
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 31, 2016

DYNEX CAPITAL, INC.

(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation)	1-9819 (Commission File Number)	52-1549373 (IRS Employer Identification No.)
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4991 Lake Brook Drive, Suite 100 Glen Allen, Virginia (Address of principal executive offices)	23060-9245 (Zip Code)
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Registrant's telephone number, including area code: **(804) 217-5800**

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 7.01 Regulation FD Disclosure.

Dynex Capital, Inc. (the “Company”) has updated its presentation materials to be used in meetings with shareholders and the investment community. The updated materials are attached hereto as Exhibit 99.1 and incorporated herein by reference. The updated materials will also be accessible online at the Company's website (www.dynexcapital.com) on the “Investor Center” page under “Presentations.”

The materials attached to this report as Exhibit 99.1 are furnished pursuant to Item 7.01 and shall not be deemed filed in this or any other filing of the Company under the Securities Exchange Act of 1934, as amended, unless expressly incorporated by reference in any such other filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
99.1	Investor presentation materials

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DYNEX CAPITAL, INC.

Date: May 31, 2016

By: /s/ Stephen J. Benedetti
Stephen J. Benedetti
Executive Vice President, Chief Financial
Officer and Chief Operating Officer

Exhibit Index

Exhibit No.	Description
99.1	Investor presentation materials



Sound Strategy. Unique Advantages.

KBW Mortgage Finance Conference

June 1, 2016

Safe Harbor Statement

NOTE:

This presentation contains certain statements that are not historical facts and that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this presentation addressing expectations, assumptions, beliefs, projections, estimates, future plans, strategies, and events, developments that we expect or anticipate will occur in the future, and future operating results or financial condition are forward-looking statements. Forward-looking statements in this presentation may include, but are not limited to, statements about projected future investment strategies, investment opportunities, future government or central bank actions and the impact of such actions, financial performance, dividends, leverage ratios, capital raising activities, share issuances and repurchases, the use or impact of NOL carryforwards, and interest rates. The words “will,” “believe,” “expect,” “forecast,” “anticipate,” “intend,” “estimate,” “assume,” “project,” “plan,” “continue,” and similar expressions also identify forward-looking statements. These forward-looking statements reflect our current beliefs, assumptions and expectations based on information currently available to us, and are applicable only as of the date of this presentation. Forward-looking statements are inherently subject to risks, uncertainties, and other factors, some of which cannot be predicted or quantified and any of which could cause the Company’s actual results and timing of certain events to differ materially from those projected in or contemplated by these forward-looking statements. Not all of these risks, uncertainties and other factors are known to us. New risks and uncertainties arise over time, and it is not possible to predict those risks or uncertainties or how they may affect us. The projections, assumptions, expectations or beliefs upon which the forward-looking statements are based can also change as a result of these risks and uncertainties or other factors. If such a risk, uncertainty, or other factor materializes in future periods, our business, financial condition, liquidity and results of operations may differ materially from those expressed or implied in our forward-looking statements.

While it is not possible to identify all factors, some of the factors that may cause actual results to differ from historical results or from any results expressed or implied by our forward-looking statements, or that may cause our projections, assumptions, expectations or beliefs to change, include the risks and uncertainties referenced in our Annual Report on Form 10-K for the year ended December 31, 2015 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption “Risk Factors”.



Dynex Intro

Our Core Values:

- Generate dividends for shareholders
- Manage leverage conservatively
- Remain owner-operators
- Maintain a culture of integrity and employ the highest ethical standards
- Provide a strong risk management culture
- Focus on preserving capital, while building long-term shareholder value

Market Snapshot:

	Common Stock	Preferred Stock	
NYSE Ticker:	DX	DXPrA	DXPrB
Shares Outstanding: (as of 3/31/16)	49,095,797	2,300,000	2,250,000
Q1 Dividends per share:	\$0.21	\$0.53125	\$0.476563
Dividend Yield: (annualized, based on 5/25/16 stock price)	12.59%	8.64%	8.13%
Share Price: (at 5/25/16)	\$6.67	\$24.60	\$23.45
Market Capitalization: (based on 3/31/16 shares outstanding and 5/25/16 stock price)	\$327.5M	\$56.6M	\$52.8
Price to Book: (based on 3/31/16 book value and 5/25/16 stock price)	88.5%	-	-



Long-Term Value is Driven by Above Average Dividends

Total Return (%) January 1, 2008 – May 26, 2016



Source: SNL Financial



FIRST QUARTER 2016 PERFORMANCE



First Quarter 2016 Highlights

- **Comprehensive loss to common shareholders of \$0.04 per common share**
 - \$0.22 per common share from core net operating income⁽¹⁾
 - \$(0.18) per common share from realized losses on terminated hedges and sales of investments
 - No net unrealized gain on investments as spread widening offset lower rate benefit
- **Total economic return⁽²⁾ to common shareholders of 0.5%**
- **Core net operating income of \$0.22 per common share in 1Q16 versus \$0.25 per common share in 4Q15**
 - Smaller investment portfolio and higher funding and hedging costs in 1Q16
- **Net interest spread of 1.97% and adjusted net interest spread⁽¹⁾ of 1.76%**
- **Overall leverage of 6.4x at March 31, 2016 versus 6.5x at December 31, 2015**

⁽¹⁾ Reconciliations for non-GAAP measures are presented on slides 36-37.

⁽²⁾ Computed as dividends of \$0.21 per common share less book value decline of \$0.17 per common share dividend by beginning book value per common share of \$7.71



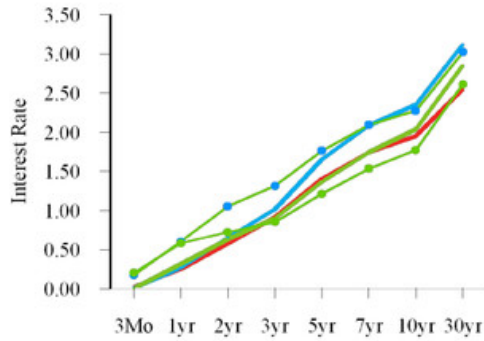
Investment Environment

- **Spreads have widened due to a combination of fundamental, technical, and psychological factors**
- **Global yields are low and the potential for sustained negative yields has increased the probability that yields will remain low and range bound**
- **Surprises are likely: Behavior of oil cartel, political factors, an environment with tepid growth and divergent central bank actions is creating volatility and opportunity**
- **Government policy will drive returns**
 - Central banks are impacting capital markets and asset prices
 - Regulation is redefining financial institutions' risk appetite and liquidity in the markets
- **Federal Reserve in action: Even if U.S. economic data unfolds with no negative surprises, Federal Reserve may not be able to raise rates further due to exogenous factors**
 - Flatter yield curve possible in the U.S.

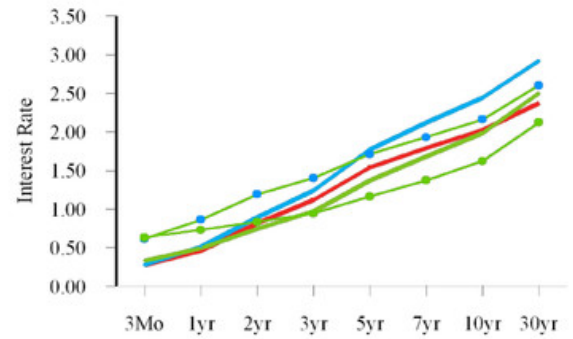


Market Moves

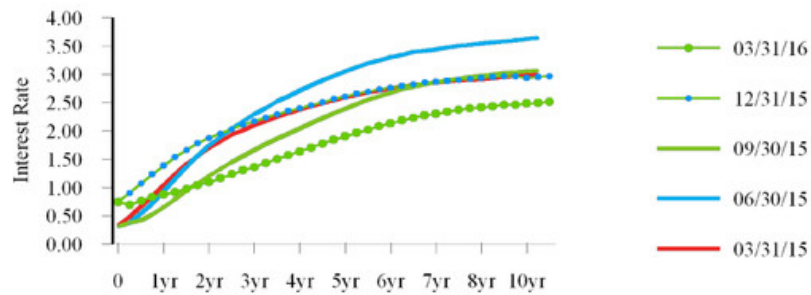
Treasury Curve



SWAPS



Eurodollars Futures



Source: Bloomberg

Credit Spread Environment *(in bps)*

Asset Class		12/31/13	12/31/14	3/31/15	6/30/15	9/30/15	12/31/15	3/31/16
Dynex Portfolio	Agency ARM 5/1	33	21	15	16	26	22	32
	Agency DUS	60	59	54	60	76	89	86
	Freddie K AAA IO	175	155	140	150	200	225	260
	AAA CMBS IO	170	165	170	175	225	240	265
	Freddie K B	210	170	145	157	305	350	420
	Freddie K C	310	250	205	228	325	480	625
IG Corporates		115	132	135	146	169	172	165
High Yield		441	562	546	521	698	746	753
AAA CMBS		90	88	85	92	119	138	128
AA CMBS		165	141	145	163	220	223	220
A CMBS		220	203	200	230	315	348	340
BBB CMBS		370	358	345	388	470	562	665
FN CC nominal/tsy		62	74	87	84	96	82	91
10y swap spreads		5.5	11.75	9	9.75	-4	-8.5	-13.5
CRT.M3-2014		-	475	397	425	460	478	466

Source: JP Morgan and Company data

Movement in Spreads

	NOMINAL SPREADS		OAS SPREADS		SPREAD CHANGE	
	3/31/2016	12/31/2015	3/31/2016	12/31/2015	Nominal	OAS
5/1	32	22	17	30	10	(13)
7/1	45	38	21	34	7	(13)
10/1	59	54	18	32	5	(14)
New DUS	86	89	86	89	(3)	(3)
New Agency CMBS IO	260	225	260	225	35	35
Non-Agency CMBS IO	265	240	265	240	25	25

Freddie K Multifamily Securitization

Credit Spread Performance (bps)						
Class	Rating	Class Structure	3/31/2016	12/31/2015	Nominal Spread Widening	%
A1	AAA	Senior P&I	63	65	(2)	(3)%
A2	AAA	Senior P&I	79	84	(5)	(6)%
X1	AAA	Senior IO	260	225	35	16%
B	BBB+	Sub P&I	420	350	70	20%
C	BBB-	Sub P&I	625	475	150	32%
X3	NR	Sub IO	735	585	150	26%

Source: JP Morgan and Company data



Macroeconomic and Policy Factors

- **Global leverage and increased levels of debt are negatively impacting economic stability and performance**
 - Slowing global growth
- **Extraordinary government involvement in the capital markets**
 - Divergent policy among global central banks
- **Complex, interconnected, fragile global environment**
 - Global currency war with unintended consequences
- **Stable or declining inflation**
- **Demographic trends contributing to private demand for fixed income assets**



Dynex Strategy Going Forward

- **Expect to make opportunistic investments and adjustments**
 - Redeploy capital out of lower yielding assets
 - Take action to reduce interest expense when appropriate
- **Maintain disciplined focus on risk position**
 - Focus on liquidity and capital
 - Maintain flexibility to react to dynamic environment
- **Liquidity and capital position allows us to be opportunistic**
 - Investment opportunities arise when spreads widen, but sufficient capital and liquidity are needed to withstand these situations and be able to invest



Outlook

- **We believe the opportunity continues to exist to earn above average dividend yields within a mortgage REIT structure**
 - The uncertainty of the environment could cause period to period volatility in our results, but we believe a diversified mortgage REIT model can deliver an above average dividend yield over the long term
 - Higher dividend yields should help cushion volatility in book value
- **Our diversified portfolio naturally delevers over time from paydowns which gives us the flexibility to reinvest or build our capital for future opportunities**
- **Uncertainty around economic growth, interest rates, regulatory changes, market reaction and global market imbalances requires discipline and vigilance**
- **Long term, we see opportunities for investments in both residential and commercial assets and in markets previously dominated by the Fed/GSEs**
- **We believe our strategy can produce solid dividend income that will drive long term returns despite periodic volatility in book value**



Comparable Total Return (annualized at March 31, 2016)

Index	Q1 2016	LTM*
DX (total economic return)	0.5%	-5.5%
DX (total shareholder return)	36.20%	-7.44%
Bloomberg Mortgage REIT index	15.77%	-8.72%
S&P 500	5.50%	1.77%
1-3 Year Treasury ETF	3.66%	0.75%
7-10 Year Treasury ETF	20.64%	3.69%
Real Estate ETF	21.31%	2.47%
Utilities ETF	78.06%	15.84%
Hedge Fund ETF – macro	0.32%	-5.11%
IG Corporate ETF	20.79%	1.02%
HY Corporate ETF	9.99%	-4.62%
Emerging markets ETF	28.16%	-12.69%
Infrastructure ETF	-22.43%	-27.52%

*LTM: Last Twelve Months

Source: Bloomberg

FINANCIAL PERFORMANCE DETAILS



Financial Performance - Comparative Quarters

	1Q2016		4Q2015	
(\$ in thousands, except per share amounts)	Income (Expense)	Per Common Share	Income (Expense)	Per Common Share
Interest income	\$25,089	\$0.51	\$25,522	\$0.52
Interest expense	(6,310)	(0.13)	(5,833)	(0.12)
Net periodic costs of hedges	(1,680)	(0.03)	(1,323)	(0.02)
Amortization of de-designated hedges	27	—	727	0.01
Adjusted net interest income⁽¹⁾	17,126	0.35	19,093	0.39
Other income, net	63	—	180	—
G & A expenses	(4,092)	(0.08)	(4,278)	(0.09)
Preferred stock dividends	(2,294)	(0.05)	(2,294)	(0.05)
Core net operating income to common shareholders ⁽¹⁾	10,803	0.22	12,701	0.25
Change in fair value of derivatives	(46,584)	(0.95)	19,177	0.39
Realized loss on sale of investments, net	(3,941)	(0.08)	(908)	(0.02)
Amortization of de-designated hedges	(27)	—	(727)	(0.01)
Fair value adjustments, net	24	—	(6)	—
GAAP net (loss) income to common shareholders	(39,725)	(0.81)	30,237	0.61
Unrealized gains (losses) on MBS	41,701	0.85	(45,604)	(0.92)
Amortization of de-designated hedges	27	—	727	0.01
Total comprehensive income (loss)	\$2,003	\$0.04	(\$14,640)	(\$0.30)

(1) Reconciliations for non-GAAP measures are presented on slides 36-37.

Book Value Rollforward

(\$ in thousands, except per share amounts)	\$ Amount	Per Common Share
Common Shareholders' Equity, December 31, 2015 ⁽¹⁾	\$378,275	\$7.71
GAAP Net Income:		
Core net operating income ⁽²⁾	10,803	0.22
Other	24	—
Realized losses on terminated derivatives and sales of MBS ⁽³⁾	(9,022)	(0.18)
Unrealized losses on derivatives	(41,503)	(0.85)
Unrealized gains on MBS	41,701	0.85
Dividends declared	(10,310)	(0.21)
Stock transactions, net	81	—
Common Shareholders' Equity, March 31, 2016 ⁽¹⁾	\$370,049	\$7.54

Attribution of net realized/unrealized losses:

- Wider spreads/basis risk - (\$28,509)
- Lower interest rates - \$19,685
- Net - (\$8,824)

(1) Common shareholders' equity represents total shareholders' equity less the liquidation value of preferred stock of \$113.8 million.

(2) Reconciliations for non-GAAP measures are presented on slides 36-37.

(3) Includes loss on sales of MBS investments of \$(3,941) and realized loss on derivatives of \$(5,082) during the quarter



INVESTMENT PORTFOLIO DETAILS



Portfolio Details* (as of March 31, 2016)

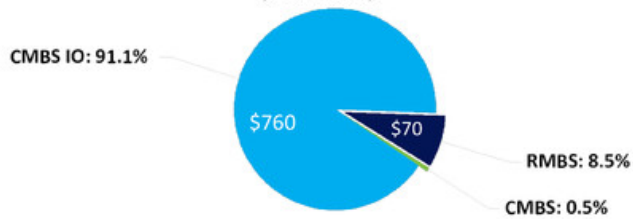
Credit Quality



Agency MBS are considered AAA-rated for purposes of this chart.

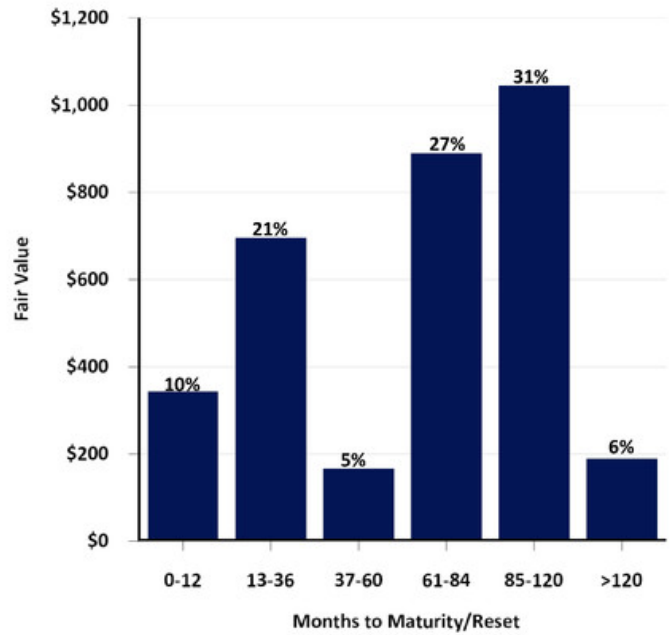
Net Premium by Asset Type

(\$ in millions)

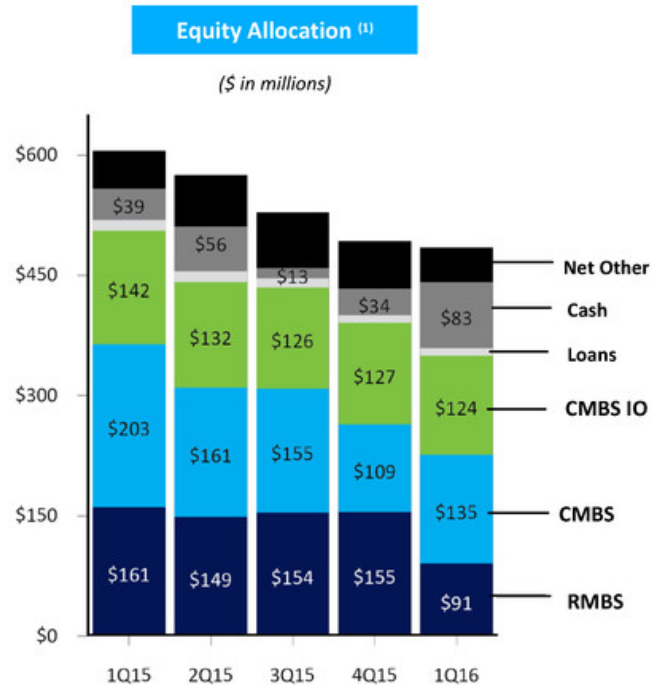
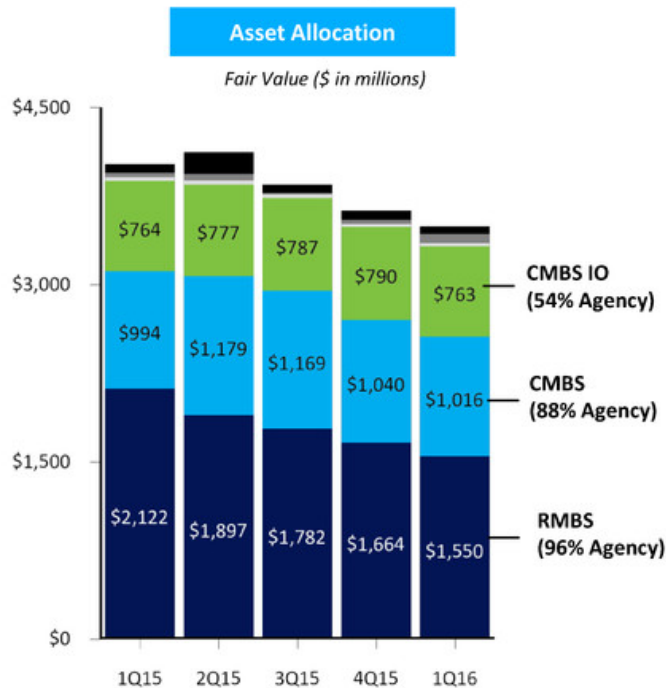


** MBS investments only, excludes loans held for investment.*

Portfolio Expected Maturity/Reset Distribution



Asset and Equity Allocations Comparison at Quarter End



- The majority of our capital is invested in the commercial sectors: CMBS and CMBS IO.
- Approximately 56% of our total equity is allocated to Agency.

(1) Equity allocation is computed as asset basis less associated financing, where applicable. Net Other includes all non-investment assets/financing liabilities.



Capital Deployment in Portfolio

(\$ in thousands)

	<u>03/31/2016</u>	<u>12/31/2015</u>	<u>QoQ Change</u>
Investments	\$3,363,596	\$3,540,157	(\$176,561)
Financing	2,993,159	3,117,862	(124,703)
Leverage ⁽¹⁾	6.4x	6.5x	(0.1)x
Funding			
Original Days to Maturity	62 days	67 days	(5) days
Remaining Days to Maturity	23 days	22 days	1 days

<u>Asset Type</u>	<u>QoQ Change in Investments</u>
Agency RMBS	(\$109,688)
Non-Agency RMBS	(4,453)
Agency CMBS	12,192
Non-Agency CMBS	(35,830)
Agency CMBS IO	(16,480)
Non-Agency CMBS IO	(10,690)
Loans and other investments	(11,612)
Total	<u>(\$176,561)</u>

⁽¹⁾ Leverage is based on total liabilities divided by stockholders equity.



Diversified Funding Sources *(as of March 31, 2016)*

Counterparty Region	#	% of all REPO
North America	13	73.5%
Europe	2	9.2%
Asia	4	17.3%
Total	19	100%

Counterparty Type	#	% of all REPO
Broker/Dealers	4	23.3%
Domestic Banks	7	38.4%
Foreign Banks	8	38.3%
Total	19	100%

- We maintain a diversified funding platform with over 30 established counterparties, currently active with 19 counterparties
- Our funding is well diversified by counterparty and geography
- Repo markets remain highly liquid and we anticipate no impact on liquidity and funding from termination of FHLB membership



Risk Position

Treasury Yields ⁽¹⁾	As of March 31, 2016	As of December 31, 2015
2Y	0.72%	1.06%
5Y	1.21%	1.76%
10Y	1.77%	2.27%
30Y	2.61%	3.01%

Parallel Change in Treasury Yields (in basis points)	Percentage Change in Projected Market Value of Assets Net of Hedges	
	As of March 31, 2016	As of December 31, 2015
+100	(1.04)%	(0.83)%
+50	(0.45)%	(0.37)%
+25	(0.21)%	(0.17)%
-25	0.19%	0.13%

Curve Shift 2 year Treasury (in basis points)	Curve Shift 10 year Treasury (in basis points)	Percentage Change in Projected Market Value of Assets Net of Hedges	
		As of March 31, 2016	As of December 31, 2015
0	+25	0.04%	(0.03)%
+10	+50	(0.01)%	(0.11)%
+25	+75	(0.13)%	(0.22)%
+25	0	(0.16)%	(0.07)%
+50	0	(0.33)%	(0.15)%
-10	-50	(0.06)%	0.01%

Parallel Change in Market Credit Spreads	Percentage Change in Projected Market Value of Assets Net of Hedges	
	As of March 31, 2016	As of December 31, 2015
+50	(2.23)%	(2.09)%
+25	(1.12)%	(1.05)%
-25	1.13%	1.06%
-50	2.28%	2.14%

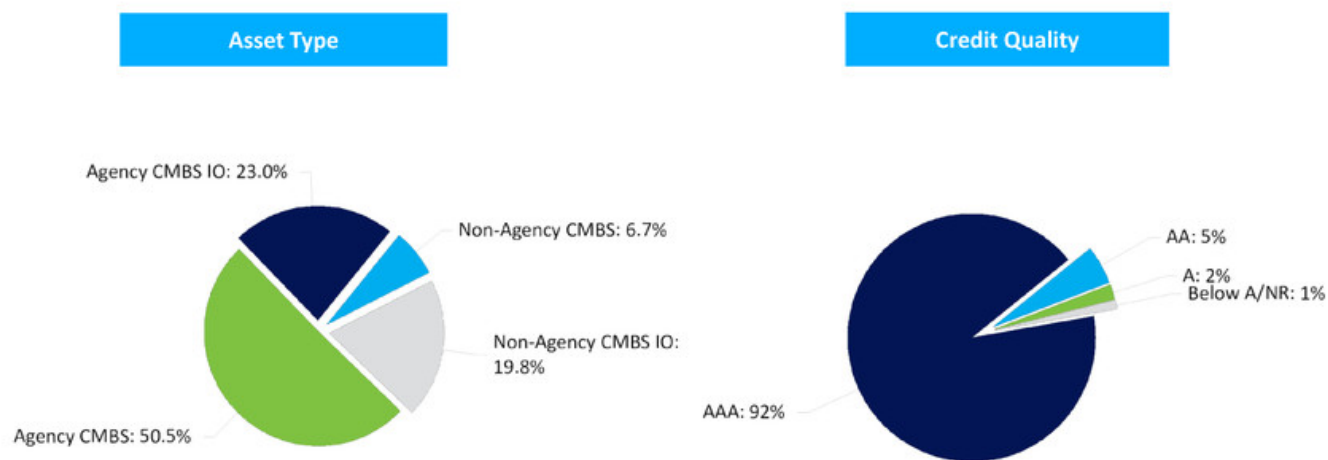
⁽¹⁾Treasury yields source: KBW



APPENDIX



CMBS and CMBS IO Portfolio Details *(as of March 31, 2016)*



Agency MBS are considered AAA-rated for purposes of this chart.

CMBS

(as of March 31, 2016)

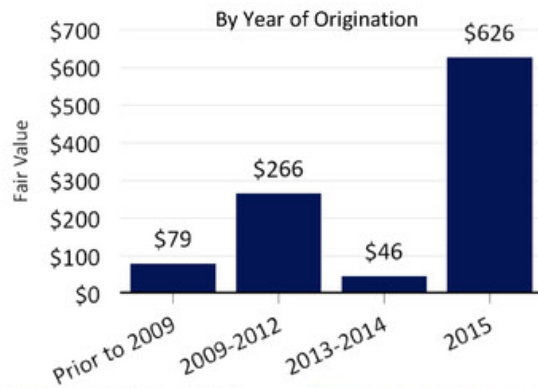
(\$ in millions)

Credit Quality



Agency MBS are considered AAA-rated for purposes of this chart.

Vintage

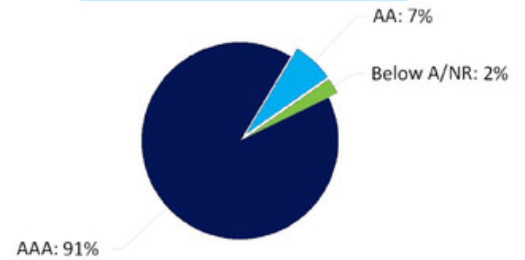


CMBS IO

(as of March 31, 2016)

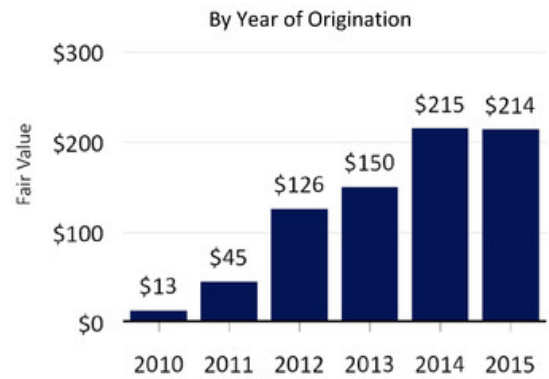
(\$ in millions)

Credit Quality



Agency MBS are considered AAA-rated for purposes of this chart.

Vintage



RMBS (as of March 31, 2016)

(\$ in millions)

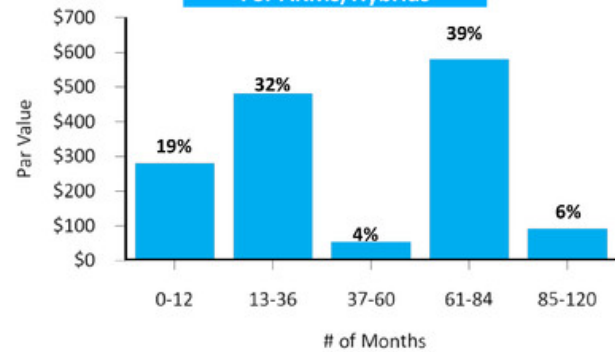
Credit Quality

Agency RMBS (AAA): 96.0%

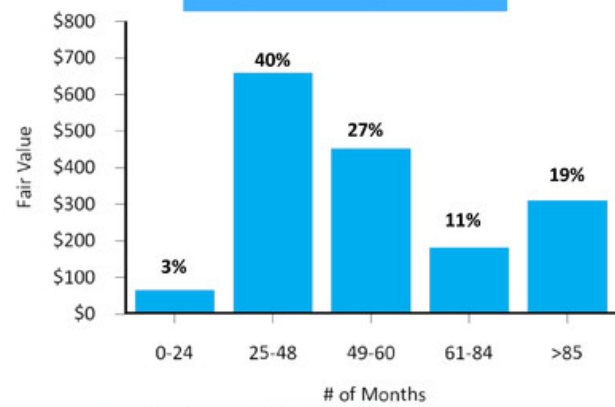


Non-Agency RMBS (Below A/Not Rated): 4.0%

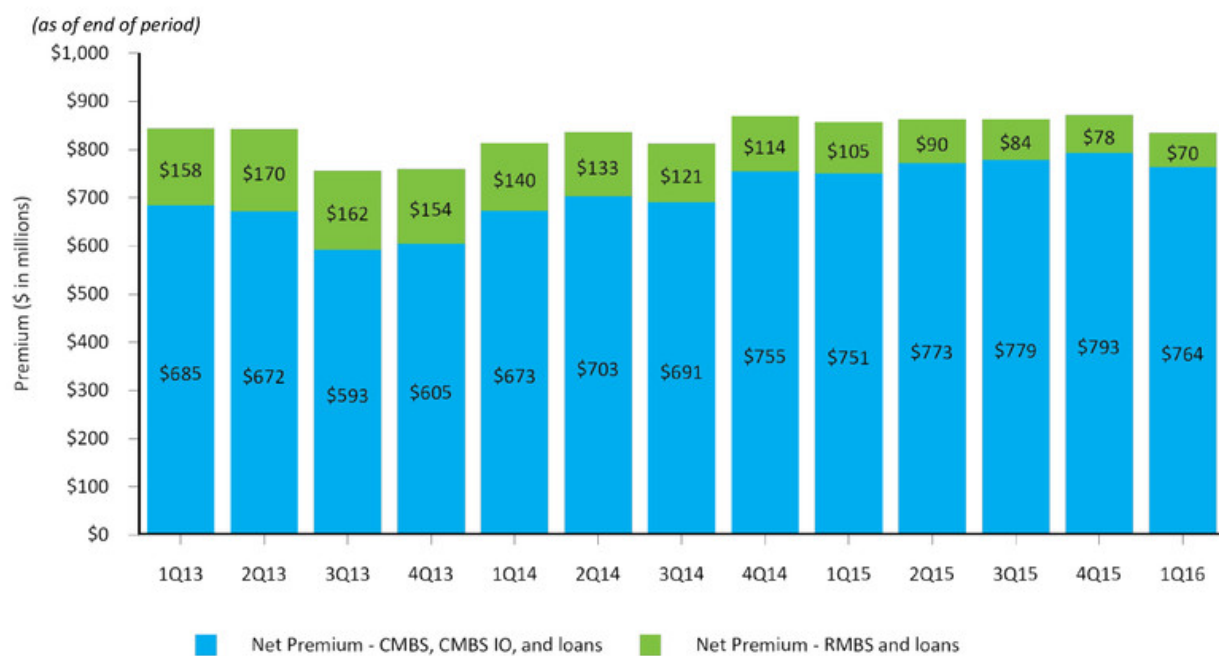
Months to Maturity/Reset For ARMs/Hybrids



Weighted Average Loan Age

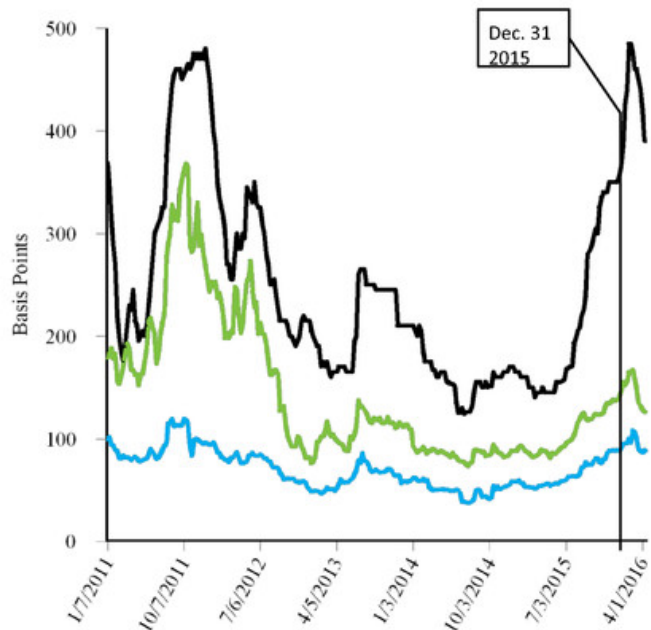


Investment Premium Allocation

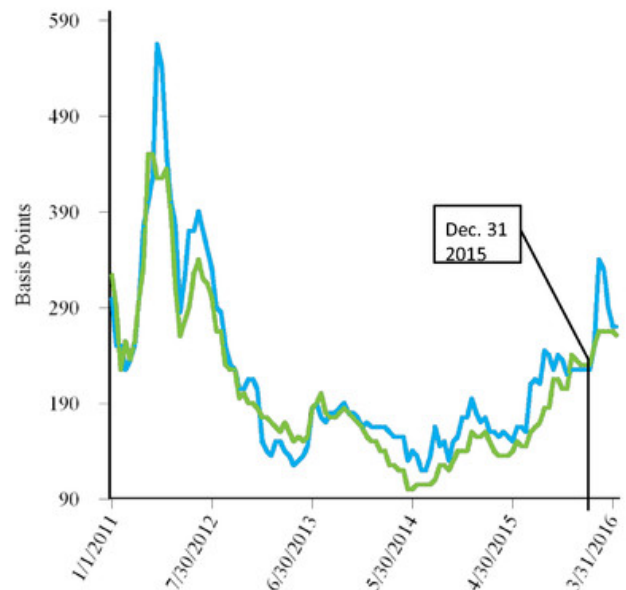


CMBS and CMBS IO Nominal Spreads

CMBS Spreads



CMBS IO Spreads



AAA DUS Freddie Credit

Freddie IO CMBS IO

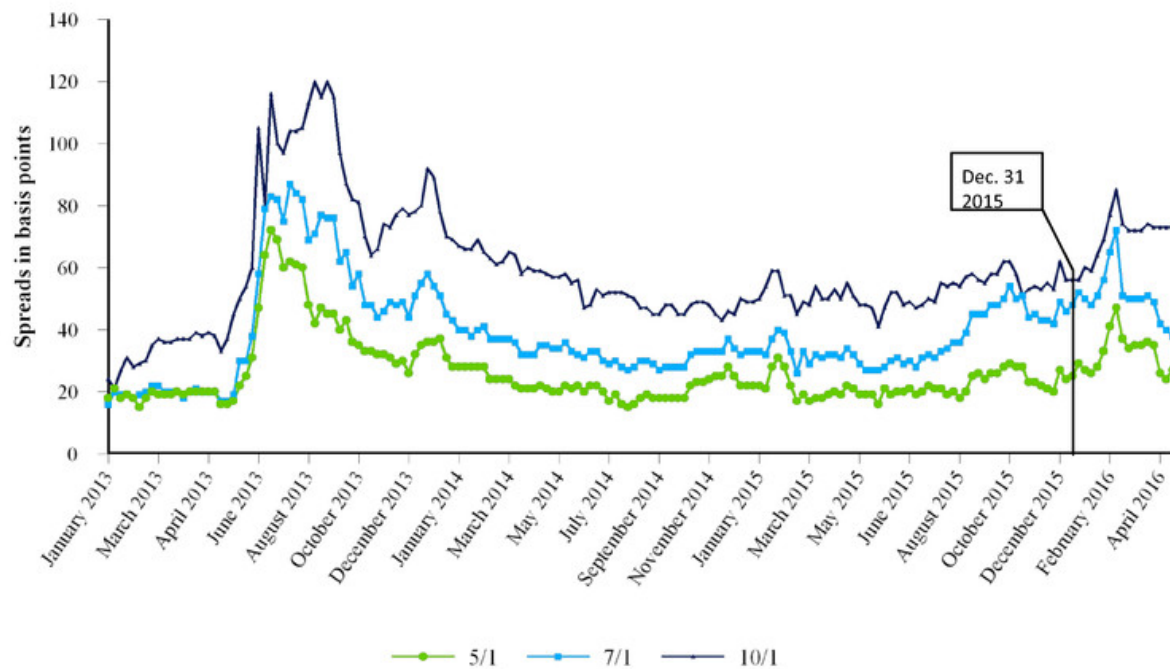
Source: Company data

Agency Multifamily CMBS Nominal Spreads



Source: Company data

Agency RMBS Nominal Spreads



Source: Company data

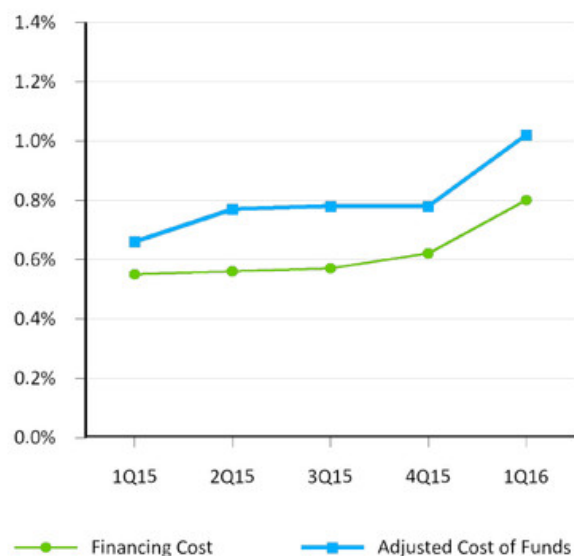


Financing Details

Financing Amounts by
Original Term to Maturity
(as of March 31, 2016)



Financing Costs and
Adjusted Cost of Funds ⁽¹⁾
(for the quarterly periods indicated)

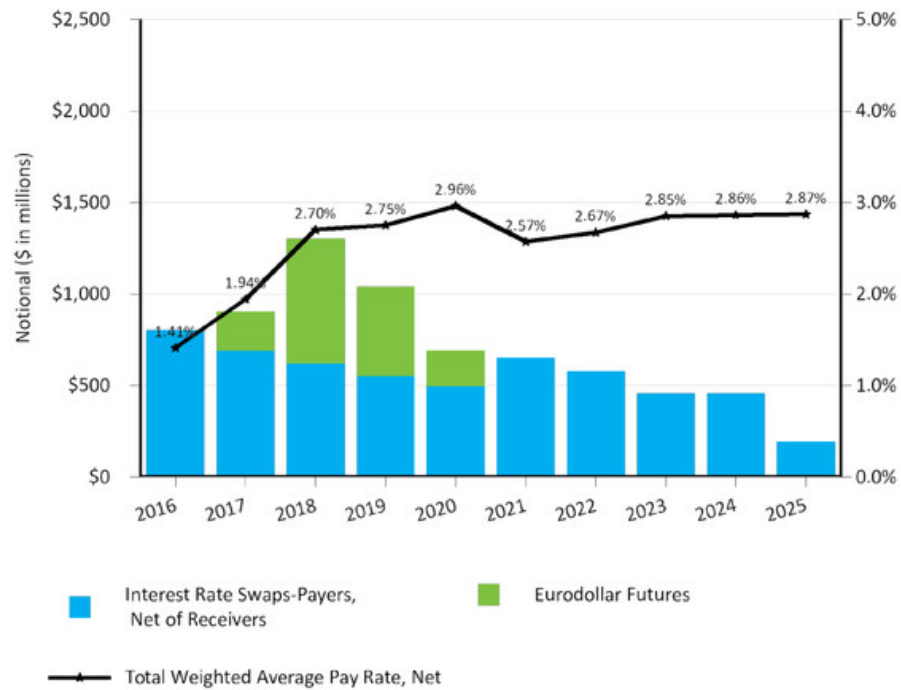


- Our weighted average contractual maturity for repurchase agreement borrowings was 62 days at March 31, 2016 compared to 67 days at December 31, 2015. The weighted average remaining maturity at March 31, 2016 was 23 days.
- Our repurchase agreement balance was \$2.7 billion at March 31, 2016 with 18 counterparties compared to \$2.6 billion with 19 counterparties at December 31, 2015. We currently have repurchase agreements available to us with 30 counterparties.
- The remaining balance of FHLB advances at March 31, 2016 of \$263 million are due in October 2016.

⁽¹⁾ Reconciliations for non-GAAP measures are presented on slides 36-37

Hedging Details

As of March 31, 2016



Risk Management

Key Risk	Mitigating Strategy
Interest Rate/Curve Twist/Extension Risk	Modeled Duration target of <u>0.5 to 1.5 years</u> Derivatives to economically hedge interest rate risk including key rate durations Invest in short duration assets and more predictable cash flows Invest in credit assets that should increase in value as rates rise
Prepayment Risk	Invest in CMBS investments with prepayment protection Invest in RMBS specified pools with diversity of prepayment risk
Credit Risk	Invest in high quality assets - 93.8% of MBS are AAA-rated* Hold credit risk in multifamily focused investments given fundamentals
Spread Risk	Actively manage portfolio construction and long-term portfolio strategy
Liquidity Risk	Diversified repurchase agreement counterparties and low leverage Unencumbered liquidity to meet expected risk events Actively manage liquidity position

**As of March 31, 2016, Agency MBS are considered AAA-rated.*



Dividend Character - 1Q16 *(Estimated)*

(\$ in thousands)

GAAP net loss to common shareholders	\$	(39,725)
GAAP net loss on taxable REIT subsidiary		(35)
GAAP net loss to common shareholders excluding taxable REIT subsidiary		(39,690)
Differences between GAAP income and Taxable income:		
Change in fair value of derivatives		46,584
Loss on sale of investments		(1,696)
Tax amortization on terminated derivative instruments		(5,429)
Other		973
Taxable income		742
Add back: Capital losses		5,637
Taxable income - ordinary income		6,379
Common dividend declared		11,771
Common dividend representing return of capital		\$5,392
% of common dividend representing return of capital		46.4%

- An estimated 46% of the common stock dividend for 1Q16 is a non-taxable return of capital



Reconciliation of GAAP Measures to Non-GAAP Measures

(\$ in thousands except per share data)

	Quarter Ended				
	<u>3/31/16</u>	<u>12/31/15</u>	<u>9/30/15</u>	<u>6/30/15</u>	<u>3/31/15</u>
Net (loss) income to common shareholders	(\$39,725)	\$30,237	(\$39,271)	\$28,168	(\$11,766)
Adjustments:					
Amortization of de-designated cash flow hedges ⁽¹⁾	27	727	857	857	1,057
Change in fair value on derivatives instruments, net	46,584	(19,177)	50,997	(18,883)	24,461
Loss (gain) on sale of investments, net	3,941	908	(113)	1,491	(1,308)
Fair value adjustments, net	(24)	6	(16)	(20)	(39)
Core net operating income to common shareholders	\$10,803	\$12,701	\$12,454	\$11,613	\$12,405
Core net operating income per common share	\$0.22	\$0.25	\$0.24	\$0.21	\$0.23

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



Reconciliation of GAAP Measures to Non-GAAP Measures

(\$ in thousands)

	Quarter Ended									
	3/31/16		12/31/15		9/30/15		6/30/15		3/31/15	
GAAP interest income/annualized yield	\$25,089	2.78%	\$25,522	2.74%	\$26,096	2.69%	\$24,527	2.63%	\$24,099	2.62%
GAAP interest expense/annualized cost of funds ⁽¹⁾	6,310	0.81%	5,833	0.70%	5,859	0.67%	5,542	0.66%	5,371	0.69%
GAAP net interest income/spread	\$18,779	1.97%	\$19,689	2.04%	\$20,237	2.02%	\$18,985	1.97%	\$18,728	1.93%
GAAP interest expense/cost of funds ⁽¹⁾	\$6,310	0.81%	\$5,833	0.70%	\$5,859	0.67%	\$5,542	0.66%	\$5,371	0.69%
Amortization of de-designated cash flow hedges ⁽²⁾	(27)	—%	(727)	(0.08)%	(857)	(0.10)%	(857)	(0.10)%	(1,057)	(0.14)%
Net periodic interest costs of derivatives	1,680	0.21%	1,323	0.16%	1,752	0.21%	1,793	0.21%	862	0.11%
Adjusted interest expense/adjusted cost of funds	\$7,963	1.02%	\$6,429	0.78%	\$6,754	0.78%	\$6,478	0.77%	\$5,176	0.66%
Adjusted net interest income/spread	\$17,126	1.76%	\$19,093	1.96%	\$19,342	1.91%	\$18,049	1.86%	\$18,923	1.96%

(1) Cost of funds is calculated by dividing annualized interest expense by the average balance of borrowings outstanding during the period.

(2) Amount recorded as a portion of "interest expense" in accordance with GAAP related to the amortization of the balance remaining in accumulated other comprehensive loss as of June 30, 2013 as a result of the Company's discontinuation of hedge accounting.



MREIT Glossary of Terms

Commercial Mortgage-Backed Securities (CMBS) are a type of mortgage-backed security that is secured by loans on commercial properties.

Credit Risk is the risk of loss of principal stemming from a borrower's failure to repay a loan.

Duration is a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

Interest Only Securities (IOs) is the interest only strips of mortgages which are separated and sold individually from the principal portions.

Interest Rate Risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.

Interest Rate Curve Twist Terms:

- **Bull Flatteners:** Change in the shape of the yield curve caused by long-term rates decreasing at a faster rate than short-term rates.
- **Bear Flatteners:** Change in the shape of the yield curve caused by short-term interest rates increasing at a faster rate than long-term interest rates.
- **Bear Steepeners:** Change in the shape of the yield curve caused by long-term rates increasing at a faster rate than short-term rates.
- **Bull Steepeners:** A change in the yield curve caused by short-term rates decreasing faster than long-term rates.



MREIT Glossary of Terms

Key Rate Duration is the measure of sensitivity to a change in the price of a security for a given change in interest rates at various points on an interest rate curve

Leverage is the use of borrowed money such as repurchase agreements to finance investments.

Prepayment Risk is the risk associated with the early unscheduled return of principal on an investment.

Repurchase Agreements are a short-term borrowing that uses loans or securities as collateral. The repurchase agreement lender advances a percentage of the value of the asset (the advance rate) versus the equity contribution of the borrower (the haircut).

Residential Mortgage-Backed Securities (RMBS) are a type of mortgage-backed debt obligation whose cash flows come from residential debt, such as mortgages loans.

Spread Risk is the uncertainty in pricing resulting from the expansion and contraction of the risk premium over the benchmark or the risk of how the spread of a security will react over the benchmarked security treasury curve.



