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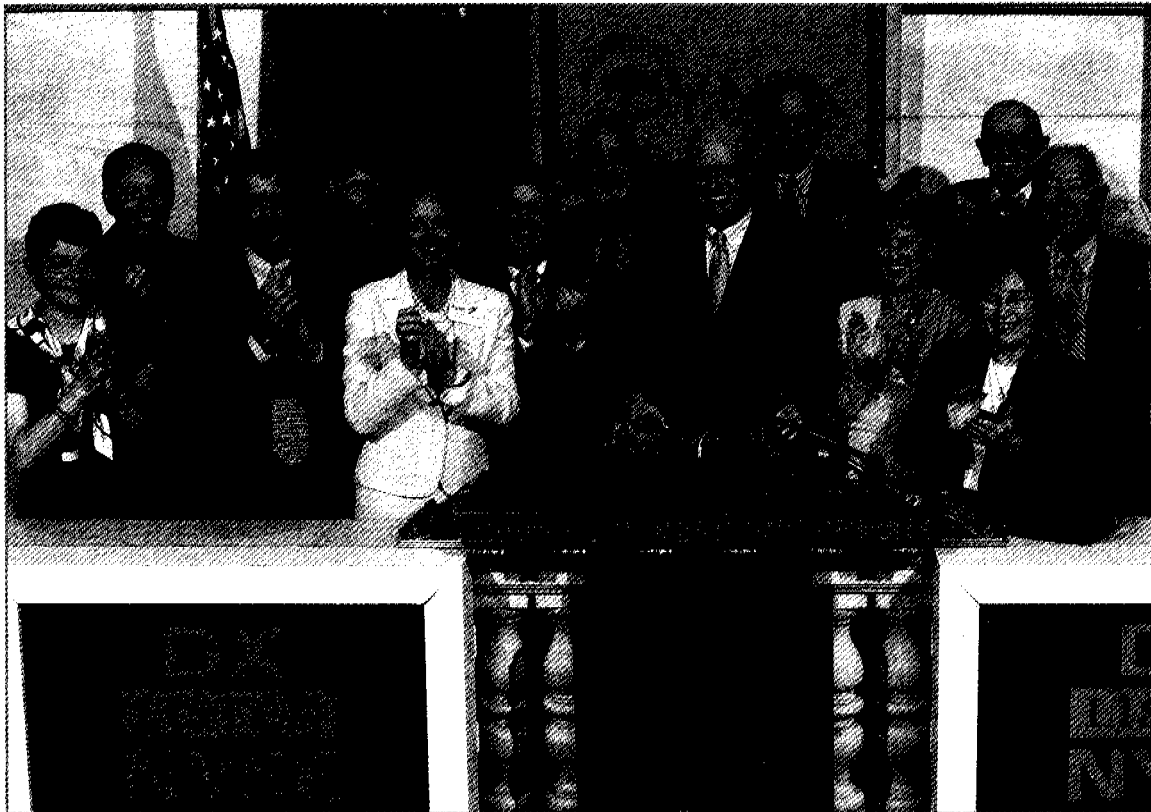
2004 Annual Report

Capitol Research Division
SNL Financial
1-800-969-4121

COMPANY PROFILE

We are a financial services company, which invests in loans and securities consisting of or secured by, single-family mortgage loans, commercial mortgage loans, manufactured housing installment loans and delinquent property tax receivables. The loans and securities in which Dynex invests have been pooled and pledged to a trust, which issues bonds collateralized by the assets pledged, providing long-term financing for the assets while limiting credit, interest rate and liquidity risk. Dynex has elected to be treated as a real estate investment trust for federal income tax purposes. Dynex, headquartered in Glen Allen, Virginia, was incorporated in 1987 and is publicly traded on the New York Stock Exchange under ticker symbol DX. Dynex has a preferred stock issue that is traded on the New York Stock Exchange (<http://www.nyse.com/>). The issue is Series D Cumulative Convertible Preferred Stock and trades under the ticker symbol DXPRD.

CELEBRATION



Dynex Chairman Tom Akin rings the closing bell on the New York Stock Exchange celebrating the Company's 15 years on the Big Board and its accomplishments over the last several years. The Company's global market capitalization, including its common and preferred stock, now exceeds \$150 million.



DYNEX CAPITAL, INC.

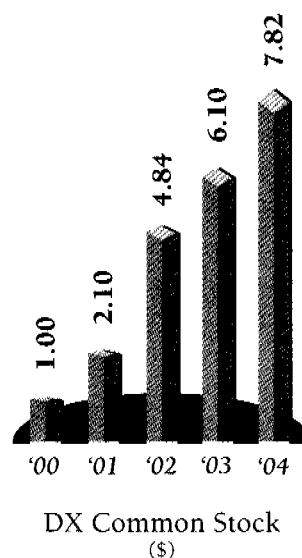
TO OUR SHAREHOLDERS

Over the past few years, Dynex has struggled to regain footing as a public company. Saddled with substantial debt and a cumbersome capital structure, Dynex primarily focused on repaying debt and capital restructuring. To that end, in 2004, Dynex completed the restructuring of three preferred issues into a single convertible preferred stock, bringing current preferred stock that had dividends in arrears of over three years. Dynex also finished 2004 with little recourse debt, current on all interest and preferred dividend payments, and had a cash reserve in excess of \$52 million. Dynex stands in the best position in recent years to move forward as a public company into new business opportunities.

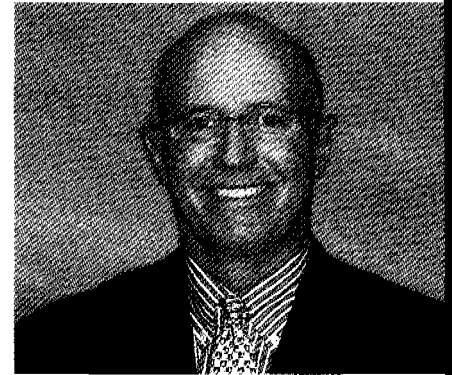
Specifically, Dynex sold assets in 2004 that raised over \$32 million in cash and realized gains of approximately \$14 million. In retrospect, selling these assets before the Federal Reserve began raising interest rates gave shareholders substantially more value than holding these investments. Portfolio cash flow in 2004 was also a healthy \$40 million. Added together, Dynex's liquidity improved by almost \$72 million in 2004. Although some of that liquidity was reinvested in short term highly liquid investments, Dynex finished the year with significant balance sheet cash, particularly relative to its global market capitalization.

In reducing assets, Dynex has also reduced overhead and overall headcount associated with these assets. In particular, the sale of a substantial portion of our tax lien business for approximately \$19 million and declining balances in our remaining portfolios have lowered the need for overall employees from 67 at the end of 2003 to 34 at the end of 2004, and to 28 today. Overhead has subsequently decreased almost \$2 million on an annualized basis. While we are pleased with our progress, our plan is to continue to look for ways to reduce overhead expenses in 2005.

Looking forward, Dynex is now positioned to opportunistically reduce or add assets as appropriate. Our remaining tax lien assets, manufactured housing assets, and certain loans are earmarked for sale. Our single-family mortgage loan and commercial mortgage loan assets will most likely remain on our balance sheet until they either mature or are called. We still retain substantial equity in these securitizations. As we sell or retire our asset base, we expect cash flow to diminish. In addition, as interest rates



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Thomas B. Akin,
Chairman

rise the spread earned will be reduced as well. Offsetting those conditions will be the redeployment of our equity in selected investment opportunities. While we spent most of our time in 2004 selling assets, we expect to become much more active, adding to our asset base in 2005.

This last calendar year has brought financial stability for the first time in several years. Dynex has several key advantages moving forward upon which the Board intends to capitalize. We have a tax loss carryforward of close to \$150 million, substantially no debt relative to our capital base, and cash reserves in excess of \$50 million to utilize. Recourse debt that almost destroyed the Company in the early part of the decade is now at a more manageable level, and is secured by liquid, easy to understand, assets. While there is still substantial work to continue to do this year, we feel confident that we can move Dynex forward to pursue new opportunities as they appear. The landscape for specialty finance companies has changed dramatically in the last few years. As the Fed continues to raise interest rates, substantial opportunities could arise for a company with the cash and balance sheet to add attractive investments.

Dynex shareholders have had to endure substantial amounts of uncertainty recently. We appreciate the loyalty and confidence of our shareholders as we move forward. However, any new opportunities will be balanced with the associated risks. Dynex has only recently regained its balance as a public company and we have no interest in upending that footing.

In closing I would like to thank Don Vaden for his service to the Company as a member of the Board. Don has decided not to stand for reelection in 2005. He has been with the Company since the beginning, has seen both the good times and the bad, and remained committed to the Company until it was again on solid ground. In his place, the Board has nominated Dan Osborne of Vantage Point Capital, LLC. Dan will bring a fresh perspective to the Board, and we are excited about what he offers the Company and the shareholders.

With regards,

A handwritten signature in black ink, appearing to read 'T. Akin'.

THOMAS B. AKIN
Chairman

FINANCIAL HIGHLIGHTS

(amounts in thousands except share and per share data)	2004	2003
Investments	\$ 1,343,448	\$ 1,853,675
Cash and cash equivalents	52,522	7,386
Total assets	1,400,934	1,865,235
Non-recourse securitization financing	1,177,280	1,679,830
Recourse debt	70,468	33,933
Shareholders' equity	148,766	149,846
Net interest income	23,281	38,971
Net loss	(3,375)	(21,107)
Net loss to common shareholders	(5,194)	(14,260)
Basic and diluted	(0.46)	(1.31)
Book value per common share	7.60	7.55

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Dynex Capital, Inc. (the "Company") on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen J. Benedetti, the Principal Executive Officer and the Chief Financial Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 14, 2005

/s/ Stephen J. Benedetti
Stephen J. Benedetti
Principal Executive Officer and
Chief Financial Officer

DIRECTORS & OFFICERS

BOARD OF DIRECTORS 2004

Elected by Common Stockholders

Thomas B. Akin

*Chairman of the Board of Directors
Principal
Talkot Capital, LLC*

J. Sidney Davenport

*Retired Executive Vice President
Ryland Mortgage Company*

Donald B. Vaden

*Attorney
Mediation/Arbitration*

Eric P. Von der Porten

*Managing Member
Leeward Investments, LLC*

Elected by Preferred Stockholders

Leon A. Felman

*Private Investor
In Financial Institutions*

Barry Igdaloff

*Sole Proprietor
Rose Capital*

EXECUTIVE OFFICERS

Stephen J. Benedetti

*Executive Vice President
Chief Financial Officer
Secretary*

CORPORATE OFFICERS

Wayne E. Brockwell

*Vice President
Portfolio*

Robert J. Doyle

*Senior Vice President
GLS Capital Services, Inc.*

John L. Goodhue

*Vice President
Information Systems*

Robert M. Nilson, Jr.

*Vice President
Risk Management*

Russell S. Parrish

*Vice President
Risk Management*

Jeffrey L. Childress

Controller

CORPORATE INFORMATION

CORPORATE OFFICES

4551 Cox Road, Suite 300
Glen Allen, Virginia 23060
Tel: (804) 217-5800
Fax: (804) 217-5860
Web site: www.dynexcapital.com

STOCK TRANSFER AGENT & REGISTRAR

Wachovia Bank, N.A.
Shareholder Services – NC1153
1525 West W.T. Harris Blvd., 3C3
Charlotte, North Carolina 28262-8522
Tel: (800) 829-8432

AUDITORS

Deloitte & Touche
707 East Main Street
Richmond, Virginia 23219

STOCKHOLDER INFORMATION

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders will be held at 9:00 a.m. Eastern Daylight Time on Tuesday, June 14, 2005 at The Place At Innsbrook located at 4036 Cox Road, Glen Allen, Virginia. A notice of the meeting, together with a proxy and proxy statement, has been sent to stockholders with this Annual Report.

SEC FILINGS

A copy of the Company's 2004 Annual Report on Form 10-K and Quarterly Reports on Form 10-Q as filed with the Securities and Exchange Commission are available, without charge, to stockholders. To obtain a copy, please direct your request to:

Dynex Capital, Inc.
Office of Investor Relations
4551 Cox Road
Suite 300
Glen Allen, Virginia 23060

The Company has filed the certification of its principal executive and financial officer required by Section 302 of the Sarbanes-Oxley Act of 2002 with the Securities and Exchange Commission as an exhibit to its Annual Report on Form 10-K for the year ended December 31, 2004. The Company has included a copy of this certification in this Annual Report to Shareholders. In addition, the Company's principal executive officer annually certifies to the New York Stock Exchange that he is not aware of any violation by the Company of the New York Stock Exchange's corporate governance listing standards. This certification was submitted, without qualification, as required after the 2004 annual meeting of shareholders.

EQUITY SECURITIES

COMMON STOCK

New York Stock Exchange
Ticker Symbol: DX

SERIES D 9.50% CUMULATIVE CONVERTIBLE PREFERRED STOCK

New York Stock Exchange
Ticker Symbol: DXPrD



DYNEX CAPITAL, INC.
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