DYNEX CAPITAL INC
Form 10-Q
August 10, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2015
or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 1-9819
DYNEX CAPITAL, INC.
(Exact name of registrant as specified in its charter)

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

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

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).
Yes x No o

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

On August 4, 2015, the registrant had 53,476,309 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
($ in thousands except share data)

	June 30, 2015	December 31, 2014
ASSETS	(unaudited)	
Mortgage-backed securities (including pledged of $3,797,011 and $3,265,979, respectively)	$3,852,883	$3,516,239
Mortgage loans held for investment, net	29,858	39,700
Investment in limited partnership	10,733	4,000
Cash and cash equivalents	56,463	43,944
Restricted cash	57,880	42,263
Derivative assets	20,804	5,727
Receivable for securities sold	96,168	—
Principal receivable on investments	10,584	7,420
Accrued interest receivable	21,315	21,157
Other assets, net	12,354	7,861
Total assets	$4,169,042	$3,688,311
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$3,402,964	$3,013,110
FHLB advances	108,076	—
Payable for unsettled mortgage-backed securities	4,014	—
Non-recourse collateralized financing	8,788	10,786
Derivative liabilities	48,240	35,898
Accrued interest payable	2,067	1,947
Accrued dividends payable	14,878	15,622
Other liabilities	4,762	3,646
Total liabilities	3,593,789	3,081,009
Shareholders' equity:		
Preferred stock, par value $.01 per share, 8.5% Series A Cumulative Redeemable; 8,000,000 shares authorized; 2,300,000 shares issued and outstanding ($57,500 aggregate liquidation preference)	55,407	55,407
Preferred stock, par value $.01 per share, 7.625% Series B Cumulative Redeemable; 7,000,000 shares authorized; 2,250,000 shares issued and outstanding ($56,250 aggregate liquidation preference)	54,251	54,251
Common stock, par value $.01 per share, 200,000,000 shares authorized; 54,084,611 and 54,739,111 shares issued and outstanding, respectively	541	547
Additional paid-in capital	758,230	763,935
Accumulated other comprehensive income	4,691	21,316
Accumulated deficit	(297,867)	(288,154)
Total shareholders' equity	575,253	607,302
Total liabilities and shareholders' equity	$4,169,042	$3,688,311

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See notes to the unaudited consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(amounts in thousands except per share data)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Interest income:				
Mortgage-backed securities	$24,196	$26,995	$47,923	$53,897
Mortgage loans held for investment, net	331	723	703	1,462
	24,527	27,718	48,626	55,359
Interest expense:				
Repurchase agreements and FHLB advances	5,506	6,548	10,852	14,159
Non-recourse collateralized financing	36	24	61	46
	5,542	6,572	10,913	14,205
Net interest income	18,985	21,146	37,713	41,154
Gain (loss) on derivative instruments, net	17,090	(23,074)	(8,233)	(36,496)
Loss on sale of investments, net	(1,491)	(477)	(183)	(3,784)
Fair value adjustments, net	20	88	59	119
Equity in income of limited partnership	711	—	733	—
Other (expense) income, net	(99)	137	(88)	212
General and administrative expenses:				
Compensation and benefits	(2,351)	(2,329)	(4,467)	(4,881)
Other general and administrative	(2,403)	(1,490)	(4,544)	(3,057)
Net income (loss)	30,462	(5,999)	20,990	(6,733)
Preferred stock dividends	(2,294)	(2,294)	(4,588)	(4,588)
Net income (loss) to common shareholders	$28,168	$(8,293)	$16,402	$(11,321)
Other comprehensive income:				
Change in unrealized (loss) gain on available-for-sale investments	$(42,027)	$33,114	$(18,722)	$57,080
Reclassification adjustment for loss on sale of investments, net	1,491	477	183	3,784
Reclassification adjustment for de-designated cash flow hedges	857	1,608	1,914	3,896
Total other comprehensive (loss) income	(39,679)	35,199	(16,625)	64,760
Comprehensive (loss) income to common shareholders	$(11,511)	$26,906	$(223)	$53,439
Weighted average common shares-basic and diluted	54,574	54,711	54,687	54,669
Net income (loss) per common share-basic and diluted	$0.52	$(0.15)	$0.30	$(0.21)

See notes to the unaudited consolidated financial statements.

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

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance as of December 31, 2014	$109,658	$547	$763,935	$21,316	$(288,154)	$607,302
Stock issuance	—	—	78	—	—	78
Granting and vesting of restricted stock	—	3	1,472	—	—	1,475
Amortization of stock issuance costs	—	—	(19)	—	—	(19)
Common stock repurchased	—	(8)	(6,680)	—	—	(6,688)
Adjustments for tax withholding on share-based compensation	—	(1)	(556)	—	—	(557)
Net income	—	—	—	—	20,990	20,990
Dividends on preferred stock	—	—	—	—	(4,588)	(4,588)
Dividends on common stock	—	—	—	—	(26,115)	(26,115)
Other comprehensive loss	—	—	—	(16,625)	—	(16,625)
Balance as of June 30, 2015	$109,658	$541	$758,230	$4,691	$(297,867)	$575,253

See notes to the unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2015	2014
Operating activities:		
Net income (loss)	$20,990	$(6,733)
Adjustments to reconcile net income to cash provided by operating activities:		
Increase in accrued interest receivable	(158)	(774)
Increase (decrease) in accrued interest payable	120	(778)
Loss on derivative instruments, net	8,233	36,496
Loss on sale of investments, net	183	3,784
Fair value adjustments, net	(59)	(119)
Amortization of investment premiums, net	74,737	66,650
Other amortization and depreciation, net	2,847	5,055
Stock-based compensation expense	1,475	1,355
Other operating activities	18	598
Net cash and cash equivalents provided by operating activities	108,386	105,534
Investing activities:		
Purchase of investments	(1,000,070)	(298,699)
Principal payments received on investments	236,598	253,263
Proceeds from sales of investments	233,238	95,932
Principal payments received on mortgage loans held for investment, net	9,825	2,889
Payment to acquire interest in limited partnership	(6,000)	—
Net payments on derivatives not designated as hedges	(10,968)	(5,951)
Other investing activities	(135)	(5)
Net cash and cash equivalents (used in) provided by investing activities	(537,512)	47,429
Financing activities:		
Borrowings under (repayments of) repurchase agreements and FHLB advances, net	497,930	(133,912)
Principal payments on non-recourse collateralized financing	(2,035)	(858)
Increase in restricted cash	(15,617)	(17,362)
Proceeds from issuance of common stock, net of issuance costs	59	107
Cash paid for repurchases of common stock	(6,688)	—
Payments related to tax withholding for share-based compensation	(557)	(505)
Dividends paid	(31,447)	(32,926)
Net cash and cash equivalents provided by (used in) financing activities	441,645	(185,456)
Net increase (decrease) in cash and cash equivalents	12,519	(32,493)
Cash and cash equivalents at beginning of period	43,944	69,330
Cash and cash equivalents at end of period	$56,463	$36,837
Supplemental Disclosure of Cash Activity:		
Cash paid for interest	$8,842	$10,861

See notes to the unaudited consolidated financial statements.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DYNEX CAPITAL, INC.
(amounts in thousands except share and per share data)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Dynex Capital, Inc., ("Company") was incorporated in the Commonwealth of Virginia on December 18, 1987 and commenced operations in February 1988. The Company primarily earns income from investing on a leveraged basis in mortgage-backed securities ("MBS") that are issued or guaranteed by the U.S. Government or U.S. Government sponsored agencies ("Agency MBS") and MBS issued by others ("non-Agency MBS").

Basis of Presentation

The accompanying unaudited consolidated financial statements of Dynex Capital, Inc. and its subsidiaries (together, "Dynex" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Article 10, Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all significant adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the consolidated financial statements have been included. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for any other interim periods or for the entire year ending December 31, 2015. 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, 2014 filed with the SEC.

Consolidation

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. As a primary beneficiary, the Company has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE. All intercompany accounts and transactions have been eliminated in consolidation.

The Company consolidates certain trusts through which it has securitized mortgage loans as a result of not meeting the sale criteria under GAAP at the time the financial assets were transferred to the trust. Additional information regarding the accounting policy for the Company's securitized mortgage loans is provided below under "Mortgage Loans Held for Investment, Net".

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, fair value measurements of its investments, other-than-temporary impairments, contingencies, and amortization of premiums and discounts. These items are discussed further below within this note to the consolidated financial statements.

Income Taxes

The Company has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 and the corresponding provisions of state law. To qualify as a REIT, the Company must meet certain tests including investing in primarily real estate-related assets and the required distribution of at least 90% of its annual REIT taxable income to stockholders after consideration of its net operating loss carryforward ("NOL") and not including taxable income retained in its taxable subsidiaries. As a REIT, the Company generally will not be subject to federal income tax on the amount of its income or gain that is distributed as dividends to shareholders.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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(amounts in thousands except share and per share data)

The Company assesses its tax positions for all open tax years and determines whether the Company has any material unrecognized liabilities in accordance with Accounting Standards Codification ("ASC") Topic 740. The Company 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 did not have any potentially dilutive securities outstanding during the three or six months ended June 30, 2015 or June 30, 2014.

Holders of unvested shares of the Company's issued and outstanding restricted common stock are eligible to receive non-forfeitable dividends. As such, these unvested shares are considered participating securities as per ASC Topic 260-10 and therefore are included in the computation of basic net income (loss) per share using the two-class method. Upon vesting, restrictions on transfer expire on each share of restricted stock, and each such share of restricted stock is converted to one equal share of common stock.

Because the Company's 8.50% Series A Cumulative Redeemable Preferred Stock (the “Series A Preferred Stock”) and 7.625% Series B Cumulative Redeemable Preferred Stock (the “Series B Preferred Stock”) are redeemable at the Company's option for cash only and may convert into shares of common stock only upon a change of control of the Company, the effect of those shares is excluded from the calculation of diluted net income (loss) per common share.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less.

Restricted Cash

Restricted cash consists of cash the Company has pledged to cover initial and variation margin with its counterparties.

Mortgage-Backed Securities

The Company designates its investments in MBS as available-for-sale ("AFS"). All of the Company’s MBS are recorded at fair value on the consolidated balance sheet. Changes in unrealized gain (loss) on the Company's MBS are reported in other comprehensive income ("OCI") until each security is collected, disposed of, or determined to be other than temporarily impaired. Although the Company generally intends to hold its AFS securities until maturity, it may sell any of these securities as part of the overall management of its business. Upon the sale of an AFS security, any unrealized gain or loss is reclassified out of accumulated other comprehensive income ("AOCI") into net income as a realized "gain (loss) on sale of investments, net" using the specific identification method.

The Company’s MBS pledged as collateral against repurchase agreements and derivative instruments are included in MBS on the consolidated balance sheets with the fair value of the MBS pledged disclosed parenthetically.

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 interest-only, or "IO", securities) and their contractual terms. Premiums and discounts on Agency MBS as well as any non-Agency MBS rated 'AA' and higher at the time of purchase are amortized into interest income over the expected life of such securities using the effective yield method and adjustments to premium amortization are made for actual cash payments as well as changes in projected future cash payments. The Company's projections of future cash payments are based on input and analysis received from external sources and internal models, and includes assumptions about the amount and timing of credit losses, loan prepayment rates, fluctuations in interest rates, 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.

The Company holds certain non-Agency MBS that had credit ratings of less than 'AA' at the time of purchase or were not rated by any of the nationally recognized credit rating agencies. A portion of these non-Agency MBS were purchased at

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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(amounts in thousands except share and per share data)

discounts to their par value, which management does not believe to be substantial. The discount is accreted into income over the security's expected life, which reflects management's estimate of the security's projected cash flows. Future changes in the timing of projected cash flows or differences arising between projected cash flows and actual cash flows received may result in a prospective change in the effective yield on those securities.

Determination of MBS Fair Value. The Company estimates the fair value of the majority of its MBS based upon prices obtained from third-party pricing services and broker quotes. The remainder of the Company's MBS are valued by discounting the estimated future cash flows derived from cash flow models that utilize information such as the security's coupon rate, estimated prepayment speeds, expected weighted average life, collateral composition, estimated future interest rates, expected losses, and credit enhancements as well as certain other relevant information. Refer to Note 7 for further discussion of MBS fair value measurements.

Other-than-Temporary Impairment. MBS is considered impaired when its fair value is less than its amortized cost. The Company evaluates all of its impaired MBS for other-than-temporary impairments ("OTTI") on at least a quarterly basis. An impairment is considered other-than-temporary if: (1) the Company intends to sell the MBS; (2) it is more likely than not that the Company will be required to sell the MBS before its fair value recovers; or (3) the Company does not expect to recover the full amortized cost basis of the MBS. If either of the first two conditions is met, the entire amount of the impairment is recognized in earnings. If the impairment is solely due to the inability to fully recover the amortized cost basis, the security is further analyzed to quantify any credit loss, which is the difference between the present value of cash flows expected to be collected on the MBS and its amortized cost. The credit loss, if any, is then recognized in earnings, while the balance of impairment related to other factors is recognized in other comprehensive income.

Following the recognition of an OTTI through earnings, a new cost basis is established for the security. Any subsequent recoveries in fair value may be accreted back into the amortized cost basis of the MBS on a prospective basis through interest income. Please see Note 2 for additional information related to the Company's evaluation for OTTI.

Mortgage Loans Held for Investment, Net

The Company originated or purchased mortgage loans from 1992 through 1998, and these mortgage loans are reported at amortized cost. A portion of these loans is pledged as collateral to support the repayment of one remaining class of a securitization financing bond issued by the Company in 2002. The associated securitization financing bond is treated as debt of the Company and is presented as "non-recourse collateralized financing" on the consolidated balance sheet. Securitized mortgage loans can only be sold subject to the lien of the respective securitization financing indenture. An allowance has been established for currently existing and probable losses on the Company's mortgage loans held for investment.

Investment in Limited Partnership

The Company is a limited partner with a less than 50% interest in a limited partnership for which it does not have substantive participating or kick-out rights that overcome the general partner's presumption of control. The Company accounts for its investment in this limited partnership using the equity method of accounting, which requires initially recording an investment in the equity of an investee at cost and subsequently adjusting the carrying amount of the investment to recognize the investor's share of the earnings or losses, capital contributions and distributions, and other changes in equity.

Repurchase Agreements

Repurchase agreements are accounted for as secured borrowings under which the Company pledges its securities as collateral to secure a loan, which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. The Company retains beneficial ownership of the pledged collateral. At the maturity of a repurchase agreement, 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. Most of the Company's repurchase agreements are based on the September 1996 version of the Bond Market Association Master Repurchase Agreement, which generally provides that the lender, as buyer, is responsible for obtaining collateral valuations from a generally recognized source agreed to by both the Company and the lender, or, in an instance when such source is not available, the value determination is made by the lender.

Derivative Instruments

The Company's derivative instruments, which currently include interest rate swaps and Eurodollar futures, are accounted for at fair value and recognized accordingly as either derivative assets or derivative liabilities on the Company's consolidated balance sheet. All periodic interest costs and changes in fair value, including gains and losses recognized upon termination, associated with derivative instruments are recorded in "gain (loss) on derivative instruments, net" on the Company's consolidated statement of comprehensive income. Please refer to Note 5 for additional information regarding the Company's accounting for its derivative instruments.

Although MBS have characteristics that meet the definition of a derivative instrument, ASC Topic 815 specifically excludes these instruments from its scope because they are accounted for as debt securities under ASC Topic 320.

Share-Based Compensation

Pursuant to the Company’s 2009 Stock and Incentive Plan ("SIP"), the Company may grant share-based compensation to eligible employees, directors or consultants or advisers to the Company, including stock awards, stock options, stock appreciation rights, dividend equivalent rights, performance shares, and restricted stock units. The Company's restricted stock currently issued and outstanding under this plan may be settled only in shares of its common stock, and therefore are treated as equity awards with their fair value measured at the grant date and recognized as compensation cost over the requisite service period with a corresponding credit to shareholders' equity. The requisite service period is the period during which an employee is required to provide service in exchange for an award, which is equivalent to the vesting period specified in the terms of the time-based restricted stock award. None of the Company's restricted stock awards have performance based conditions. The Company does not currently have any share-based compensation issued or outstanding other than restricted stock.

Contingencies

In the normal course of business, there are various lawsuits, claims, and other contingencies pending against the Company. On a quarterly basis, the Company evaluates whether to establish provisions for estimated losses from those matters in accordance with ASC Topic 450, which states that a liability is recognized for a contingent loss when: (a) the underlying causal event has occurred prior to the balance sheet date; (b) it is probable that a loss has been incurred; and (c) there is a reasonable basis for estimating that loss. A liability is not recognized for a contingent loss when it is only possible or remotely possible that a loss has been incurred, however, possible contingent losses shall be disclosed. If the contingent loss (or an additional loss in excess of any accrual) is at least a reasonable possibility and material, then the Company discloses a reasonable estimate of the possible loss or range of loss, if such reasonable estimate can be made. If the Company cannot make a reasonable estimate of the possible material loss, or range of loss, then that fact is disclosed. As of June 30, 2015, the Company does not have any contingencies for which it believes a probable loss has been incurred.

Recent Accounting Pronouncements

The Company does not believe there are any recently issued accounting pronouncements which will have a material effect on the Company's financial condition or results of operations upon their effective date.

NOTE 2 – MORTGAGE-BACKED SECURITIES

The majority of the Company's MBS are pledged as collateral to cover initial and variation margins for the Company's repurchase agreements, Federal Home Loan Bank ("FHLB") advances, and derivative instruments. The following tables provide detail by type of investment for the Company’s MBS designated as AFS as of the dates indicated:

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DYNEX CAPITAL, INC.
(amounts in thousands except share and per share data)

	June 30, 2015						
	Par	Net Premium (Discount)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	WAC (1)
RMBS:							
Agency	$1,741,996	$90,244	$1,832,240	$7,703	$(16,671)	$1,823,272	3.05 %
Non-Agency	73,896	(62)	73,834	136	(88)	73,882	3.55 %
	1,815,892	90,182	1,906,074	7,839	(16,759)	1,897,154	
CMBS:							
Agency	952,322	16,331	968,653	13,749	(15,499)	966,903	3.45 %
Non-Agency	214,220	(8,384)	205,836	6,521	(422)	211,935	4.22 %
	1,166,542	7,947	1,174,489	20,270	(15,921)	1,178,838	
CMBS IO (2):							
Agency	—	426,897	426,897	9,258	(494)	435,661	0.72 %
Non-Agency	—	338,247	338,247	3,888	(905)	341,230	0.61 %
	—	765,144	765,144	13,146	(1,399)	776,891	
Total AFS securities:	$2,982,434	$863,273	$3,845,707	$41,255	$(34,079)	$3,852,883	

(1) The current weighted average coupon ("WAC") is the gross interest rate of the pool of mortgages underlying the security weighted by the outstanding principal balance (or by notional balance in the case of an IO security).

(2) The notional balance for Agency CMBS IO and non-Agency CMBS IO was $11,198,955 and $9,572,727, respectively, as of June 30, 2015.

	December 31, 2014						
	Par	Net Premium (Discount)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	WAC (1)
RMBS:							
Agency	$2,086,807	$113,635	$2,200,442	$8,473	$(22,215)	$2,186,700	3.09 %
Non-Agency	22,432	(17)	22,415	107	(74)	22,448	3.83 %
	2,109,239	113,618	2,222,857	8,580	(22,289)	2,209,148	
CMBS:							
Agency	301,943	18,042	319,985	15,288	(76)	335,197	5.21 %
Non-Agency	210,358	(8,520)	201,838	6,679	(479)	208,038	4.33 %
	512,301	9,522	521,823	21,967	(555)	543,235	
CMBS IO (2):							
Agency	—	426,564	426,564	12,252	(79)	438,737	0.80 %
Non-Agency	—	319,280	319,280	6,069	(230)	325,119	0.72 %
	—	745,844	745,844	18,321	(309)	763,856	
Total AFS securities:	$2,621,540	$868,984	$3,490,524	$48,868	$(23,153)	$3,516,239	

(1) The current weighted average coupon ("WAC") is the gross interest rate of the pool of mortgages underlying the security weighted by the outstanding principal balance (or by notional balance in the case of an IO security).

(2) The notional balance for the Agency CMBS IO and non-Agency CMBS IO was $10,460,113 and $7,868,896, respectively, as of December 31, 2014.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DYNEX CAPITAL, INC.
(amounts in thousands except share and per share data)

The Company's sale proceeds including MBS sales pending settlement as of June 30, 2015 were $226,884 and $329,406 for three and six months ended June 30, 2015, respectively, and $36,133 and $95,932 for the three and six months ended June 30, 2014, respectively. The following table presents the gross realized gains (losses) of those sales included in "gain (loss) on sale of investments, net" on the Company's consolidated statements of comprehensive income for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2015	2014	2015	2014
Gross realized gains on sales of MBS	$1,361	$471	$3,134	$690
Gross realized losses on sales of MBS	(2,852)	(948)	(3,317)	(4,474)
Loss on sale of investments, net	$(1,491)	$(477)	$(183)	$(3,784)

The following table presents certain information for those Agency MBS in an unrealized loss position as of the dates indicated:

	June 30, 2015			December 31, 2014		
	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	$1,052,413	$(17,343)	68	$322,741	$(879)	24
Non-Agency MBS	212,569	(1,349)	39	111,778	(625)	24
Continuous unrealized loss position for 12 months or longer:						
Agency MBS	$886,126	$(15,321)	73	$1,321,323	$(21,491)	113
Non-Agency MBS	1,348	(66)	5	18,037	(159)	5

Because the principal related to Agency MBS is guaranteed by the government-sponsored entities Fannie Mae and Freddie Mac which have the implicit guarantee of the U.S. government, the Company does not consider any of the unrealized losses on its Agency MBS to be credit related. Although the unrealized losses are not credit related, the Company assesses its ability and intent to hold any Agency 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 current leverage and anticipated liquidity. Based on this analysis, the Company has determined that the unrealized losses on its Agency MBS as of June 30, 2015 and December 31, 2014 were temporary.

The Company also reviews any non-Agency MBS in an unrealized loss position to evaluate whether any decline in fair value represents an OTTI. The evaluation includes a review of the credit ratings of these non-Agency MBS and the seasoning of the mortgage loans collateralizing these securities as well as the estimated future cash flows which include projected losses. The Company performed this evaluation for the non-Agency MBS in an unrealized loss position and has determined that there have not been any adverse changes in the timing or amount of estimated future cash flows that necessitate a recognition of OTTI amounts as of June 30, 2015 or December 31, 2014.

NOTE 3 – REPURCHASE AGREEMENTS

The Company finances its purchases of investments primarily using repurchase agreements which bear interest at a floating rate based on a spread to London Interbank Offered Rate ("LIBOR").The Company’s repurchase agreement borrowings outstanding as of June 30, 2015 and December 31, 2014 are summarized in the table below by the fair value and type of securities pledged as collateral:

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DYNEX CAPITAL, INC.
(amounts in thousands except share and per share data)

	June 30, 2015		
Collateral Type	Balance	Weighted Average Rate	Fair Value of Collateral Pledged
Agency RMBS	$1,786,642	0.40 %	$1,856,421
Non-Agency RMBS	57,775	1.61 %	69,906
Agency CMBS	740,454	0.36 %	807,758
Non-Agency CMBS	168,920	1.04 %	194,021
Agency CMBS IO	360,837	0.94 %	420,519
Non-Agency CMBS IO	280,125	1.06 %	332,530
Securitization financing bond	8,211	1.54 %	8,999
	$3,402,964	0.56 %	$3,690,154

	December 31, 2014		
Collateral Type	Balance	Weighted Average Rate	Fair Value of Collateral Pledged
Agency RMBS	$1,977,338	0.39 %	$2,064,704
Non-Agency RMBS	17,594	1.57 %	21,787
Agency CMBS	253,857	0.36 %	291,103
Non-Agency CMBS	114,895	1.15 %	140,216
Agency CMBS IOs	372,609	0.92 %	430,638
Non-Agency CMBS IOs	266,983	1.04 %	315,149
Securitization financing bond	9,834	1.51 %	11,000
	$3,013,110	0.55 %	$3,274,597

As of June 30, 2015, the weighted average remaining term to maturity of our repurchase agreements was 27 days. The following table provides a summary of the original term to maturity of our repurchase agreements as of June 30, 2015 and December 31, 2014:

Original Term to Maturity	June 30, 2015	December 31, 2014
Less than 30 days	$127,899	$250,635
30 to 90 days	2,437,689	617,399
91 to 180 days	388,951	904,830
181 to 364 days	335,570	1,030,569
1 year or longer	112,855	209,677
	$3,402,964	$3,013,110

As of June 30, 2015, shareholders' equity at risk did not exceed 10% for any of the Company's counterparties. The Company had $271,576 of its repurchase agreement balance as of June 30, 2015 outstanding under a term repurchase facility with Wells Fargo Bank National Association. This facility has an aggregate maximum borrowing capacity of $300,000 and is scheduled to mature on August 6, 2016, subject to early termination provisions contained in the master repurchase agreement. The facility is collateralized primarily by CMBS IO, and its weighted average borrowing rate as of June 30, 2015 was 1.04%.

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DYNEX CAPITAL, INC.
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As of June 30, 2015, the Company had repurchase agreement amounts outstanding with 21 of its 32 available repurchase agreement counterparties. 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 was in compliance with all covenants as of June 30, 2015.

Please see Note 6 for the Company's disclosures related to offsetting assets and liabilities.

NOTE 4 – FHLB ADVANCES

On May 19, 2015, the Company’s wholly owned subsidiary, Mackinaw Insurance Company, LLC ("Mackinaw") was approved for membership in the FHLB of Indianapolis ("FHLBI"). As a member of the FHLBI, Mackinaw has access to a variety of products and services offered by the FHLB system, including short-term secured advances. The Company accounts for FHLB advances as short-term borrowings collateralized by Agency MBS. FHLB advances are carried at their amortized cost, which approximates their fair value due to their short-term nature. As of June 30, 2015, Mackinaw had $108,076 in outstanding advances with a borrowing rate of 0.22% and Agency MBS with a fair value of $113,991 pledged as collateral. The Company's maximum borrowing capacity with the FHLB was $575,000 as of June 30, 2015. As of June 30, 2015, the Company's FHLB advances were all due within 30 days.

As a condition to membership in the FHLBI, the Company is required to purchase and hold a certain amount of FHLBI stock, which is based, in part, upon the outstanding principal balance of FHLB advances. As of June 30, 2015, the Company had stock in the FHLBI totaling $4,864, which is included in "other assets, net" on its consolidated balance sheet. FHLBI stock is considered a non-marketable, long-term investment, is carried at cost and is subject to recoverability testing under applicable accounting standards. This stock can only be redeemed or sold at its par value and only to the FHLBI.

NOTE 5 – DERIVATIVES

The Company utilizes derivative instruments to economically hedge a portion of its exposure to market risks, primarily interest rate risk. The Company primarily uses pay-fixed interest rate swaps and Eurodollar contracts to hedge its exposure to changes in interest rates and uses receive-fixed interest rate swaps to offset a portion of its pay-fixed interest rate swaps in order to manage its overall hedge position. The objective of the Company's risk management strategy is to mitigate declines in book value resulting from fluctuations in the fair value of the Company's assets from changing interest rates and to protect some portion of the Company's earnings from rising interest rates. Please refer to Note 1 for information related to the Company's accounting policy for its derivative instruments.

The table below summarizes information about the Company’s derivative instruments treated as trading instruments on its consolidated balance sheet as of the dates indicated:

June 30, 2015

	Derivative Assets		Derivative Liabilities	
Trading Instruments	Fair Value	Notional	Fair Value	Notional
Interest rate swaps	$20,804	$1,305,000	$(4,249)	$885,000
Eurodollar futures [1]	—	—	(43,991)	14,000,000
Total	$20,804	$1,305,000	$(48,240)	$14,885,000

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DYNEX CAPITAL, INC.
(amounts in thousands except share and per share data)

	December 31, 2014			
	Derivative Assets		Derivative Liabilities	
Trading Instruments	Fair Value	Notional	Fair Value	Notional
Interest rate swaps	$5,727	$440,000	$(3,002)	$485,000
Eurodollar futures [1]	—	—	(32,896)	16,600,000
Total	$5,727	$440,000	$(35,898)	$17,085,000

(1) The Eurodollar futures aggregate notional amount represents the total notional of the 3-month contracts with expiration dates from 2015 to 2020. The maximum notional outstanding for any future 3-month period did not exceed $1,300,000 as of June 30, 2015 or as of December 31, 2014.

The following table summarizes the contractual maturities remaining for the Company's outstanding interest rate swap agreements as of June 30, 2015:

Remaining Maturity	Pay-Fixed Interest Rate Swaps	Pay-Fixed Weighted-Average Rate	Receive-Fixed Interest Rate Swaps	Receive-Fixed Weighted-Average Rate
37-48 months	$345,000	1.13 %	$—	— %
49-60 months	835,000	1.77 %	300,000	1.24 %
61-72 months	—	— %	—	— %
73-84 months	75,000	1.77 %	—	— %
85-96 months	125,000	1.98 %	—	— %
97-108 months	—	— %	—	— %
109-120 months	485,000	2.96 %	25,000	2.71 %

The table above contains forward-starting interest rate swaps with a combined notional value of $800,000 and a weighted average pay-fixed rate of 2.38% which will not be effective until 2016.

The following table summarizes the volume of activity related to derivative instruments for the period indicated:

For the six months ended June 30, 2015:	Beginning of Period Notional Amount	Additions	Settlement, Termination, Expiration or Exercise	End of Period Notional Amount
Receive-fixed interest rate swaps	$275,000	$50,000	$—	$325,000
Pay-fixed interest rate swaps	650,000	1,735,000	(520,000)	1,865,000
Eurodollar futures	16,600,000	—	(2,600,000)	14,000,000
	$17,525,000	$1,785,000	$(3,120,000)	$16,190,000

The table below provides detail of the Company's "gain (loss) on derivative instruments, net" by type of interest rate derivative for the periods indicated:

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(amounts in thousands except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
Type of Derivative Instrument	2015	2014	2015	2014
Receive-fixed interest rate swaps	$(1,746)	$—	$2,782	$—
Pay-fixed interest rate swaps	16,263	(11,694)	2,900	(20,702)
Eurodollar futures	2,573	(11,380)	(13,915)	(15,794)
Gain (loss) on derivative instruments, net	$17,090	$(23,074)	$(8,233)	$(36,496)

There is a net unrealized loss of $663 remaining in AOCI on the Company's consolidated balance sheet as of June 30, 2015 which represents the activity related to these interest rate swap agreements while they were previously designated as cash flow hedges, and this amount will be recognized in the Company's net income as a portion of "interest expense" over the remaining contractual life of the agreements. The Company estimates the portion of existing net unrealized loss on discontinued cash flow hedges expected to be reclassified to net income within the next 12 months is $1,491.

Many of the Company's interest rate swaps were entered into under bilateral agreements which contain various covenants related to the Company’s credit risk. Specifically, if the Company defaults on any of its indebtedness, including those circumstances whereby repayment of the indebtedness has not yet been accelerated by the lender, or is declared in default of any of its covenants with any counterparty, then the Company could also be declared in default under the bilateral agreement. Additionally, these agreements allow those counterparties to require settlement of its outstanding derivative transactions if the Company fails to earn net income excluding derivative gains and losses greater than one dollar as measured on a rolling two quarter basis. These interest rate agreements also contain provisions whereby, if the Company fails to maintain a minimum net amount of shareholders’ equity, then the Company may be declared in default on its derivative obligations. The Company was in compliance with all covenants under bilateral agreements on June 30, 2015.
Please see Note 6 for the Company's disclosures related to offsetting assets and liabilities.

NOTE 6 – OFFSETTING ASSETS AND LIABILITIES

The Company's derivatives and repurchase agreements are subject to underlying agreements with master netting or similar arrangements, which provide for the right of offset in the event of default or in the event of bankruptcy of either party to the transactions. The Company reports its assets and liabilities subject to these arrangements on a gross basis. The following tables present information regarding those assets and liabilities subject to such arrangements as if the Company had presented them on a net basis as of June 30, 2015 and December 31, 2014:

	Offsetting of Assets					
				Gross Amount Not Offset in the Balance Sheet [(1)]		
	Gross Amount of Recognized Assets	Gross Amount Offset in the Balance Sheet	Net Amount of Assets Presented in the Balance Sheet	Financial Instruments Received as Collateral	Cash Received as Collateral	Net Amount
June 30, 2015:						
Derivative assets	$20,804	$—	$20,804	$(2,848)	$(17,956)	$—
December 31, 2014:						

Derivative assets	$5,727	$—	$5,727	$(1,073)	$(4,521)	$133

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DYNEX CAPITAL, INC.
(amounts in thousands except share and per share data)

Offsetting of Liabilities

	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet (1) Financial Instruments Posted as Collateral	Cash Posted as Collateral	Net Amount
June 30, 2015:						
Derivative liabilities	$48,240	$—	$48,240	$(4,249)	$(43,991)	$—
Repurchase agreements	3,402,964	—	3,402,964	(3,402,964)	—	—
	$3,451,204	$—	$3,451,204	$(3,407,213)	$(43,991)	$—
December 31, 2014:						
Derivative liabilities	$35,898	$—	$35,898	$(2,494)	$(32,994)	$410
Repurchase agreements	3,013,110	—	3,013,110	(3,013,110)	—	—
	$3,049,008	$—	$3,049,008	$(3,015,604)	$(32,994)	$410

(1) Amount 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 asset or liability presented in the balance sheet. The fair value of the actual collateral received by or posted to the same counterparty may exceed the amounts presented.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820 defines fair value 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. ASC Topic 820 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and also requires an entity to consider 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 fair value of the Company’s assets and liabilities presented on its consolidated balance sheets, segregated by the hierarchy level of the fair value estimate, that are measured at fair value on a recurring basis as of the dates indicated:

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DYNEX CAPITAL, INC.
(amounts in thousands except share and per share data)

	June 30, 2015			
	Fair Value	Level 1 - Unadjusted Quoted Prices in Active Markets	Level 2 - Observable Inputs	Level 3 - Unobservable Inputs
Assets:				
Mortgage-backed securities	$3,852,883	$—	$3,813,929	$38,954
Derivative assets	20,804	—	20,804	—
Total assets carried at fair value	$3,873,687	$—	$3,834,733	$38,954
Liabilities:				
Derivative liabilities	$48,240	$43,991	$4,249	$—
Total liabilities carried at fair value	$48,240	$43,991	$4,249	$—

	December 31, 2014			
	Fair Value	Level 1 - Unadjusted Quoted Prices in Active Markets	Level 2 - Observable Inputs	Level 3 - Unobservable Inputs
Assets:				
Mortgage-backed securities	$3,516,239	$—	$3,472,282	$43,957
Derivative assets	5,727	—	5,727	—
Total assets carried at fair value	$3,521,966	$—	$3,478,009	$43,957
Liabilities:				
Derivative liabilities	$35,898	$32,896	$3,002	$—
Total liabilities carried at fair value	$35,898	$32,896	$3,002	$—

The Company did not have assets or liabilities measured at fair value on a non-recurring basis as of June 30, 2015 or December 31, 2014.

The Company's derivative assets and liabilities include interest rate swaps and Eurodollar futures. Interest rate swaps are valued using the income approach with the primary input being the forward interest rate swap curve, which is considered an observable input and thus their fair values are considered Level 2 measurements. Eurodollar futures are valued based on closing exchange prices on these contracts. Accordingly, these financial futures are classified as Level 1.

Agency MBS, as well a majority of non-Agency MBS, are substantially similar to securities that either are currently actively traded or have been recently traded in their respective market. Their fair values are derived from an average of multiple dealer quotes and thus are considered Level 2 fair value measurements. The Company’s remaining non-Agency MBS are comprised of securities for which there are not substantially similar securities that trade frequently, and their fair values are therefore considered Level 3 measurements. The Company determines the fair value of its Level 3 securities by discounting the estimated future cash flows derived from cash flow models using assumptions that are confirmed to the extent possible by third party dealers or other pricing indicators. Significant inputs into those pricing models are Level 3 in nature due to the lack of readily available market quotes. Information utilized in those pricing models include the security’s credit rating, coupon rate, estimated prepayment speeds, expected weighted average life, collateral composition, estimated future interest rates, expected credit losses, and credit enhancement as well as certain other relevant information. Significant changes in any of these inputs in isolation would result in a significantly different fair value measurement. Level 3 assets are generally most sensitive to the default rate and severity assumptions.

The table below presents information about the significant unobservable inputs used in the fair value measurement for the Company's Level 3 non-Agency CMBS and RMBS as of June 30, 2015:

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	Quantitative Information about Level 3 Fair Value Measurements [1]			
	Prepayment Speed	Default Rate	Severity	Discount Rate
Non-Agency CMBS	20 CPY	2.0 %	35.0 %	9.1 %
Non-Agency RMBS	10 CPR	1.0 %	20.0 %	6.5 %

(1) Data presented are weighted averages.

The activity of the instruments measured at fair value on a recurring basis using Level 3 inputs is presented in the following table for the period indicated:

	Level 3 Fair Value		
	Non-Agency CMBS	Non-Agency RMBS	Total assets
Balance as of December 31, 2014	$42,033	$1,924	$43,957
Unrealized loss included in OCI	(108)	(10)	(118)
Principal payments	(4,942)	(130)	(5,072)
Accretion	187	—	187
Balance as of June 30, 2015	$37,170	$1,784	$38,954

The following table presents a summary of the recorded basis and estimated fair values of the Company’s financial instruments as of the dates indicated:

	June 30, 2015		December 31, 2014	
	Recorded Basis	Fair Value	Recorded Basis	Fair Value
Assets:				
Mortgage-backed securities	$3,852,883	$3,852,883	$3,516,239	$3,516,239
Mortgage loans held for investment, net[1]	29,858	25,460	39,700	35,024
Derivative assets	20,804	20,804	5,727	5,727
Liabilities:				
Repurchase agreements [2]	$3,402,964	$3,402,964	$3,013,110	$3,013,110
FHLB advances [2]	108,076	108,076	—	—
Non-recourse collateralized financing [1]	8,788	8,442	10,786	10,366
Derivative liabilities	48,240	48,240	35,898	35,898

(1) The Company determines the fair value of its mortgage loans held for investment, net and its non-recourse collateralized financing using internally developed cash flow models with inputs similar to those used to estimate fair value of the Company's Level 3 non-Agency MBS.

(2) The carrying value of repurchase agreements and FHLB advances generally approximates fair value due to their short term maturities.

NOTE 8 – SHAREHOLDERS' EQUITY

Preferred Stock

The Company has 2,300,000 shares of its 8.50% Series A Preferred Stock and 2,250,000 shares of its 7.625% Series B Preferred Stock issued and outstanding as of June 30, 2015 (collectively, the "Preferred Stock"). The Preferred Stock has no maturity and will remain outstanding indefinitely unless redeemed or otherwise repurchased or converted into common stock pursuant to the terms of the Preferred Stock. Except under certain limited circumstances intended to preserve the Company's REIT status, upon the occurrence of a change in control as defined in Article IIIA, Section 7(d) of the Company’s Articles of Incorporation,

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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or to avoid the direct or indirect imposition of a penalty tax in respect of, or to protect the tax status of, any of the Company’s real estate mortgage investment conduits (“REMIC”) interests or a REMIC in which the Company may acquire an interest (as permitted by the Company’s Articles of Incorporation), the Company may not redeem the Series A Preferred Stock prior to July 31, 2017 or the Series B Preferred Stock prior to April 30, 2018. On or after these dates, at any time and from time to time, the Preferred Stock may be redeemed in whole, or in part, at the Company's option at a cash redemption price of $25.00 per share plus any accumulated and unpaid dividends. The Series A Preferred Stock pays a cumulative cash dividend equivalent to 8.50% of the $25.00 liquidation preference per share each year and the Series B Preferred Stock pays a cumulative cash dividend equivalent to 7.625% of the $25.00 liquidation preference per share each year. Because the Preferred Stock is redeemable only at the option of the issuer, it is classified as equity on the Company's consolidated balance sheet. The Company announced that it will pay its regular quarterly dividends on its Preferred Stock for the second quarter on July 15, 2015 to shareholders of record as of July 1, 2015.

Common Stock

The following table presents a summary of the changes in the number of common shares outstanding for the periods presented:

	Six Months Ended June 30,	
	2015	2014
Balance as of beginning of period	54,739,111	54,310,484
Common stock issued under DRIP	9,688	6,543
Common stock issued under stock and incentive plans	263,829	471,210
Common stock forfeited for tax withholding on share-based compensation	(67,296)	(59,150)
Common stock repurchased during the period	(860,721)	—
Balance as of end of period	54,084,611	54,729,087

The Company had 7,416,520 shares of common stock that remain available to offer and sell through its sales agent, JMP Securities LLC, under its "at the market", or "ATM" program, as of June 30, 2015.

The Company's Dividend Reinvestment and Share Purchase Plan ("DRIP") allows registered shareholders to automatically reinvest some or all of their quarterly common stock dividends in shares of the Company’s common stock and provides an opportunity for investors to purchase shares of the Company’s common stock, potentially at a discount to the prevailing market price. Of the 3,000,000 shares reserved for issuance under the Company's DRIP, there were 2,440,457 shares remaining for issuance as of June 30, 2015. The Company declared a second quarter common stock dividend of $0.24 per share payable on July 31, 2015 to shareholders of record as of July 6, 2015. There was no discount for shares purchased through the DRIP during the second quarter of 2015.

Of the $50,000 authorized by the Company's Board of Directors for the repurchase of its common stock through December 31, 2016, approximately $43,311 remains available for repurchase at the Company's option as of June 30, 2015.

2009 Stock and Incentive Plan. Of the 2,500,000 shares of common stock authorized for issuance under its 2009 Stock and Incentive Plan, the Company had 999,096 available for issuance as of June 30, 2015. Total stock-based compensation expense recognized by the Company for the three and six months ended June 30, 2015 was $782 and

$1,475, respectively, compared to $683 and $1,355, respectively, for the three and six months ended June 30, 2014.

The following table presents a rollforward of the restricted stock activity for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014 [(1)]	2015	2014 [(1)]
Restricted stock outstanding as of beginning of period	696,819	723,964	731,809	520,987
Restricted stock granted	32,555	29,175	263,829	457,538
Restricted stock vested	(32,777)	(17,916)	(299,041)	(243,302)
Restricted stock outstanding as of end of period	696,597	735,223	696,597	735,223

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(1) Amounts shown for the three and six months ended June 30, 2014 have been adjusted from amounts previously disclosed to correct computational errors relating to vesting terms on grants made in the first quarter of 2013.

The combined grant date fair value of the restricted stock issued by the Company for the three and six months ended June 30, 2015 was $250 and $2,167, respectively, compared to $250 and $3,703, respectively, for the three and six months ended June 30, 2014. As of June 30, 2015, the fair value of the Company’s outstanding restricted stock remaining to be amortized into compensation expense is $4,987 which will be recognized over a weighted average period of 2.0 years.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated events and circumstances occurring as of and through the date this Quarterly Report on Form 10-Q was filed with the SEC and has determined that there have been no significant events or circumstances that qualify as a "recognized" or "nonrecognized" subsequent event as defined by ASC Topic 855.

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 financial statements and the accompanying notes included in Item 1. “Financial Statements” in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2014. References herein to “Dynex,” the “Company,” “we,” “us,” and “our” inclu 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.

EXECUTIVE OVERVIEW

Company Overview

We are an internally managed mortgage real estate investment trust, or mortgage REIT, which invests in residential and commercial mortgage securities on a leveraged basis. Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "DX". We also have two series of preferred stock outstanding, our 8.50% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock") which is traded on the NYSE under the symbol "DXPRA", and our 7.625% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock") which is traded on the NYSE under the symbol "DXPRB". Our objective is to provide attractive risk-adjusted returns to our shareholders over the long term that are reflective of a leveraged, high quality fixed income portfolio with a focus on capital preservation. We seek to provide returns to our shareholders primarily through regular quarterly dividends and also through capital appreciation.

We were formed in 1987 and commenced operations in 1988. From our inception through 2000, our operations largely consisted of originating and securitizing various types of loans, principally single-family and commercial mortgage loans and manufactured housing loans. Since 2000, we have been investing in Agency and non-Agency mortgage-backed securities (“MBS”) and are no longer originating or securitizing mortgage loans. MBS consist of residential MBS (“RMBS”) and commercial MBS (“CMBS”), including CMBS interest-only ("IO") securities. Agency MBS have a guaranty of principal payment by an agency of the U.S. government or a U.S. government-sponsored entity ("GSE") such as Fannie Mae and Freddie Mac. Non-Agency MBS have no such guaranty of payment.

Our primary source of income is net interest income, which is the excess of the interest income earned on our investments over the cost of financing these investments. We invest our capital pursuant to our Operating Policies as approved by our Board of Directors which include an Investment Policy and Investment Risk Policy. For more information see Part I, Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2014 under “Company Overview - Operating Policies and Restrictions.”

RMBS. Our Agency RMBS investments include MBS collateralized by adjustable-rate mortgage loans ("ARMs"), which have interest rates that generally will adjust at least annually to an increment over a specified interest rate index, and hybrid adjustable-rate mortgage loans ("hybrid ARMs"), which are loans that have a fixed rate of interest for a specified period (typically three to ten years) and then adjust their interest rate at least annually to an increment over a specified interest rate index. Agency ARMs also include hybrid Agency ARMs that are past their fixed-rate periods or within twelve months of their initial reset period. We may also invest in fixed-rate Agency RMBS from time to time.

We also invest in non-Agency RMBS, which do not carry a principal guarantee from the U.S. government or a GSE. Non-Agency RMBS are collateralized by non-conforming residential mortgage loans and credit tranched into different classes of securities with payments to junior classes subordinate to senior classes. We generally invest in senior classes of non-Agency RMBS that are of higher credit quality and which may include unrated securities that have sufficiently high collateralization to protect our investment from most credit events.

CMBS. Our Agency and non-Agency CMBS are collateralized by first mortgage loans and are primarily fixed-rate securities but also include securities with rates that reset monthly based on an index rate, such as LIBOR. Loans underlying CMBS generally are geographically diverse, are fixed-rate, mature in ten to twelve years and have amortization terms of up to 30 years. The majority of the loans collateralizing our CMBS are secured by multifamily properties. Typically these loans have some form of prepayment protection provisions (such as prepayment lock-out) or prepayment compensation provisions (such as yield maintenance or prepayment penalty). Yield maintenance and prepayment penalty requirements are intended to create an economic disincentive for the loans to prepay.

CMBS IO. A portion of our Agency and non-Agency CMBS includes IO securities which represent the right to receive interest payments (but not principal cash flows) based on the unpaid principal balance of the underlying pool of mortgage loans. As these securities have no principal associated with them, the interest payments received are based on the unpaid principal balance of the underlying pool of mortgage loans, which is often referred to as the notional amount. CMBS IO securities generally have some level of prepayment protection in the form of lock-outs, prepayment penalties, or yield maintenance associated with the underlying loans similar to CMBS described above.

Factors that Affect Our Results of Operations and Financial Condition

The performance of our investment portfolio, including the amount of net interest income we earn and fluctuations in investment values, will depend on multiple factors, many of which are beyond our control. These factors include, but are not limited to, the absolute level of interest rates, changes in expectations with regard to future interest rates, the relative steepness of interest rate curves, actual and estimated future prepayment rates on our investments, competition for investments, economic conditions and their impact on the credit performance of our investments (including multifamily, residential and commercial mortgage markets), and market required yields as reflected by market credit spreads. In addition, the performance of our investment portfolio, the cost and availability of financing and the availability of investments at acceptable return levels could be influenced by actions and policy measures of the U.S. government including, but not limited to, the Federal Housing Finance Administration, the U. S. Department of the Treasury (the "Treasury"), and the Board of Governors of the Federal Reserve System (the "Federal Reserve") and could also be influenced by other central banks around the world.

Our business model may also be impacted by other factors such as the availability and cost of financing and the state of the overall credit markets. Reductions in the availability of financing for our investments could significantly impact our business and force us to sell assets that we otherwise would not sell, potentially at losses depending on market conditions. Recent regulatory developments impacting large U.S. domiciled banks and their broker dealer subsidiaries have in some instances reduced their capacity to lend. Broadly, U.S. and international regulators are seeking to force regulated financial institutions to hold more capital against their assets, including reverse repurchase agreements. We have not yet seen a reduction in the availability of financing. We also maintain a diverse set of counterparties including broker dealer subsidiaries of non-U.S. domiciled banks and independent dealers to attempt to mitigate this risk. Other factors also impacting our business include changes in regulatory requirements, including requirements to qualify for registration under the Investment Company Act of 1940, and REIT requirements.

As discussed above, investing in mortgage-related securities on a leveraged basis subjects us to a number of risks including interest rate risk, prepayment and reinvestment risk, credit risk, market value risk and liquidity risk, which are discussed in "Liquidity and Capital Resources" within this Item 2 and in Part I, Item 3 of this Quarterly Report on Form 10-Q as well as in Item 1A, "Risk Factors" of Part I, and in Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" of Part II of our Annual Report on Form 10-K for the year ended December 31, 2014. Please see these Items for a detailed discussion of these risks and the potential impact on our results of operations and financial condition.

Highlights of the Second Quarter and First Six Months of 2015 and Outlook for Third Quarter of 2015

Comprehensive loss to common shareholders was $(11.5) million, or $(0.21) per common share, for the second quarter of 2015, and our book value declined $0.43 to $8.53 per common share as of June 30, 2015. Comprehensive loss to common shareholders and the decline in book value per common share were impacted primarily by spread widening in hybrid ARMs and increasing interest rates during the second quarter, particularly in the 5-10 year part of the yield curve, which caused our net unrealized gain on MBS, a component of accumulated other comprehensive income ("AOCI"), to decline $40.5 million. This decline was partially offset by an increase of $18.9 million in the fair value of our derivative instruments, which consist of interest rate swaps and Eurodollar futures and are intended to hedge against our book value and net interest income exposure to changing interest rates. Net income to common shareholders, which includes changes in fair value of derivative instruments but does not include changes in unrealized gain (loss) on MBS, increased to $28.2 million, or $0.52 per common share for the second quarter of 2015 compared to a net loss to common shareholders of $(11.8) million for the first quarter of 2015.

Core net operating income, a non-GAAP measure which excludes changes in unrealized gain (loss) of MBS and derivative instruments as well as certain other items, was $11.6 million, or $0.21 per common share, for the second quarter of 2015. Core net operating income declined from $0.23 per common share in the first quarter of 2015 due to an increase in premium amortization on Agency RMBS of $1.8 million, or $0.03 per common share, from faster prepayment speeds as well as an increase in net periodic interest costs related to hedging activity and an increase in operating expenses during the second quarter of $0.5 million, or $0.01 per common share. Partially offsetting the additional Agency RMBS premium amortization was an increase of approximately $0.7 million, or $0.01 per common share, in net prepayment compensation on CMBS and CMBS IO received during the quarter. Actual prepayment speeds on the Company's Agency RMBS as measured by constant prepayment rate, or CPR, were 16.7% during the second quarter of 2015 versus 12.4% during the first quarter of 2015 as the decline in interest rates in the first quarter of 2015 led to faster prepayment speeds in the second quarter.

For the six months ended June 30, 2015, comprehensive loss to common shareholders was $(0.2) million and book value per common share declined $0.49, or 5%. For the first six months of 2015, the two-year U.S. Treasury rate had a high of 0.73% and a low of 0.41%, and the ten-year U. S. Treasury rate had a high of 2.48% and a low of 1.64%. The high degree of volatility in U.S. interest rates was driven by general economic uncertainty and global interest rates, particularly in the Eurozone and was also accompanied by widening in spreads in both Agency and non-Agency MBS. The combination of these two factors caused declines during the six months ended June 30, 2015 in both our MBS prices (a net unrealized loss of $18.5 million) and derivative instruments (a net change in fair value of $5.6 million), negatively impacting our comprehensive income and more than offsetting the net interest income earned on our investments. Core net operating income during the six months ended June 30, 2015 declined to $24.0 million, or $0.44 per common share, compared to $27.9 million, or $0.51 per common share, for the six months ended June 30, 2014. The decline was driven largely by lower net interest income from a smaller earning asset base and higher general and administrative expenses.

Overall leverage increased to 6.2 times total shareholders’ equity as of June 30, 2015 from 5.0 times as of December 31, 2014 and 5.7 times as of March 31, 2015. This increase in leverage is due to an increase in our repurchase agreement borrowings and lower total shareholders' equity. Our repurchase agreement borrowings increased in order to finance investment purchases during the first six months of 2015. Our total shareholder's equity declined primarily because the decline in net unrealized gain on MBS, which resulted from increases in interest rates and spread widening across our portfolio, lowered our AOCI from December 31, 2014 to June 30, 2015. Additionally, additional paid-in capital declined as a result of share repurchases during the first six months of the year.

The table below provides quarterly information on weighted average effective yields by type of investment as well as cost of funds and other information. Weighted average effective yields are derived by dividing annualized interest income by the average amortized cost of the related assets, and cost of funds are derived by dividing annualized interest expense by the daily average balance of the related liabilities.

	Three Months Ended				
	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
Effective yield:					
RMBS	1.82%	1.88%	1.87%	1.82%	1.85%
CMBS	3.38%	3.70%	4.09%	4.45%	4.66%
CMBS IO	3.86%	3.83%	3.94%	4.14%	4.21%
All other investments	4.24%	4.13%	4.68%	5.16%	5.17%
Total effective yield	2.63%	2.62%	2.64%	2.73%	2.79%
Cost of funds	(0.66)%	(0.69)%	(0.72)%	(0.70)%	(0.75)%
GAAP net interest spread	1.97%	1.93%	1.92%	2.03%	2.04%
Total effective yield (from above)	2.63%	2.62%	2.64%	2.73%	2.79%
Effective borrowing rate (1)	(0.77)%	(0.66)%	(0.67)%	(0.80)%	(0.87)%
Adjusted net interest spread (1)	1.86%	1.96%	1.97%	1.93%	1.92%

(1) Represents a non-GAAP financial measure. Please refer to the discussion regarding the use of non-GAAP financial measures and to the corresponding reconciliations of GAAP to non-GAAP financial measures provided in "Results of Operations" within this Item 2.

As we move into the second half of 2015, the Federal Reserve Open Market Committee (the "FOMC") is likely to begin monetary policy tightening as it begins to move the targeted Federal Funds Rate higher from its current range of 0.0-0.25%. Currently, the market is pricing in four increases of 0.25% in the Federal Funds rate through 2016 and over six 0.25% increases through 2017. We believe global market conditions, including the economic slowdown in China and weakness in Japan and the Eurozone, will ultimately impact the ability of the FOMC to raise rates and should keep longer term rates in the U.S. low for the foreseeable future. We continue to maintain a positive duration gap (i.e., we are more sensitive to an increase in interest rates than a decrease in interest rates) in the expectation that global economic conditions may limit the number of interest rate increases by the FOMC. Our duration gap as currently positioned exposes us to a steeper yield curve from long-term rates rising faster than short-term rates. Reducing our duration gap, however, would expose us to risk from a sudden downward movement in interest rates, an event which we deem has a reasonable probability of occurring given the weakness in global economic conditions.

As we have noted before, if the FOMC raises the Federal Funds Rate in 2015, we expect our borrowing costs to rise and our net interest income and net interest spread to decline. A decline in our net interest income could result in a reduction of our common stock dividend depending, among other things, on the outlook for future increases in the Federal Funds rate.

From an investment point of view, we continue to focus on multifamily Agency CMBS, Agency and non-Agency CMBS IO as well as selectively investing in RMBS with an anticipated focus on re-performing and non-performing loan securitizations ("RPL/NPL securities"). We currently see less value in hybrid ARMs given the lack of supply which has increased prices and reduced available yields on this investment. From a financing point of view, with our wholly owned captive insurance subsidiary becoming a member of the FHLB system this quarter, we expect that we will expand our business with the FHLBI as a potential source of stable and lower cost financing for our high credit-quality investments. We also expect to expand our business in the next several quarters with private, direct providers of repurchase agreement financing. These providers are generally seeking to lend against high credit-quality collateral such as Agency MBS.

Trends and Recent Market Impacts

There are a number of key macroeconomic factors, conditions, and prospective trends that may impact our business. Factors, conditions, and trends that had significant developments during the first six months of 2015 are discussed below.

Interest rates remained volatile during the second quarter of 2015, more than reversing all of the declines that occurred in the first quarter of 2015. After rallying during the first quarter from 2.17% to 1.92%, the 10-year U.S. Treasury sold-off in the

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second quarter from 1.92% to 2.35%. During the second quarter of 2015, the difference between the 2-year U.S. Treasury and the 10-year U.S. Treasury, increased from 136 basis points to 170 basis points. Generally, a steeper yield curve as measured by the difference between the yield on the 2-year U.S. Treasury bonds versus the 10-year U.S. Treasury bonds suggests positive economic activity and market concerns about the potential risks of inflation. As noted above, market participants anticipate that the FOMC will begin to raise the Federal Funds Rate later this year. While the U.S. is showing positive signs of economic growth, other large and important economies around the world are experiencing weak growth and central banks in these economies are generally easing monetary conditions. The impact on longer term rates in the U.S. from the FOMC activity is unknown at this time and interest rates are likely to remain volatile for the foreseeable future.

Regulatory impacts on financial institutions, many of which are our trading and financing counterparties, continue to pose a threat in our view to the overall liquidity in the capital markets. In particular, higher capital requirements under U.S. banking regulations adopted in 2013 and 2014 and the Dodd-Frank Wall Street Reform and Consumer Protection Act’s limitations on the proprietary trading activities of large U.S. financial institutions could result in reduced liquidity in times of market stress. While the Federal Reserve continues to reinvest principal payments received on its Agency RMBS portfolio, it is unlikely that this activity will provide enough liquidity to the market in times of stress, which could result in volatile asset prices. Further, the impact on market liquidity from the FOMC actions noted above are unknown given the reduced market liquidity.

CRITICAL ACCOUNTING POLICIES

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. The discussion and analysis of our financial condition and results of operations also consider certain non-GAAP measures as described in "Non-GAAP Financial Measures" in this Part I, Item 2.

Critical accounting policies 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 accounting policies that require the most significant management estimates, judgments, or assumptions, or that management believes includes the most significant uncertainties, and are considered most critical to our results of operations or financial position relate to fair value measurements, amortization of investment premiums, and other-than-temporary impairments. Our critical accounting policies are discussed in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2014 under “Critical Accounting Policies”. There have been no significant changes in our critical accounting policies during the six months ended June 30, 2015.

FINANCIAL CONDITION

The following table presents our assets (net of associated financing in the case of investments) as a percentage of our shareholders' equity as of the dates indicated:

	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
RMBS	26 %	27 %	35 %	35 %	37 %
CMBS	28 %	34 %	29 %	25 %	26 %
CMBS IO	23 %	24 %	20 %	17 %	21 %
Other investments (1)	4 %	4 %	3 %	3 %	4 %
Other, net (2)	19 %	11 %	13 %	20 %	12 %
	100 %	100 %	100 %	100 %	100 %

(1) Other investments include mortgage loans held for investment, net and investment in limited partnership.
(2) Other, net consists of derivative assets and liabilities and non-investment assets and liabilities.

RMBS

Our RMBS are collateralized substantially by ARMs and hybrid ARMs. Activity related to our RMBS for the six months ended June 30, 2015 is as follows:

($ in thousands)	Agency RMBS	Non-Agency RMBS	Total
Balance as of December 31, 2014	$2,186,700	22,448	$2,209,148
Purchases	—	67,693	67,693
Principal payments	(198,268)	(16,297)	(214,565)
Sales	(158,566)	—	(158,566)
Net (amortization) accretion	(11,368)	23	(11,345)
Change in net unrealized loss	4,774	15	4,789
Balance as of June 30, 2015	$1,823,272	$73,882	$1,897,154

Our investment in RMBS as of June 30, 2015 has decreased since December 31, 2014 as principal payments and sales have outpaced purchases. Sales of Agency RMBS have consisted of certain lower yielding Agency ARMs that were at or near their interest rate reset periods and would have reset to lower coupon interest rates given the expected rates over the near term. We significantly increased our non-Agency RMBS portfolio by purchasing senior tranches of non-performing loan securities with short durations ranging between one and two years. Though not rated, these investments have substantial credit enhancement within the securitization structure, and we believe that they offer an attractive return profile with relatively stable cash flows. These non-Agency RMBS were purchased at or near par and had a weighted average yield of 3.56% for the six months ended June 30, 2015.

As of June 30, 2015, approximately 97% of our variable-rate Agency RMBS portfolio resets based on one-year LIBOR, which was 0.77% as of June 30, 2015. The following table presents the reset margin and weighted average coupon (“WAC”) by weighted average months to reset ("MTR") for the variable-rate portion of our Agency RMBS portfolio based on par value as of the dates indicated:

	June 30, 2015			December 31, 2014		
($ in thousands)	Par Value	Reset Margin	WAC	Par Value	Reset Margin	WAC
0-12 MTR	$351,767	1.81 %	2.69 %	$486,638	1.77 %	2.75 %
13-36 MTR	341,722	1.80 %	3.63 %	286,741	1.84 %	3.87 %
37-60 MTR	211,399	1.79 %	3.07 %	399,643	1.79 %	3.22 %
61-84 MTR	495,840	1.79 %	3.21 %	268,864	1.80 %	3.54 %
85-120 MTR	325,008	1.62 %	2.60 %	627,772	1.69 %	2.75 %
ARMs and Hybrid ARMs	1,725,736	1.76 %	3.06 %	2,069,658	1.77 %	3.10 %
Fixed	16,260		2.50 %	17,149		2.51 %
Total	$1,741,996		3.05 %	$2,086,807		3.09 %

CMBS

Our Agency CMBS are collateralized primarily by fixed rate mortgage loans secured by multifamily properties. Our non-Agency CMBS are collateralized by fixed rate mortgage loans secured by income producing properties such as office, retail, hotel, and multifamily. Both Agency and non-Agency CMBS will generally have some form of prepayment protection provisions (such as prepayment lock-outs) or prepayment compensation provisions (such as yield maintenance or prepayment penalties) to prevent early voluntary prepayment of principal.

Activity related to our CMBS for the six months ended June 30, 2015 is as follows:

($ in thousands)	Agency CMBS	Non-Agency CMBS	Total
Balance as of December 31, 2014	$335,197	$208,038	$543,235
Purchases	767,276	12,999	780,275
Principal payments	(16,060)	(9,137)	(25,197)
Sales	(99,709)	—	(99,709)
Net (amortization) accretion	(2,839)	135	(2,704)
Change in net unrealized gain	(16,962)	(100)	(17,062)
Balance as of June 30, 2015	966,903	211,935	1,178,838

Our CMBS portfolio has more than doubled since December 31, 2014 primarily due to our purchases of recently issued Agency CMBS, which are generally backed by loans on multi-family properties. In the current low yield environment, we believe these bonds offer more compelling risk-adjusted returns given their limited prepayment and extension risks when compared to RMBS, stable cash flow profile, and lower spread risk.

The following table presents the par value, amortized cost, and weighted average months to estimated maturity of our CMBS investments as of June 30, 2015 by year of origination:

CMBS by year of origination:	June 30, 2015 Par Value	Amortized Cost	Months to Estimated Maturity (1)
($ in thousands)			
2000 and prior	$51,106	$43,169	37
2001 to 2005	24,863	26,592	57
2006 to 2008	42,651	44,855	31
2009 to 2012	267,533	278,661	47
2013 to 2014	110,799	111,194	54
2015	669,590	670,018	126
	$1,166,542	$1,174,489	92

(1) Months to estimated maturity is an average weighted by the amortized cost of the investment.

The geographic diversification of the collateral underlying our non-Agency CMBS has not changed significantly since December 31, 2014.

CMBS IO

The majority of our CMBS IO investments are collateralized primarily by fixed rate mortgage loans. Agency CMBS IO are exclusively collateralized by multifamily properties and non-Agency CMBS IO are secured by income producing properties such as office, retail, and hotel. Both types of CMBS IO have some form of prepayment protection (such as prepayment lock-outs) or prepayment compensation provisions (such as yield maintenance or prepayment penalties). Our CMBS IO investments are investment grade-rated with the majority rated 'AAA' by at least one of the nationally recognized statistical ratings organizations.

Activity related to our CMBS IO for the six months ended June 30, 2015 is as follows:

($ in thousands)	Agency CMBS IO (1)	Non-Agency CMBS IO (1)	Total
Balance as of December 31, 2014	$438,737	$325,119	$763,856
Purchases	65,598	85,651	151,249
Sales	(27,911)	(43,402)	(71,313)
Net premium amortization	(37,354)	(23,281)	(60,635)
Change in net unrealized gain	(3,409)	(2,857)	(6,266)
Balance as of June 30, 2015	$435,661	$341,230	$776,891

(1) Amounts shown for CMBS IO represent premium only and exclude underlying notional balances.

The underlying notional balances of our Agency and non-Agency CMBS IO portfolios were $11.2 billion and $9.6 billion, respectively, as of June 30, 2015 compared to $10.5 billion and $7.9 billion, respectively, as of December 31, 2014. The following table presents the notional value, amortized cost, and weighted average months to estimated maturity of our CMBS IO investments as of June 30, 2015 by year of origination:

	June 30, 2015		
CMBS IO by year of origination:	Notional Value	Amortized Cost	Months to Estimated Maturity (1)
($ in thousands)			
2010	$407,016	$20,782	58
2011	2,787,589	55,386	68
2012	3,477,282	147,222	73
2013	7,613,864		