DYNEX CAPITAL INC.

Fourth Quarter 2017 Earnings Presentation

February 21, 2018

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 regarding future interest rates, our views on expected characteristics of future investment environments, prepayment rates on our investment portfolio and risks posed by our investment portfolio, our future investment strategies, our future leverage levels and financing strategies, the use of specific financing and hedging instruments and the future impacts of these strategies, future actions by the Federal Reserve, and other central banks, and the expected performance of our investments. 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, 2016 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption "Risk Factors".

4Q17 Highlights

- Dividend of $0.18 per common share
- Comprehensive income of $0.08 per common share and GAAP net income of $0.36 per common share
- Core net operating income[(1)] of $0.20 per common share for the quarter
  - Includes drop income on TBA securities of $0.07 per common share
- Total economic return on book value[(2)] of 0.8% for the quarter
- Book value per common share of $7.34 at December 31, 2017 compared to $7.46 at September 30, 2017 and $7.18 at December 31, 2016
- Increased investment in 30-year fixed-rate RMBS including TBA dollar roll positions to $1.7 billion from $1.2 billion at September 30, 2017
- Leverage[(3)] including TBA dollar roll positions of 6.4x at December 31, 2017 versus 6.3x at September 30, 2017

(1) Reconciliations for non-GAAP measures are presented on Page 30.
(2) Equals sum of dividend of $0.18 per common share less the decrease in book value of $(0.12) per common share divided by beginning book value per common share for the quarter of $7.46.
(3) Equals sum of (i) total liabilities and (ii) amortized cost basis of TBA dollar roll positions (if settled) divided by total shareholders' equity

2017 Full Year Highlights

- Dividends of $0.72 per common share
- Comprehensive income of $47 million or $0.93 per common share
- GAAP net income of $23 million or $0.46 per common share
- Core net operating income of $37 million or $0.73 per common share
- Total economic return [(1)] on book value of 12.3%
  - 10.1% from dividends declared
  - 2.2% from increase in book value
- Reallocated capital into more liquid, higher ROE investments by transitioning from hybrid ARMs into 30-year fixed-rate Agency RMBS
- Added hedges to limit impact of Fed hikes on funding costs
- Leverage including TBA dollar roll positions remained relatively stable ending year at 6.4x at December 31, 2017 versus 6.3x at December 31, 2016.

(1) Equals sum of dividend of $0.72 per common share plus the increase in book value of $0.16 per common share divided by beginning book value per share for the year of $7.18.

2017 Investment Strategy Review

Strategic Focus for 2017	How We Executed
Maintain investments in high quality, liquid assets and maintain high liquidity position.	Sold less liquid, lower yielding hybrid ARMs, reinvested into TBA and 30-year fixed-rate securities, improving liquidity and flexibility. Operate with large liquidity and cash position.
Maintain diversified investment strategy in residential and commercial sectors.	Remained active in CMBS IO and DUS markets until returns fell below our threshold. CMBS IO continues to provide diversification benefits to Core EPS.
Seek to capitalize on opportunities for investing capital from increased market volatility and/or shifts in government and regulatory policy.	As spreads on 30-year fixed-rate MBS widened last year, we took advantage and increased our allocation to this sector.
Continue to seek ways to diversify funding sources as the regulatory environment becomes more favorable.	Managed counterparties, terms and hedging to minimize impact of Fed hikes as well as mitigate quarterly funding pressures.
Continue commitment to disciplined risk management and capital allocation decisions that maximize flexibility given the current environment.	Generated total economic return on book value of 12.3% with stable leverage and higher financing costs while improving the overall liquidity of the portfolio.

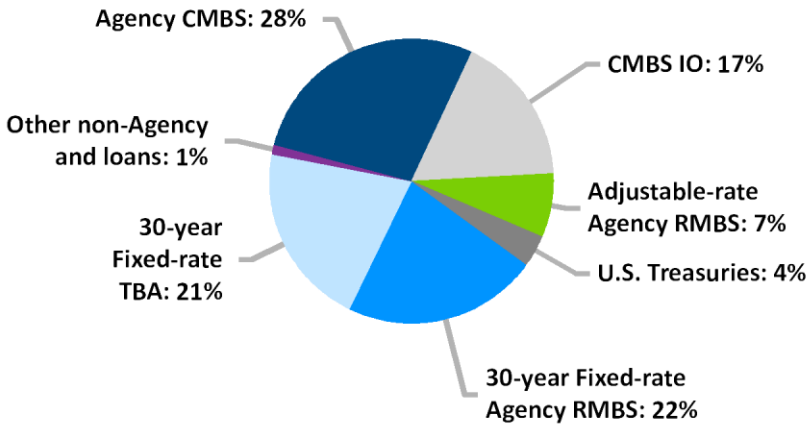
Investment Portfolio Changes in 2017

Shifted from ARMs to fixed-rate securities and TBAs.

Increased overall liquidity of investment portfolio.

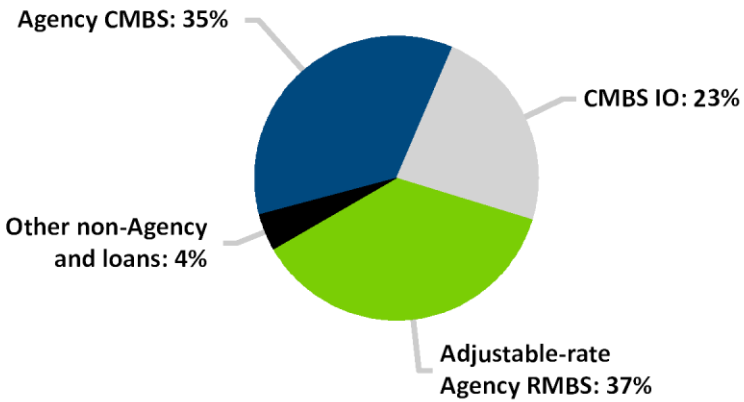
Investments at December 31, 2017

Total = $4,020 million



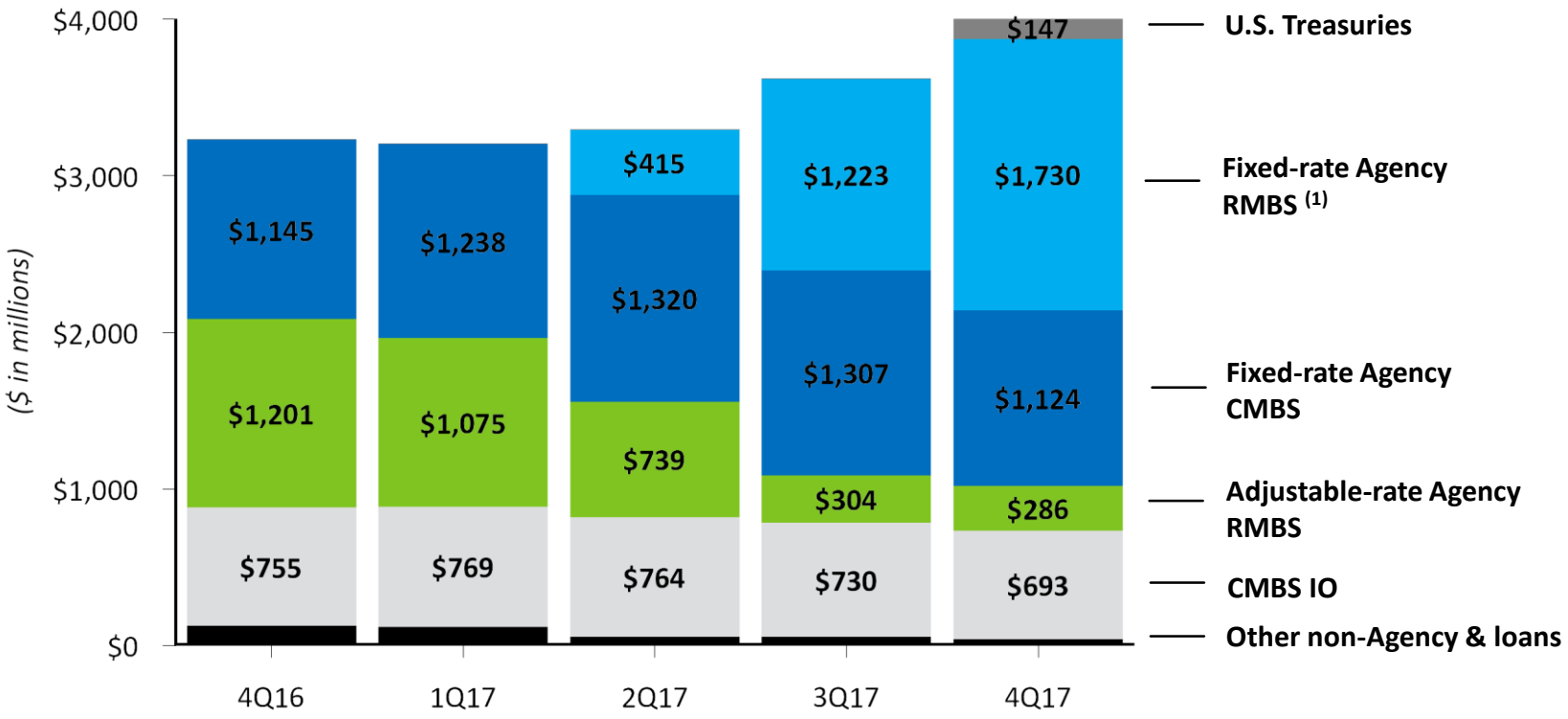
Investments at December 31, 2016

Total =$3,231 million



Portfolio Composition

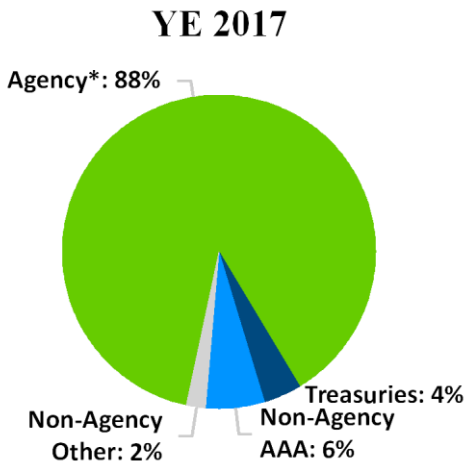
Emphasizing Higher Liquidity and Credit Quality

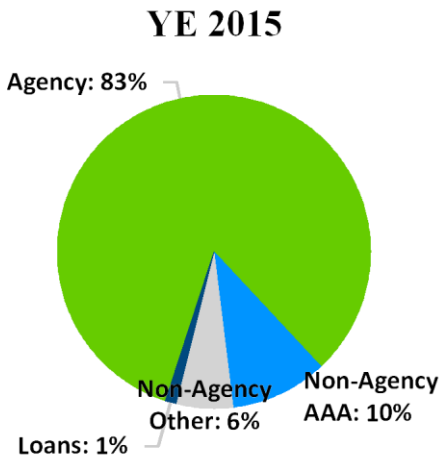


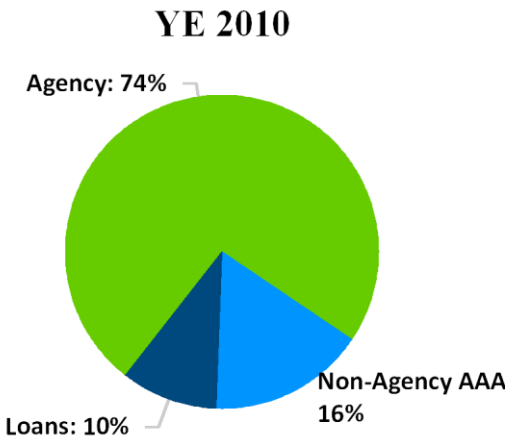
(1) Includes 30-year fixed-rate specified pools and TBAs on an if-settled basis.

Dynamic and Disciplined Asset Allocation

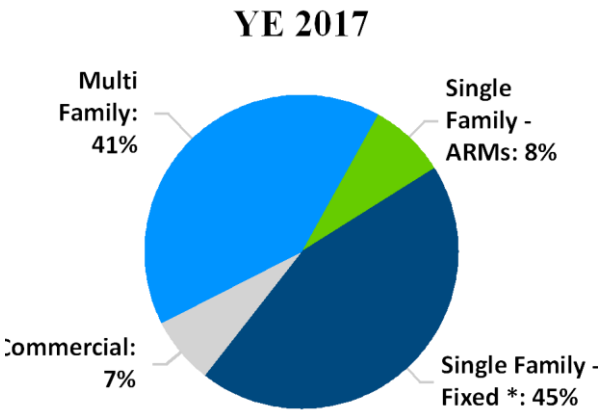
Credit Diversification

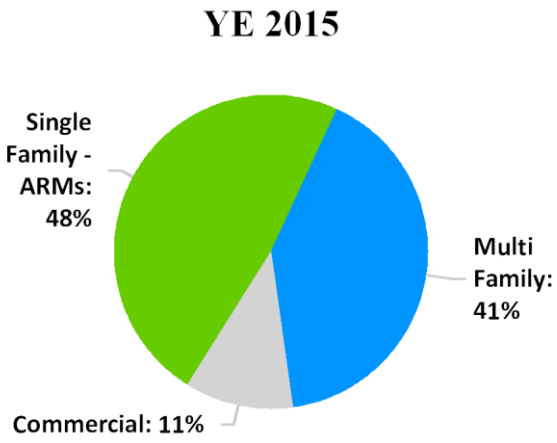


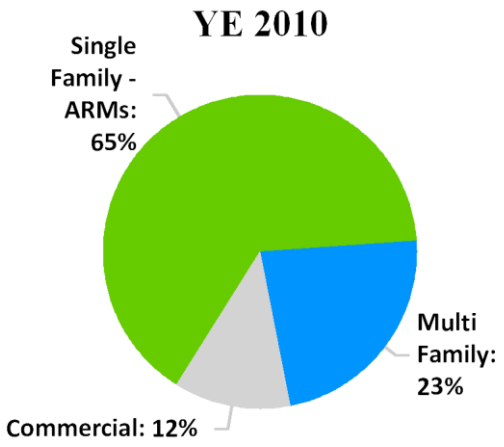




Sector Diversification







* *Includes 30-year fixed-rate specified pools and TBAs on an if-settled basis*

Macroeconomic Themes

- We believe we are in a transition to a higher return environment where we will have the ability to invest capital at long term accretive returns for Dynex shareholders.
- We believe the length of transition will be uncertain, but several catalysts are already in motion – the reduction in the Fed's balance sheet, the Fed's apparent commitment to a rate hiking path, and fiscal policy actions which will materially increase the supply of U.S. Treasury debt.
- In the near term, we expect economic data in the US and globally to be positive. Underlying fundamentals fully support this and appear to be poised to strengthen, fueled temporarily by tax cuts:
  - Growth was solid coming into 2018 and will be further boosted by tax cuts, consumption, government and business spending.
  - Employment picture continues to improve with the latest data confirming modest rise in wages as well as JOLTs "quits" data confirming more confidence and mobility among workers.
  - While inflation is currently low, it is difficult to see how the amount of fiscal stimulus being employed does not create some inflationary pressure in the U.S.
- Global central banks are beginning to end the quantitative easing cycle led first by the U.S. The ECB is expected to make an announcement regarding the end of QE in March. While the BoJ has maintained its commitment to QE and a weaker yen, the Japanese economy has now grown for seven consecutive quarters for the first time in more than 15 years.
- In the long-term, the amount of increasing global debt may prove a constraint to growth and inflation and create a more fragile global economy.
- However, markets remain vulnerable to surprise events, like a geopolitical issue, or a significant global equity or rates correction that impacts aggregate demand.
- Rapidly rising interest rates could also push equity markets lower or the economy into recession, causing rates to decline in a "round trip" effect similar to 1987 and 1994.

Return Environment

Returns will be impacted by central bank actions/reactions

- The post-crisis investment environment has been dominated by central banks which impacted the level of rates, shape of the yield curve, asset credit spreads and realized market volatility.
- Led by the U.S., central banks are poised to begin the process of removing unprecedented stimulus from their economies. The withdrawal of monetary and balance sheet stimulus should precipitate a transition to a different investment environment.
- In the US, we see the following evolution:
  - Interest rates: Fed policy and fiscal policy will materially increase the supply of government debt which should put upward pressure on interest rates which we believe will result in a better return environment.
  - Shape of the yield curve: If long-term interest rates continue to increase, we expect the yield curve to steepen which we believe will result in a better return environment. If the curve were to flatten, however, this historically has been a short-term event. Since 1989, all flat to inverted yield curve experiences have been followed by a Fed ease within 6 months. Unlike in the past, the Fed has more tools to impact long-term yields.
  - Spreads: MBS will have to be supported by private capital as the Fed's planned purchases significantly wane in 2H 2018. Credit spreads eventually could face corrections as less risky assets reprice or we face an economic slow down or an event occurs that causes revaluation of credit risk.
  - Return of volatility: Without central bank purchases, greater private capital involvement in markets could begin to reflect risks more appropriately and be more volatile as participants adjust
- The above factors all point to opportunities to invest capital at long term accretive returns for Dynex shareholders. A key to our success will be managing effectively through this transitional period.

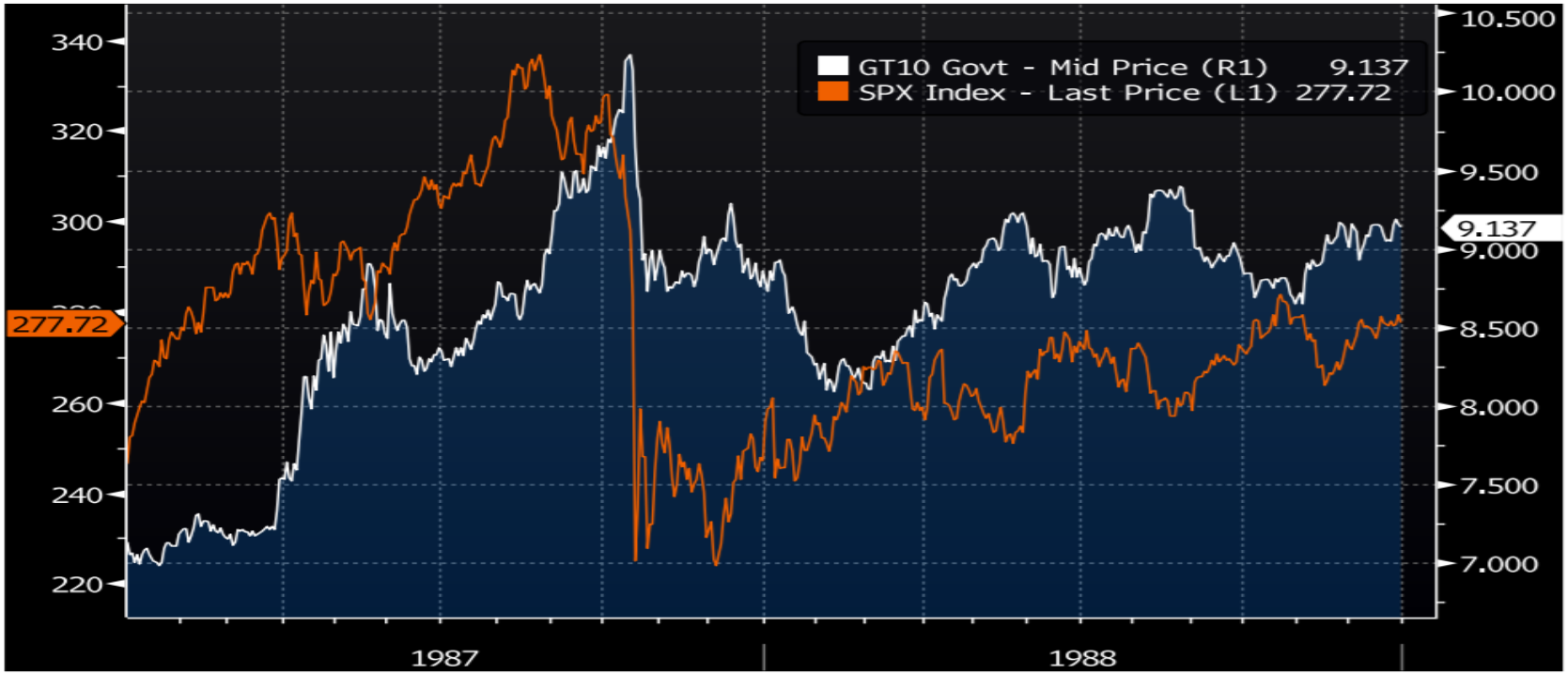
Investment Strategy Focus & Outlook

Flexibility and discipline will be key during the transitional environment

- Disciplined risk management and capital allocation decisions that maximize flexibility and liquidity given the current environment
  - Earnings and book value will be a function of risk posture
  - Since year end, we have actively managed our hedge position
- Capitalize on investment opportunities from increased market volatility and/or shifts in government and regulatory policy
  - Invest in higher credit quality, more liquid assets and maintain high liquidity position
  - Continue diversified investment strategy in residential and commercial sectors given their complimentary cash flow and risk profiles
  - Significant spread widening will be needed to invest in lower rated credit
- Diversify funding sources as the regulatory environment becomes more favorable
  - Repo spreads could narrow as a result of competition

10-year U.S. Treasury Yields/S&P 500 *(1987-1988)*

Lesson learned: Interest rates can be pushed to a level that will adversely impact equity prices and economic activity.



Source: Bloomberg

10-year U.S. Treasury Rates/S&P 500 *(2016-2018)*

Lesson learned: We have seen a glimpse of the relationship between yields and stocks in 2018.

Source: Bloomberg

10-year UST Rates *1994-1995*

Lesson learned: Federal Reserve actions can negatively impact economic activity such as in 1994-1995 when interest rates completely reversed prior increases.

Source: Bloomberg

Longer-Term Trends

Favorable secular trends should support our business model

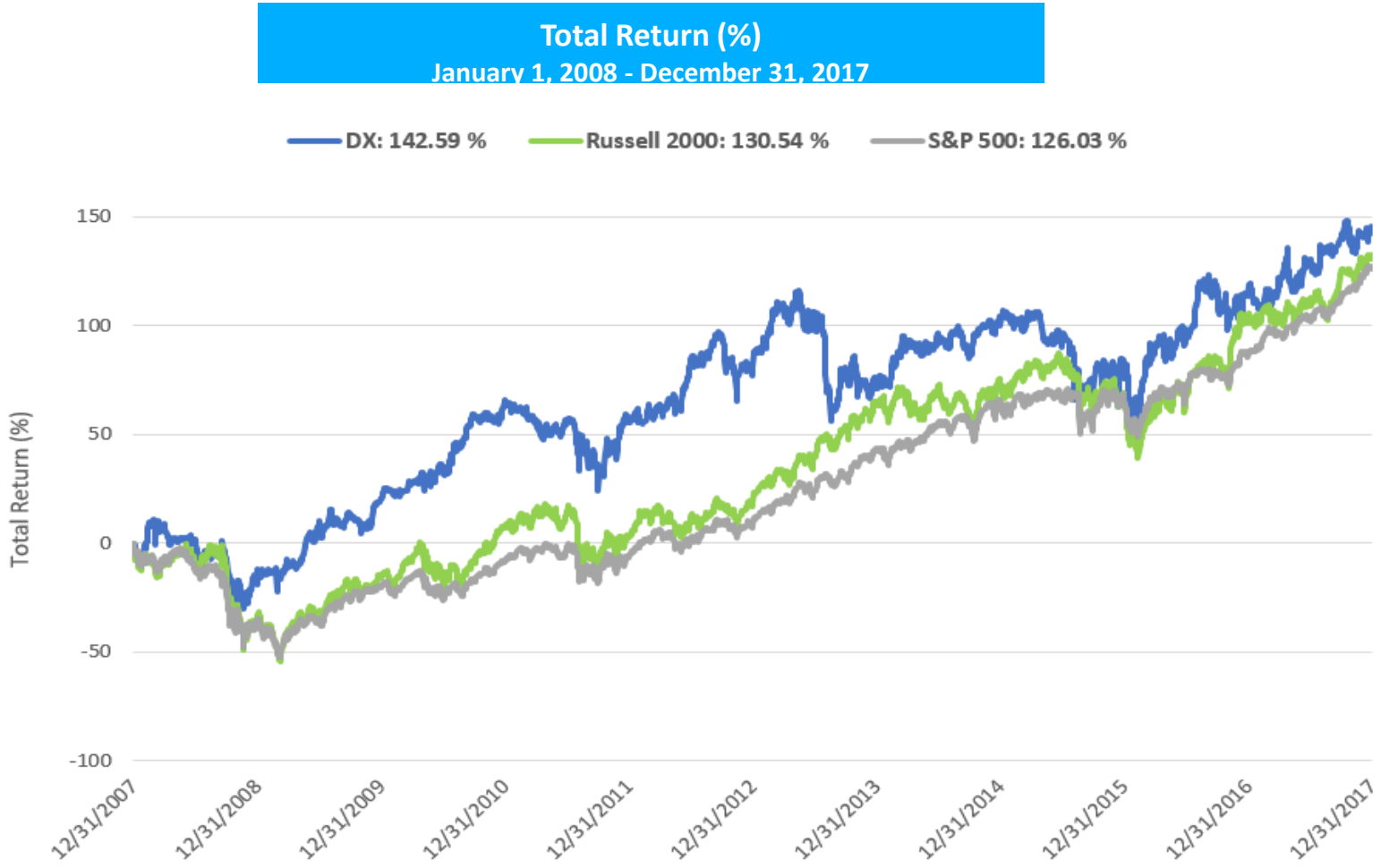
- Substantial global demand for yield supports long term valuations of mortgage REITs:
  - aging global population
  - low yields globally
- Expanding investment opportunities from growing RMBS/CMBS supply:
  - need for private capital to replace government balance sheets
  - favorable U.S. demographic trends driving household formation/housing demand
- Potential greater returns on investments in the future:
  - Better risk premiums as Federal Reserve reduces its footprint
  - Less competition from GSEs for assets as their role changes
  - Lower regulatory costs over the long-term

Dynex Over the Last 10 Years

Dynex offers a compelling story

- Over the last 10 years through December 31, 2017, we have generated a compounded total shareholder return of 143% versus 131% for the Russell 2000 and 126% for the S&P 500.
- Throughout that time we have dynamically allocated our capital in RMBS/CMBS/CMBS IO and loans, taking advantage of the most favorable relative return opportunities.
- We have declared dividends on our common stock of approximately $392 million, or $9.67 per share over these 10 years.
- Collectively our management team averages over 30 years experience managing fixed income related assets, successfully navigating multiple market and business cycles.
- We are committed to disciplined risk-management in investing our capital.
- We are organized in a shareholder friendly, internal management structure with significant insider ownership.

Long-Term Value is Driven by Above Average Dividends



Source: SNL Financial

Market Snapshot

	Common Stock	Preferred Stocks	
NYSE Ticker:	*DX*	*DXPrA*	*DXPrB*
Shares Outstanding *(in millions)*: (as of 12/31/17)	55.83	2.3	3.59
Q4 Dividends per share:	$0.18	$0.53125	$0.4765625
Dividend Yield: (annualized, based on 2/12/18 stock price)	11.65%	8.37%	8.12%
Share Price: (at 2/12/18)	$6.18	$25.38	$23.48
Market Capitalization: (based on 12/31/17 shares outstanding and 2/12/18 stock price)	$345.04	$58.37	$84.26
Price to Book: (based on 12/31/17 book value and 2/12/18 stock price)	84.2%	-	-

Supplemental Information

DYNEX CAPITAL INC.

Financial Performance - Comparative Quarters

($ in thousands, except per share amounts)	4Q2017 Income (Expense)	4Q2017 Per Common Share	3Q2017 Income (Expense)	3Q2017 Per Common Share
Interest income	$24,124	$0.45	$23,103	$0.46
Interest expense	10,056	0.19	9,889	0.20
GAAP net interest income	14,068	0.26	13,214	0.26
TBA drop income	3,925	0.07	3,902	0.08
Net periodic interest costs [1]	(319)	(0.01)	(1,131)	(0.02)
Accretion of de-designated hedges	(48)	—	(48)	—
Adjusted net interest income [2]	17,626	0.32	15,937	0.32
Other expenses, net	(50)	—	(109)	—
G & A expenses	(3,843)	(0.07)	(3,599)	(0.07)
Preferred stock dividends	(2,910)	(0.05)	(2,808)	(0.06)
Core net operating income to common shareholders [2]	10,823	0.20	9,421	0.19
Change in fair value of derivatives [1]	9,072	0.18	3,222	0.06
Realized loss on sale of investments, net	(902)	(0.02)	(5,211)	(0.10)
Accretion of de-designated hedges	48	—	48	—
Fair value adjustments, net	12	—	23	—
GAAP net income to common shareholders	19,053	0.36	7,503	0.15
Unrealized (loss) gain on MBS	(14,536)	(0.28)	6,192	0.12
Accretion of de-designated hedges	(48)	—	(48)	—
Total comprehensive income to common shareholders	$4,469	$0.08	$13,647	$0.27

(1) TBA drop income, net periodic interest costs, and change in fair value of derivatives are components of "gain (loss) on derivative instruments, net" reported in the comprehensive income statement.
(2) See reconciliations for non-GAAP measures on slide 31.

Book Value Rollforward

($ in thousands, except per share amounts)	$ Amount	Per Common Share
Common shareholders' equity, September 30, 2017 [1]	$382,472	$7.46
GAAP net income:		
Core net operating income [2]	10,823	0.20
Realized loss on sale of MBS, net	(902)	(0.02)
Change in fair value of derivatives	9,072	0.18
Other	60	—
Unrealized net losses on MBS	(14,536)	(0.27)
Dividends declared	(10,050)	(0.18)
Stock transactions [3]	32,902	(0.03)
Common shareholders' equity, December 31, 2017 [1]	$409,841	$7.34

GAAP EPS: $0.36

(1) Common shareholders' equity represents total shareholders' equity less the liquidation value of preferred stock outstanding as of the date indicated.
(2) Reconciliations for non-GAAP measures are presented in the Appendix.
(3) The decline of $(0.03) in book value per common share reflects the impact from the increase in number of common shares outstanding, net of impact from the increase in proceeds recorded in shareholders' equity.

Agency RMBS Securities and TBAs

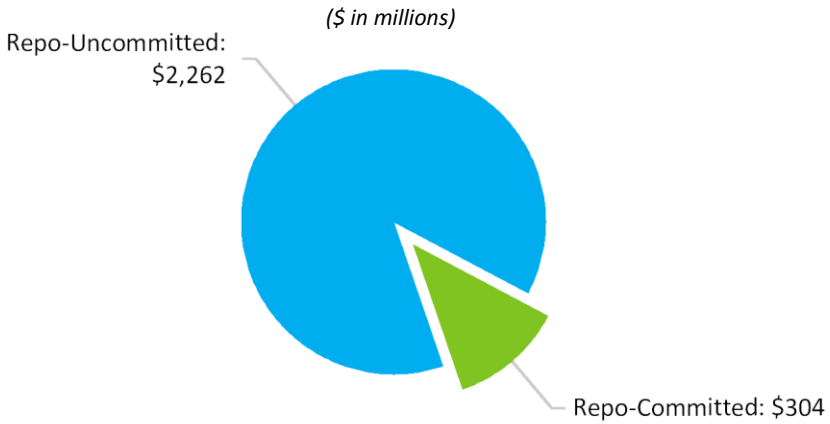
Coupon	December 31, 2017				
	Par	Amortized Cost/Cost Basis	Fair Value/Market Value	WALA	1 Month CPR
30-year fixed rate:					
3.0%	$244,374	$246,155	$244,818	13	5.5
4.0%	623,293	657,114	653,860	4	5.6
4.0% TBA (1) (2) (3)	795,000	829,425	830,908	N/A	N/A
Adjustable-rate:					
3.1% WAVG (4)	278,886	289,305	285,583	74	12.2
Total Agency RMBS and TBA Dollar Roll Positions	**$1,941,553**	**$2,021,999**	**$2,015,169**		

(1) Par, implied cost basis, and implied market value of TBA dollar roll positions represents amounts for the underlying Agency MBS as if settled.
(2) The net carrying value of TBA dollar roll positions, which is the difference between their implied market value and their implied cost basis, was $1.5 million as of December 31, 2017 and is included on the consolidated balance sheet within "derivative assets".
(3) Excludes net short positions of TBA contracts used as hedges of impact from interest rate risk on book value resulting from fixed-rate Agency RMBS.
(4) Adjustable-rate Agency RMBS coupon represents the weighted average based on amortized cost.

GAAP Net Interest Spreads

	4Q 2017			3Q 2017		
Type of Investment:	Effective Yield	Cost of Funds	Net Interest Spread	Effective Yield	Cost of Funds	Net Interest Spread
Fixed-rate Agency RMBS	3.02%	1.37%	1.65%	2.98%	1.30%	1.68%
Adjustable-rate Agency RMBS	2.11%	1.35%	0.76%	1.95%	1.27%	0.68%
Agency CMBS	2.80%	1.35%	1.45%	2.73%	1.27%	1.46%
CMBS IO	3.82%	2.13%	1.69%	3.89%	2.10%	1.79%
Non-Agency other	10.21%	2.19%	8.02%	9.21%	2.18%	7.03%
U.S. Treasuries	2.14%	1.25%	0.89%	—%	—%	—%
Loans, net	3.97%	2.05%	1.92%	3.92%	1.97%	1.95%
Net Interest Spread	**3.07%**	**1.53%**	**1.54%**	**2.95%**	**1.48%**	**1.47%**

Repo Financing *(as of December 31, 2017)*

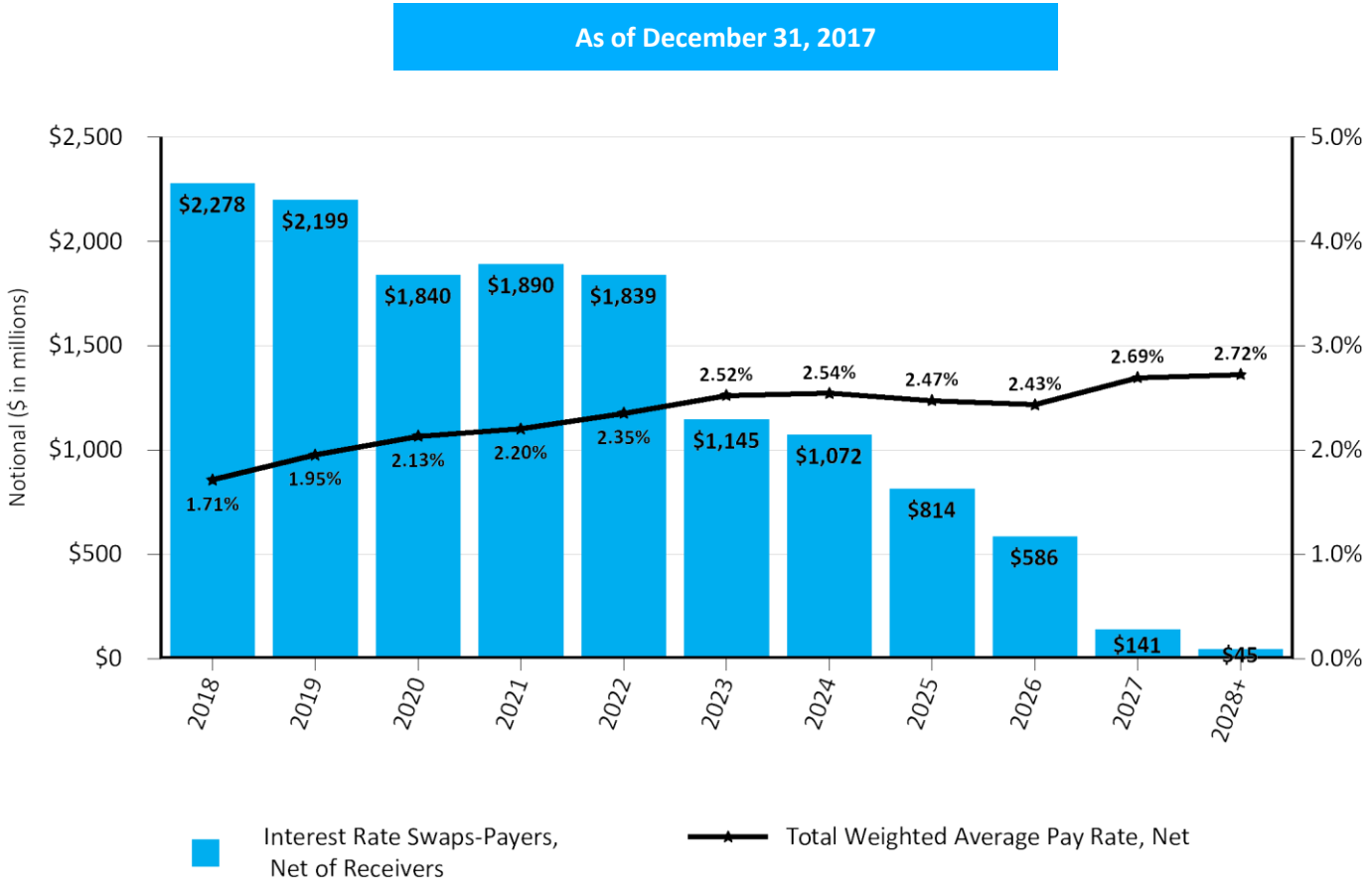


Active Counterparty by Region	#	% of all REPO
North America	7	61%
Asia	6	19%
Europe	3	20%
Total	16	100%

Active Counterparty by Type	#	% of all REPO
Broker/Dealers	4	29%
Domestic Banks	6	54%
Foreign Banks	6	17%
Total	16	100%

- We maintain a diversified funding platform with 34 established counterparties, currently active with 16 counterparties
- Our funding is well diversified by counterparty and geography
- Repo markets remain highly liquid

Interest Rate Swap Position



Risk Position - Interest Rates

Changes in interest rates can impact the market value of our investments, net of hedges and book value per common share. The estimated changes in these values incorporates the levels of duration and convexity inherent in our investment portfolio as it existed at the dates indicated.

	As of December 31, 2017		As of September 31, 2017	
Parallel Change in Treasury Yields (bps)	Change in Market Value of Investments, net	Change in Shareholders' Equity	Change in Market Value of Investments, net	Change in Shareholders' Equity
+100	(1.7)%	(10.0)%	(1.3)%	(9.1)%
+50	(0.7)%	(4.0)%	(0.5)%	(3.7)%
-50	0.3%	1.8%	0.3%	2.1%

		As of December 31, 2017		As of September 31, 2017	
Curve Shift 2 year Treasury (bps)	Curve Shift 10 year Treasury (bps)	Change in Market Value of Investments, net	Change in Shareholders' Equity	Change in Market Value of Investments, net	Change in Shareholders' Equity
+25	+50	(0.5)%	(3.0)%	(0.5)%	(3.6)%
+25	+0	(0.2)%	(0.9)%	(0.1)%	(0.6)%
+50	+25	(0.5)%	(2.8)%	(0.3)%	(2.3)%
+50	+100	(1.3)%	(7.7)%	(1.2)%	(8.1)%
-10	-50	0.1%	0.8%	(0.2)%	1.5%

Source: Company models based on modeled option adjusted duration. Includes changes in market value of our investments and derivative instruments, including TBA securities, but excludes changes in market value of our financings because they are not carried at fair value on our balance sheet.

Sensitivity to Changes in Credit Spreads

Changes in market credit spreads versus our hedges can impact the market value of our investments, net of hedges and book value per common share. The estimated change in these values incorporates portfolio and hedge characteristics as they existed at the dates indicated.

	As of December 31, 2017		As of September 31, 2017	
Parallel Change in Market Credit Spreads	Change in Market Value of Investments, net	Change in Shareholders' Equity	Change in Market Value of Investments, net	Change in Shareholders' Equity
+50	(3.1)%	(17.5)%	(2.6)%	(17.9)%
+25	(1.1)%	(6.5)%	(1.3)%	(8.8)%
-25	1.6%	9.2%	1.3%	8.8%
-50	3.2%	18.5%	2.6%	18.0%

Source: Company models based on modeled option adjusted duration. Includes changes in market value of our investments and derivative instruments, including TBA securities, but excludes changes in market value of our financings because they are not carried at fair value on our balance sheet. The projections for market value do not assume any change in credit spreads.

Dividend Character - YTD 12/31/2017 *(Estimated)*

($ in thousands)	
GAAP net income to common shareholders	$23,099
GAAP net income on taxable REIT subsidiary	39
GAAP net income to common shareholders excluding taxable REIT subsidiary	23,060
Differences between GAAP net income and taxable income:	
Change in fair value of derivative instruments	(3,088)
Loss on sale of investments	(3,716)
Tax amortization on terminated derivative instruments	(21,580)
Premium amortization	2,621
Other	1,636
Taxable income to common shareholders	(1,067)
Add back: Capital losses	11,605
Taxable income - ordinary income	$10,538
Common dividends paid deduction	($36,683)
Common dividend representing return of capital	($26,145)
% of common dividend representing non-taxable return of capital	71.3%

Reconciliation of GAAP Measures to Non-GAAP Measures

($ in thousands except per share data)

	Quarter Ended				
	12/31/17	9/30/17	6/30/17	3/31/17	12/31/16
GAAP net income (loss) to common shareholders	$19,053	$7,503	($10,073)	$6,616	$66,758
Adjustments:					
Accretion of de-designated cash flow hedges [1]	(48)	(48)	(73)	(99)	(99)
Change in fair value of derivatives instruments, net [2]	(9,072)	(3,222)	15,801	(790)	(56,686)
Loss on sale of investments, net	902	5,211	3,709	1,708	—
Fair value adjustments, net	(12)	(23)	(30)	(10)	(17)
Core net operating income to common shareholders	$10,823	$9,421	$9,334	$7,425	$9,956
Core net operating income per common share	$0.20	$0.19	$0.19	$0.15	$0.20

	Quarter Ended				
	12/31/17	9/30/17	6/30/17	3/31/17	12/31/16
GAAP net interest income	$14,068	$13,214	$16,142	$14,900	$16,105
Add: TBA drop income	3,925	3,902	1,351	—	—
Add: net periodic interest costs [3]	(319)	(1,131)	(1,352)	(615)	(140)
Less: de-designated hedge accretion [1]	(48)	(48)	(73)	(99)	(99)
Non-GAAP adjusted net interest income	$17,626	$15,937	$16,068	$14,186	$15,866
GAAP interest expense	$10,056	$9,889	$8,714	$7,519	$6,753
Add: net periodic interest costs [3]	319	1,131	1,352	615	140
Less: de-designated hedge accretion [1]	48	48	73	99	99
Non-GAAP adjusted interest expense	$10,423	$11,068	$10,139	$8,233	$6,992

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

(2) Amount represents net realized and unrealized gains and losses on derivatives and excludes net periodic interest costs related to these instruments.

(3) Amount represents net periodic interest costs on effective interest rate swaps outstanding during the period and exclude termination costs and changes in fair value of derivative instruments.

Credit Spreads *(in bps)*

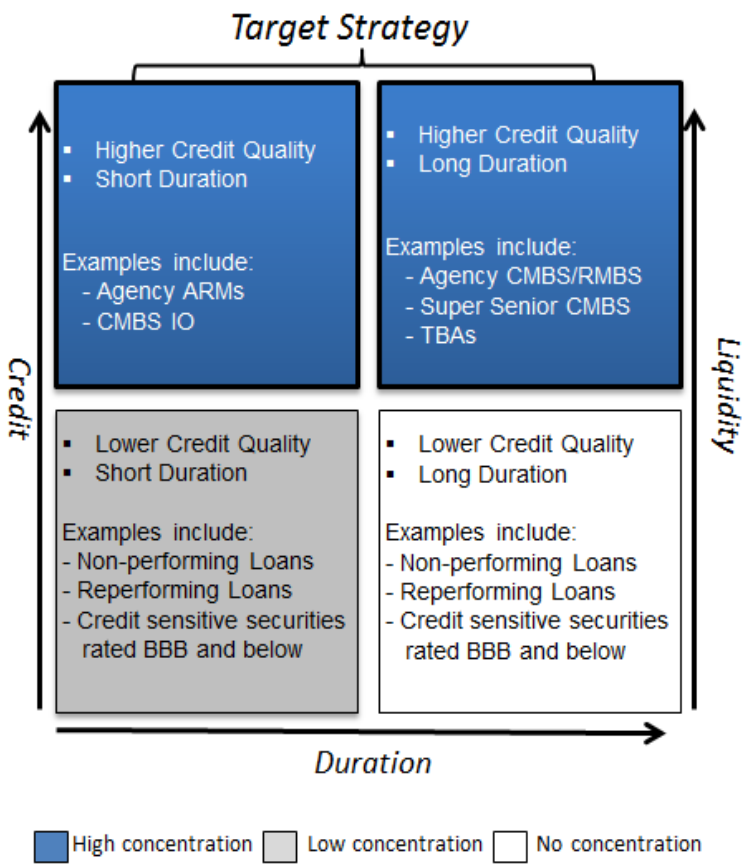
Dynex Portfolio										
Asset Class	**12/31/17**	**9/30/17**	**6/30/17**	**3/31/17**	**12/31/16**	**9/30/16**	**06/30/16**	**12/31/15**	**06/30/15**	**12/31/14**
Agency DUS	**56**	**64**	**68**	**67**	**76**	**80**	**94**	**89**	**60**	**59**
Fixed 30yr FN 3%*	**26**	**29**	**36**	**34**	**36**	**18**	**26**	**37**	**21**	**9**
Fixed 30yr FN 4%*	**26**	**29**	**31**	**27**	**33**	**12**	**24**	**26**	**8**	**1**
Freddie K AAA IO	**100**	**120**	**145**	**150**	**200**	**230**	**255**	**225**	**150**	**155**
AAA CMBS IO	**100**	**120**	**110**	**145**	**195**	**215**	**240**	**240**	**175**	**—**
AAA CMBS	**74**	**83**	**88**	**93**	**91**	**100**	**104**	**138**	**92**	**88**
Freddie K B	**165**	**170**	**165**	**220**	**295**	**265**	**325**	**350**	**157**	**170**
Other										
Agency ARM 5/1 (new issue)	16	20	21	24	19	32	38	22	16	21
Fixed 30yr FN 3.5%	15	27	31	27	29	10	29	34	18	11
Freddie K C	235	280	275	350	435	490	540	480	228	250
IG Corporates	105	117	123	128	138	159	157	172	146	132
High Yield	396	415	441	456	476	558	628	746	521	562
AA CMBS	135	143	132	129	128	160	186	223	163	141
A CMBS	178	184	182	182	230	255	304	348	230	203
BBB CMBS	358	366	357	439	485	560	604	562	388	358
CRT.M3-2014	137	186	162	236	297	311	415	478	425	475
10y swap spreads	(1.1)	(4.4)	(2.4)	(0.4)	(13.0)	(14.0)	(10.6)	(8.5)	9.8	11.8

Source: Blackrock, JP Morgan and Company data
**Option Adjusted Spreads (OAS) using BlackRock prepayment and interest rate models*

DYNEX CAPITAL INC.

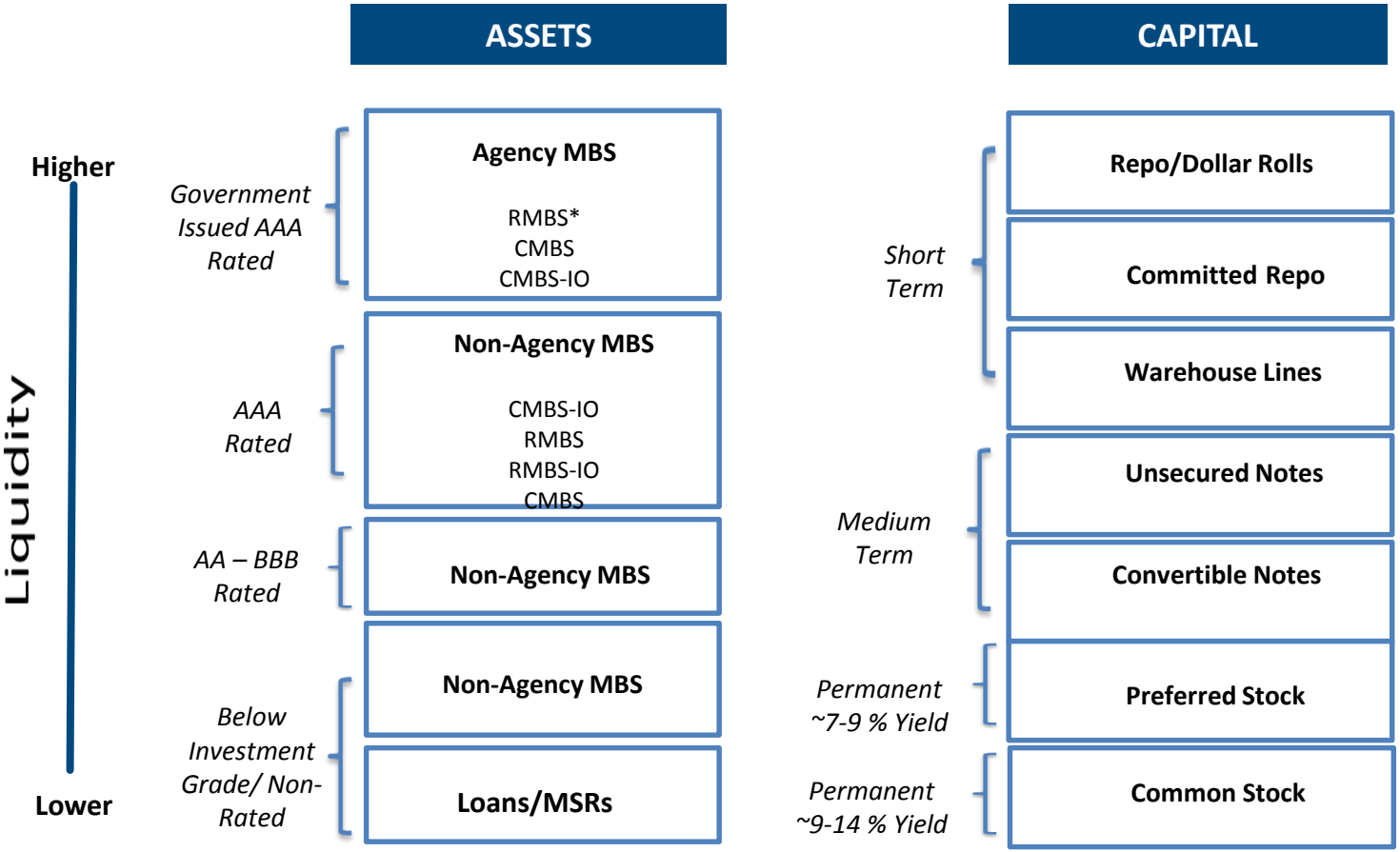
Investment Strategy

Diversified investment approach that performs in a variety of market environments



- Dynamic and disciplined capital allocation model enables capturing long-term value
- Invest in a high quality, liquid asset portfolio of primarily Agency investments
- Diversification is a key benefit
  - Balance between commercial and residential sectors provides diversified cash flow and prepayment profile
  - Agency CMBS protect the portfolio from extension risk. High quality CMBS IO add yield and are intended to limit credit exposure and prepayment volatility vs. lower rated tranches
  - Agency fixed rate RMBS will allow us to grow our balance sheet opportunistically
- Flexible portfolio duration position to reflect changing market conditions

Mortgage REIT Business Model



*specified pool or TBA

Over our 30 year history we have invested in every real estate debt asset class. Today we are emphasizing higher liquidity and higher credit quality.

MREIT Glossary of Terms

Commercial Mortgage-Backed Securities (CMBS) are a type of mortgage-backed security that is secured by the mortgage on a commercial property. CMBS can be Agency issued and issued by a private enterprise (non-Agency).

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

Curve Twist Terms:

Bull Flattener: Is a rate environment in which long-term interest rates are declining faster than short- term interest rates.

Bear Flattener: Is a yield-rate environment in which short-term interest rates are rising faster rate than long-term interest rates.

Bear Steepener: Is a rate environment in which long-term interest rates are rising faster than short-term interest rates.

Bull Steepener: Is a rate environment in which short-term interest rates are declining faster than long-term interest 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 securities backed by a portion of the excess interest of a securitization and sold individually from the principal component.

Interest Rate Risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, the shape of the yield curve or in any other interest rate relationship. Interest rate risk can also manifest itself through the purchase of fixed rate instruments funded with floating rate, or very short maturity, instruments.

Leverage is the use of borrowed money to finance assets including TBA dollar rolls.

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

MREIT Glossary of Terms

Repurchase Agreements are a short-term borrowing that uses loans or securities as collateral. The lender advances only a portion 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. Each security is typically backed by a pool of mortgage loans created by US government agencies, banks, or other financial institutions. RMBS can be Agency issued or issued by a private enterprise (non-Agency).

Spread Risk is the potential price volatility resulting from the expansion and contraction of the security's risk premium over a benchmark (or risk-free) interest rate.

TBA Dollar Roll is a financing mechanism for long positions in TBAs whereby an investor enters into an offsetting short position and simultaneously enters into an identical TBA with a later settlement date.

To Be Announced (TBA) Securities are forward contracts involving the purchase or sale of non-specified Agency RMBS or CMBS.


DYNEX
CAPITAL INC.