
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): September 26, 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.)
4991 Lake Brook Drive, Suite 100 Glen Allen, Virginia (Address of principal executive offices)		23060-9245 (Zip Code)

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

Exhibit No.	Description
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: September 26, 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



JMP Securities Financial Services
and Real Estate Conference

September 27, 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”.

Long-Term Value is Driven by Above Average Dividends

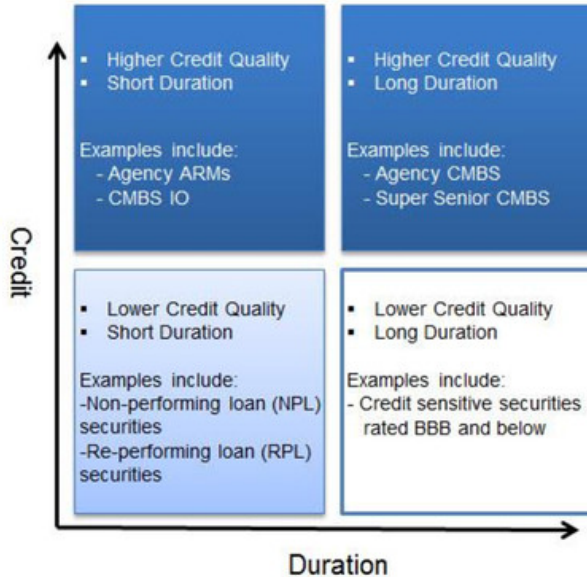
Total Return (%) January 1, 2003 – September 21, 2016



Source: SNL Financial

Investment Strategy

Diversified investment approach that performs in a variety of market environments

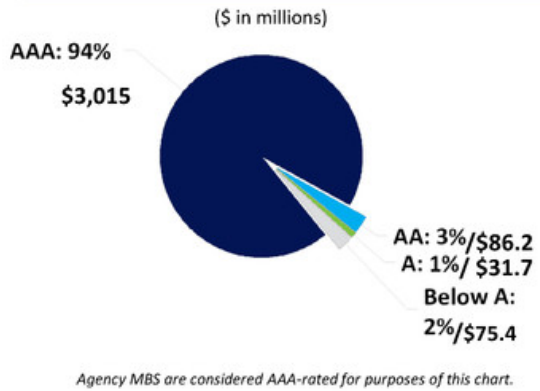


Our portfolio is primarily Agency guaranteed and structured to mitigate prepayment and credit risk

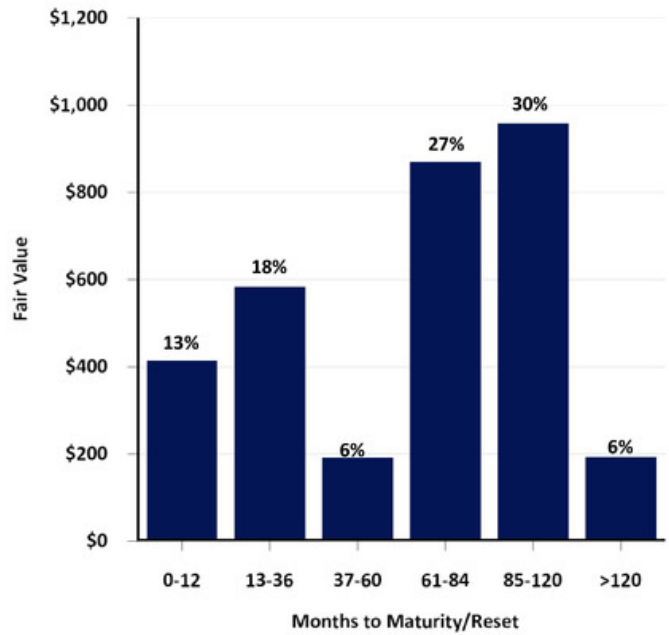
- We have prioritized a high credit quality and liquidity strategy
 - 94% AAA rated
 - 84% Agency guaranteed
- Our Agency and Non-Agency CMBS positions are protected from prepayments due to the locked out feature of the underlying loans
- Agency RMBS are short duration, seasoned, specified pools with superior prepayment characteristics
- We earn incremental returns from short duration senior tranches from NPL/RPL securities

Portfolio Details* (as of June 30, 2016)

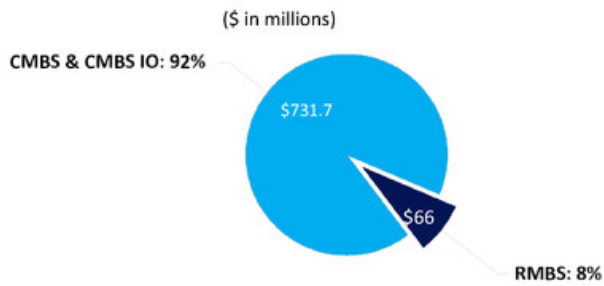
Credit Quality



Portfolio Expected Maturity/Reset Distribution



Net Premium by Asset Type



* MBS investments only, excludes loans held for investment.

Investment Environment

- **Global yields are low or negative, asset returns have declined, and the probability that yields will remain low and range bound has increased**
 - Above average dividend yields will be an important driver of future returns
 - A flatter yield curve may put downward pressure on net interest spread
- **Geopolitical events further reinforce the likelihood of a lower rate environment**
- **Government policy will continue to drive returns**
 - Central banks are impacting capital markets, asset prices and credit spreads
 - Regulation is redefining risk appetite and liquidity in the markets
- **Positive economic news in the U.S. may not be sufficient to allow the Federal Reserve to raise interest rates due to international factors**
 - An even flatter yield curve is possible in the U.S.
- **Global economic environment, political environment, and markets are all fragile and as a result we continue to manage our risk posture conservatively**

Dynex Highlights

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 6/30/16)	49,145,087	2,300,000	2,250,000
Q3 Dividends per share:	\$0.21	\$0.53125	\$0.476563
Dividend Yield: (annualized, based on 9/22/16 stock price)	11.21%	8.30%	7.66%
Share Price: (at 9/22/16)	\$7.49	\$25.60	\$24.90
Market Capitalization: (based on 6/30/16 shares outstanding and 9/22/16 stock price)	\$368.1M	\$58.9M	\$56.0M
Price to Book: (based on 6/30/16 book value and 9/22/16 stock price)	97.4%	-	-



Appendix

Second Quarter 2016 Highlights

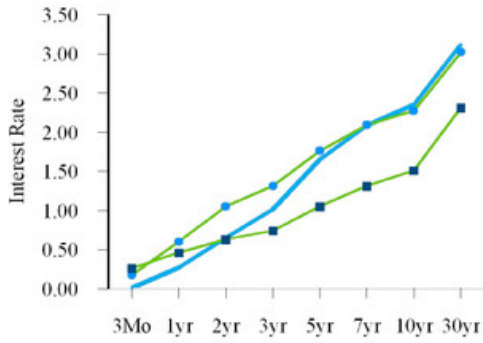
- **Comprehensive income to common shareholders of \$0.35 per common share**
 - \$0.21 per common share from core net operating income⁽¹⁾
 - \$0.46 from unrealized gains on MBS
 - \$(0.32) from unrealized losses on derivatives
- **Total economic return⁽²⁾ to common shareholders of 4.8%**
- **Core net operating income of \$0.21 per common share in 2Q16 versus \$0.22 per common share in 1Q16**
 - Smaller investment portfolio in 2Q16
- **Net interest spread of 1.94% and adjusted net interest spread⁽¹⁾ of 1.87% in 2Q16 versus 1.97% and 1.76%, respectively in 1Q16**
 - Adjusted cost of funds⁽¹⁾ decreased 0.12% due to lower periodic interest costs from hedges
- **Overall leverage of 6.1x at June 30, 2016 versus 6.4x at March 31, 2016**

⁽¹⁾ Reconciliations for non-GAAP measures are presented in the Appendix.

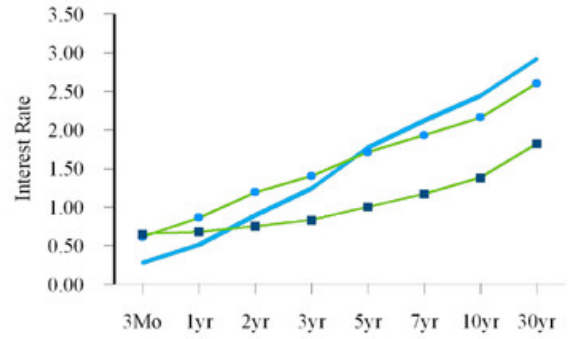
⁽²⁾ Computed as dividends of \$0.21 per common share plus book value increase of \$0.15 per common share dividend by beginning book value per common share of \$7.54

New Lows in Rates and Flatter Yield Curve

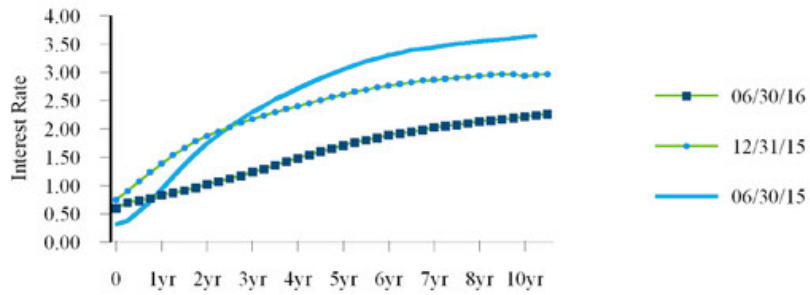
Treasury Curve



Swaps



Eurodollars Futures



Source: Bloomberg

Macroeconomic and Policy Factors

- **Global leverage and increased levels of debt are negatively impacting economic stability and performance**
 - Downward pressure on global growth and inflation
- **Extraordinary government involvement in the capital markets**
 - Downward pressure on volatility, asset price distortion, unpredictability of outcomes
- **Complex, interconnected, fragile global environment**
 - Global currency war with unintended consequences
 - Geopolitical risks have increased
- **Demographic trends and negative interest rates are contributing to private demand for fixed income assets**

Credit Spread Environment *(in bps)*

Asset Class	12/31/14	03/31/15	06/30/15	09/30/15	12/31/15	03/31/16	06/30/16	9/16/16	
Dynex Portfolio	Agency ARM 5/1	21	15	16	26	22	32	38	32
	Agency DUS	59	54	60	76	89	86	94	80
	Freddie K AAA IO	155	140	150	200	225	260	255	225
	AAA CMBS IO	165	170	175	225	240	265	240	220
	Freddie K B	170	145	157	305	350	420	325	270
	Freddie K C	250	205	228	325	480	625	540	490
IG Corporates	127	128	146	190	183	184	173	164	
High Yield	562	546	521	698	746	753	669	584	
AAA CMBS	88	85	92	119	138	128	104	90	
AA CMBS	141	145	163	220	223	220	186	143	
A CMBS	203	200	230	315	348	340	304	236	
BBB CMBS	358	345	388	470	562	665	604	548	
FN CC nominal/tsy	74	87	84	96	82	91	92	88	
10y swap spreads	11.75	9	9.75	-4	-8.5	-13.5	-10.55	-18.5	
CRT.M3-2014	475	397	425	460	478	466	415	319	

Source: JP Morgan and Company data

Spread Changes

	NOMINAL SPREADS (bps)		OAS SPREADS (bps)		SPREAD CHANGE (bps)	
	09/16/16	06/30/16	09/16/16	06/30/16	Nominal	OAS
5/1	32	38	24	20	-6	4
7/1	37	54	22	22	-17	0
10/1	54	72	17	14	-18	3
New DUS	80	94	80	94	-14	-14
New Agency CMBS IO	225	255	225	255	-30	-30
Non-Agency CMBS IO	220	240	220	240	-20	-20

Freddie K Multifamily Securitization

Class	Rating	Class Structure	9/16/16 spreads (bps)	6/30/16 spreads (bps)	Spread Change (bps)	Spread Change %
A1	AAA	Senior P&I	62	64	-2	-3.1%
A2	AAA	Senior P&I	70	81	-11	-13.6%
X1	AAA	Senior IO	225	255	-25	-9.8%
B	BBB+	Sub P&I	280	335	-55	-16.4%
C	BBB-	Sub P&I	500	550	-50	-9.1%
X3	NR	Sub IO	590	675	-85	-12.6%

Source: JP Morgan and Company data

Outlook

- **We believe there is still opportunity to earn above average dividend yields within a mortgage REIT structure**
 - Uncertain macroeconomic environment could cause period to period volatility in our results, but we believe our diversified model will be able to deliver above average returns over the long term
 - Dividends should help to cushion potential volatility in book value
- **Our diversified portfolio naturally delevers over time 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 vigilance, disciplined risk management and capital allocation**
- **Long term, we see opportunities for investments in both residential and commercial assets and in markets previously dominated by the Fed/GSEs**

Book Value Rollforward

<i>(\$ in thousands, except per share amounts)</i>	\$ Amount	Per Common Share
Common shareholders' equity, March 31, 2016 ⁽¹⁾	\$370,049	\$7.54
GAAP net loss:		
Core net operating income ⁽²⁾	10,475	0.21
Other	108	—
Realized losses on derivatives and sales of MBS	(369)	—
Unrealized losses on derivatives	(15,739)	(0.32)
Unrealized gains on MBS	23,027	0.46
Dividends declared	(10,320)	(0.21)
Stock transactions, net	545	0.01
Common shareholders' equity, June 30, 2016 ⁽¹⁾	\$377,776	\$7.69

Attribution of net realized/unrealized losses:

- Wider spreads/basis risk: \$484
- Lower interest rates: \$6,435
- Total: \$6,919

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

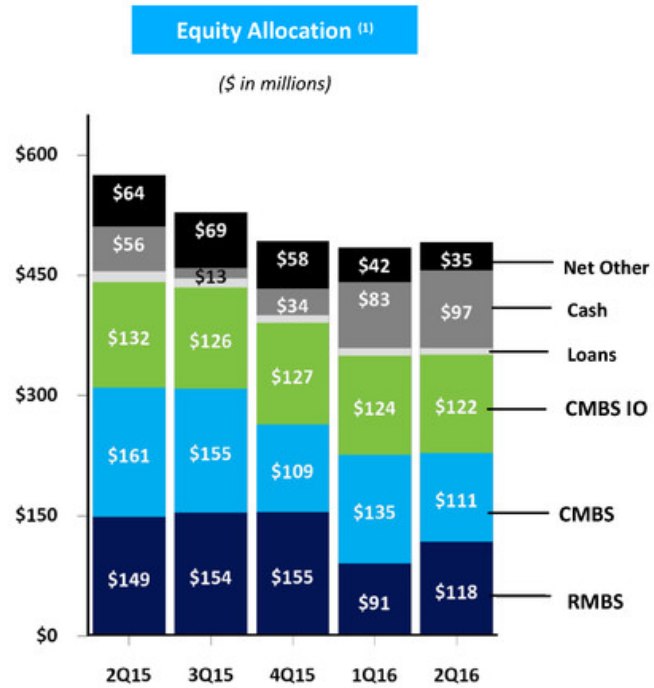
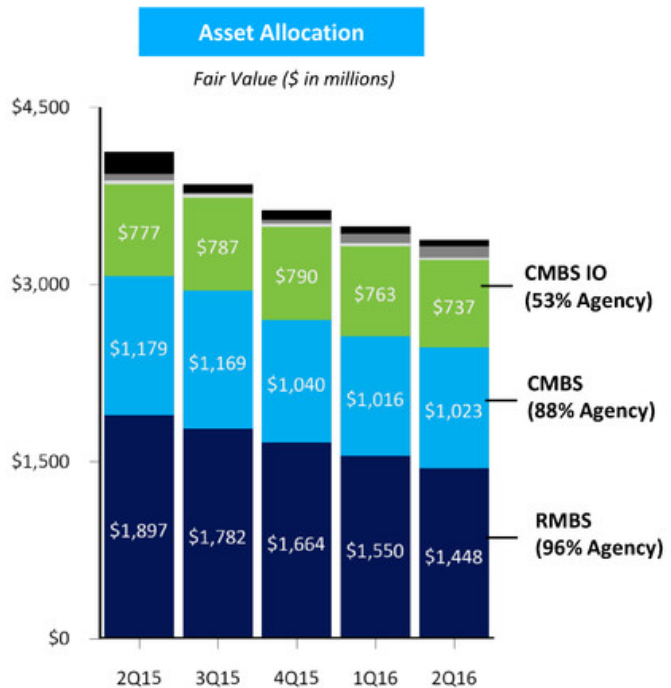
⁽²⁾ Reconciliations for non-GAAP measures are presented in the Appendix

Financial Performance - Comparative Quarters

(\$ in thousands, except per share amounts)	2Q2016		1Q2016	
	Income (Expense)	Per Common Share	Income (Expense)	Per Common Share
Interest income	\$22,816	\$0.46	\$25,089	\$0.51
Interest expense	(6,100)	(0.12)	(6,310)	(0.13)
Net periodic costs of hedges	(486)	(0.01)	(1,680)	(0.03)
Amortization of de-designated hedges	(80)	—	27	—
Adjusted net interest income ⁽¹⁾	16,150	0.33	17,126	0.35
Other income, net	290	—	63	—
G & A expenses	(3,671)	(0.07)	(4,092)	(0.08)
Preferred stock dividends	(2,294)	(0.05)	(2,294)	(0.05)
Core net operating income to common shareholders ⁽¹⁾	10,475	0.21	10,803	0.22
Change in fair value of derivatives	(15,811)	(0.32)	(46,584)	(0.95)
Realized loss on sale of investments, net	(297)	—	(3,941)	(0.08)
Amortization of de-designated hedges	80	—	(27)	—
Fair value adjustments, net	28	—	24	—
GAAP net loss to common shareholders	(5,525)	(0.11)	(39,725)	(0.81)
Unrealized gains on MBS	23,027	0.46	41,701	0.85
Amortization of de-designated hedges	(80)	—	27	—
Total comprehensive income (loss)	\$17,422	\$0.35	\$2,003	\$0.04

(1) Reconciliations for non-GAAP measures are presented in the Appendix.

Asset and Equity Allocations Comparison at Quarter End



- Approximately 74% of our invested capital is allocated to Agency
- The majority of our invested capital is in the commercial sectors: 31% in CMBS and 34% in CMBS IO

(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)

	06/30/16	03/31/16	QoQ Change
Investments	\$3,235,810	\$3,363,596	(\$127,786)
Financing	2,871,000	2,993,159	(122,159)
Leverage ⁽¹⁾	6.1x	6.4x	(0.3)x
Funding			
Original Days to Maturity	52 days	62 days	(10) days
Remaining Days to Maturity	21 days	23 days	(2) days

Asset Type	QoQ Change in Investments
Agency RMBS	(\$95,631)
Non-Agency RMBS	(5,519)
Agency CMBS	6,189
Non-Agency CMBS	183
Agency CMBS IO	(16,177)
Non-Agency CMBS IO	(9,062)
Loans and other investments	(7,769)
Total	(\$127,786)

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

Diversified Funding Sources *(as of June 30, 2016)*

<i>(\$ in thousands)</i>	\$	%
Repurchase Agreements-Uncommitted	2,332	81.5%
Repurchase Agreements-Committed	268	9.4%
FHLB Advances	263	9.1%
Total	2,863	100%

Counterparty Region	#	% of all REPO
North America	15	73.8%
Asia	4	17.2%
Europe	2	9.0%
Total	21	100%

Counterparty Type	#	% of all REPO
Broker/Dealers	4	23.4%
Domestic Banks	11	39.7%
Foreign Banks	6	36.9%
Total	21	100%

- We maintain a diversified funding platform with over 30 established counterparties, currently active with 21 counterparties
- Our funding is well diversified by counterparty and geography
- WAVG original days to maturity is 52 days and remaining maturity is 21 days
- Repo markets remain highly liquid and we anticipate no impact on liquidity and funding from termination of FHLB membership

Risk Position

We adjusted our hedge position to benefit from declines in interest rates.

Our exposure to significantly higher rates increased over the quarter.

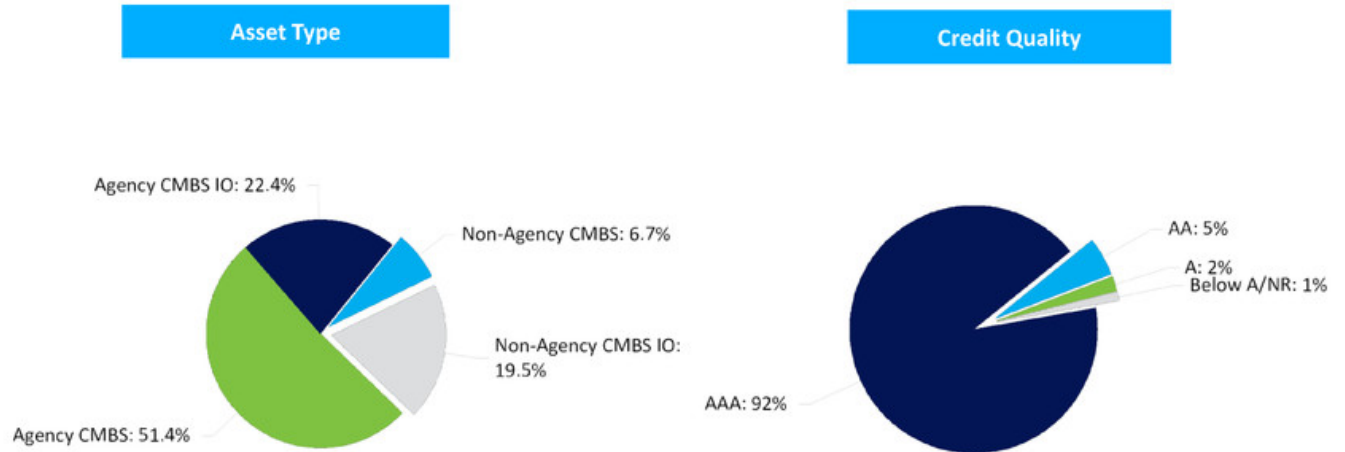
Treasury Yields ⁽¹⁾	As of June 30, 2016	As of March 31, 2016	Parallel Change in Treasury Yields (bps)	Percentage Change in Projected Market Value of Assets Net of Hedges	
				As of June 30, 2016	As of March 31, 2016
2Y	0.58%	0.72%	+100	(1.28)%	(1.04)%
5Y	1.00%	1.21%	+50	(0.57)%	(0.45)%
10Y	1.47%	1.77%	+25	(0.28)%	(0.21)%
30Y	2.29%	2.61%	-25	0.27%	0.19%

Curve Shift 2 year Treasury (bps)	Curve Shift 10 year Treasury (bps)	Percentage Change in Projected Market Value of Assets Net of Hedges	
		As of June 30, 2016	As of March 31, 2016
0	+25	0.09%	0.04%
+10	+50	0.06%	(0.01)%
+25	+75	(0.05)%	(0.13)%
+25	0	(0.26)%	(0.16)%
+50	0	(0.52)%	(0.33)%
-10	-50	(0.10)%	(0.06)%

Parallel Change in Market Credit Spreads	Percentage Change in Projected Market Value of Assets Net of Hedges	
	As of June 30, 2016	As of March 31, 2016
+50	(1.93)%	(2.23)%
+25	(0.97)%	(1.12)%
-25	0.99%	1.13%
-50	1.99%	2.28%

⁽¹⁾Treasury yields source: Bloomberg

CMBS and CMBS IO Portfolio Details *(as of June 30, 2016)*



The majority of our assets continue to be rated AAA or are Agency guaranteed, reflecting our up in liquidity and up in credit strategy.

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

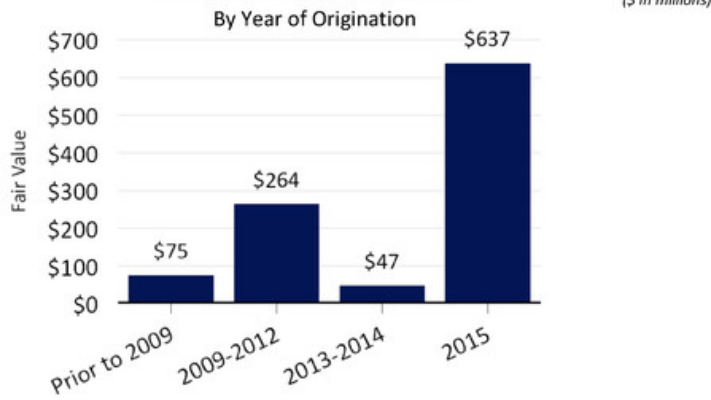
CMBS

(as of June 30, 2016)

Credit Quality



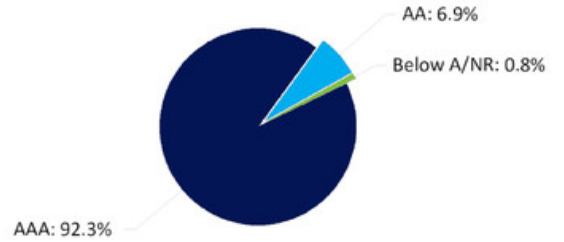
Vintage



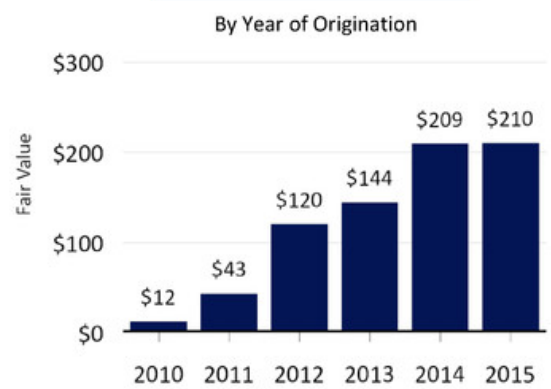
CMBS IO

(as of June 30, 2016)

Credit Quality



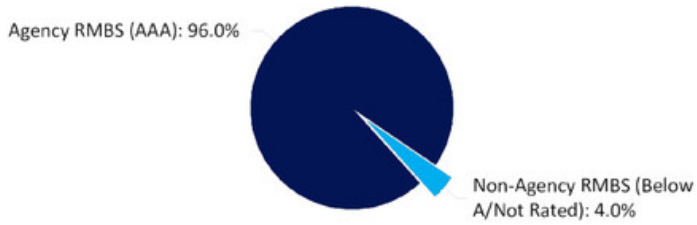
Vintage



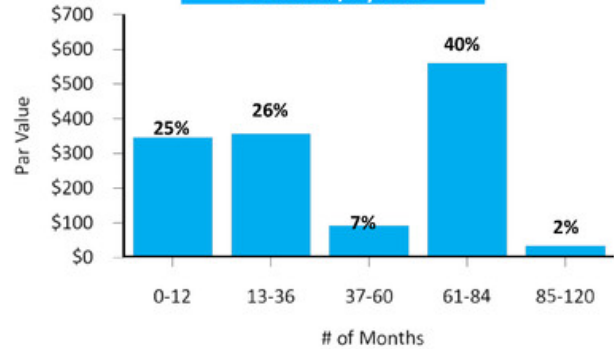
RMBS (as of June 30, 2016)

(\$ in millions)

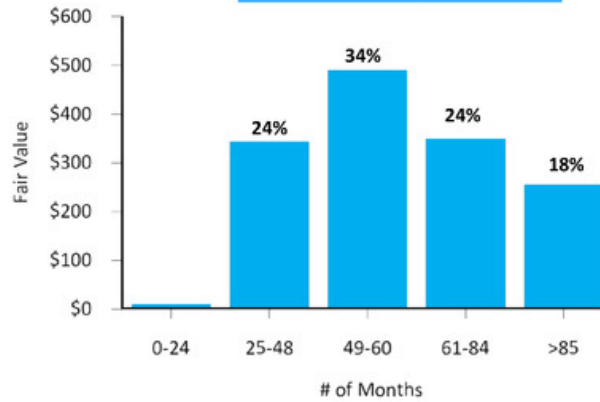
Credit Quality



Months to Maturity/Reset For ARMs/Hybrids



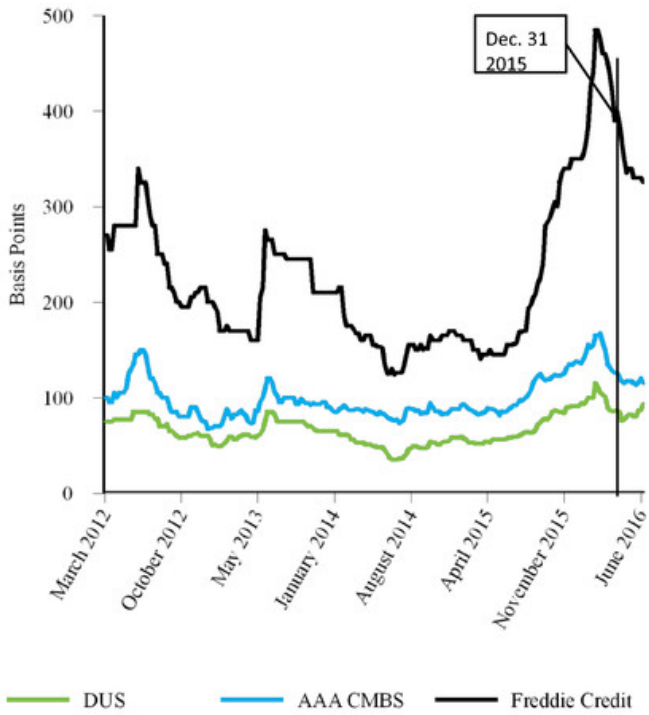
Weighted Average Loan Age



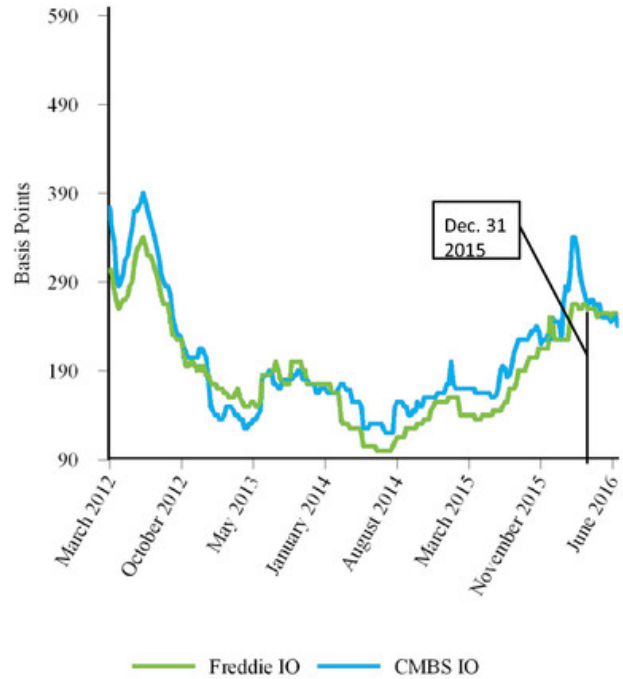
Prepayment protection in the form of seasoning, interest only (IO) features reduces the incentive to refinance. 33% of the ARM portfolio has an IO feature with a weighted average remaining IO period of approximately 47 months.

CMBS and CMBS IO Nominal Spreads (to Swaps)

CMBS Spreads

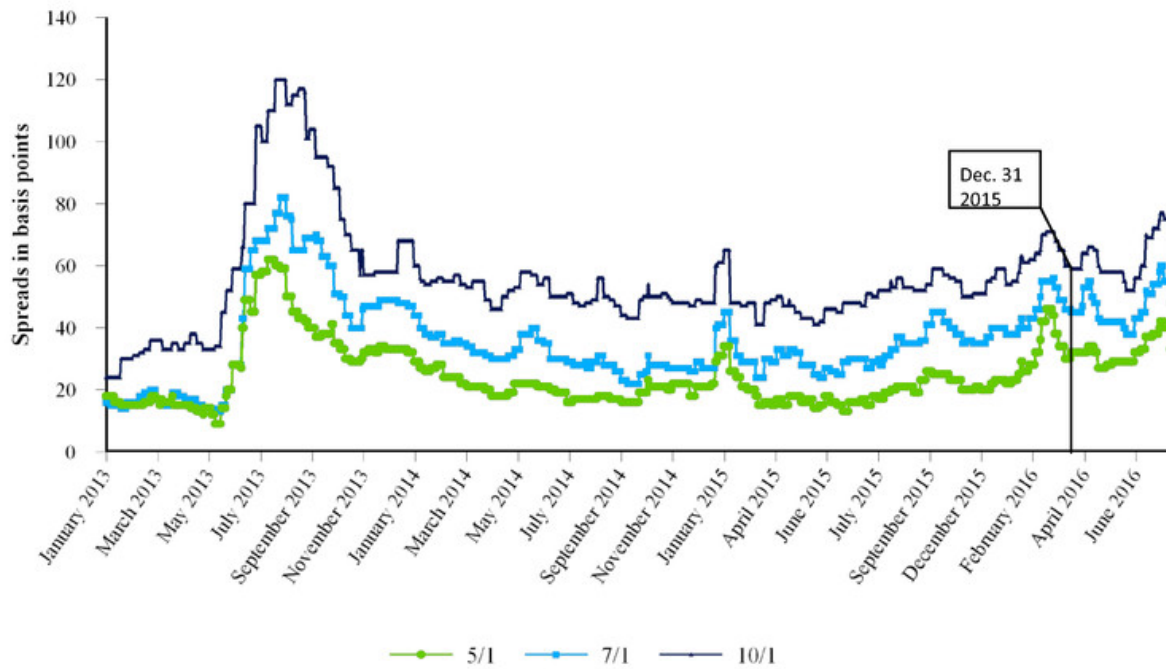


CMBS IO Spreads



Source: JP Morgan

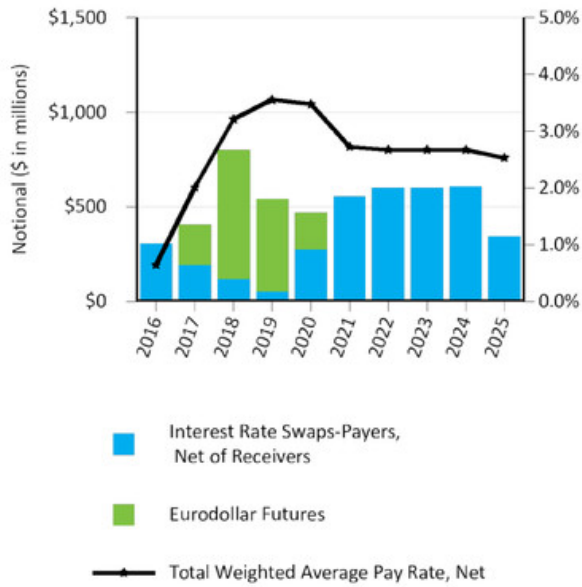
Agency RMBS Nominal Spreads (to Treasuries)



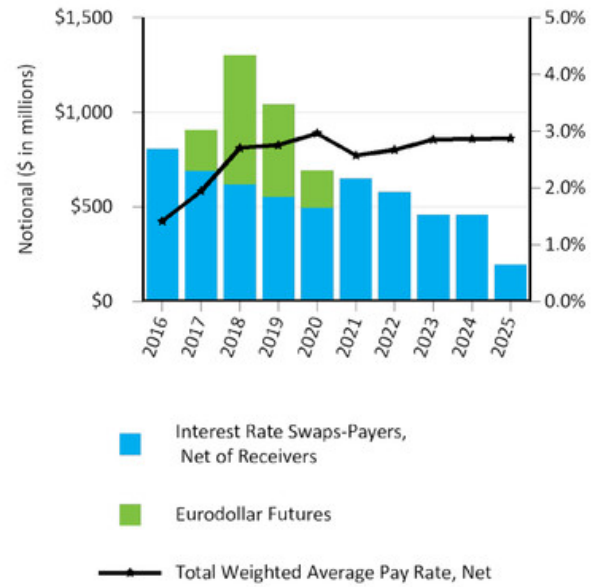
Source: Company data

Hedging Details

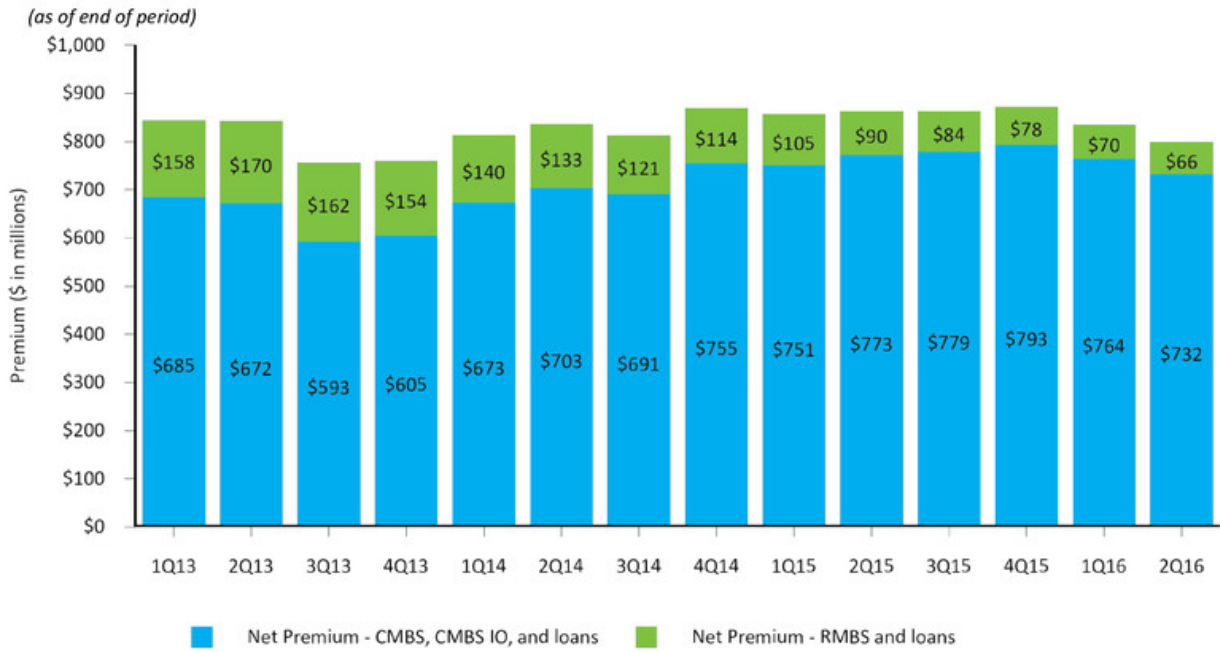
As of June 30, 2016



As of March 31, 2016



Investment Premium Allocation



Comparable Total Return

Index	Q2 2016 (annualized)	LTM*
DX (total economic return)	4.80%	4.24%
DX (total shareholder return)	3.89%	3.04%
Bloomberg Mortgage REIT Index	9.30%	7.81%
S&P 500	2.43%	3.91%
1-3 Year Treasury ETF	0.52%	1.16%
7-10 Year Treasury ETF	2.79%	9.11%
Real Estate ETF	6.55%	18.75%
Utilities ETF	6.67%	27.46%
Hedge Fund ETF - macro	(0.02)%	(1.10)%
IG Corporate ETF	3.87%	8.74%
HY Corporate ETF	5.02%	0.98%
Emerging Markets ETF	1.10%	(11.93)%
Infrastructure ETF	5.01%	2.96%

*LTM: Last Twelve Months

Source: Bloomberg

Dividend Character - YTD 2016 *(Estimated)*

(\$ in thousands)

GAAP net loss to common shareholders	\$	(45,250)
GAAP net income on taxable REIT subsidiary		71
GAAP net loss to common shareholders excluding taxable REIT subsidiary		(45,321)
Differences between GAAP net loss and taxable income:		
Change in fair value of derivatives		62,396
Loss on sale of investments		(1,674)
Tax amortization on terminated derivative instruments		(16,339)
Other		1,258
Taxable income		320
Add back: Capital losses		5,911
Taxable income - ordinary income		6,231
Common dividend declared		22,082
Common dividend representing return of capital		\$15,851
% of common dividend representing return of capital		72%

- An estimated 72% of the common stock dividend for 2Q16 is a non-taxable return of capital

Reconciliation of GAAP Measures to Non-GAAP Measures

(\$ in thousands except per share data)

	Quarter Ended				
	06/30/16	3/31/16	12/31/15	9/30/15	6/30/15
Net (loss) income to common shareholders	(\$5,525)	(\$39,725)	\$30,237	(\$39,271)	\$28,168
Adjustments:					
Amortization of de-designated cash flow hedges ⁽¹⁾	(80)	27	727	857	857
Change in fair value on derivatives instruments, net	15,811	46,584	(19,177)	50,997	(18,883)
Loss (gain) on sale of investments, net	297	3,941	908	(113)	1,491
Fair value adjustments, net	(28)	(24)	6	(16)	(20)
Core net operating income to common shareholders	\$10,475	\$10,803	\$12,701	\$12,454	\$11,613
Core net operating income per common share	\$0.21	\$0.22	\$0.25	\$0.24	\$0.21

⁽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.

	Quarter Ended				
	06/30/16	3/31/16	12/31/15	9/30/15	6/30/15
Interest income	\$ 22,816	\$ 25,089	\$ 25,522	\$ 26,096	\$ 24,527
Adjusted interest expense ⁽¹⁾	6,666	7,963	6,429	6,754	6,478
Adjusted net interest income ⁽¹⁾	16,150	17,126	19,093	19,342	18,049
Other income, net	290	63	180	(215)	612
General & administrative expenses	(3,671)	(4,092)	(4,278)	(4,379)	(4,754)
Preferred stock dividends	(2,294)	(2,294)	(2,294)	(2,294)	(2,294)
Core net operating income to common shareholders	\$ 10,475	\$ 10,803	\$ 12,701	\$ 12,454	\$ 11,613

⁽¹⁾ Reconciled on next page.

Reconciliation of GAAP Measures to Non-GAAP Measures

(\$ in thousands)

	Quarter Ended									
	06/30/16		3/31/16		12/31/15		9/30/15		6/30/15	
GAAP interest income/annualized yield	\$22,816	2.77%	\$25,089	2.78%	\$25,522	2.74%	\$26,096	2.69%	\$24,527	2.63%
GAAP interest expense/annualized cost of funds ⁽¹⁾	6,100	0.83%	6,310	0.81%	5,833	0.70%	5,859	0.67%	5,542	0.66%
GAAP net interest income/spread	\$16,716	1.94%	\$18,779	1.97%	\$19,689	2.04%	\$20,237	2.02%	\$18,985	1.97%
GAAP interest expense/cost of funds ⁽¹⁾	\$6,100	0.83%	\$6,310	0.81%	\$5,833	0.70%	\$5,859	0.67%	\$5,542	0.66%
Amortization of de-designated cash flow hedges ⁽²⁾	80	—%	(27)	—%	(727)	(0.08)%	(857)	(0.10)%	(857)	(0.10)%
Net periodic interest costs of derivatives	486	0.07%	1,680	0.21%	1,323	0.16%	1,752	0.21%	1,793	0.21%
Adjusted interest expense/adjusted cost of funds	\$6,666	0.90%	\$7,963	1.02%	\$6,429	0.78%	\$6,754	0.78%	\$6,478	0.77%
Adjusted net interest income/spread	\$16,150	1.87%	\$17,126	1.76%	\$19,093	1.96%	\$19,342	1.91%	\$18,049	1.86%

(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.

Risk Management

Key Risk	Dynex Risk Mitigating Strategy
Interest Rate/Extension Risk	Duration target of <u>0.5 to 1.5 years</u> Derivatives to economically hedge interest rate risk Invest in credit assets that should increase in value as rates rise Short duration assets and more predictable cash flows
Prepayment Risk	CMBS investments with prepayment call protection RMBS specified pools with diversity of prepayment risk
Credit Risk	94% of MBS are AAA-rated* as of June 30, 2016 Current credit risk is multifamily focused
Spread Risk	Portfolio construction and long-term portfolio strategy
Liquidity Risk	High quality investment portfolio Diversified repurchase agreement counterparties and low leverage Unencumbered liquidity to meet expected risk events

*Agency MBS are considered AAA-rated as of the date presented.

MREIT Glossary of Terms

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

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

Curve Twist Terms:

Bull Flattener: If the yield curve is exhibiting bull flattener behavior, the spread between the long-term rate and the short-term rate is getting smaller because long-term rates are decreasing as short-term rates are increasing. This could occur as more investors choose long-term bonds relative to short-term bonds, which drives long-term bond prices up and reduces yields.

Bear Flattener: A yield-rate environment in which short-term interest rates are increasing at a faster rate than long-term interest rates. This causes the yield curve to flatten as short-term and long-term rates start to converge.

Bear Steepener: Widening of the yield curve caused by long-term rates increasing at a faster rate than short-term rates. This causes a larger spread between the two rates as the long-term rate moves further away from the short-term rate.

Bull Steepener: A change in the yield curve caused by short-term rates falling faster than long-term rates, resulting in a higher spread between the two rates.

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

Interest Only Securities (IOs) are the interest only strips of mortgage, Treasury, or bond payments, which are separated and sold individually from the principal portions.

MREIT Glossary of Terms

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.

Leverage is the use of borrowed money to finance assets.

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

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

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

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.



