2023				
	Amortized Cost	Fair Value	WAVG Life Remaining (1)	WAVG Coupon (2)	WAVG Market Yield (3)
Agency CMBS	$ 125,833	$ 119,474	4.7	3.20 %	4.43 %
Agency CMBS IO	170,010	161,446	6.2	0.43 %	4.73 %
Non-Agency CMBS IO	50,530	48,838	1.9	0.82 %	11.70 %
Total	$ 346,373	$ 329,758			

	December 31, 2022				
	Amortized Cost	Fair Value	WAVG Life Remaining (1)	WAVG Coupon (2)	WAVG Market Yield (3)
Agency CMBS	$ 132,333	$ 124,690	4.8	3.22 %	4.50 %
Agency CMBS IO	179,734	168,147	6.3	0.41 %	5.32 %
Non-Agency CMBS IO	59,107	56,839	2.1	0.83 %	8.54 %
Total	$ 371,174	$ 349,676			

(1) Represents the weighted average life remaining in years based on contractual cash flows as of the dates indicated.

(2) Represents the weighted average coupon based on par/notional as of the dates indicated.

(3) Represents the weighted average market yield projected using cash flows generated off the forward curve based on market prices as of the dates indicated and assuming zero volatility.

Repurchase Agreements

We have not experienced any difficulty in securing financing with any of our counterparties, and our repurchase agreement counterparties have not indicated any concerns regarding leverage or credit. Please refer to Note 4 of the Notes to the Consolidated Financial Statements contained within this Quarterly Report on Form 10-Q as well as “Results of Operations” and “Liquidity and Capital Resources” contained within this Item 7 for additional information relating to our repurchase agreement borrowings.

Derivative Assets and Liabilities

We rolled our interest rate hedges during February 2023, realizing gains of $89.0 million. As interest rates declined during March 2023, the fair value of our interest rate hedges declined $(199.7) million. As of March 31, 2023, the Company held short positions of $4.4 billion in 10-year U.S. Treasury futures and $900.0 million in 5-year U.S. Treasury futures and held put options on 10-year U.S. Treasury futures of $250.0 million.

Please refer to Note 5 of the Notes to the Consolidated Financial Statements for details on our interest rate derivative instruments as well as "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A of this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

The discussion below includes both GAAP and non-GAAP financial measures that management utilizes in its analysis of financial and operating performance. Please read the section "Non-GAAP Financial Measures" at the end of this section for additional important information about these financial measures.

The following table summarizes the results of operations for the periods indicated:

	Three Months Ended		
$s in thousands	**March 31, 2023**	**December 31, 2022**	**March 31, 2022**
Net interest (expense) income	$ (462)	$ 6,208	$ 15,679
Realized (loss) gain on sales of investments, net	(23,315)	450	—
Unrealized gain on investments, net	57,120	32,529	(111,251)
(Loss) gain on derivative instruments, net	(67,267)	12,437	220,211
General and administrative expenses	(7,372)	(7,898)	(7,109)
Other operating expenses, net	(426)	(438)	(321)
Preferred stock dividends	(1,923)	(1,923)	(1,923)
Net (loss) income to common shareholders	(43,645)	41,365	115,286
Other comprehensive income (loss)	14,793	15,283	(91,340)
Comprehensive (loss) income to common shareholders	$ (28,852)	$ 56,648	$ 23,946

Net Interest (Expense) Income for the Three Months Ended March 31, 2023 Compared to the Three Months Ended December 31, 2022

Net interest income and net interest spread declined for the three months ended March 31, 2023 compared to three months ended December 31, 2022 due to higher borrowing costs resulting from the increase in the Fed Funds rate as the Federal Reserve continues in its efforts to tame inflation. The following table presents information about our interest-earning assets and interest-bearing liabilities and their performance for the periods indicated:

($s in thousands)	Three Months Ended					
	March 31, 2023			December 31, 2022		
	Interest Income/Expense	Average Balance (1)(2)	Effective Yield/ Cost of Funds (3)(4)	Interest Income/Expense	Average Balance (1)(2)	Effective Yield/ Cost of Funds (3)(4)
Agency RMBS	$ 23,526	$ 3,204,610	2.94 %	$ 22,777	$ 3,226,876	2.82 %
Agency CMBS	884	128,625	2.80 %	943	136,303	2.93 %
CMBS IO (5)	2,542	230,033	4.04 %	3,869	247,071	5.71 %
Non-Agency MBS and other investments	40	2,700	4.98 %	31	3,140	4.18 %
MBS and loans	$ 26,992	$ 3,565,968	3.00 %	$ 27,620	$ 3,613,390	3.03 %
Cash equivalents	3,854			2,908		
Total interest income	$ 30,846			$ 30,528		
Repurchase agreement financing	(31,308)	2,713,481	(4.62)%	(24,320)	2,727,274	(3.49)%
Net interest (expense) income/net interest spread	$ (462)		(1.62)%	$ 6,208		(0.46)%

(1) Average balance for assets is calculated as a simple average of the daily amortized cost and excludes securities pending settlement if applicable.
(2) Average balance for liabilities is calculated as a simple average of the daily borrowings outstanding during the period.
(3) Effective yield is calculated by dividing interest income by the average balance of asset type outstanding during the reporting period. Unscheduled adjustments to premium/discount amortization/accretion, such as for prepayment compensation, are not annualized in this calculation.
(4) Cost of funds is calculated by dividing annualized interest expense by the total average balance of borrowings outstanding during the period with an assumption of 360 days in a year.
(5) Includes Agency and non-Agency issued securities.

While our MBS portfolio was larger as of March 31, 2023 compared to December 31, 2022, our average balance of MBS outstanding during the three months ended March 31, 2023 was lower compared to the three months ended December 31, 2022 because the majority of our purchases of MBS during the first quarter of 2023 were in March. The majority of the increase in effective yield on Agency RMBS for the three months ended March 31, 2023 compared to the three months ended December 31, 2022 is due to the addition of higher coupon MBS and lower net premium amortization as a result of slower prepayment speeds.

Adjusted Net Interest Income. Please refer to the section "Non-GAAP Financial Measures" for additional information about non-GAAP financial measures used by management to evaluate results of operations.

($s in thousands)	Three Months Ended			
	March 31, 2023		December 31, 2022	
	Amount	Rate	Amount	Rate
Net interest (expense) income/spread	$ (462)	(1.62)%	$ 6,208	(0.46)%
Add: TBA drop income (1) (2)	1,457	0.87 %	5,522	0.53 %
Adjusted net interest income/spread	$ 995	(0.75)%	$ 11,730	0.07 %

(1) TBA drop income is calculated by multiplying the notional amount of the TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.
(2) The impact of TBA drop income on adjusted net interest spread includes the implied average funding cost of TBA dollar roll transactions during the periods indicated.

Adjusted net interest income and adjusted net interest spread for the three months ended March 31, 2023 also declined from the prior quarter. As in recent periods, drop income from TBAs continues to decline as implied financing costs increase. Our TBA net spread for the three months ended March 31, 2023 was 0.18% compared to 0.85% for the three months ended December 31, 2022.

Net Interest (Expense) Income for the Three Months Ended March 31, 2023 Compared to the Three Months Ended March 31, 2022

Net interest income and net interest spread declined for the three months ended March 31, 2023 compared to three months ended March 31, 2022 due to higher borrowing costs resulting from the increase of 4.75% in the Fed Funds rate from March 2022 to March 2023 by the Federal Reserve. The increase in our borrowing costs has been partially offset by an increase in our average balance of investments with higher yields and our increased investment in cash equivalents. The following table presents information about our interest-earning assets and interest-bearing liabilities and their performance for the periods indicated:

	Three Months Ended March 31,					
	2023			2022		
($s in thousands)	**Interest Income/Expense**	**Average Balance (1)(2)**	**Effective Yield/ Cost of Funds (3)(4)**	**Interest Income/Expense**	**Average Balance (1)(2)**	**Effective Yield/ Cost of Funds (3)(4)**
Agency RMBS	$ 23,526	$ 3,204,610	2.94 %	$ 12,486	$ 2,740,991	1.82 %
Agency CMBS	884	128,625	2.80 %	1,292	175,322	2.89 %
CMBS IO (5)	2,542	230,033	4.04 %	3,557	286,390	4.34 %
Non-Agency MBS and other investments	40	2,700	4.98 %	92	4,925	6.35 %
MBS and loans	$ 26,992	$ 3,565,968	3.00 %	$ 17,427	$ 3,207,628	2.11 %
Cash equivalents	3,854			—		
Total interest income	$ 30,846			$ 17,427		
Repurchase agreement financing	(31,308)	2,713,481	(4.62)%	(1,748)	2,806,212	(0.25)%
Net interest (expense) income/net interest spread	$ (462)		(1.62)%	$ 15,679		1.86 %

(1) Average balance for assets is calculated as a simple average of the daily amortized cost and excludes securities pending settlement if applicable.
(2) Average balance for liabilities is calculated as a simple average of the daily borrowings outstanding during the period.
(3) Effective yield is calculated by dividing interest income by the average balance of asset type outstanding during the reporting period. Unscheduled adjustments to premium/discount amortization/accretion, such as for prepayment compensation, are not annualized in this calculation.
(4) Cost of funds is calculated by dividing annualized interest expense by the total average balance of borrowings outstanding during the period with an assumption of 360 days in a year.
(5) Includes Agency and non-Agency issued securities.

Adjusted Net Interest Income. Please refer to the section "Non-GAAP Financial Measures" for additional information about non-GAAP financial measures used by management to evaluate results of operations.

($s in thousands)	Three Months Ended March 31, 2023 Amount	Rate	2022 Amount	Rate
Net interest (expense) income/spread	$ (462)	(1.62)%	$ 15,679	1.86 %
Add: TBA drop income [(1) (2)]	1,457	0.87 %	9,728	0.22 %
Adjusted net interest income/spread	$ 995	(0.75)%	$ 25,407	2.08 %

(1) TBA drop income is calculated by multiplying the notional amount of the TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.

(2) The impact of TBA drop income on adjusted net interest spread includes the implied average funding cost of TBA dollar roll transactions during the periods indicated.

Adjusted net interest income and adjusted net interest spread for the three months ended March 31, 2023 is significantly lower compared to the three months ended March 31, 2022 due to the higher repurchase agreement financing costs mentioned above as well as lower drop income from TBAs. Our TBA net spread for the three months ended March 31, 2023 was 0.18% compared to 2.47% for the three months ended March 31, 2022. The decline in TBA net spread is due primarily to higher implied financing rates. For the three months ended March 31, 2022, our TBA dollar roll transactions had a negative implied financing rate of (0.25)% compared to an implied financing rate of 4.62% for the three months ended March 31, 2023.

Gains (Losses) on Investments and Derivative Instruments

The following tables provide details on realized and unrealized gains and losses within our investment and interest rate hedging portfolios for the periods indicated:

($s in thousands)	Three Months Ended March 31, 2023 Realized Gain (Loss) Recognized in Net Income	Unrealized Gain (Loss) Recognized in Net Income	Unrealized Gain (Loss) Recognized in OCI	Total Change in Fair Value
Investment portfolio:				
Agency RMBS	$ (23,315)	$ 55,779	$ 11,238	$ 43,702
Agency CMBS	—	237	1,046	1,283
CMBS IO	—	1,092	2,507	3,599
Other non-Agency and loans	—	12	2	14
Subtotal	(23,315)	57,120	14,793	48,598
TBA securities [(1)]	(13,488)	56,852	—	43,364
Net loss on investments	$ (36,803)	$ 113,972	$ 14,793	$ 91,962
Interest rate hedging portfolio:				
U.S. Treasury futures	$ 88,871	$ (195,244)	$ —	$ (106,373)
Interest rate swaptions	—	—	—	—
Options on U.S. Treasury futures	152	(4,410)	—	(4,258)
Net gain on interest rate hedges	$ 89,023	$ (199,654)	$ —	$ (110,631)
Total net gain (loss)	$ 52,220	$ (85,682)	$ 14,793	$ (18,669)

($s in thousands)	Three Months Ended December 31, 2022 Realized Gain (Loss) Recognized in Net Income	Unrealized Gain (Loss) Recognized in Net Income	Unrealized Gain (Loss) Recognized in OCI	Total Change in Fair Value
Investment portfolio:				
Agency RMBS	$ 450	$ 32,194	$ 15,150	$ 47,794
Agency CMBS	—	263	(303)	(40)
CMBS IO	—	(51)	443	392
Other non-Agency and loans	—	123	(7)	116
Subtotal	450	32,529	15,283	48,262
TBA securities [1]	(57,112)	67,499	—	10,387
Net loss on investments	$ (56,662)	$ 100,028	$ 15,283	$ 58,649
Interest rate hedging portfolio:				
U.S. Treasury futures	$ 207,261	$ (204,150)	$ —	$ 3,111
Options on U.S. Treasury futures	(2,487)	1,426	—	(1,061)
Net gain on interest rate hedges	$ 204,774	$ (202,724)	$ —	$ 2,050
Total net gain (loss)	$ 148,112	$ (102,696)	$ 15,283	$ 60,699

($s in thousands)	Three Months Ended March 31, 2022 Realized Gain (Loss) Recognized in Net Income	Unrealized Gain (Loss) Recognized in Net Income	Unrealized Gain (Loss) Recognized in OCI	Total Change in Fair Value
Investment portfolio:				
Agency RMBS	$ —	$ (110,201)	$ (73,034)	$ (183,235)
Agency CMBS	—	—	(8,679)	(8,679)
CMBS IO	—	(1,130)	(9,591)	(10,721)
Other non-Agency and loans	—	80	(36)	44
Subtotal	—	(111,251)	(91,340)	(202,591)
TBA securities [1]	(86,455)	(7,706)	—	(94,161)
Net loss on investments	$ (86,455)	$ (118,957)	$ (91,340)	$ (296,752)
Interest rate hedging portfolio:				
U.S. Treasury futures	$ 85,984	$ 202,950	$ —	$ 288,934
Interest rate swaptions	—	25,438	—	25,438
Options on U.S. Treasury futures	—	—	—	—
Net gain on interest rate hedges	$ 85,984	$ 228,388	$ —	$ 314,372
Total net gain (loss)	$ (471)	$ 109,431	$ (91,340)	$ 17,620

(1) Realized and unrealized gains (losses) on TBA securities are recorded within "gain (loss) on derivative instruments, net" on the Company's consolidated statements of comprehensive income.

As discussed in Executive Overview, spread widening during the first quarter of 2023 partially offset the gains in fair value of the investment portfolio resulting from the decline in the 10-year U.S. Treasury rate. The losses on our interest rate hedges resulting from the decline in the 10-year U.S. Treasury rate exceeded the net gains on our investment portfolio by $(18.7) million. Conversely, for the three months ended December 31, 2022, our investment portfolio benefited from spread tightening, and as a result our investment portfolio outperformed our interest rate hedges by $60.7 million. For the three months ended March 31, 2022, our interest rate hedges outperformed our investment portfolio despite increasing interest rates and spread widening experienced during that period.

The majority of realized gains on our interest rate hedges of $89.0 million during the three months ended March 31, 2023 will not be recognized in taxable income for 2023. For additional information, please refer to "Executive Overview" and "Liquidity and Capital Resources-Dividends" within this Item 2.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2023 declined $0.5 million compared to the three months ended December 31, 2022 due to lower legal and consulting expenses. General and administrative expenses for the three months ended March 31, 2023 increased $0.3 million compared to the three months ended March 31, 2022 due primarily to higher share-based compensation expense.

Non-GAAP Financial Measures

In evaluating the Company's financial and operating performance, management considers book value per common share, total economic return (loss) to common shareholders, and other operating results presented in accordance with GAAP as well as certain non-GAAP financial measures, which include the following: earnings available for distribution ("EAD") to common shareholders (including per common share), adjusted net interest income and the related metric adjusted net interest spread. Management believes these non-GAAP financial measures may be useful to investors because they are viewed by management as a measure of the investment portfolio's return based on the effective yield of its investments, net of financing costs and, with respect to EAD, net of other normal recurring operating income/expenses. Drop income generated by TBA dollar roll positions, which is included in "gain (loss) on derivatives instruments, net" on the Company's consolidated statements of comprehensive income, is included in these non-GAAP financial measures because management views drop income as the economic equivalent of net interest income (interest income less implied financing cost) on the underlying Agency security from trade date to settlement date.

However, these non-GAAP financial measures are not a substitute for GAAP earnings and may not be comparable to similarly titled measures of other REITs because they may not be calculated in the same manner. Furthermore, though EAD is one of several factors our management considers in determining the appropriate level of distributions to common shareholders, it should not be utilized in isolation, and it is not an accurate indication of the Company's REIT taxable income or its distribution requirements in accordance with the Tax Code.

Reconciliations of EAD to common shareholders and adjusted net interest income to the related GAAP financial measures are provided below.

	Three Months Ended		
Reconciliations of GAAP to Non-GAAP Financial Measures:	**March 31, 2023**	**December 31, 2022**	**March 31, 2022**
($s in thousands except per share data)			
Comprehensive (loss) income to common shareholders	$ (28,852)	$ 56,648	$ 23,946
Less:			
Change in fair value of investments [(1)]	(48,599)	(48,262)	202,591
Change in fair value of derivative instruments, net [(2)]	68,725	(6,915)	(210,483)
EAD to common shareholders	$ (8,726)	$ 1,471	$ 16,054
Average common shares outstanding	53,823,866	48,541,033	36,725,365
EAD per common share	$ (0.16)	$ 0.03	$ 0.44
Net interest income	$ (462)	$ 6,208	$ 15,679
TBA drop income [(3)]	1,457	5,522	9,728
Adjusted net interest income	$ 995	$ 11,730	$ 25,407
General and administrative expenses	(7,372)	(7,898)	(321)
Other operating expense, net	(426)	(438)	(7,109)
Preferred stock dividends	(1,923)	(1,923)	(1,923)
EAD to common shareholders	$ (8,726)	$ 1,471	$ 16,054
Adjusted net interest spread [(4)]	(0.75)%	0.07 %	2.08 %

(1) Amount includes realized and unrealized gains and losses recorded in net income and other comprehensive income due to changes in the fair value of the Company's MBS and other investments.

(2) Amount includes unrealized gains and losses from changes in fair value of derivatives and realized gains and losses on terminated derivatives and excludes TBA drop income.

(3) TBA drop income is calculated by multiplying the notional amount of the TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.

(4) The reconciliation for adjusted net interest spread to net interest spread is shown in "Results of Operations - Adjusted Net Interest Income".

We primarily use U.S. Treasury futures to hedge the impact of increasing interest rates on our borrowing costs and the fair value of our investments. In the past, we used interest rate swaps to hedge interest rate risk and included the net periodic interest benefit/cost of those instruments in each of the non-GAAP measures mentioned above. Management is using U.S. Treasury futures instead of interest rate swaps because U.S. Treasury futures generally have lower margin requirements and offer more liquidity and flexibility in the current rapidly changing interest rate environment. The Company's realized gains on its U.S. Treasury futures as well as other interest rate hedges are included in GAAP earnings, but are not included in EAD or adjusted net interest income. Furthermore, because these U.S. Treasury futures and other derivative instruments are designated as hedges for tax purposes, the realized gains are not distributable until amortized into REIT taxable income over the period originally hedged. Additional information regarding the expected impact of deferred tax hedge amortization on our estimated REIT taxable income is discussed in "Executive Overview" and "Liquidity and Capital Resources."

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity include borrowings under repurchase arrangements and monthly principal and interest payments we receive on our investments. Additional sources may also include proceeds from the sale of investments, equity offerings, and net payments received from counterparties for derivative instruments. We use our liquidity to purchase investments, to pay amounts due on our repurchase agreement borrowings, and to pay our operating expenses and dividends on our common and preferred stock. We also use our liquidity to meet margin

requirements for our repurchase agreements and derivative transactions, including TBA contracts, under the terms of the related agreements. We may also periodically use liquidity to repurchase shares of the Company's stock.

Our liquidity fluctuates based on our investment activities, our leverage, capital raising activities, and changes in the fair value of our investments and derivative instruments. Our most liquid assets include unrestricted cash and cash equivalents and unencumbered Agency RMBS, CMBS, and CMBS IO. As of March 31, 2023, our most liquid assets were $554.2 million compared to $632.3 million as of December 31, 2022. We are continuing to maintain higher levels of available liquidity to protect our book value and to provide us greater financial flexibility against market volatility, which we believe is likely to continue for the near-term, especially given potential risk events on the horizon, such as the Federal Reserve's quantitative tightening measures, the pending deadline to raise U.S. debt ceiling, the impact on global markets stemming from global central bank policies, and the war between Russia and Ukraine.

We continuously assess the adequacy of our liquidity under various scenarios based on changes in the fair value of our investments and derivative instruments due to market factors such as changes in the absolute level of interest rates and the shape of the yield curve, credit spreads, lender haircuts, and prepayment speeds, which in turn have an impact on derivative margin requirements. In performing these analyses, we will also consider the current state of the fixed income markets and the repurchase agreement markets in order to determine if market forces such as supply-demand imbalances or structural changes to these markets could change the liquidity of MBS or the availability of financing. We also communicate frequently with our counterparties. We have not experienced any material changes in the terms of our repurchase agreements with our counterparties, and they have not indicated to us any concerns regarding access to liquidity.

Our perception of the liquidity of our investments and market conditions significantly influences our targeted leverage. In general, our leverage will increase if we view the risk-reward opportunity of higher leverage on our capital outweighs the risk to our liquidity and book value. Our leverage, which we calculate using total liabilities plus the cost basis of TBA long positions, was 7.8 times shareholders' equity as of March 31, 2023. We include the cost basis of our TBA securities in evaluating our leverage because it is possible under certain market conditions that it may be uneconomical for us to roll a TBA long position into future months, which may result in us having to take physical delivery of the underlying securities and use cash or other financing sources to fund our total purchase commitment. Leverage based on repurchase agreement amounts outstanding was 3.4 times shareholders' equity as of March 31, 2023.

Our repurchase agreement borrowings are principally uncommitted with terms renewable at the discretion of our lenders and generally have original terms to maturity of overnight to six months, though in some instances we may enter into longer-dated maturities depending on market conditions. We seek to maintain unused capacity under our existing repurchase agreement credit lines with multiple counterparties, which helps protect us in the event of a counterparty's failure to renew existing repurchase agreements. As part of our continuous evaluation of counterparty risk, we maintain our highest counterparty exposures with broker dealer subsidiaries of regulated financial institutions or primary dealers.

The amount outstanding for our repurchase agreement borrowings will typically fluctuate in any given period as it is dependent upon a number of factors, but particularly the extent to which we are active in buying and selling securities, including the volume of activity in dollar roll transactions versus buying specified pools. The following table presents information regarding the balances of our repurchase agreement borrowings as of and for the periods indicated:

	Repurchase Agreements		
($s in thousands)	**Balance Outstanding As of Quarter End**	**Average Balance Outstanding For the Quarter Ended**	**Maximum Balance Outstanding During the Quarter Ended**
March 31, 2023	$ 2,937,124	$ 2,713,481	$ 2,959,263
December 31, 2022	2,644,405	2,727,274	3,072,483
September 30, 2022	2,991,876	2,398,268	3,082,138
June 30, 2022	2,202,648	2,486,217	2,949,918
March 31, 2022	2,952,802	2,806,212	2,973,475
December 31, 2021	2,849,916	2,701,191	2,873,523
September 30, 2021	2,527,065	2,529,023	2,590,185
June 30, 2021	2,321,043	2,155,200	2,415,037
March 31, 2021	2,032,089	2,158,121	2,437,163
December 31, 2020	2,437,163	2,500,639	2,594,683

For our repurchase agreement borrowings, we are required to post and maintain margin to the lender (i.e., collateral in excess of the repurchase agreement borrowing) in order to support the amount of the financing. This excess collateral is often referred to as a "haircut" and is intended to provide the lender protection against fluctuations in fair value of the collateral and/or the failure by us to repay the borrowing at maturity. Lenders have the right to change haircut requirements at maturity of the repurchase agreement and may change their haircuts based on market conditions and the perceived riskiness of the collateral pledged. If the fair value of the collateral falls below the amount required by the lender, the lender has the right to demand additional margin, or collateral.. These demands are referred to as "margin calls," and if we fail to meet any margin call, our lenders have the right to terminate the repurchase agreement and sell any collateral pledged. The weighted average haircut for our borrowings as of March 31, 2023 was consistent with prior periods, which has typically averaged less than 5% for borrowings collateralized with Agency RMBS and CMBS and between 12-16% for borrowings collateralized with CMBS IO.

The collateral we post in excess of our repurchase agreement borrowing with any counterparty is also typically referred to by us as "equity at risk," which represents the potential loss to the Company if the counterparty is unable or unwilling to return collateral securing the repurchase agreement borrowing at its maturity. The counterparties with whom we have the greatest amounts of equity at risk may vary significantly during any given period due to the short-term and generally uncommitted nature of the repurchase agreement borrowings. As of March 31, 2023, the Company had amounts outstanding under 25 different repurchase agreements and did not have more than 5% of equity at risk with any counterparty or group of related counterparties.

We have various financial and operating covenants in certain of our repurchase agreements, which we monitor and evaluate on an ongoing basis for compliance as well as for impacts these customary covenants may have on our operating and financing flexibility. Currently, we do not believe we are subject to any covenants that materially restrict our financing flexibility. We were in full compliance with our debt covenants as of March 31, 2023, and we are not aware of circumstances which could potentially result in our non-compliance in the foreseeable future.

Derivative Instruments

Derivative instruments we enter into may require us to post initial margin at inception and daily variation margin based on subsequent changes in their fair value. Daily variation margin requirements also entitle us to receive collateral from our counterparties if the value of amounts owed to us under the derivative agreement exceeds the minimum margin requirement. The collateral posted as margin by us is typically in the form of cash. As of March 31, 2023, we had cash collateral posted to our counterparties of $114.6 million under these agreements.

Collateral requirements for interest rate derivative instruments are typically governed by the central clearing exchange and the associated futures commission merchant, which may establish margin requirements in excess of the

clearing exchange. Collateral requirements for our TBA contracts are governed by the Mortgage-Backed Securities Division ("MBSD") of the Fixed Income Clearing Corporation and, if applicable, by our third-party brokerage agreements, which may establish margin levels in excess of the MBSD. Our TBA contracts, which are subject to master securities forward transaction agreements published by the Securities Industry and Financial Markets Association as well as supplemental terms and conditions with each counterparty, generally provide that valuations for our TBA contracts and any pledged collateral are to be obtained from a generally recognized source agreed to by both parties. However, in certain circumstances, our counterparties have the sole discretion to determine the value of the TBA contract and any pledged collateral. In such instances, our counterparties are required to act in good faith in making determinations of value. In the event of a margin call, we must generally provide additional collateral on the same business day.

Dividends

As a REIT, we are required to distribute to our shareholders amounts equal to at least 90% of our REIT taxable income for each taxable year after certain deductions. When declaring dividends, our Board of Directors considers the Company's taxable income, the REIT distribution requirements of the Tax Code, financial performance measures, and maintaining compliance with dividend requirements of the Series C Preferred Stock, along with other factors that the Board of Directors may deem relevant from time to time.

Currently, we are primarily using U.S. Treasury futures to hedge the impact of increasing interest rates on our financing costs and fair value of our investments. Realized and unrealized gains (losses) on these derivative instruments are included in GAAP earnings, but are not included in EAD to common shareholders and are not factored into our repurchase agreement borrowing cost or net interest spread. Furthermore, because we designate these derivative instruments as interest rate hedges for tax purposes, realized gains and losses recognized in GAAP net income are generally not recognized in REIT taxable income until future periods. The following table provides the projected amortization of our net deferred tax hedge gains as of March 31, 2023 that we expect to be recognized as taxable income over the periods indicated:

Period of Recognition for Remaining Hedge Gains, Net		**March 31, 2023**
		($ in thousands)
Second quarter 2023	$	20,624
Third quarter 2023		20,658
Fourth quarter 2023		20,749
Fiscal year 2024		85,219
Fiscal year 2025 and thereafter		618,778
	$	766,028

As of March 31, 2023, we also had $445.4 million in capital loss carryforwards, the majority of which expire in 2027, and NOL carryforwards of $9.3 million, which will expire over the next 3 years. Due to these amounts and other temporary and permanent differences between GAAP net income and REIT taxable income coupled with the degree of uncertainty about the trajectory of interest rates, we cannot reasonably estimate how much the deferred tax hedge gains to be recognized will impact our dividend declarations during 2023 or in any given year.

We generally fund our dividend distributions through our cash flows from operations. If we make dividend distributions in excess of our operating cash flows during the period, whether for purposes of meeting our REIT distribution requirements or other reasons, those distributions are generally funded either through our existing cash balances or through the return of principal from our investments (either through repayment or sale). Please refer to "Operating and Regulatory Structure" within Part I, Item 1, "Business" as well as Part I, Item 1A, "Risk Factors" of our 2022 Form 10-K for additional important information regarding dividends declared on our taxable income.

RECENT ACCOUNTING PRONOUNCEMENTS

There were no accounting pronouncements issued during the three months ended March 31, 2023 that are expected to have a material impact on the Company's financial condition or results of operations. Please refer to Note 1 of the Notes to the Consolidated Financial Statements contained within Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of our financial condition and results of operations are based in large part upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. We base these estimates and judgments on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual results, however, may differ from the estimated amounts we have recorded.

Critical accounting estimates are defined as those that require management's most difficult, subjective or complex judgments, and which may result in materially different results under different assumptions and conditions. Our critical accounting estimates are discussed in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2022 Form 10-K under "Critical Accounting Estimates." There have been no significant changes in our critical accounting estimates during the three months ended March 31, 2023.

FORWARD-LOOKING STATEMENTS

Certain written statements in this Quarterly Report on Form 10-Q that are not historical facts constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act, as amended, and Section 21E of the Exchange Act. Statements in this report addressing expectations, assumptions, beliefs, projections, future plans and strategies, future events, developments that we expect or anticipate will occur in the future, and future operating results, capital management, and dividend policy are forward-looking statements. Forward-looking statements are based upon management's beliefs, assumptions, and expectations as of the date of this report regarding future events and operating performance, taking into account all information currently available to us, and are applicable only as of the date of this report. Forward-looking statements generally can be identified by use of words such as "believe," "expect," "anticipate," "estimate," "plan," "may," "will," "intend," "should," "could" or similar expressions. We caution readers not to place undue reliance on our forward-looking statements, which are not historical facts and may be based on projections, assumptions, expectations, and anticipated events that do not materialize. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statement whether as a result of new information, future events, or otherwise.

Forward-looking statements in this Quarterly Report on Form 10-Q may include, but are not limited to statements about:

- Our business and investment strategy including our ability to generate acceptable risk-adjusted returns and our target investment allocations, and our views on the future performance of MBS and other investments;
- Our views on the macroeconomic environment, monetary and fiscal policy, and conditions in the investment, credit, interest rate and derivatives markets;
- Our views on inflation, market interest rates and market spreads;

- Our views on the effect of actual or proposed actions of the Federal Reserve or other central banks with respect to monetary policy (including the targeted Fed Funds rate), and the potential impact of these actions on interest rates, borrowing costs, inflation or unemployment;
- The effect of regulatory initiatives of the Federal Reserve, the Federal Housing Finance Agency, other financial regulators, and other central banks;
- Our financing strategy including our target leverage ratios, our use of TBA dollar roll transactions, and anticipated trends in financing costs including TBA dollar roll transaction costs, and our hedging strategy

including changes to the derivative instruments to which we are a party, and changes to government regulation of hedging instruments and our use of these instruments;

- Our investment portfolio composition and target investments;
- Our investment portfolio performance, including the fair value, yields, and forecasted prepayment speeds of our investments;
- Our liquidity and ability to access financing, and the anticipated availability and cost of financing;
- Our capital stock activity including the impact of stock issuances and repurchases;
- The amount, timing, and funding of future dividends;
- Our use of our tax NOL carryforward and other tax loss carryforwards;
- Future competition for, and availability of, investments, financing and capital;
- Estimates of future interest expenses, including related to the Company's repurchase agreements and derivative instruments;
- The status and effect of legislative reforms and regulatory rule-making or review processes, and the status of reform efforts and other business developments in the repurchase agreement financing market;
- Market, industry and economic trends, and how these trends and related economic data may impact the behavior of market participants and financial regulators;
- The impact of recent bank failures, potential new regulations and the potential for other bank failures this year:
- The impact of debt ceiling negotiations on interest rates, spreads, the U.S. Treasury market as well as the impact more broadly on fixed income and equity markets:
- Uncertainties regarding the war between Russia and the Ukraine and the related impacts on macroeconomic conditions, including, among other things, interest rates;
- The financial position and credit worthiness of the depository institutions in which the Company's MBS and cash deposits are held;
- The impact of applicable tax and accounting requirements on us including our tax treatment of derivative instruments such as TBAs, interest rate swaps, options and futures;
- Our future compliance with covenants in our master repurchase agreements, ISDA agreements, and debt covenants in our other contractual agreements;
- Our reliance on a single service provider of our trading, portfolio management, risk reporting and accounting services systems;
- The implementation in a timely and cost-effective manner of our operating platform, which includes trading, portfolio management, risk reporting, and accounting services systems, and the anticipated benefits thereof; and
- Possible future effects of the COVID-19 pandemic.

Forward-looking statements are inherently subject to risks, uncertainties and other factors that could cause our actual results to differ materially from historical results or from any results expressed or implied by such forward-looking statements. Not all of these risks and other factors are known to us. New risks and uncertainties arise over time, and it is not possible to predict those events 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 or other factors. If such a risk or other factor materializes in future periods, our business, financial condition, liquidity and results of operations may vary materially from those expressed or implied in our forward-looking statements.

While it is not possible to identify all factors that may cause actual results to differ from historical results or from any results expressed or implied by forward-looking statements, or that may cause our projections, assumptions, expectations or beliefs to change, some of those factors include the following:

- the risks and uncertainties referenced in this Quarterly Report on Form 10-Q, especially those incorporated by reference into Part II, Item 1A, "Risk Factors,";
- our ability to find suitable reinvestment opportunities;
- changes in domestic economic conditions;
- geopolitical events, such as terrorism, war or other military conflict, including increased uncertainty regarding the war between Russia and the Ukraine and the related impact on macroeconomic conditions as a result of such conflict;

- changes in interest rates and credit spreads, including the repricing of interest-earning assets and interest-bearing liabilities;
- our investment portfolio performance particularly as it relates to cash flow, prepayment rates and credit performance;
- the impact on markets and asset prices from changes in the Federal Reserve's policies regarding the purchases of Agency RMBS, Agency CMBS, and U.S. Treasuries;
- actual or anticipated changes in Federal Reserve monetary policy or the monetary policy of other central banks;
- adverse reactions in U.S. financial markets related to actions of foreign central banks or the economic performance of foreign economies including in particular China, Japan, the European Union, and the United Kingdom;
- uncertainty concerning the long-term fiscal health and stability of the United States;
- the cost and availability of financing, including the future availability of financing due to changes to regulation of, and capital requirements imposed upon, financial institutions;
- the cost and availability of new equity capital;
- changes in our leverage and use of leverage;
- changes to our investment strategy, operating policies, dividend policy or asset allocations;
- the quality of performance of third-party service providers, including our sole third-party service provider for our critical operations and trade functions;
- the loss or unavailability of our third-party service provider's service and technology that supports critical functions of our business related to our trading and borrowing activities due to outages, interruptions, or other failures;
- the level of defaults by borrowers on loans underlying MBS;
- changes in our industry;
- increased competition;
- changes in government regulations affecting our business;
- changes or volatility in the repurchase agreement financing markets and other credit markets;
- changes to the market for interest rate swaps and other derivative instruments, including changes to margin requirements on derivative instruments;
- uncertainty regarding continued government support of the U.S. financial system and U.S. housing and real estate markets, or to reform the U.S. housing finance system including the resolution of the conservatorship of Fannie Mae and Freddie Mac;
- the composition of the Board of Governors of the Federal Reserve;
- the political environment in the U.S.;
- systems failures or cybersecurity incidents; and
- exposure to current and future claims and litigation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to losses resulting from changes in market factors. Our business strategy exposes us to a variety of market risks, including interest rate, spread, prepayment, credit, liquidity, and reinvestment risks. These risks can and do cause fluctuations in our liquidity, comprehensive income and book value as discussed below.

Interest Rate Risk

Investing in interest-rate sensitive investments such as MBS and TBA securities subjects us to interest rate risk. Interest rate risk results from investing in securities that have a fixed coupon or a floating coupon that may not immediately adjust for changes in interest rates. Interest rate risk also results from the mismatch between the duration of our assets versus the duration of our liabilities and hedges. The amount of the impact will depend on the composition of our portfolio, our hedging strategy, the effectiveness of our hedging instruments as well as the magnitude and the duration of the change in interest rates.

We manage interest rate risk within tolerances set by our Board of Directors. We use interest rate hedging instruments to mitigate the impact of changing interest rates on the market value of our assets and on our interest expense from repurchase agreements used to finance our investments. Our hedging methods are based on many factors, including, but not limited to, our estimates with regard to future interest rates and expected levels of prepayments of our assets. If prepayments are slower or faster than assumed, the maturity of our investments will also differ from our expectations, which could reduce the effectiveness of our hedging strategies and may cause losses that adversely affect our cash flow. Estimates of prepayment speeds can vary significantly by investor for the same security, and therefore estimates of security and portfolio duration can vary significantly between market participants.

We continuously monitor market conditions, economic conditions, interest rates and other market activity and frequently adjust the composition of our investments and hedges throughout any given period. As such, the projections for changes in market value provided below are limited in usefulness because the modeling assumes no changes to the composition of our investment portfolio or hedging instruments as of the dates indicated. Changes in types of our investments, the returns earned on these investments, future interest rates, credit spreads, the shape of the yield curve, the availability of financing, and/or the mix of our investments and financings including derivative instruments may cause actual results to differ significantly from the modeled results shown in the tables below. There can be no assurance that assumed events used to model the results shown below will occur, or that other events will not occur, that will affect the outcomes; therefore, the modeled results shown in the tables below and all related disclosures constitute forward-looking statements.

Management considers changes in the shape of the interest rate curves in assessing and managing portfolio interest rate risk on the market value of its investments and common equity. Because interest rates do not typically move in a parallel fashion from period to period (as can be seen by the graph for U.S. Treasury rates in Item 2, "Executive Overview"), the tables below show the projected sensitivity of the market value of our financial instruments and the percentage change in shareholders' equity assuming instantaneous parallel shifts and non-parallel shifts in market interest rates.

	March 31, 2023							
	Parallel Decrease in Interest Rates of				Parallel Increase in Interest Rates of			
	100 Basis Points		50 Basis Points		50 Basis Points		100 Basis Points	
Type of Instrument (1)	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity
RMBS	2.4 %	22.6 %	1.2 %	11.5 %	(1.2)%	(11.7)%	(2.5)%	(23.5)%
CMBS	0.1 %	0.5 %	0.03 %	0.3 %	(0.03)%	(0.3)%	(0.1)%	(0.5)%
CMBS IO	0.1 %	0.7 %	0.04 %	0.3 %	(0.04)%	(0.3)%	(0.1)%	(0.7)%
TBAs	1.5 %	13.7 %	0.8 %	7.9 %	(1.1)%	(10.2)%	(2.3)%	(22.2)%
Interest rate hedges	(5.1)%	(47.7)%	(2.5)%	(23.5)%	2.5 %	23.2 %	4.9 %	46.1 %
Total	(1.0)%	(10.2)%	(0.4)%	(3.5)%	0.1 %	0.7 %	(0.1)%	(0.8)%

	December 31, 2022	
	Parallel Decrease in Interest Rates of	Parallel Increase in Interest Rates of

Type of Instrument [1]	100 Basis Points		50 Basis Points		50 Basis Points		100 Basis Points	
	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity
RMBS	2.8 %	20.9 %	1.4 %	10.6 %	(1.4)%	(10.6)%	(2.8)%	(21.0)%
CMBS	0.1 %	0.5 %	0.04 %	0.3 %	(0.03)%	(0.3)%	(0.1)%	(0.5)%
CMBS IO	0.1 %	0.7 %	0.05 %	0.4 %	(0.05)%	(0.4)%	(0.1)%	(0.7)%
TBAs	2.0 %	15.2 %	1.1 %	8.2 %	(1.2)%	(9.1)%	(2.5)%	(18.9)%
Interest rate hedges	(5.6)%	(41.3)%	(2.8)%	(20.5)%	2.7 %	20.2 %	5.4 %	40.1 %
Total	(0.6)%	(4.0)%	(0.2)%	(1.0)%	— %	(0.2)%	(0.1)%	(1.0)%

Non-Parallel Shifts		March 31, 2023		December 31, 2022	
Basis Point Change in 2-year UST	Basis Point Change in 10-year UST	% of Market Value [1]	% of Common Equity	% of Market Value [1]	% of Common Equity
+25	0	0.2 %	1.7 %	0.2 %	1.7 %
+25	+50	— %	— %	(0.1)%	(1.0)%
+50	+25	0.1 %	0.9 %	0.1 %	0.6 %
+50	+100	(0.2)%	(2.2)%	(0.4)%	(2.9)%
0	-25	(0.1)%	(0.7)%	0.1 %	0.4 %
-10	-50	(0.3)%	(2.4)%	0.01 %	0.1 %
-25	-75	(0.6)%	(5.7)%	(0.2)%	(1.4)%

(1) Includes changes in market value of our investments and derivative instruments, including TBA securities, but excludes changes in market value of our financings which are not carried at fair value on our balance sheet due to their short-term maturities. The projections for market value do not assume any change in credit spreads.

During the first quarter of 2023, we shifted our investment portfolio into higher coupons, moving a portion of our 4.0% TBAs into 5.0% and 5.5% as well as adding higher coupon Agency RMBS as spreads widened. We largely maintained our aggregate duration position, but the addition of higher coupon assets increased our convexity exposure, which means our higher coupon portfolio at March 31, 2023 is projected to experience greater declines in price relative to our portfolio as of December 31, 2022 should interest rates fall.

Spread Risk

Spread risk is the risk of loss from an increase in the market spread between the yield on an investment versus its benchmark index. Changes in market spreads represent the market's valuation of the perceived riskiness of an asset relative to risk-free rates. Widening spreads reduce the market value of our investments as market participants require additional yield to hold riskier assets. Market spreads could change based on macroeconomic or systemic factors as well as the factors specific to a particular security such as prepayment performance or credit performance. Other factors that could impact credit spreads include technical issues such as supply and demand for a particular type of security or Federal Reserve monetary policy. We do not hedge spread risk given the complexity of hedging credit spreads and in our opinion, the lack of liquid instruments available to use as hedges.

Fluctuations in spreads typically vary based on the type of investment. Sensitivity to changes in market spreads is derived from models that are dependent on various assumptions, and actual changes in market value in response to changes in market spreads could differ materially from the projected sensitivity if actual conditions differ from these assumptions.

The table below shows the projected sensitivity of the market value of our investments given the indicated change in market spreads as of the dates indicated:

	March 31, 2023		December 31, 2022	
	Percentage Change in		Percentage Change in	
Basis Point Change in Market Spreads	**Market Value of Investments [1]**	**% of Common Equity**	**Market Value of Investments [1]**	**% of Common Equity**
+20/+50 [2]	(1.1)%	(10.1)%	(1.2)%	(9.1)%
+10	(0.5)%	(5.0)%	(0.6)%	(4.5)%
-10	0.5 %	5.0 %	0.6 %	4.5 %
-20/-50 [2]	1.1 %	10.1 %	1.2 %	9.1 %

(1) Includes changes in market value of our MBS investments, including TBA securities.
(2) Assumes a 20-basis point shift in Agency and non-Agency RMBS and CMBS and a 50-basis point shift in Agency and non-Agency CMBS IO.

Prepayment Risk

Prepayment risk is the risk of an early, unscheduled return of principal on an investment. We are subject to prepayment risk from premiums paid on investments, which are amortized as a reduction in interest income using the effective interest method under GAAP. Our prepayment risk as of March 31, 2023 has declined relative to December 31, 2022 and prior periods as the majority of our MBS portfolio consists of securities owned near or below par and prepayment speeds have declined in the current higher interest rate environment.

For additional information regarding the factors that impact prepayment risk as well as how we seek to mitigate prepayment risk, please refer to Items 1A and 7A of our 2022 Form 10-K.

Credit Risk

Credit risk is the risk that we will not receive all contractual amounts due on investments that we own due to default by the borrower or due to a deficiency in proceeds from the liquidation of the collateral securing the obligation. Credit losses on loans could result in lower or negative yields on our investments.

Agency RMBS and Agency CMBS have credit risk to the extent that Fannie Mae or Freddie Mac fails to remit payments on the MBS for which they have issued a guaranty of payment. Given the improved financial performance and conservatorship of these entities and the continued support of the U.S. government, we believe this risk is low.

Agency and non-Agency CMBS IO represent the right to excess interest (and not principal) on the underlying loans. These securities are exposed to the loss of investment basis in the event a loan collateralizing the security liquidates without paying yield maintenance or prepayment penalty. This will typically occur when the underlying loan is in default and proceeds from the disposition of the loan collateral are insufficient to pay the prepayment consideration. To mitigate credit risk of investing in CMBS IO, we invest in primarily AAA-rated securities that are stripped off senior tranches, which means we receive the highest payment priority and are the last to absorb losses in the event of a shortfall in cash flows. Our Agency CMBS IO are Class X1 from Freddie Mac Series K deals from which interest continues to be advanced even in the event of an underlying default up until liquidation, which is the triggering event that disrupts the Agency CMBS IO cash flow. For non-Agency CMBS IO, the servicer and master servicer will determine if interest will continue to be advanced upon default of a loan based on their estimate of liquidation proceeds. Senior non-Agency CMBS IO may benefit from changes in contractual cash flows, including modifications or loan extensions as the senior classes can remain outstanding beyond the original maturity date.

Liquidity Risk

We have liquidity risk principally from the use of recourse repurchase agreements to finance our ownership of securities. Our repurchase agreements are renewable at the discretion of our lenders and do not contain guaranteed roll-over terms. If we fail to repay the lender at maturity, the lender has the right to immediately sell the collateral and pursue us for any shortfall if the sales proceeds are inadequate to cover the repurchase agreement financing. In addition, declines in the market value of our investments pledged as collateral for repurchase agreement borrowings and for our derivative instruments may result in counterparties initiating margin calls for additional collateral.

Our use of TBA long positions as a means of investing in and financing Agency RMBS also exposes us to liquidity risk in the event that we are unable to roll or terminate our TBA contracts prior to their settlement date. If we are unable to roll or terminate our TBA long positions, we could be required to take physical delivery of the underlying securities and settle our obligations for cash, which could negatively impact our liquidity position or force us to sell assets under adverse conditions if financing is not available to us on acceptable terms.

For further information, including how we attempt to mitigate liquidity risk and monitor our liquidity position and in particular, given the current turmoil in the banking industry, please refer to “Liquidity and Capital Resources” in Item 2 of this Quarterly Report on Form 10-Q as well as within Item 7 of our 2022 Form10-K.

Reinvestment Risk

We are subject to reinvestment risk as a result of the prepayment, repayment and sales of our investments. In order to maintain our investment portfolio size and our earnings, we need to reinvest capital received from these events into new interest-earning assets or TBA securities, and if market yields on new investments are lower, our interest income will decline. In addition, based on market conditions, our leverage, and our liquidity profile, we may decide to not reinvest the cash flows we receive from our investment portfolio even when attractive reinvestment opportunities are available, or we may decide to reinvest in assets with lower yield but greater liquidity. If we retain capital or pay dividends to return capital to shareholders rather than reinvest capital, or if we invest capital in lower yielding assets for liquidity reasons, the size of our investment portfolio and the amount of income generated by our investment portfolio will likely decline.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2023 to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended March 31, 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

To the Company's knowledge, there are no pending or threatened legal proceedings, which, in management's opinion, individually or in the aggregate, could have a material adverse effect on the Company's results of operations or financial condition.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors discussed in Part I, Item 1A, "Risk Factors" of our 2022 Form 10-K. Risks and uncertainties identified in our forward-looking statements contained in this Quarterly Report on Form 10-Q together with those previously disclosed in the 2022 Form 10-K or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See "Forward-Looking Statements" contained in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q as well as Part I, Item 1A, "Risk Factors" in our 2022 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The Company's Board of Directors has authorized a share repurchase program (the "Program") of up to $60 million of the Company's outstanding shares of common stock and up to $30 million of the Company's Series C Preferred Stock through open market transactions, privately negotiated transactions, trading plans adopted in accordance with Rule 10b5-1 under the Exchange Act, block transactions or otherwise. The Program permits the Company to repurchase shares of common stock or Series C Preferred Stock at any time or from time-to-time at management's discretion. The actual means and timing of any shares purchased under the Program will depend on a variety of factors, including, but not limited to, the market prices of the common stock and the Series C Preferred Stock, as applicable, general market and economic conditions, and applicable legal and regulatory requirements. The Program does not obligate the Company to purchase any shares, and any open market repurchases under the Program will be made in accordance with Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases. The Program is authorized through March 31, 2024, although it may be modified or terminated by the Board at any time.

The Company has not repurchased any shares of its Series C Preferred Stock. The following table summarizes repurchases of our common stock that occurred during the three months ended March 31, 2023:

Issuer Purchases of Equity Securities

	Total Number of Shares	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
				($s in thousands)
January 1 - 31, 2023	—	$ —	—	$ 60,000
February 1 - 28, 2023 (1)	20,600	13.44	—	60,000
March 1 - 31, 2023 (1)	—	—	—	60,000
	20,600	$ 13.44	—	

(1) These shares were withheld from certain employees to satisfy tax withholding obligations arising upon the vesting of restricted stock issued for share-based compensation. Accordingly, these shares are not included in the

calculation of approximate dollar value of shares that may yet be purchased under the Program authorized by the Company's Board of Directors.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Restated Articles of Incorporation, effective May 14, 2021 (incorporated herein by reference to Exhibit 3.1 to Dynex's Current Report on Form 8-K filed May 18, 2021).
3.2	Amended and Restated Bylaws, effective as of May 11, 2021 (incorporated herein by reference to Exhibit 3.2 to Dynex's Current Report on Form 8-K filed May 12, 2021).
4.1	Specimen of Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to Dynex's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019).
4.2	Specimen of 6.900% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate (incorporated herein by reference to Exhibit 4.4 to Dynex's Registration Statement on Form 8-A12B filed February 18, 2020).
4.3	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (incorporated herein by reference to Exhibit 4.4 to Dynex's Annual Report on Form 10-K for the year ended December 31, 2021).
10.1	Amendment No. 4 to the Distribution Agreement, dated February 10, 2023, by and among Dynex Capital, Inc., J.P. Morgan Securities LLC, JMP Securities LLC, JonesTrading Institutional Services LLC and BTIG, LLC (incorporated herein by reference to Exhibit 10.1 to Dynex's Current Report on Form 8-K filed February 10, 2023).
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	The following materials from Dynex Capital, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023, formatted in iXBRL (Inline Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements.
104	The cover page from Dynex Capital, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023, formatted in iXBRL (Inline Extensible Business Reporting Language) (included with Exhibit 101).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DYNEX CAPITAL, INC.

Date:	April 28, 2023	/s/ Byron L. Boston
		Byron L. Boston Chief Executive Officer, Co-Chief Investment Officer, and Director (Principal Executive Officer)
Date:	April 28, 2023	/s/ Robert S. Colligan
		Robert S. Colligan Executive Vice President, Chief Financial Officer, and Secretary (Principal Financial Officer)

Exhibit 31.1

CERTIFICATIONS

I, Byron L. Boston, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dynex Capital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	April 28, 2023	/s/ Byron L. Boston
		Byron L. Boston
		Principal Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Robert S. Colligan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dynex Capital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2023

/s/ Robert S. Colligan
Robert S. Colligan
Principal Financial Officer

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 906

In connection with the Quarterly Report on Form 10-Q of Dynex Capital, Inc. (the “Company”) for the three months ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, as the Principal Executive Officer of the Company and the Principal Financial Officer of the Company, respectively, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to their knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2023

/s/ Byron L. Boston
Byron L. Boston
Principal Executive Officer

Date: April 28, 2023

/s/ Robert S. Colligan
Robert S. Colligan
Principal Financial Officer