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 September 30, 2024

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 October 24, 2024, the registrant had 79,303,524 shares outstanding of common stock, $0.01 par value, which is the registrant's only class of common stock.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2024	December 31, 2023
ASSETS	*(unaudited)*	
Cash and cash equivalents	$ 268,296	$ 119,639
Cash collateral posted to counterparties	137,296	118,225
Mortgage-backed securities (including pledged of $6,767,948 and $5,880,747, respectively), at fair value	7,327,643	6,038,948
Due from counterparties	28,973	1,313
Derivative assets	4,138	54,361
Accrued interest receivable	31,766	28,727
Other assets, net	18,062	8,537
Total assets	$ 7,816,174	$ 6,369,750
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$ 6,423,890	$ 5,381,104
Due to counterparties	167,609	95
Derivative liabilities	3,662	—
Cash collateral posted by counterparties	7,895	46,001
Accrued interest payable	48,570	53,194
Accrued dividends payable	13,684	10,320
Other liabilities	8,304	8,301
Total liabilities	6,673,614	5,499,015
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, 180,000,000 shares authorized; 79,294,324 and 57,038,247 shares issued and outstanding, respectively	793	570
Additional paid-in capital	1,677,062	1,404,431
Accumulated other comprehensive loss	(135,889)	(158,502)
Accumulated deficit	(507,249)	(483,607)
Total shareholders' equity	1,142,560	870,735
Total liabilities and shareholders' equity	$ 7,816,174	$ 6,369,750

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
INTEREST INCOME (EXPENSE)				
Interest income	$ 83,458	$ 63,271	$ 231,038	$ 136,329
Interest expense	(82,564)	(65,533)	(232,048)	(141,983)
Net interest income (expense)	894	(2,262)	(1,010)	(5,654)
OTHER GAINS (LOSSES)				
Realized loss on sales of investments, net	—	—	(1,506)	(74,916)
Unrealized gain (loss) on investments, net	192,874	(179,100)	80,873	(121,491)
(Loss) gain on derivative instruments, net	(154,064)	146,953	11,707	195,698
Total other gains (losses), net	38,810	(32,147)	91,074	(709)
EXPENSES				
Compensation and benefits	(4,534)	(4,572)	(14,994)	(11,939)
Other general and administrative	(3,737)	(3,269)	(10,799)	(10,471)
Other operating expenses	(436)	(801)	(1,459)	(1,662)
Total operating expenses	(8,707)	(8,642)	(27,252)	(24,072)
Net income (loss)	30,997	(43,051)	62,812	(30,435)
Preferred stock dividends	(1,923)	(1,923)	(5,770)	(5,770)
Net income (loss) to common shareholders	$ 29,074	$ (44,974)	$ 57,042	$ (36,205)
Other comprehensive income:				
Unrealized gain (loss) on available-for-sale investments, net	$ 41,667	$ (41,774)	$ 22,613	$ (36,424)
Total other comprehensive income (loss)	41,667	(41,774)	22,613	(36,424)
Comprehensive income (loss) to common shareholders	$ 70,741	$ (86,748)	$ 79,655	$ (72,629)
Weighted average common shares-basic	75,792,527	54,556,853	67,313,385	54,175,367
Weighted average common shares-diluted	76,366,487	54,556,853	67,808,892	54,175,367
Net income (loss) per common share-basic	$ 0.38	$ (0.82)	$ 0.85	$ (0.67)
Net income (loss) per common share-diluted	$ 0.38	$ (0.82)	$ 0.84	$ (0.67)

See accompanying notes to the unaudited consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)
($s in thousands)
For the Nine Months Ended September 30, 2024

	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, 2023	4,460,000	$ 107,843	57,038,247	$ 570	$ 1,404,431	$ (158,502)	$ (483,607)	$ 870,735
Stock issuance	—	—	7,007,448	70	86,736	—	—	86,806
Restricted stock granted, net of amortization	—	—	46,544	—	510	—	—	510
Other share-based compensation, net of amortization	—	—	111,245	1	3,759	—	—	3,760
Adjustments for tax withholding on share-based compensation	—	—	(42,553)	—	(527)	—	—	(527)
Stock issuance costs	—	—	—	—	(16)	—	—	(16)
Net income	—	—	—	—	—	—	40,118	40,118
Dividends on preferred stock	—	—	—	—	—	—	(1,923)	(1,923)
Dividends on common stock	—	—	—	—	—	—	(23,663)	(23,663)
Other comprehensive loss	—	—	—	—	—	(17,268)	—	(17,268)
Balance as of March 31, 2024	4,460,000	$ 107,843	64,160,931	$ 641	$ 1,494,893	$ (175,770)	$ (469,075)	$ 958,532
Stock issuance	—	—	10,508,777	105	124,739	—	—	124,844
Restricted stock granted, net of amortization	—	—	38,068	1	190	—	—	191
Other share-based compensation, net of amortization	—	—	—	—	724	—	—	724
Stock issuance costs	—	—	—	—	(191)	—	—	(191)
Net loss	—	—	—	—	—	—	(8,304)	(8,304)
Dividends on preferred stock	—	—	—	—	—	—	(1,923)	(1,923)
Dividends on common stock	—	—	—	—	—	—	(26,824)	(26,824)
Other comprehensive loss	—	—	—	—	—	(1,786)	—	(1,786)

Balance as of June 30, 2024	4,460,000	$ 107,843	74,707,776	$ 747	$ 1,620,355	$ (177,556)	$ (506,126)	$ 1,045,263
Stock issuance	—	—	4,543,134	45	56,196	—	—	56,241
Restricted stock granted, net of amortization	—	—	—	—	205	—	—	205
Other share-based compensation, net of amortization	—	—	77,286	1	778	—	—	779
Adjustments for tax withholding on share-based compensation	—	—	(33,872)	—	(422)			(422)
Stock issuance costs	—	—	—	—	(50)	—	—	(50)
Net income	—	—	—	—	—	—	30,997	30,997
Dividends on preferred stock	—	—	—	—	—	—	(1,923)	(1,923)
Dividends on common stock	—	—	—	—	—	—	(30,197)	(30,197)
Other comprehensive income	—	—	—	—	—	41,667	—	41,667
Balance as of September 30, 2024	4,460,000	$ 107,843	79,294,324	$ 793	$ 1,677,062	$ (135,889)	$ (507,249)	$ 1,142,560

For the Nine Months Ended September 30, 2023

	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

Stock issuance	—	—	296,600	3	3,540	—	—	3,543
Restricted stock granted, net of amortization	—	—	46,085	—	296	—	—	296
Other share-based compensation, net of amortization	—	—	—	—	833	—	—	833
Adjustments for tax withholding on share-based compensation	—	—	(15,280)	—	(169)			(169)
Stock issuance costs	—	—	—	—	(16)	—	—	(16)
Net income	—	—	—	—	—	—	54,337	54,337
Dividends on preferred stock	—	—	—	—	—	—	(1,923)	(1,923)
Dividends on common stock	—	—	—	—	—	—	(21,324)	(21,324)
Other comprehensive loss	—	—	—	—	—	(9,443)	—	(9,443)
Balance as of June 30, 2023	4,460,000	$ 107,843	54,204,319	$ 542	$ 1,365,484	$ (175,996)	$ (416,911)	$ 880,962
Stock issuance	—	—	2,351,255	24	30,340	—	—	30,364
Restricted stock granted, net of amortization	—	—	—	—	285	—	—	285
Other share-based compensation, net of amortization	—	—	—	—	1,175	—	—	1,175
Adjustments for tax withholding on share-based compensation	—	—	—	—	(16)	—	—	(16)
Stock issuance costs	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	(43,051)	(43,051)
Dividends on preferred stock	—	—	—	—	—	—	(1,923)	(1,923)
Dividends on common stock	—	—	—	—	—	—	(21,676)	(21,676)
Other comprehensive loss	—	—	—	—	—	(41,774)	—	(41,774)
Balance as of September 30, 2023	4,460,000	$ 107,843	56,555,574	$ 566	$ 1,397,268	$ (217,770)	$ (483,561)	$ 804,346

See accompanying notes to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2024	**2023**
Operating activities:		
Net income (loss)	$ 62,812	$ (30,435)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Realized loss on sales of investments, net	1,506	74,916
Unrealized (gain) loss on investments, net	(80,873)	121,491
Loss on derivative instruments, net	(11,707)	(195,698)
Amortization of investment premiums, net	38,177	58,102
Other amortization and depreciation	1,358	1,739
Share-based compensation expense	6,168	3,600
Increase in accrued interest receivable	(2,691)	(11,496)
(Decrease) increase in accrued interest payable	(4,624)	26,718
Change in other assets and liabilities, net	(10,876)	(3,308)
Net cash (used in) provided by operating activities	(750)	45,629
Investing activities:		
Purchases of investments	(1,434,612)	(3,208,774)
Principal payments received on trading securities	305,353	70,155
Principal payments received on available-for-sale investments	57,026	152,339
Proceeds from sales of trading securities	13,782	348,091
Principal payments received on mortgage loans held for investment	665	701
Net receipts on derivatives, including terminations	37,962	209,209
(Decrease) increase in cash collateral posted by counterparties	(38,106)	24,192
Net cash used in investing activities	(1,057,930)	(2,404,087)
Financing activities:		
Borrowings under repurchase agreements	45,930,308	16,345,414
Repayments of repurchase agreement borrowings	(44,887,522)	(13,987,589)
Proceeds from issuance of common stock	267,891	36,676
Cash paid for stock issuance costs	(231)	—
Payments related to tax withholding for share-based compensation	(948)	(446)
Dividends paid	(83,090)	(69,038)
Net cash provided by financing activities	1,226,408	2,325,017
Net increase (decrease) in cash, including cash posted to counterparties	167,728	(33,441)
Cash including cash posted to counterparties at beginning of period	237,864	449,877
Cash including cash posted to counterparties at end of period	$ 405,592	$ 416,436
Supplemental Disclosure of Cash Activity:		
Cash paid for interest	$ 236,672	$ 115,266

See accompanying notes to the unaudited consolidated financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Dynex Capital, Inc. (the "Company") 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 September 30, 2024, 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 statement of results for the interim period have been included. Operating results for the three and nine months ended September 30, 2024 are not necessarily indicative of the results that may be expected for any other interim periods or for the entire year ending December 31, 2024. 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, 2023 (the "2023 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 September 30, 2024.

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. The maximum exposure to loss for these VIEs is the carrying value of the MBS.

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, 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 are excluded from the calculation of diluted net income per common share for the periods presented.

Cash and Cash Equivalents

Cash and cash equivalents include 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, the Company believes the risk of loss is mitigated by the financial position, creditworthiness, and strength of the depository institutions in which those deposits are held.

Cash Collateral Posted To/By Counterparties

The Company regularly pledges and receives amounts 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.

The following table provides a reconciliation of "cash" and "cash posted to counterparties" reported on the Company's consolidated balance sheet as of September 30, 2024, that sum to the total of the same such amounts shown on the Company's consolidated statement of cash flows for the nine months ended September 30, 2024:

($s in thousands)		**September 30, 2024**
Cash and cash equivalents	$	268,296
Cash collateral posted to counterparties		137,296
Total cash including cash posted to counterparties shown on consolidated statement of cash flows	$	405,592

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. Management elected the fair value option so that GAAP net income will reflect the changes in fair value for its future purchases of MBS in a manner consistent with the presentation and timing of the changes in fair value of its derivative instruments. 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 received. 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 a pricing service. These prices are assessed for reasonableness using broker quotes and other third-party pricing services. 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.

Interest accrued between payment dates on MBS is presented separately from the Company's investment portfolio as "accrued interest receivable" on its consolidated balance sheet. The Company does not estimate an allowance for credit loss for its accrued interest receivable because the interest is generally received within 30 days and amounts not received when due are written off against interest income.

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. The repurchase facilities available to the Company are uncommitted with no guarantee of renewal.

Derivative Instruments

Derivatives are carried at fair value, and all periodic interest benefits/costs and changes in the fair value of derivative instruments, 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 or sell 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's interest rate swaps are pay-fixed, which involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the interest rate swap without exchange of the underlying notional amount. These agreements are centrally cleared through the Chicago Mercantile Exchange ("CME"), which requires the Company to post initial margin as determined by the CME, and additional variation margin is exchanged, typically in cash, for changes in the fair value of the interest rate swaps. Similar to the Company's U.S. Treasury futures, the exchange of variation margin for CME cleared swaps is legally considered to be the settlement of the derivative itself as opposed to a pledge of collateral. Accordingly, any margin excess or deficit outstanding is recorded as a receivable or payable as of the date of the Company's consolidated balance

sheets. Net periodic interest benefit/cost and changes in the fair value of these instruments is recorded in "gain(loss) on derivative instruments" until termination or expiration.

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 September 30, 2024, 58,503 common shares are available for issuance under the 2020 Plan.

The Company has issued restricted stock and RSUs, which are treated as equity awards and recorded at their fair value using the closing stock price on the grant date. Compensation expense is generally recognized over a service period specified within each award with a corresponding credit to shareholders' equity using the straight-line method until the vesting date specified within each award or until the employee becomes eligible for retirement, if earlier than the vesting date. Compensation expense for subsequent equity awards to an employee who is retirement eligible is recognized immediately upon the grant date.

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 using the straight-line method until the earlier of the vesting date specified within each award or the date the employee becomes eligible for retirement. Adjustments are made, 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 using the straight-line method until the earlier of the vesting date specified within each award or the date the employee becomes eligible for retirement, 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, which are paid in cash only upon settlement, any accrued dividend equivalent rights ("DERs") on forfeited units are reversed with a corresponding credit to "Compensation and benefits" expense.

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 September 30, 2024 or December 31, 2023.

Recently Issued Accounting Pronouncements

The Company evaluates Accounting Standards Updates ("ASU") 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.

ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" amended existing guidance to improve disclosures about a public entity's reportable segments and provide more detailed information about a reportable segment's expenses. ASU 2023-07 clarifies that an entity which has a single reportable segment is to provide all the disclosures required by Topic 280 and ASU 2023-07. The amendment is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The adoption of ASU 2023-07 is not expected to have a significant impact on the Company's consolidated financial statements.

There were no other accounting pronouncements issued during the nine months ended September 30, 2024, that are applicable to the Company and 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($s in thousands)	**2024**	**2023**	**2024**	**2023**
Weighted average number of common shares outstanding - basic	75,792,527	54,556,853	67,313,385	54,175,367
Incremental common shares-unvested RSUs	182,087	—	150,151	—
Incremental common shares-unvested PSUs	391,873	—	345,356	—
Weighted average number of common shares outstanding - diluted	76,366,487	54,556,853	67,808,892	54,175,367
Net income (loss) to common shareholders	$ 29,074	$ (44,974)	$ 57,042	$ (36,205)
Net income (loss) per common share-basic	$ 0.38	$ (0.82)	$ 0.85	$ (0.67)
Net income (loss) per common share-diluted	$ 0.38	$ (0.82)	$ 0.84	$ (0.67)

The calculation of diluted net loss per common share for the three and nine months ended September 30, 2023 excludes unvested RSUs and PSUs of 441,587 and 372,579, respectively, which 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:

	September 30, 2024			December 31, 2023		
($s in thousands)	Par Value	Amortized Cost	Fair Value	Par Value	Amortized Cost	Fair Value
Agency RMBS	$ 7,254,934	$ 7,239,866	$ 7,105,090	$ 6,022,502	$ 5,993,922	$ 5,763,532
Agency CMBS	100,957	101,169	98,026	121,293	121,799	115,595
CMBS IO [1]	n/a	127,531	124,527	n/a	167,314	159,718
Non-Agency other	—	—	—	150	150	103
Total	$ 7,355,891	$ 7,468,566	$ 7,327,643	$ 6,143,945	$ 6,283,185	$ 6,038,948

(1) The notional balance for Agency CMBS IO and non-Agency CMBS IO was $6,802,508 and $2,784,032, respectively, as of September 30, 2024, and $7,723,379 and $3,860,007, respectively, as of December 31, 2023.

	September 30, 2024			
; in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
3S measured at fair value through OCI:				
ıgency RMBS	$ 844,694	$ —	$ (131,398)	713,296
ıgency CMBS	101,169	8	(3,151)	98,026
MBS IO	90,584	1,905	(3,253)	89,236
Total	$ 1,036,447	$ 1,913	$ (137,802)	900,558
3S measured at fair value through net income:				
ıgency RMBS	$ 6,395,178	$ 98,263	$ (101,645)	6,391,794
MBS IO	36,947	2	(1,658)	35,291
Total	$ 6,432,119	$ 98,265	$ (103,303)	6,427,085

	December 31, 2023			
; in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
3S measured at fair value through OCI:				
ıgency RMBS	$ 898,429	$ —	$ (148,606)	749,814
ıgency CMBS	106,527	28	(5,159)	101,396
MBS IO	126,672	1,296	(6,014)	121,954
lon-Agency other	150	—	(47)	103
Total	$ 1,131,769	$ 1,324	$ (159,826)	973,267
3S measured at fair value through net income:				
ıgency RMBS	$ 5,095,502	$ 48,459	$ (130,243)	5,013,718
ıgency CMBS	15,272	—	(1,073)	14,199
MBS IO	40,642	2	(2,880)	37,764
Total	$ 5,151,416	$ 48,461	$ (134,196)	5,065,681

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 September 30,		Nine Months Ended September 30,	
($s in thousands)	**2024**	**2023**	**2024**	**2023**
Agency RMBS	$ 191,786	$ (177,768)	$ 78,405	$ (120,735)
Agency CMBS	—	(777)	1,073	(815)
CMBS IO	1,066	(591)	1,222	36
Other investments	22	36	173	23
Total unrealized gain (loss) on investments, net	$ 192,874	$ (179,100)	$ 80,873	$ (121,491)

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($s in thousands)	**2024**	**2023**	**2024**	**2023**
Realized losses on sales of MBS - FVO	$ —	$ —	$ (1,506)	$ (74,916)
Total realized loss on sales of investments, net	$ —	$ —	$ (1,506)	$ (74,916)

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

	September 30, 2024			December 31, 2023		
($s in thousands)	**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	$ 1,716	$ (39)	4	$ 3,926	$ (149)	4
Non-Agency MBS	562	(70)	1	1,736	(37)	8
Continuous unrealized loss position for 12 months or longer:						
Agency MBS	$ 877,215	$ (137,426)	68	$ 932,682	$ (158,651)	78
Non-Agency MBS	7,813	(267)	14	21,704	(989)	41

The unrealized losses on the Company's MBS designated as AFS were the result of rising interest rates and declines in market prices and were not credit related; therefore, the Company did not have any allowance for credit losses as of September 30, 2024 or December 31, 2023. 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 September 30, 2024 and December 31, 2023 are summarized in the following tables:

	September 30, 2024			December 31, 2023		
Collateral Type	**Balance**	**Weighted Average Rate**	**Fair Value of Collateral Pledged**	**Balance**	**Weighted Average Rate**	**Fair Value of Collateral Pledged**
($s in thousands)						
Agency RMBS	$ 6,221,024	5.39 %	$ 6,549,630	$ 5,130,438	5.59 %	$ 5,613,212
Agency CMBS	91,985	5.36 %	97,627	104,495	5.60 %	113,753
Agency CMBS IO	100,080	5.71 %	108,817	120,979	5.83 %	127,823
Non-Agency CMBS IO	10,801	6.07 %	11,873	25,192	6.25 %	25,959
Total	$ 6,423,890	5.40 %	$ 6,767,947	$ 5,381,104	5.59 %	$ 5,880,747

The Company had borrowings outstanding under 28 different repurchase agreements as of September 30, 2024, and its equity at risk did not exceed 10% with any counterparty as of that date. The Company received noncash collateral with a fair value of $21.4 million pledged by its counterparties to compensate the Company for the increase in fair value of collateral previously pledged in excess of required margin related to its repurchase agreement borrowings outstanding as of September 30, 2024. In accordance with Accounting Standards Codification ("ASC") Topic 860, the fair value of this noncash collateral is not recorded on the Company's consolidated balance sheet unless the Company re-pledges the collateral or sells the collateral in the event of default by the counterparty. The Company had not re-pledged any of the noncash collateral pledged by its counterparties as of September 30, 2024.

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:

	September 30, 2024			December 31, 2023		
Remaining Term to Maturity	**Balance**	**Weighted Average Rate**	**WAVG Original Term to Maturity**	**Balance**	**Weighted Average Rate**	**WAVG Original Term to Maturity**
($s in thousands)						
Less than 30 days	$ 4,403,523	5.39 %	59	$ 2,855,917	5.61 %	92
30 to 90 days	2,020,367	5.40 %	89	2,525,187	5.58 %	86
Total	$ 6,423,890	5.40 %	68	$ 5,381,104	5.59 %	89

The Company's accrued interest payable related to its repurchase agreement borrowings decreased to $48.6 million as of September 30, 2024 from $53.2 million as of December 31, 2023.

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 September 30, 2024.

The Company's repurchase agreements are subject to underlying agreements with master netting or similar arrangements, which provide for the right of setoff 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 September 30, 2024 and December 31, 2023:

				Gross Amount Not Offset in the Balance Sheet [1]		
($s in thousands)	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
September 30, 2024:						
Repurchase agreements	$ 6,423,890	$ —	$ 6,423,890	$ (6,423,890)	$ —	$ —
December 31, 2023:						
Repurchase agreements	$ 5,381,104	$ —	$ 5,381,104	$ (5,381,104)	$ —	$ —

(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 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 as "cash collateral posted to/by counterparties."

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 swaps, and put 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 or 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 and losses by type of derivative instrument for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Type of Derivative Instrument	**2024**	**2023**	**2024**	**2023**
($s in thousands)				
U.S. Treasury futures	$ (216,189)	$ 210,227	$ (12,169)	$ 275,073
Interest rate swaps	(10,066)	—	(10,155)	—
Put options on U.S. Treasury futures	—	6,523	—	1,055
TBA securities	72,191	(69,797)	34,031	(80,430)
(Loss) gain on derivative instruments, net	$ (154,064)	$ 146,953	$ 11,707	$ 195,698

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**	**September 30, 2024**	**December 31, 2023**
			($s in thousands)	
TBA securities	Derivative assets	Investing	$ 4,138	$ 54,361
Total derivatives assets			$ 4,138	$ 54,361
TBA securities	Derivative liabilities	Investing	$ 3,662	$ —
Total derivatives liabilities			$ 3,662	$ —

The table below presents certain information regarding the short positions in interest rate swaps the Company held as of September 30, 2024. The Company did not hold any interest rate swap agreements as of December 31, 2023.

	September 30, 2024	
	Notional Amount Long (Short)	**Weighted Average Fixed Pay Rate**
5 year interest rate swaps	$ (1,275,000)	3.42 %
7 year interest rate swaps	(260,000)	3.63 %
	$ (1,535,000)	3.46 %

Because the daily margin exchanged for the Company's U.S. Treasury futures and interest rate swaps are considered legal settlement of the derivative as opposed to a pledge of collateral, these instruments have a carrying value of $0 on the Company's consolidated balance sheets. The Company's U.S. Treasury futures were in an asset position of $5.6 million as of September 30, 2024 and a liability position of $(219.9) million as of December 31, 2023, and its interest rate swaps were in a liability position of $(10.2) million as of September 30, 2024 and $0 as of December 31, 2023. The amount of cash posted by the Company to cover required initial margin for these instruments was $137.3 million as of September 30, 2024 and $118.2 million as of December 31, 2023, which was recorded within "cash collateral posted to counterparties." The Company had a margin excess of $26.0 million as of September 30, 2024 and $1.3 million as of December 31, 2023, which was recorded within "due from counterparties."

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

($s in thousands)	September 30, 2024	December 31, 2023
Implied market value [1]	$ 1,988,180	$ 1,381,702
Implied cost basis [2]	1,987,703	1,327,341
Net carrying value [3]	$ 477	$ 54,361

(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.

Volume of Activity

The table below summarizes changes in the Company's derivative instruments for the nine months ended September 30, 2024:

Type of Derivative Instrument	Beginning Notional Amount-Long (Short)	Additions	Settlements, Terminations, or Pair-Offs	Ending Notional Amount-Long (Short)
($s in thousands)				
U.S. Treasury futures	$ (4,880,000)	$ (16,093,000)	$ 16,618,000	$ (4,355,000)
Interest rate swaps	—	(1,535,000)	—	(1,535,000)
TBA securities	1,403,000	18,699,000	(18,098,000)	2,004,000

Offsetting

The Company's derivatives are subject to underlying agreements with master netting or similar arrangements, which provide for the right of setoff 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 September 30, 2024 and December 31, 2023:

	Offsetting of Assets					
				Gross Amount Not Offset in the Balance Sheet [1]		
($s in thousands)	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
September 30, 2024						
TBA securities	$ 4,138	$ —	$ 4,138	$ (775)	$ (3,363)	$ —
Derivative assets	$ 4,138	$ —	$ 4,138	$ (775)	$ (3,363)	$ —
December 31, 2023						
TBA securities	$ 54,361	$ —	$ 54,361	$ —	$ (44,153)	$ 10,208
Derivative assets	$ 54,361	$ —	$ 54,361	$ —	$ (44,153)	$ 10,208

	Offsetting of Liabilities					
				Gross Amount Not Offset in the Balance Sheet [1]		
($s in thousands)	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
September 30, 2024						
TBA securities	$ 3,662	$ —	$ 3,662	$ (775)	$ —	$ 2,887
Derivative liabilities	$ 3,662	$ —	$ 3,662	$ (775)	$ —	$ 2,887
December 31, 2023						
TBA securities	$ —	$ —	$ —	$ —	$ —	$ —
Derivative liabilities	$ —	$ —	$ —	$ —	$ —	$ —

(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 as "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)	September 30, 2024			December 31, 2023		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
MBS	$ —	$ 7,327,643	$ —	$ —	$ 6,038,845	$ 103
TBA securities [1]	—	4,138	—	—	54,361	—
Mortgage loans	—	—	1,217	—	—	1,793
Total assets	$ —	$ 7,331,781	$ 1,217	$ —	$ 6,093,206	$ 1,896
Liabilities:						
TBA securities [1]	$ —	$ 3,662	$ —	$ —	$ —	$ —
Total liabilities	$ —	$ 3,662	$ —	$ —	$ —	$ —

(1) TBA securities are reflected on consolidated balance sheets at their implied fair value, net of implied cost basis. Please refer to Note 5 for additional information.

As of September 30, 2024, the fair value measurements for the Company's TBA securities and its 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 a pricing service. In valuing a security, the pricing service primarily uses a market approach, which uses observable prices and other relevant information that is generated by market transactions of identical or similar securities, but may use an income approach, which uses valuation techniques such as discounted cash flow modeling. The Company reviews the prices it receives from the pricing service as well as the assumptions and inputs, if any, utilized by the pricing service for reasonableness. Examples of the observable inputs and assumptions include market interest rates, credit spreads, and projected prepayment speeds, among other things. In addition, the prices received from the pricing service are assessed for reasonableness using broker quotes as well as other third-party pricing services.

As of September 30, 2024, the Company's mortgage loans held for investment are single-family mortgage loans, which were originated or purchased by the Company prior to 2000, and for which the Company has elected the fair value option. The fair value measurements for these mortgage loans are considered Level 3 because there has been no recent trading activity of similar instruments upon which their fair value can be measured. The fair value for these Level 3 assets is measured by discounting the estimated future cash flows derived from cash flow models using certain inputs such as the security's credit rating, coupon rate, estimated prepayment speeds, expected weighted average life, collateral composition, and expected credit losses as well as certain other relevant information. The Company used a constant prepayment rate assumption of 10%, default rate of 2%, loss severity of 20%, and a discount rate of 10.2% in measuring the fair value of its Level 3 assets as of September 30, 2024.

The Company's short positions in U.S. Treasury futures contracts are valued based on exchange pricing and are classified accordingly as Level 1 measurements. Interest rate swaps are valued using the daily settlement price, or fair value, determined by the clearing exchange based on a pricing model that references observable market inputs, including current benchmark rates and the forward yield curve, and thus their fair values are considered Level 2 measurements. The carrying value of the U.S. Treasury futures contracts and interest rate swaps on the Company's consolidated balance sheets is $0 because the instruments require daily margin exchanges, which are considered by the settlement agent to represent legal settlement of the contracts on a daily basis.

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 September 30, 2024. 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 July 15, 2024 to shareholders of record as of July 1, 2024.

Common Stock. During the nine months ended September 30, 2024, the Company issued 10,500,000 shares of its common stock through a public offering, resulting in proceeds of $124.5 million, net of issuance costs, and issued 11,559,359 shares of its common stock through its at-the-market ("ATM") program at an aggregate value of $143.2 million, net of broker commissions and fees. The Company declared common dividends of $0.39 on its common stock for the three months ended September 30, 2024. 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. The following table presents a rollforward of share-based awards for the periods indicated:

	Nine Months Ended September 30,			
	2024		2023	
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	104,282	$ 12.61	133,951	$ 15.22
Granted	65,668	12.56	74,017	11.27
Vested	(76,355)	12.37	(36,573)	16.75
Awards outstanding, end of period	93,595	$ 12.78	171,395	$ 13.19
Target RSUs:[(1)]				
Awards outstanding, beginning of period	394,497	$ 13.06	86,666	$ 16.57
Granted	214,755	12.50	341,044	12.55
Vested	(146,182)	13.57	(33,213)	16.96
Awards outstanding, end of period	463,070	$ 12.64	394,497	$ 13.06
Target PSUs:[(2)]				
Awards outstanding, beginning of period	276,866	$ 13.17	201,284	$ 16.60
Granted	322,132	12.50	160,277	11.97
Vested	—	—	—	—
Awards outstanding, end of period	598,998	$ 12.81	361,561	$ 14.55

(1) The number of RSUs shown represent the target number of awards. Actual number of shares 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.

(2) The number of PSUs shown represent the target number of awards. Actual number of shares that will potentially settle may range from 0% to 200% based on the achievement of the performance goals defined in each grant award.

As of September 30, 2024, the Company expects 95% of the remaining target PSUs will be settled on their vesting dates.

The Company has DERs accrued for RSUs and PSUs of $0.8 million and $1.0 million, respectively, as of September 30, 2024 compared to $0.4 million and $0.8 million, respectively, as of December 31, 2023, which is included on the Company's consolidated balance sheet within "accrued dividends payable."

Total share-based compensation expense recognized by the Company for the three and nine months ended September 30, 2024 was $1.0 million and $6.2 million compared to $1.5 million and $3.6 million for the three and nine months ended September 30, 2023. The increase in share-based compensation for the three and nine months ended September 30, 2024 is due to accelerated recognition of expense for certain stock incentive awards granted in March 2024 to retirement eligible employees. The following table discloses the Company's remaining compensation

expense related to stock awards it has granted as of September 30, 2024, which will be amortized over the period disclosed:

	September 30, 2024	
($s in thousands)	**Remaining Compensation Cost**	**WAVG Period of Recognition**
Restricted stock	$ 769	1.4 years
RSUs	3,470	2.0 years
PSUs	2,198	2.0 years
Total	$ 6,437	1.9 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, "Financial Statements and Supplementary Data" in our 2023 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.

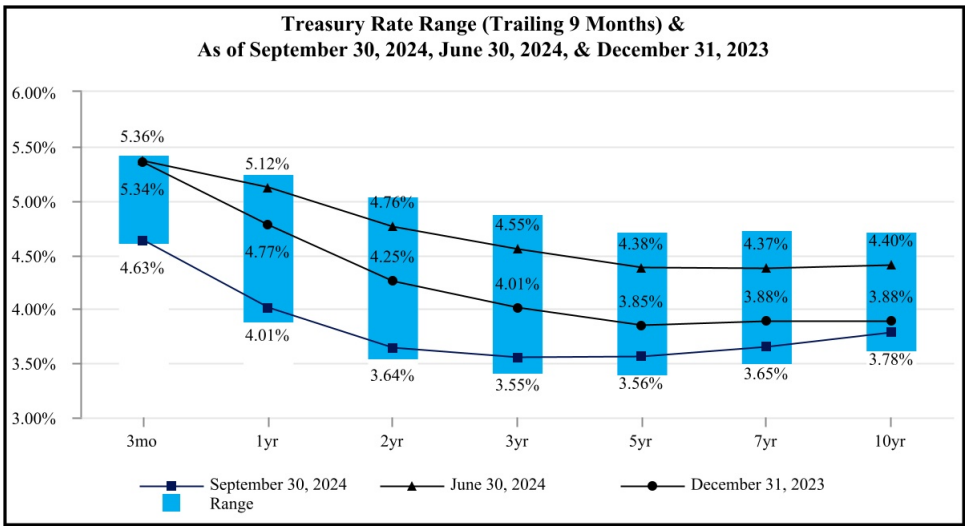
For more information about our business including our operating policies, investment philosophy and strategy, financing and hedging strategies, and other important information, please refer to Part I, Item 1, "Business" of our 2023 Form 10-K.

EXECUTIVE OVERVIEW

The headline for the third quarter of 2024 was the 50 basis point cut to the U.S. Federal Funds rate at the September Federal Open Market Committee meeting; the first rate cut since the Federal Reserve started raising rates in 2022. The rate cut was long awaited and was in reaction to weakening labor market conditions. The Federal Reserve is signaling its desire make proactive adjustments while labor markets are still generally strong and to deliver on its goal of price stability. The anticipated and actual cuts drove the 10-year U.S. Treasury down from 4.40% at the end of the second quarter of 2024 to 3.78% at the end of the third quarter. MBS spreads were broadly tighter during the third quarter of 2024, but had an upswing from mid-September through the end of the quarter.

Market Data

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



	Market Spreads as of:				
Investment Type:	**September 30, 2024**	**June 30, 2024**	**March 31, 2024**	**December 31, 2023**	**Change in Spreads YTD**
Agency RMBS: [1]					
2.0% coupon	80	86	84	76	4
2.5% coupon	80	87	84	78	2
4.0% coupon	68	78	74	74	(6)
4.5% coupon	66	73	71	73	(7)
5.0% coupon	61	67	68	69	(8)
5.5% coupon	59	68	65	66	(7)
6.0% coupon	49	65	62	60	(11)
Agency DUS (Agency CMBS)[2]	75	66	65	76	(1)
Freddie K AAA IO (Agency CMBS IO)[2]	135	150	165	180	(45)
AAA CMBS IO (Non-Agency CMBS IO)[2]	122	135	168	225	(103)

(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 Results

The Company increased book value by $0.50 per common share this quarter driven by the outperformance of MBS and TBAs over losses on the hedge book. Rates trended down for most of the quarter, and MBS spreads were broadly tighter during the third quarter, with significant performance divergence between coupons. In addition, we added $56.8 million of new capital to deploy into MBS opportunities. We added $1.5 billion of swaps during the quarter on which we received net periodic interest benefit of $4.2 million to offset financing costs.

The following table summarizes the changes in the Company's financial position during the third quarter of 2024:

($s in thousands except per share data)	Net Change in Fair Value	Components of Comprehensive Income	Common Book Value Rollforward	Per Common Share
Balance as of June 30, 2024 (1)			$ 933,763	$ 12.50
Net interest income		$ 894		
G&A and other operating expenses		(8,707)		
Preferred stock dividends		(1,923)		
Changes in fair value:				
MBS and loans	$ 234,541			
TBAs	72,191			
U.S. Treasury futures	(216,189)			
Interest rate swaps	(10,066)			
Total net change in fair value		80,477		
Comprehensive income to common shareholders			70,741	
Capital transactions:				
Net proceeds from stock issuance (2)			56,753	
Common dividends declared			(30,197)	
Balance as of September 30, 2024 (1)			$ 1,031,060	$ 13.00

(1) Amounts represent total shareholders' equity less the aggregate liquidation preference of the Company's preferred stock of $111.5 million, in thousands and on a per common share basis.

(2) Net proceeds from stock issuance include $56.2 million from the common stock ATM program and $0.5 million from amortization of share-based compensation, net of grants.

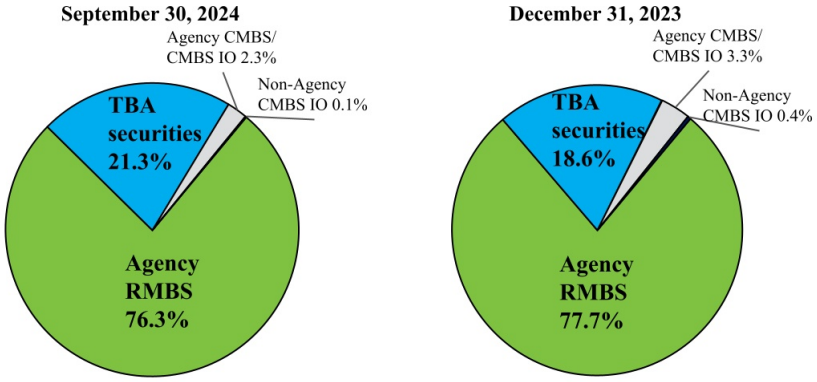
Current Outlook

Global economic conditions, geopolitical risk and the U.S. election continue to be a focus for the Company. U.S. economic growth remains modest, inflation has declined closer to the Federal Reserve's target, and monetary policy appears likely to be less restrictive. The broader investment environment remains favorable with mortgage spreads near historic wides. With a steeper yield curve, the opportunities to earn carry and experience appreciation on our bonds are growing. The yield curve shows forward financing costs declining well into 2025. We also expect the environment will be favorable for our hedging portfolio and to continue to lock in more compelling yields on our hedges as SOFR swap rates offer increasing returns. In the intermediate term, we believe equilibrium Agency RMBS spreads will be significantly tighter than market levels available today.

FINANCIAL CONDITION

Investment Portfolio

Our investment portfolio (including TBAs) as of September 30, 2024 has increased approximately 26% compared to December 31, 2023. The following charts compare the composition of our MBS portfolio including TBA securities as of the dates indicated:



We have purchased approximately $1.6 billion of Agency RMBS during the nine months ended September 30, 2024. The following tables compare our fixed-rate Agency RMBS investments, including TBA dollar roll positions, as of the dates indicated:

	September 30, 2024						
				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 [7]
30-year fixed-rate:		*($s in thousands)*					
2.0%	$ 668,416	$ 679,489	$ 559,167	48	5.60 %	6.69	4.50 %
2.5%	571,513	593,234	499,128	49	5.70 %	6.52	4.44 %
4.0%	331,722	332,220	321,575	42	8.10 %	5.49	4.48 %
4.5%	1,354,851	1,321,972	1,337,957	24	7.70 %	4.86	4.69 %
5.0%	2,062,913	2,029,005	2,074,274	18	6.40 %	3.92	4.90 %
5.5%	1,950,064	1,964,571	1,987,567	11	4.60 %	3.18	5.10 %
6.0%	315,455	319,374	325,422	10	6.60 %	2.16	5.06 %
TBA 4.0%	462,000	445,304	443,447	n/a	n/a	5.57	4.55 %
TBA 4.5%	183,000	181,058	179,819	n/a	n/a	4.51	4.75 %
TBA 5.0%	767,000	765,296	766,161	n/a	n/a	3.63	5.02 %
TBA 5.5%	592,000	596,045	598,752	n/a	n/a	2.42	5.09 %
Total	$ 9,258,934	$ 9,227,568	$ 9,093,269	22	6.10 %	4.17	4.86 %

	December 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 [7]
30-year fixed-rate:	*($s in thousands)*						
2.0%	$ 708,528	$ 720,611	$ 586,361	39	4.4 %	6.81	4.60 %
2.5%	608,580	632,343	525,018	40	4.5 %	6.62	4.59 %
4.0%	354,382	354,965	339,212	34	5.5 %	5.65	4.67 %
4.5%	1,383,019	1,350,697	1,348,108	15	5.0 %	5.08	4.88 %
5.0%	2,070,473	2,035,088	2,057,309	9	4.7 %	4.24	5.10 %
5.5%	897,520	900,218	907,524	8	5.0 %	3.58	5.29 %
TBA 4.0%	262,000	240,641	248,040	n/a	n/a	5.89	4.72 %
TBA 4.5%	223,000	210,940	216,415	n/a	n/a	4.75	4.92 %
TBA 5.0%	518,000	490,466	512,982	n/a	n/a	3.98	5.15 %
TBA 5.5%	200,000	191,926	201,047	n/a	n/a	2.81	5.36 %
TBA 6.0%	200,000	193,369	203,219	n/a	n/a	2.15	5.37 %
Total	$ 7,425,502	$ 7,321,264	$ 7,145,235	17	4.8 %	4.72	4.98 %

(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.

Less than 3% of our MBS portfolio as of September 30, 2024 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, 99.8% of the loans in K-deals are current as of August 2024. 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: 27% retail, 26% office, 17% multifamily, 11% hotel and 19% 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:

	September 30, 2024			
($s in thousands)	Amortized Cost	Fair Value	WAVG Life Remaining [1]	WAVG Market Yield [2]
Agency CMBS	$ 101,169	$ 98,026	2.9	4.44 %
Agency CMBS IO	116,006	111,774	5.8	6.59 %
Non-Agency CMBS IO	11,525	12,754	1.3	26.63 %
Total	$ 228,700	$ 222,554		

	December 31, 2023			
($s in thousands)	Amortized Cost	Fair Value	WAVG Life Remaining [1]	WAVG Market Yield [2]
Agency CMBS	$ 121,799	$ 115,595	4.1	4.74 %
Agency CMBS IO	140,824	133,302	5.9	5.19 %
Non-Agency CMBS IO	26,490	26,416	1.1	13.32 %
Total	$ 289,113	$ 275,313		

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

(2) 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 2 for additional information relating to our repurchase agreement borrowings.

Derivative Assets and Liabilities

The table below discloses details on the Company's interest rate hedges held as of September 30, 2024 compared to hedging portfolio held as of December 31, 2023:

Notional Amount Long (Short)	September 30, 2024	December 31, 2023
($s in thousands)		
30-year U.S. Treasury futures	$ (505,000)	$ (700,000)
10-year U.S. Treasury futures	(3,850,000)	(4,180,000)
5-year interest rate swaps	(260,000)	
7-year interest rate swaps	(1,275,000)	—

Please refer to Note 5 of the Notes to the Consolidated Financial Statements for details on our interest rate hedging instruments as well as "Quantitative and Qualitative Disclosures about Market Risk" in Item 3 of this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2024 Compared to the Three Months Ended June 30, 2024

The following table summarizes the results of operations for the periods discussed in this section:

	Three Months Ended	
$s in thousands	**September 30, 2024**	**June 30, 2024**
Net interest income	$ 894	$ 1,287
Realized loss on sales of investments, net	—	(1,506)
Unrealized gain (loss) on investments, net	192,874	(41,977)
(Loss) gain on derivative instruments, net	(154,064)	41,135
Operating expenses, net	(8,707)	(7,243)
Preferred stock dividends	(1,923)	(1,923)
Net income (loss) to common shareholders	29,074	(10,227)
Other comprehensive income (loss)	41,667	(1,786)
Comprehensive income (loss) to common shareholders	$ 70,741	$ (12,013)

Net Interest Income

Interest income and effective yield for the three months ended September 30, 2024 increased compared to the three months ended June 30, 2024 due primarily to the addition of higher coupon Agency RMBS. We expect this trend to continue as our higher yielding Agency RMBS comprise a larger portion of our interest income and as our lower yielding Agency RMBS continue to pay down. Our interest expense increased compared to the prior quarter due to the increase in our average balance of repurchase agreement borrowings, although our financing cost as a percentage of our average borrowing declined for the third quarter of 2024 compared to the prior quarter.

The following table presents information about our interest-earning assets and interest-bearing liabilities and their performance for the periods indicated:

	Three Months Ended					
	September 30, 2024			**June 30, 2024**		
($s in thousands)	**Interest Income/Expense**	**Average Balance [1][2]**	**Effective Yield/ Financing Cost [3][4]**	**Interest Income/Expense**	**Average Balance [1][2]**	**Effective Yield/ Financing Cost [3][4]**
Agency RMBS	$ 75,083	$ 6,627,198	4.53 %	$ 67,927	$ 6,153,663	4.42 %
Agency CMBS	770	101,771	2.96 %	792	105,321	2.97 %
CMBS IO [5]	2,902	133,172	8.20 %	2,868	146,161	7.25 %
Non-Agency MBS and other investments	17	1,298	5.05 %	19	1,437	5.00 %
MBS and loans	$ 78,772	$ 6,863,439	4.58 %	$ 71,606	$ 6,406,582	4.46 %
Cash equivalents	4,686			4,448		
Total interest income	$ 83,458			$ 76,054		
Repurchase agreement financing	(82,564)	5,943,805	(5.44) %	(74,767)	5,410,282	(5.47) %
Net interest income/net interest spread	$ 894		(0.86) %	$ 1,287		(1.01) %

(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) Financing cost 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.

In addition to lower financing costs for our repurchase agreement borrowings, we recognized a net periodic interest benefit of $4.2 million from short positions in interest rate swaps during the third quarter of 2024, which we expect will continue to partially offset our repurchase agreement financing costs in the coming months.

Gains (Losses) on Investments and Derivative Instruments

During the three months ended September 30, 2024, the fair value of our investment portfolio increased as a result of spread tightening and the decline in the 10-year U.S. Treasury rate as investors gained confidence that the Federal Reserve is on a path of lowering the Federal Funds rate. The resulting gains on our investment portfolio outpaced the losses on our interest rate hedges created by the decline in rates.

During the three months ended June 30, 2024, the 10-year U.S. Treasury rate increased 20 basis points. The impact of this rate increase on our investments was mitigated by the resulting gains on our interest rate hedges of $64.1 million. The net loss of $(2.6) million on our investments, net of our interest rate hedges, was primarily driven by spread widening on Agency RMBS versus U.S. Treasuries.

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

	Three Months Ended September 30, 2024			
($s in thousands)	**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	$ —	$ 191,786	$ 37,089	$ 228,875
Agency CMBS	—	—	1,891	1,891
CMBS IO	—	1,066	2,687	3,753
Other non-Agency and loans	—	22	—	22
Subtotal	—	192,874	41,667	234,541
TBA securities [1]	78,144	(5,953)	—	72,191
Net gain on investments	$ 78,144	$ 186,921	$ 41,667	$ 306,732
Interest rate hedging portfolio:				
U.S. Treasury futures	$ (255,997)	$ 39,808	$ —	$ (216,189)
Interest rate swaps [2]	4,162	(14,228)	—	(10,066)
Net gain (loss) on interest rate hedges	$ (251,835)	$ 25,580	$ —	$ (226,255)
Total net gain (loss)	$ (173,691)	$ 212,501	$ 41,667	$ 80,477

	Three Months Ended June 30, 2024			
($s in thousands)	**Realized Gain (Loss) Recognized in Net Income**	**Unrealized Gain (Loss) Recognized in Net Income**	**Unrealized Gain Recognized in OCI**	**Total Change in Fair Value**
Investment portfolio:				
Agency RMBS	$ —	$ (43,705)	$ (2,505)	$ (46,210)
Agency CMBS	—	1,263	414	1,677
CMBS IO	—	351	305	656
Other non-Agency and loans	—	114	—	114
Subtotal	—	(41,977)	(1,786)	(43,763)
TBA securities [1]	(22,343)	(642)	—	(22,985)
Net loss on investments	$ (22,343)	$ (42,619)	$ (1,786)	$ (66,748)
Interest rate hedging portfolio:				
U.S. Treasury futures	$ 43,961	$ 20,249	$ —	$ 64,210
Interest rate swaps [2]	17	(107)	—	(90)
Net gain on interest rate hedges	$ 43,978	$ 20,142	$ —	$ 64,120
Total net gain (loss)	$ 21,635	$ (22,477)	$ (1,786)	$ (2,628)

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

2) *Realized gain (loss) for interest rate swaps includes net periodic interest benefit earned as well as amounts recognized or incurred upon maturity or termination, if applicable, during the period indicated.*

Operating Expenses

Operating expenses for the three months ended September 30, 2024 increased $1.5 million compared to the three months ended June 30, 2024 primarily due to an increase in the Company's performance based bonus accrual for employees based on projected results for the year.

Nine Months Ended September 30, 2024 Compared to the Nine Months Ended September 30, 2023

Net Interest Expense

Net interest expense and net interest spread improved for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. Though our interest expense increased due to a higher average balance of repurchase agreement borrowings at a higher financing rate, additions of higher yielding Agency RMBS to our investment portfolio over the past year increased our interest income for the nine months ended September 30, 2024 by approximately 76% compared to the nine months ended September 30, 2023.

The following table presents information about our interest-earning assets and interest-bearing liabilities and their performance for the periods indicated:

	Nine Months Ended September 30,					
	2024			2023		
($s in thousands)	Interest Income/Expense	Average Balance [1][2]	Effective Yield/ Financing Cost [3][4]	Interest Income/Expense	Average Balance [1][2]	Effective Yield/ Financing Cost [3][4]
Agency RMBS	$ 207,291	$ 6,241,078	4.43 %	$ 113,879	$ 4,184,642	3.63 %
Agency CMBS	2,487	108,767	3.00 %	2,789	124,905	2.95 %
CMBS IO [5]	8,424	146,482	7.51 %	7,041	211,273	4.41 %
Non-Agency MBS and other investments	59	1,502	4.83 %	101	2,482	5.34 %
MBS and loans	$ 218,261	$ 6,497,829	4.47 %	$ 123,810	$ 4,523,302	3.65 %
Cash equivalents	12,777			12,519		
Total interest income	$ 231,038			$ 136,329		
Repurchase agreement financing	(232,048)	5,574,573	(5.47) %	(141,983)	3,652,320	(5.13) %
Net interest expense/net interest spread	$ (1,010)		(1.00) %	$ (5,654)		(1.48) %

(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) Financing cost 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.

Gains (Losses) on Investments and Derivative Instruments

During the nine months ended September 30, 2024, gains on our investment portfolio exceeded losses on our interest rate hedging portfolio by $115.2 million primarily because we purchased higher coupon investments during the nine months ended September 30, 2024 when spreads were wider versus spreads as of September 30, 2024.

During the nine months ended September 30, 2023, the fair value of our investment portfolio declined $(313.3) million primarily as a result of higher interest rates and significant spread widening across most asset classes. These losses were mitigated by net gains from our interest rate hedges of $276.1 million during the nine months ended September 30, 2023.

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

	Nine Months Ended September 30, 2024			
($s in thousands)	**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	$ —	$ 78,405	$ 17,207	$ 95,612
Agency CMBS	—	1,073	1,989	3,062
CMBS IO	—	1,222	3,370	4,592
Other non-Agency and loans	—	173	47	220
Subtotal	—	80,873	22,613	103,486
TBA securities [1]	87,916	(53,885)	—	34,031
Net gain on investments	$ 87,916	$ 26,988	$ 22,613	$ 137,517
Interest rate hedging portfolio:				
U.S. Treasury futures	$ (237,694)	$ 225,525	$ —	$ (12,169)
Interest rate swaps [2]	4,179	(14,334)	—	(10,155)
Net (loss) gain on interest rate hedges	$ (233,515)	$ 211,191	$ —	$ (22,324)
Total net gain (loss)	$ (145,599)	$ 238,179	$ 22,613	$ 115,193

($s in thousands)	Nine Months Ended September 30, 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	$ (74,916)	$ (120,735)	$ (37,727)	$ (233,378)
Agency CMBS	—	(815)	(1,318)	(2,133)
CMBS IO	—	36	2,619	2,655
Other non-Agency and loans	—	23	2	25
Subtotal	(74,916)	(121,491)	(36,424)	(232,831)
TBA securities (1)	(80,402)	(28)	—	(80,430)
Net loss on investments	$ (155,318)	$ (121,519)	$ (36,424)	$ (313,261)
Interest rate hedging portfolio:				
U.S. Treasury futures	$ 195,468	$ 79,605	$ —	$ 275,073
Put options on U.S. Treasury futures	1,837	(782)	—	1,055
Net gain on interest rate hedges	$ 197,305	$ 78,823	$ —	$ 276,128
Total net gain (loss)	$ 41,987	$ (42,696)	$ (36,424)	$ (37,133)

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

2) Realized gain (loss) for interest rate swaps includes net periodic interest benefit earned as well as amounts recognized or incurred upon maturity or termination, if applicable, during the period indicated.

Operating Expenses

Operating expenses for the nine months ended September 30, 2024 increased $3.2 million compared to the nine months ended September 30, 2023 primarily due to accelerated recognition of share-based compensation expense for certain stock incentive awards granted in March 2024 to a retirement eligible employee.

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 earnings available for distribution ("EAD") to common shareholders (including per common share), a non-GAAP financial measure. Management believes this non-GAAP financial measure is useful to investors because management uses it as a measure of the investment portfolio's return based on the effective yield of its investments, net of financing costs and 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 EAD 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. Management also includes periodic interest benefit/cost from its interest rate swaps, which are included in "gain (loss) on derivatives instruments, net", in EAD because interest rate swaps are used by the Company to economically hedge the impact of changing interest rates on its borrowing costs from repurchase agreements, and including periodic interest benefit/cost from interest rate swaps is a helpful indicator of the Company's total financing cost in addition to GAAP interest expense. However, 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 to certain GAAP financial measures are provided below.

Reconciliations of GAAP to Non-GAAP Financial Measures:	Three Months Ended September 30, 2024	June 30, 2024
($s in thousands except per share data)		
Comprehensive income (loss) to common shareholders	$ 70,741	$ (12,013)
Less:		
Change in fair value of investments (1)	(234,541)	45,269
Change in fair value of derivative instruments, net (2)	156,572	(41,351)
EAD to common shareholders	$ (7,228)	$ (8,095)
Average common shares outstanding	75,792,527	66,954,870
EAD per common share	$ (0.10)	$ (0.12)
Net interest income	$ 894	$ 1,287
Net periodic interest benefit of interest rate swaps	4,162	17
TBA drop loss (3)	(1,654)	(233)
Total operating expenses	(8,707)	(7,243)
Preferred stock dividends	(1,923)	(1,923)
EAD to common shareholders	$ (7,228)	$ (8,095)

(1) Amount includes realized and unrealized gains and losses due to changes in the fair value of the Company's MBS.

(2) Amount includes unrealized gains and losses from changes in fair value of derivatives (including TBAs accounted for as derivative instruments) and realized gains and losses on terminated derivatives and excludes TBA drop loss and net periodic interest benefit/cost from interest rate swaps.

(3) TBA drop income (loss) 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.

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.

During the nine months ended September 30, 2024, we issued 10,500,000 shares of common stock through a public offering, resulting in proceeds of $124.5 million, net of issuance costs. We also issued 11,559,359 shares of common stock through our ATM program, resulting in proceeds of $143.2 million, net of broker commissions and fees. We partially deployed these proceeds into purchases of specified pools of higher coupon Agency RMBS. We are reserving a portion of the proceeds in order to navigate through potential volatility and to deploy into additional investments as spreads widen during the remainder of 2024.

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 measurement of liquidity includes unrestricted cash and cash equivalents and unencumbered Agency MBS, which are recognized as assets on our

consolidated balance sheet. We also include in our measure of liquidity the fair value of noncash collateral pledged to us by our counterparties, which we typically receive when the fair value of our pledged collateral exceeds our current margin requirement. Though the fair value of this noncash collateral is not recorded on our consolidated balance sheet, we include this amount in our liquidity measure because we have the right to repledge the noncash collateral pledged to us by our counterparties. Our liquidity as of September 30, 2024 was $708.7 million, which consisted of unrestricted cash of $268.3 million, unencumbered Agency MBS with a fair value of $392.9 million, margin receivable on derivatives of $26.0 million, and noncash collateral received from our counterparties, which consisted of U.S. Treasuries and Agency RMBS, with a fair value of $21.4 million. Our liquidity as of December 31, 2023 was $453.6 million.

We continuously monitor our liquidity, especially with potential risk events on the horizon, such as uncertainty regarding Federal Reserve policy decisions, the size of the Federal Reserve's balance sheet, quantitative tightening or easing measures, frequent potential for a government shutdown, and the impact on global markets stemming from global central bank policies. We are also monitoring the wars between Russia and Ukraine and between Israel and Hamas, and the broadening of conflict across the Middle East. 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 7.6 times shareholders' equity as of September 30, 2024. 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 5.6 times shareholders' equity as of September 30, 2024.

Our repurchase agreement borrowings are 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 TBA 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
September 30, 2024	$ 6,423,890	$ 5,943,805	$ 6,461,475
June 30, 2024	5,494,428	5,410,282	5,529,856
March 31, 2024	5,284,708	5,365,575	5,469,434
December 31, 2023	5,381,104	5,168,821	5,381,354
September 30, 2023	5,002,230	4,773,435	5,037,440
June 30, 2023	4,201,901	3,447,406	4,203,788
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

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 September 30, 2024 was consistent with prior periods, which has typically averaged less than 5% for borrowings collateralized with Agency RMBS and CMBS and between 10-14% 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 September 30, 2024, we had amounts outstanding under 28 different repurchase agreements and did not have more than 10% 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 September 30, 2024, 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 September 30, 2024, we had cash collateral posted to our counterparties of $137.3 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.

We designate the majority of our derivative instruments as interest rate hedges for tax purposes. Realized gains (losses) resulting from the difference in fair value and the amount of cash received or paid upon termination or maturity of derivative instruments are included in GAAP earnings in the same reporting period in which the derivative instrument matures or is terminated by the Company but 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 September 30, 2024 that will be recognized as taxable income over the periods indicated, though recognition of deferred tax hedge gains and losses may be accelerated if the underlying instrument originally hedged is terminated or paid off:

Period of Recognition for Remaining Hedge Gains, Net	**September 30, 2024**
	($ in thousands)
Fourth quarter 2024	$ 21,981
Fiscal year 2025	88,583
Fiscal year 2026 and thereafter	514,845
	$ 625,409

As of September 30, 2024, we also had $583.6 million in capital loss carryforwards, the majority of which expire before 2028, and NOL carryforwards of $8.1 million, of which $4.6 million will expire on December 31, 2024 and the remainder in 2025. 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 2024 or in any given year.

We generally fund dividend distributions through portfolio cash flows. If we make dividend distributions in excess of our portfolio 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 2023 Form 10-K for additional important information regarding dividends declared on our taxable income.

RECENT ACCOUNTING PRONOUNCEMENTS

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 2023 Form 10-K under "Critical Accounting Estimates." There have been no significant changes in our critical accounting estimates during the three and nine months ended September 30, 2024.

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 of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (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 Ukraine or Israel and Hamas 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 for 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 or any global health crisis.

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 wars between Russia and Ukraine and between Israel and Hamas, 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 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.

	September 30, 2024							
	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	2.8 %	25.1 %	1.5 %	13.8 %	(1.7) %	(15.8) %	(3.6) %	(32.9) %
CMBS/ CMBS IO	0.1 %	0.9 %	— %	0.4 %	— %	(0.4) %	(0.1) %	(0.9) %
TBAs	0.6 %	5.4 %	0.4 %	3.2 %	(0.5) %	(4.1) %	(1.0) %	(8.8) %
Interest rate hedges	(4.5) %	(40.6) %	(2.2) %	(20.0) %	2.1 %	19.2 %	4.2 %	38.2 %
Total	(1.0) %	(9.2) %	(0.3) %	(2.6) %	(0.1) %	(1.1) %	(0.5) %	(4.4) %

	December 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	3.5 %	33.8 %	1.8 %	17.9 %	(2.0) %	(19.4) %	(4.1) %	(39.6) %
CMBS/ CMBS IO	0.1 %	0.9 %	— %	0.5 %	— %	(0.5) %	(0.1) %	(0.9) %
TBAs	0.6 %	5.9 %	0.3 %	3.3 %	(0.4) %	(4.0) %	(0.9) %	(8.5) %
Interest rate hedges	(5.3) %	(51.6) %	(2.6) %	(25.3) %	2.5 %	24.6 %	5.0 %	48.7 %
Total	(1.1) %	(11.0) %	(0.4) %	(3.6) %	0.1 %	0.8 %	— %	(0.3) %

Non-Parallel Shifts		Basis Point Change in 2-year UST	Basis Point Change in 10-year UST	September 30, 2024		December 31, 2023	
				% of Market Value [1]	% of Common Equity	% of Market Value [1]	% of Common Equity
Bearish	Steepening	+25	+50	(0.1) %	(0.5) %	0.1 %	1.4 %
		+50	+100	(0.4) %	(3.2) %	0.1 %	0.8 %
	Flattening	+50	+25	(0.1) %	(1.0) %	— %	(0.5) %
		+100	+50	(0.2) %	(1.9) %	— %	(0.3) %
Bullish	Steepening	-25	+0	0.1 %	1.1 %	0.3 %	2.5 %
		-50	-10	0.2 %	1.7 %	0.4 %	3.6 %
		-75	-25	0.2 %	1.6 %	0.4 %	3.8 %
	Flattening	+0	-25	(0.1) %	(1.3) %	(0.2) %	(2.0) %
		-10	-50	(0.4) %	(3.2) %	(0.5) %	(4.7) %
		-25	-75	(0.7) %	(6.6) %	(0.9) %	(8.8) %

(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.

In bearish-rate shifts where interest rates are increasing, models project the market value of our investments, net of hedges and our common equity as of September 30, 2024, will decline versus that as December 31, 2023, primarily as a result of having a larger portfolio as of September 30, 2024 with higher coupon assets which carry more extension risk in higher interest rate scenarios.

In bullish-rate shifts where the yield curve flattens due to declining interest rates, models projected the market value of our investments, net of hedges and our common equity as of September 30, 2024 will decline less versus that as of December 31, 2023, because of the additional duration of the aggregate portfolio resulting from the assets extending. In bullish-rate shifts where the yield curve steepens due to declining interest rates, models project higher increases in market value of our investments, net of hedges and common equity due to having a larger portfolio as of September 30, 2024 versus December 31, 2023.

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:

	September 30, 2024		December 31, 2023	
	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) %	(9.2) %	(1.1) %	(10.8) %
+10	(0.5) %	(4.6) %	(0.5) %	(5.4) %
-10	0.5 %	4.6 %	0.5 %	5.4 %
-20/-50 [2]	1.1 %	9.2 %	1.1 %	10.8 %

(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 comprehensive income and book value per common share may also be negatively impacted by prepayments if the fair value of the investment materially exceeds the par balance of the underlying security. Principal prepayments on our investments are influenced by changes in market interest rates and a variety of economic, geographic, government policy and other factors beyond our control, including GSE policy with respect to loan forbearance and delinquent loan buy-outs.

We seek to manage our prepayment risk on our MBS by diversifying our investments and investing in securities which either contain loans for which the underlying borrowers have disincentive to refinance or have some provision of prepayment prohibition or yield maintenance as is the case with CMBS and CMBS IO. Loans underlying our CMBS and CMBS IO securities typically have some form of prepayment protection provisions (such as prepayment lock-outs) or prepayment compensation provisions (such as yield maintenance or prepayment penalties). Because CMBS IO consist of rights to interest on the underlying commercial mortgage loan pools and do not have rights to principal payments on the underlying loans, prepayment risk on these securities is particularly acute without these prepayment protection provisions. There are no prepayment protections if the loan defaults and is partially or wholly repaid earlier as a result of loss mitigation actions taken by the underlying loan servicer.

Our prepayment risk as of September 30, 2024 has declined relative to 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. However, if higher yielding investments prepay at a faster rate than anticipated, we may be unable to reinvest the repayments at comparable yields. Our net interest income may be negatively impacted if the proceeds from prepayments are reinvested into assets with lower yields. In an increasing interest rate environment, lower yielding assets with a fixed rate may extend or prepay slower than anticipated. Because we finance our investments with short-term repurchase agreement financing, we may be required to finance our investments at a higher interest rate without the ability to reinvest principal into higher yielding securities. As a result of rising financing costs, our net interest income could fall or could be negative for extended periods of time.

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.

In addition, bilateral agreements expose us to increased credit risk related to our counterparties, and we may be at risk of loss of any collateral held by a repurchase or derivative counterparty if the counterparty becomes insolvent or files for bankruptcy.

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, during the current macroeconomic environment, 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 2023 Form 10-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 or if financing costs are higher, our net 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, as of September 30, 2024, our disclosure controls and procedures were effective 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 September 30, 2024 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 2023 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 2023 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 2023 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 $100 million of the Company's outstanding shares of common stock and up to $50 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 April 30, 2026, although it may be modified or terminated by the Board of Directors at any time.

The Company did not repurchase any shares of its common stock or Series C Preferred Stock during the three months ended September 30, 2024. Employees forfeited 33,872 common shares to cover payroll tax withholding on share-based compensation that vested during the three months ended September 30, 2024.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Trading Plan

During the three months ended September 30, 2024, none of the Company's directors or Section 16 officers adopted or terminated any "Rule 10b5-1 trading arrangements" or any "non-Rule 10b5-1 trading arrangements" (in each case, as defined in Item 408 of Regulation S-K).

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).
3.1.1	Articles of Amendment of the Restated Articles of Incorporation, effective May 18, 2023 (incorporated herein by reference to Exhibit 3.1.1 to Dynex's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023).
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).
31.1	Certification of co-principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of co-principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.3	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 September 30, 2024, 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 September 30, 2024, formatted in iXBRL (Inline Extensible Business Reporting Language) (included with Exhibit 101).

* Denotes a management contract or compensatory plan or arrangement.

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: October 28, 2024

/s/ Byron L. Boston
Byron L. Boston
Co-Chief Executive Officer and Chairman of the Board
(Co-Principal Executive Officer)

Date: October 28, 2024

/s/ Robert S. Colligan
Robert S. Colligan
Chief Financial Officer, Chief Operating Officer, and Secretary
(Principal Financial Officer)