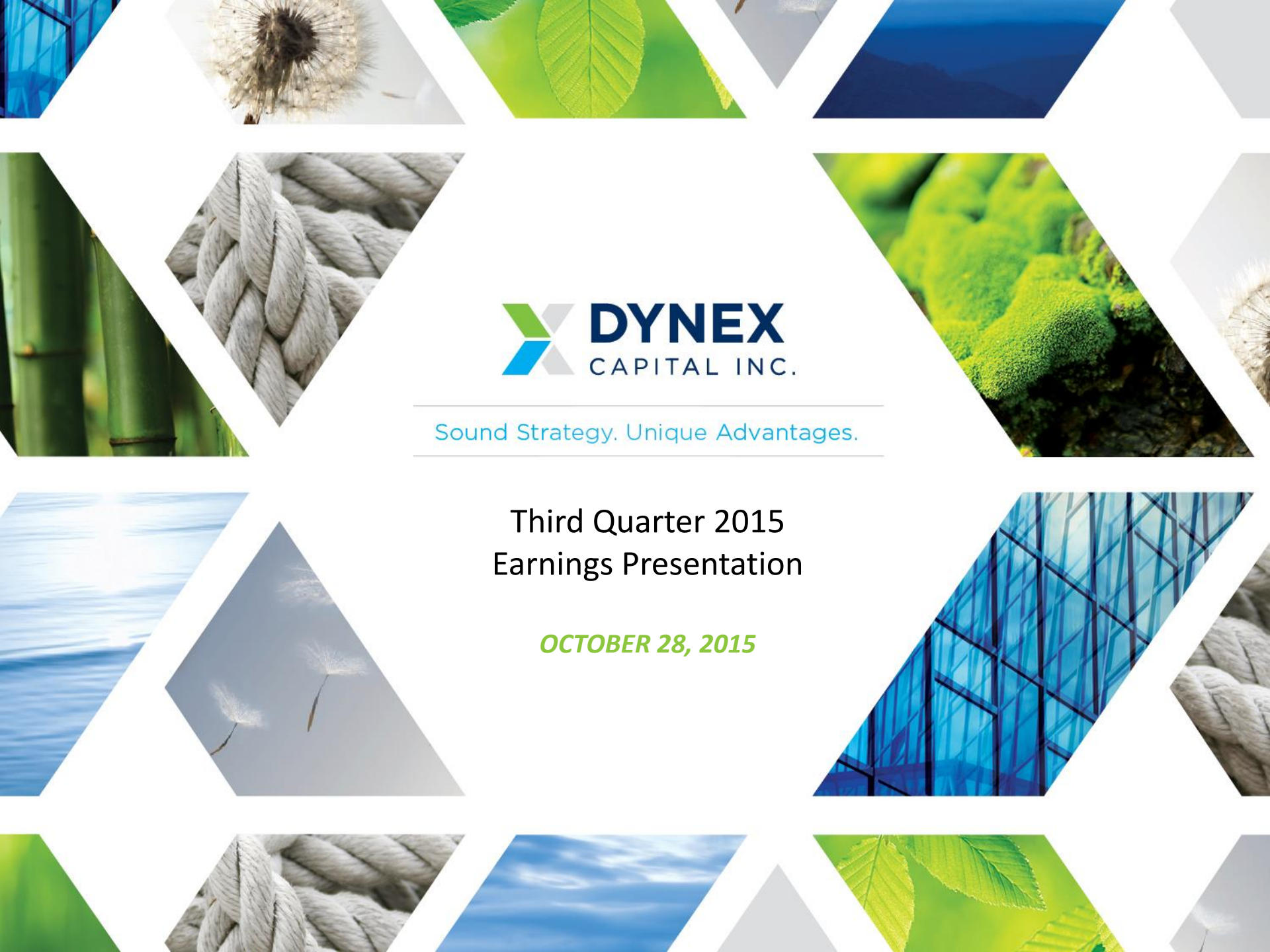


DYNEX CAPITAL INC.

Sound Strategy. Unique Advantages.

Third Quarter 2015 Earnings Presentation

OCTOBER 28, 2015

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, 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.

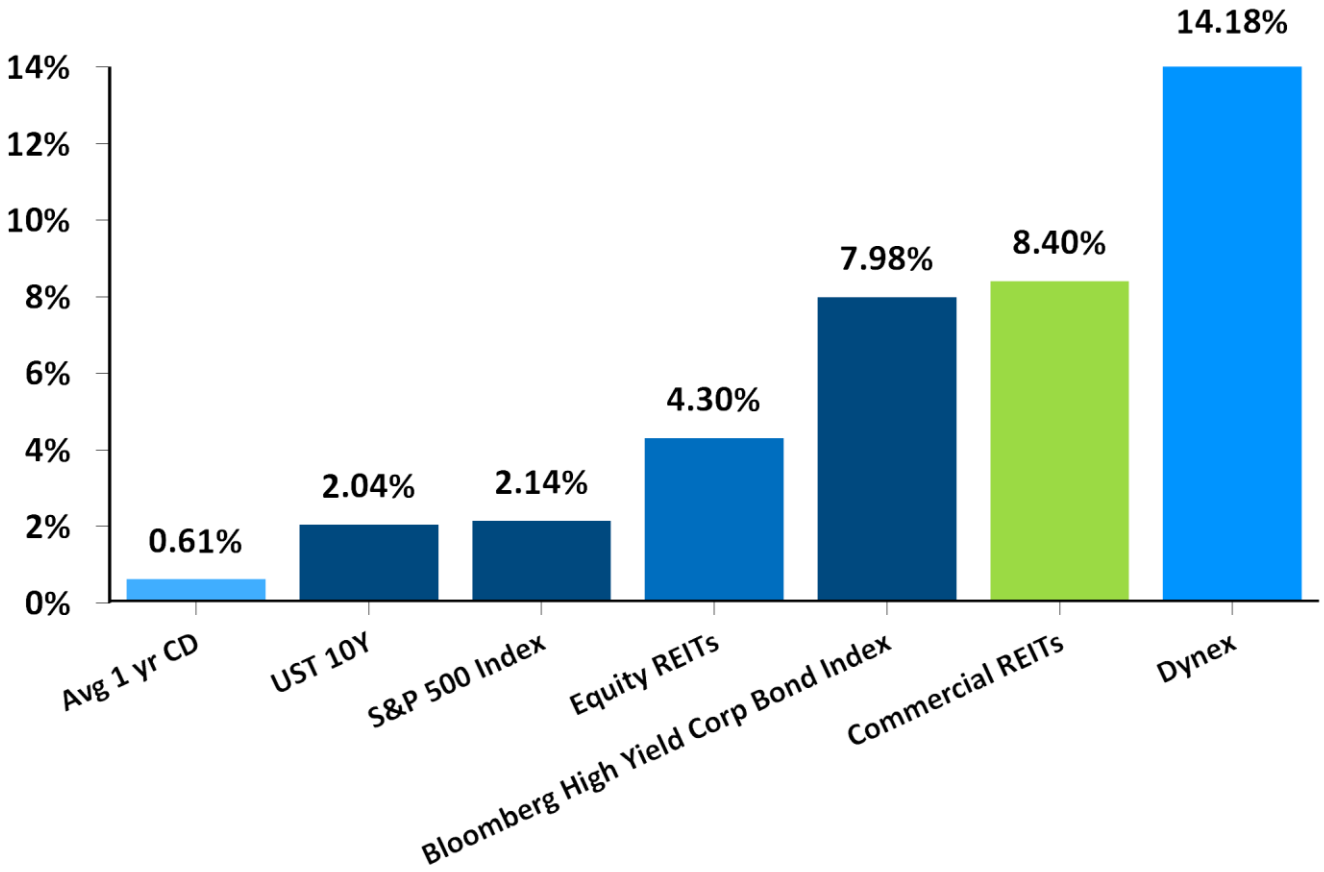
While it is not possible to identify all factors, some of the factors that may cause actual results to differ from historical results or from any results expressed or implied by our forward-looking statements, or that may cause our projections, assumptions, expectations or beliefs to change, include the risks and uncertainties referenced in our Annual Report on Form 10-K for the year ended December 31, 2014 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption "Risk Factors".

Third Quarter 2015 Business Overview

- Volatility, uncertainty, and complexity have been the key themes for 2015
  - 10-year Treasury has range from low of 1.64% in January to 2.49% in June and 2.09% today
- Spread widening has occurred amidst the volatility putting asset prices under pressure and now sit at 12-month wides
  - Uncertainty on Fed policy
  - Global growth fears
  - Deflation versus inflation
- In 3Q 2015, we took advantage of a great opportunity to repurchase our stock and we focused on maintaining core net income
- Market has repriced Fed policy expectations and risk-adjusted returns are as good as they have been since early 2014
  - Market liquidity remains a concern however
- We expect more of the same for 4Q15
- Long term fundamentals for mortgage REITs remain very compelling

Above Average Dividend Yield

(as of October 16, 2015)

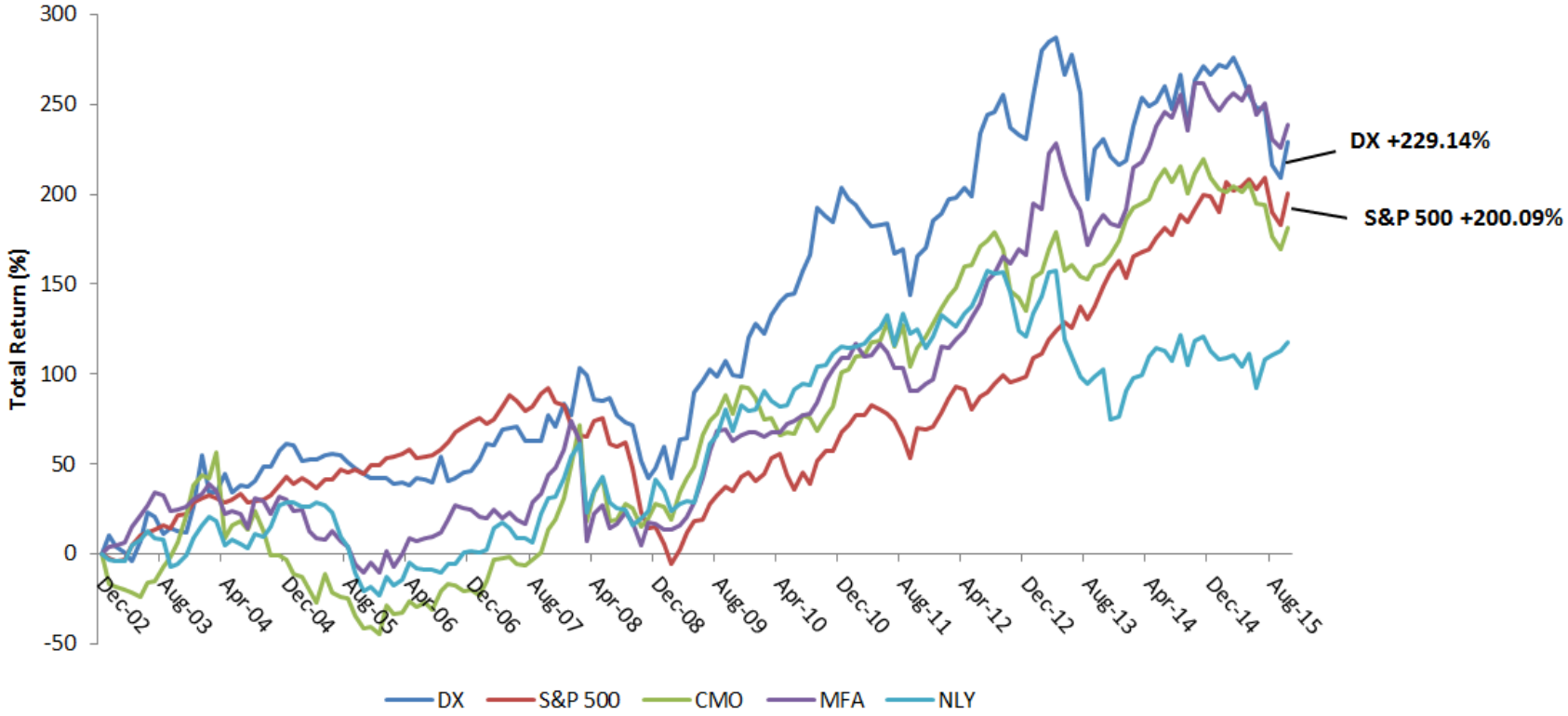


Source: KBW, Bloomberg, Bankrate.com

Historical MREIT Performance

(over a Fed tightening cycle from 2004 to 2006)

Total Return (%) January 1, 2003 - October 16, 2015



Annualized Total Return for Dynex is 10.3% versus S&P 500 of 8.7%

Source: SNL Financial

3Q2015 PERFORMANCE

Third Quarter 2015 Highlights

- Comprehensive loss to common shareholders of ($0.22) per WAVG[1] common share consisting of:
  - $0.24 from core net operating income[2]
  - ($0.90) from unrealized losses on hedges and ($0.06) from realized losses on hedges, and
  - $0.50 unrealized gains on MBS
- Dividends declared of $0.24 per common share
- Net interest spread of 2.02% and adjusted net interest spread[2] of 1.91%
- Book value per common share of $8.19 at September 30, 2015 versus $8.53 at June 30, 2015 and $9.02 at December 31, 2014
- Overall leverage of 6.4x at September 30, 2015 versus 6.2x at June 30, 2015
- Repurchase of 3.5 million shares of common stock at a WAVG price of $6.92 per share for aggregate cost of $24.4 million, favorably impacting book value by $0.11 per common share
- Increased our borrowings from FHLB to $255.0 million as of September 30, 2015 from $108.1 million as of June 30, 2015

(1) Based on weighted average of common shares outstanding during the quarter.
(2) Reconciliations for non-GAAP measures are presented on slides 39-40.

Financial Performance

($ in thousands, except per share amounts)	3Q2015 Income (Expense)	3Q2015 Per WAVG Common Share	2Q2015 Income (Expense)	2Q2015 Per WAVG Common Share
Interest income	26,096	0.49	24,527	0.45
Effective borrowing cost [1]	(6,754)	(0.12)	(6,478)	(0.12)
Adjusted net interest income	19,342	0.37	18,049	0.33
Equity method investment (loss) income and other	(215)	—	612	0.01
G & A expenses	(4,379)	(0.09)	(4,754)	(0.09)
Preferred stock dividends	(2,294)	(0.04)	(2,294)	(0.04)
Core net operating income [1]	12,454	0.24	11,613	0.21
Realized (loss) gain on terminated derivatives, net	(3,527)	(0.06)	629	0.01
Unrealized loss (gain) on derivatives, net	(47,470)	(0.90)	18,254	0.34
Realized gain (loss) on sale of investments, net	113	—	(1,491)	(0.03)
Amortization of de-designated cash flow hedges	(857)	(0.02)	(857)	(0.01)
Fair value adjustments, net	16	—	20	—
GAAP net (loss) income to common shareholders	(39,271)	(0.74)	28,168	0.52
Unrealized gains (losses) on MBS	26,561	0.50	(40,536)	(0.74)
Amortization of de-designated cash flow hedges	857	0.02	857	0.01
Total comprehensive loss	($11,853)	($0.22)	($11,511)	($0.21)

- Increase in core net operating income is due principally to larger investment portfolio and favorable net prepayment activity

(1) Reconciliations for non-GAAP measures are presented on slides 39-40.

Book Value Rollforward

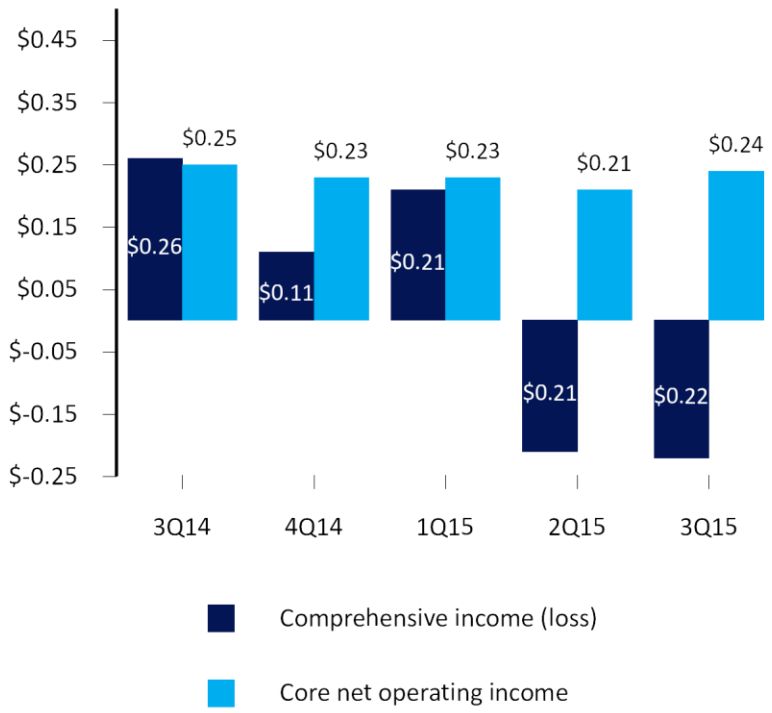
	Changes in Common Shareholders' Equity [1]	Book Value Per Common Share
Beginning balance, June 30, 2015	$461,503	$8.53
Core net operating income per share [2]	12,454	0.24
Gain on sale of investments and fair value adjustments	129	—
Increase in unrealized gains on MBS	26,561	0.50
Unrealized loss on derivative instruments, net	(47,470)	(0.90)
Realized loss on terminated derivatives, net	(3,527)	(0.06)
Dividends declared	(12,064)	(0.24)
Stock repurchases	(24,363)	0.11
Other	787	0.01
Ending balance, September 30, 2015	$414,010	$8.19

- Decline in book value per common share is due primarily to spread widening on MBS which reduced the benefit of the interest rate rally during the quarter on unrealized gains on MBS versus the related derivative hedge instruments

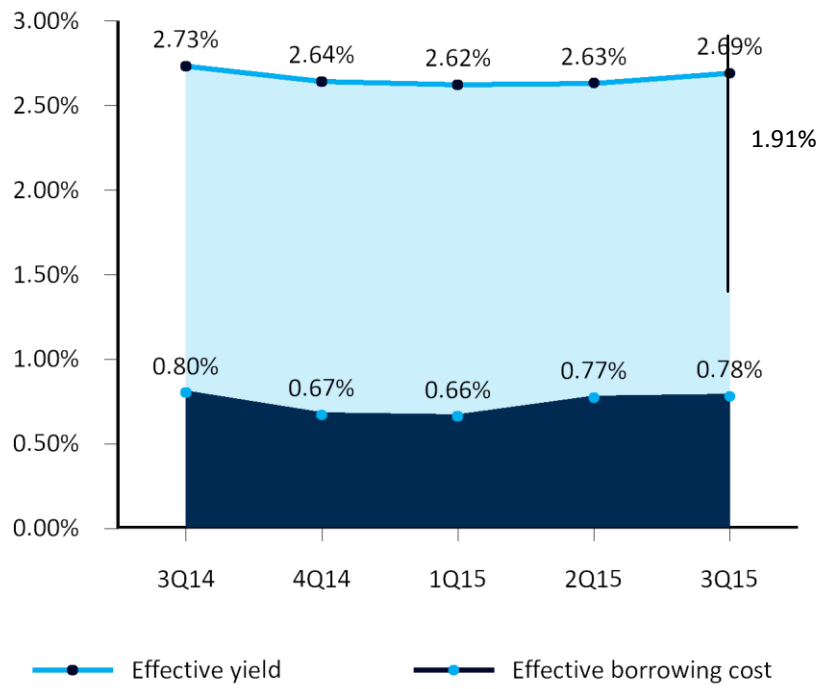
(1) Common shareholders' equity represents total shareholders' equity less the liquidation value of preferred stock of $113.8 million.
(2) Reconciliations for non-GAAP measures are presented on slides 39-40.

Other Financial Trends

Financial Measures per Common Share [1]

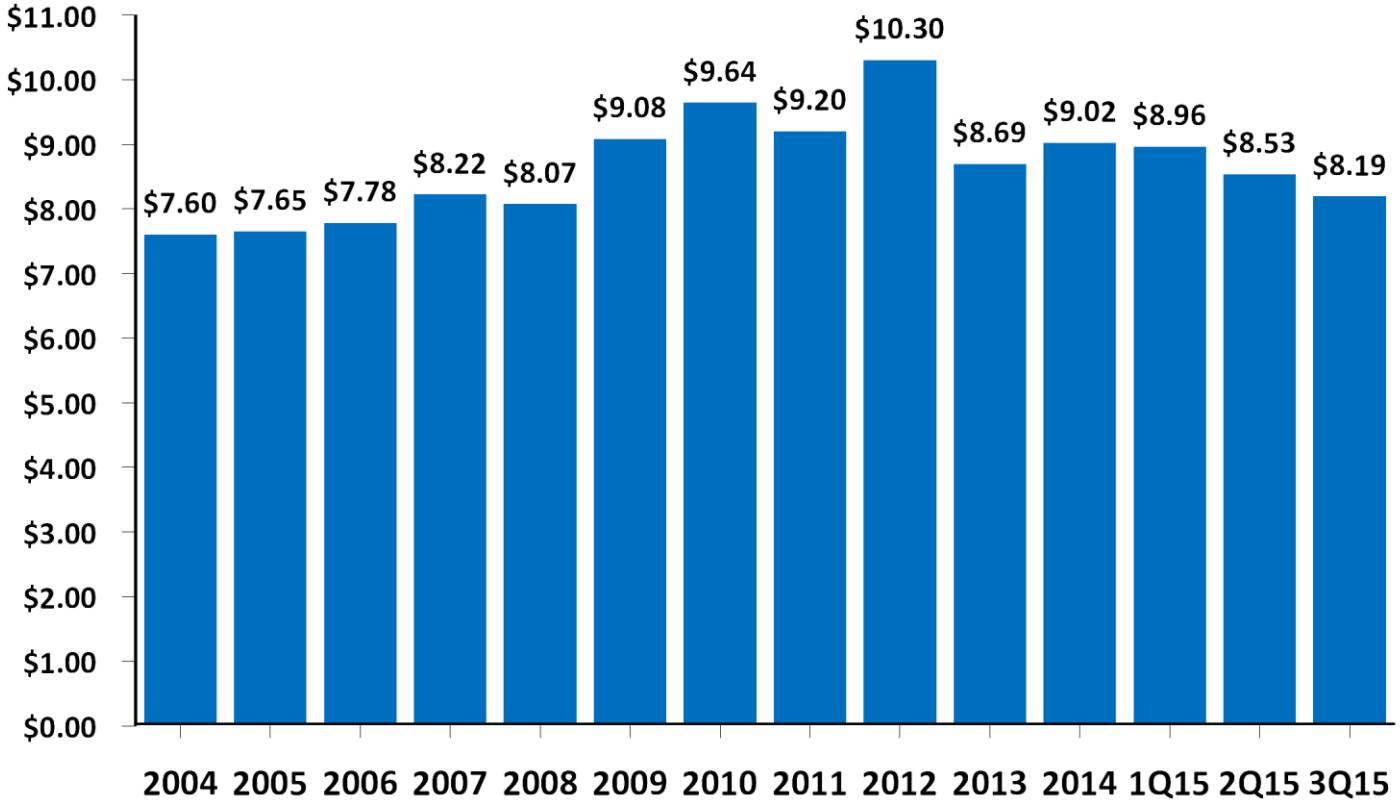


Adjusted Net Interest Spread [1]



(1) Core net operating income per common share, effective borrowing cost, and adjusted net interest spread are non-GAAP financial measures and are reconciled to their corresponding GAAP measures on slides 39-40.

Book Value Stability *(per Common Share)*



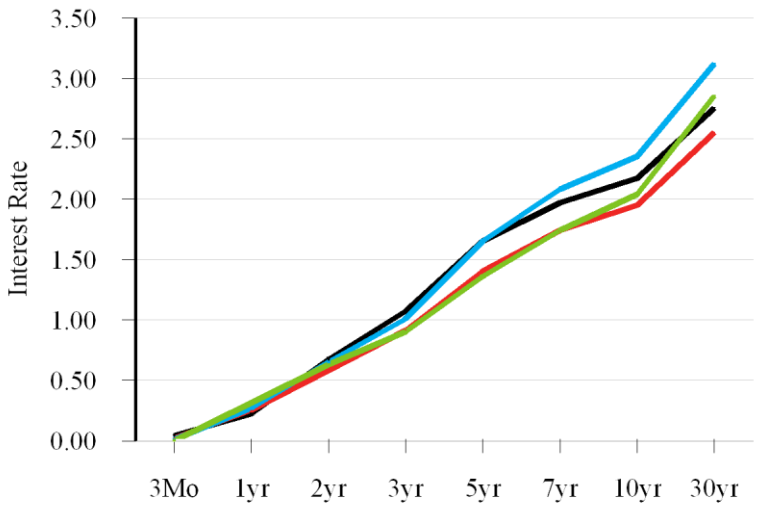
INVESTMENT PORTFOLIO STRATEGY AND OUTLOOK

Macroeconomic and Policy Factors

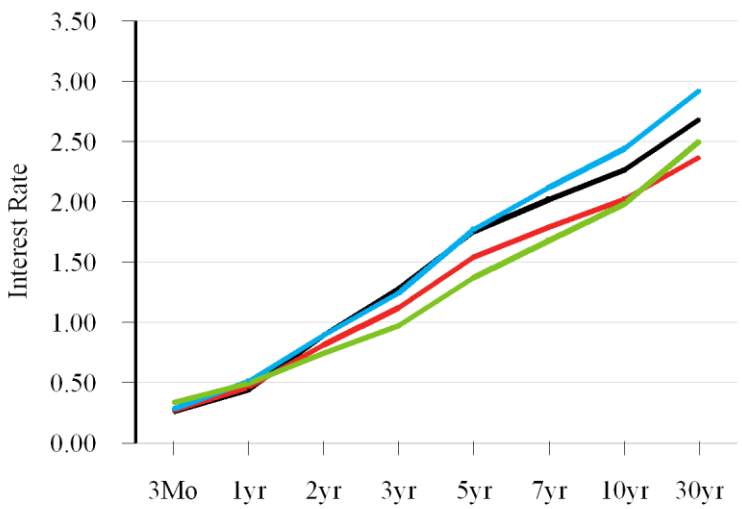
- **Divergent Central Bank policy**
- **Slowing global growth**
- **Stable or declining inflation**
- **Complex interconnected global environment**
- **Demographic trends contributing to private demand for fixed income assets**

Market Moves

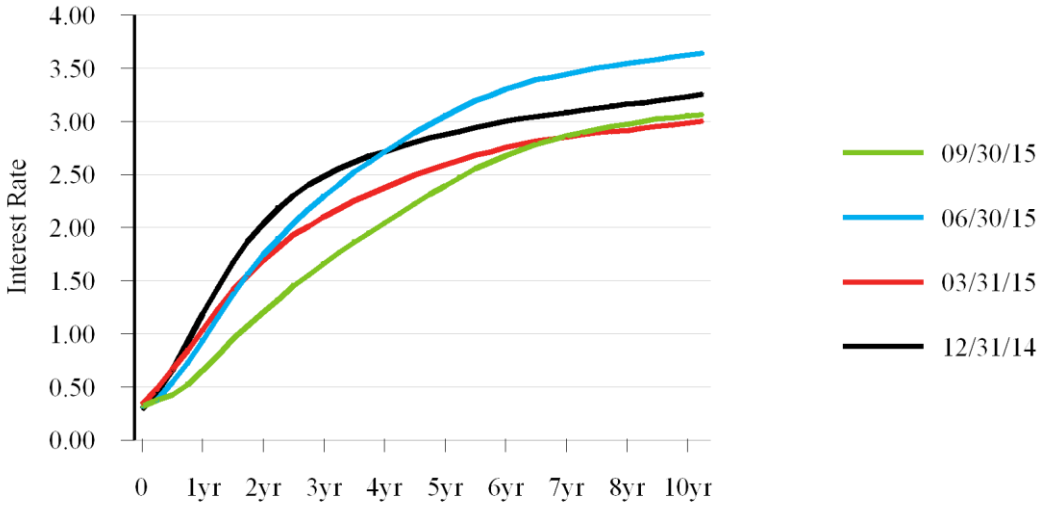
Treasury Curve



Swaps



Eurodollars



Investment Environment

- **Low overall yields: Global yields continue to remain low given macroeconomic and policy factors in place today.**
- **Spreads are wider and some assets have repriced to levels seen around the taper tantrum.**
- **Cash is on the sidelines awaiting clarity from the Fed.**
- **Surprises are likely: An environment with divergent growth and central bank actions could create volatility and opportunity.**
- **Federal Reserve in action: If U.S. economic data unfolds with no negative surprises, Federal Reserve will likely act to raise rates.**
  - Potential risk to U.S. economic performance due to exogenous factors
  - Flatter yield curve possible in the U.S.

Credit Spread Environment *(in bps)*

Asset Class	12/31/13	3/31/14	6/30/14	9/30/14	12/31/14	3/31/15	6/30/15	9/30/15
Agency ARM 5/1	33	21	19	16	21	**15**	16	**26**
Agency DUS	60	50	**39**	43	59	54	60	**76**
Freddie K AAA IO	175	125	**100**	125	155	140	150	**200**
AAA CMBS IO	170	155	**130**	140	165	170	175	**225**
Freddie K B	210	160	**130**	150	170	145	157	**305**
Freddie K C	310	245	**170**	185	250	205	228	**325**
IG Corporates	115	109	**101**	114	132	135	146	**169**
High Yield	441	409	**397**	485	562	546	521	**698**
AAA CMBS	90	87	**77**	84	88	85	92	**119**
AA CMBS	165	144	**135**	141	141	145	163	**220**
A CMBS	220	188	**175**	185	203	200	230	**315**
BBB CMBS	370	360	**312**	339	358	345	388	**470**
FN CC nominal/tsy	**62**	75	73	84	74	87	84	**96**
10y swap spreads	5.5	12	10.5	**12.75**	11.75	9	9.75	**-4**

Source: JP Morgan and Company data

Capital Deployment

($ in thousands)

	9/30/2015	6/30/2015	QoQ Change
Investments, including receivable [1]	$3,775,899	$3,989,642	($213,743)
Repurchase Agreements, including payable [2]	3,055,069	3,406,978	(351,909)
FHLB advances	255,000	108,076	146,924
Leverage [3]	6.4x	6.2x	0.2x
Funding			
Original Days to Maturity	57 days	88 days	(31) days
Remaining Days to Maturity	18 days	27 days	(9) days

Asset Purchases		
Asset Type	3Q15	1Q-3Q 2015
Agency CMBS	$—	$767,277
Agency CMBS IO	13,844	79,442
Non-Agency CMBS	—	12,999
Non-Agency CMBS IO	36,928	122,580
Non-Agency RMBS	4,995	72,688
Total	**$55,767**	**$1,054,986**

- Repurchase of 3.5 million shares of common stock at a WAVG price of $6.92 per share for aggregate cost of $24.4 million

- YTD repurchases have been 4.4 million shares for aggregate cost of $31.3 million

[1] Amount includes $0 and $96.2 million of receivable for investments sold at 9/30/15 and 6/30/15, respectively.
[2] Amount includes payable for unsettled purchases of $0 and $4.0 million at 9/30/15 and 6/30/15, respectively.
[3] Leverage is based on total liabilities divided by stockholders equity.

Risk Position

Treasury Yields	As of September 30, 2015	As of June 30, 2015
2Y	0.63%	0.65%
5Y	1.36%	1.65%
10Y	2.04%	2.35%
30Y	2.85%	3.12%

Parallel Change in Treasury Yields (in basis points)	Percentage Change in Projected Market Value of Assets Net of Hedges	
	As of September 30, 2015	As of June 30, 2015
+100	(0.71)%	(0.86)%
+50	(0.30)%	(0.39)%
+25	(0.14)%	(0.19)%
-25	0.10%	0.16%

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 September 30, 2015	As of June 30, 2015
0	+25	0.02%	(0.05)%
+10	+50	(0.01)%	(0.13)%
+25	+75	(0.09)%	(0.23)%
+25	0	(0.05)%	(0.01)%
+50	0	(0.12)%	(0.04)%
-10	-50	(0.11)%	0.02%

Parallel Change in Market Credit Spreads	Percentage Change in Projected Market Value of Assets Net of Hedges	
	As of September 30, 2015	As of June 30, 2015
+50	(2.13)%	(2.18)%
+25	(1.07)%	(1.10)%
-25	1.08%	1.12%
-50	2.19%	2.25%

Treasury yields source: KBW

Movement in Spreads

	NOMINAL SPREADS		OAS SPREADS		SPREAD CHANGE	
	9/30/2015	6/30/2015	9/30/2015	6/30/2015	Nominal	OAS
5/1	26	16	20	9	10	11
7/1	41	30	24	14	11	10
10/1	54	48	21	13	6	8
New Agency CMBS IO	200	150	200	150	50	50
New DUS	78	60	78	60	18	18
Non-Agency CMBS IO	225	190	225	190	35	35

Freddie K Multifamily Securitization

Credit Spread Performance (bps)						
Class	Rating	Class Structure	9/30/2015	6/30/2015	Nominal Spread Widening	%
A1	AAA	Senior P&I	53	34	19	56%
A2	AAA	Senior P&I	72	49	23	47%
B	BBB+	Sub P&I	305	157	148	94%
C	BBB-	Sub P&I	370	228	142	62%
X1	AAA	Senior IO	200	150	50	33%
X3	NR	Sub IO	465	355	110	31%

Source: JP Morgan

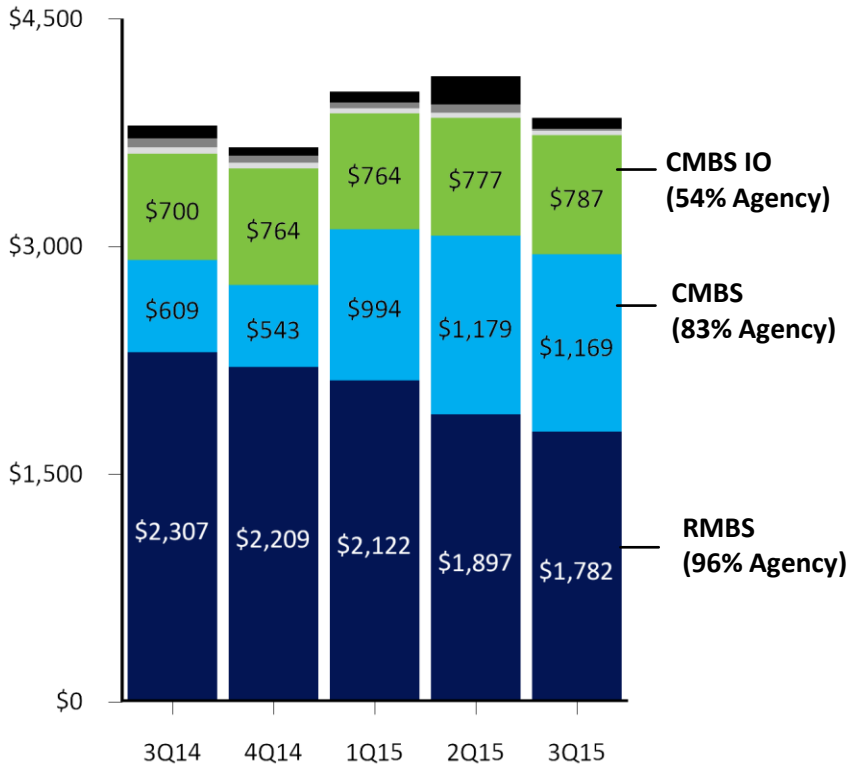
Dynex Strategy Going Forward

- **Strong 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
- **Expect to make opportunistic investments**
  - Reallocate capital to the highest risk reward opportunities
- **Maintain disciplined focus on risk position**
  - Focus on liquidity and capital
  - Maintain flexibility to react to dynamic environment
- **Manage financing portfolio to address potential for rate hikes in late 2015**
  - FHLB
  - Private direct financing

Asset and Equity Allocations *Quarterly Comparison*

Asset Allocation

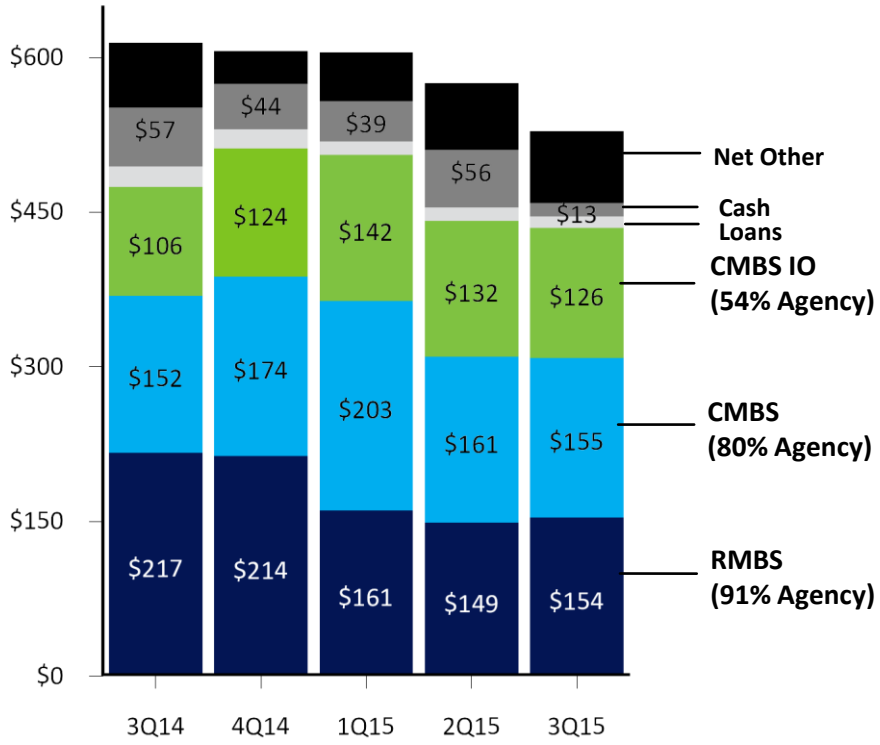
Fair Value ($ in millions)



- Portfolio shift toward CMBS continued during 3Q15.

Equity Allocation (1)

Fair Value ($ in millions)



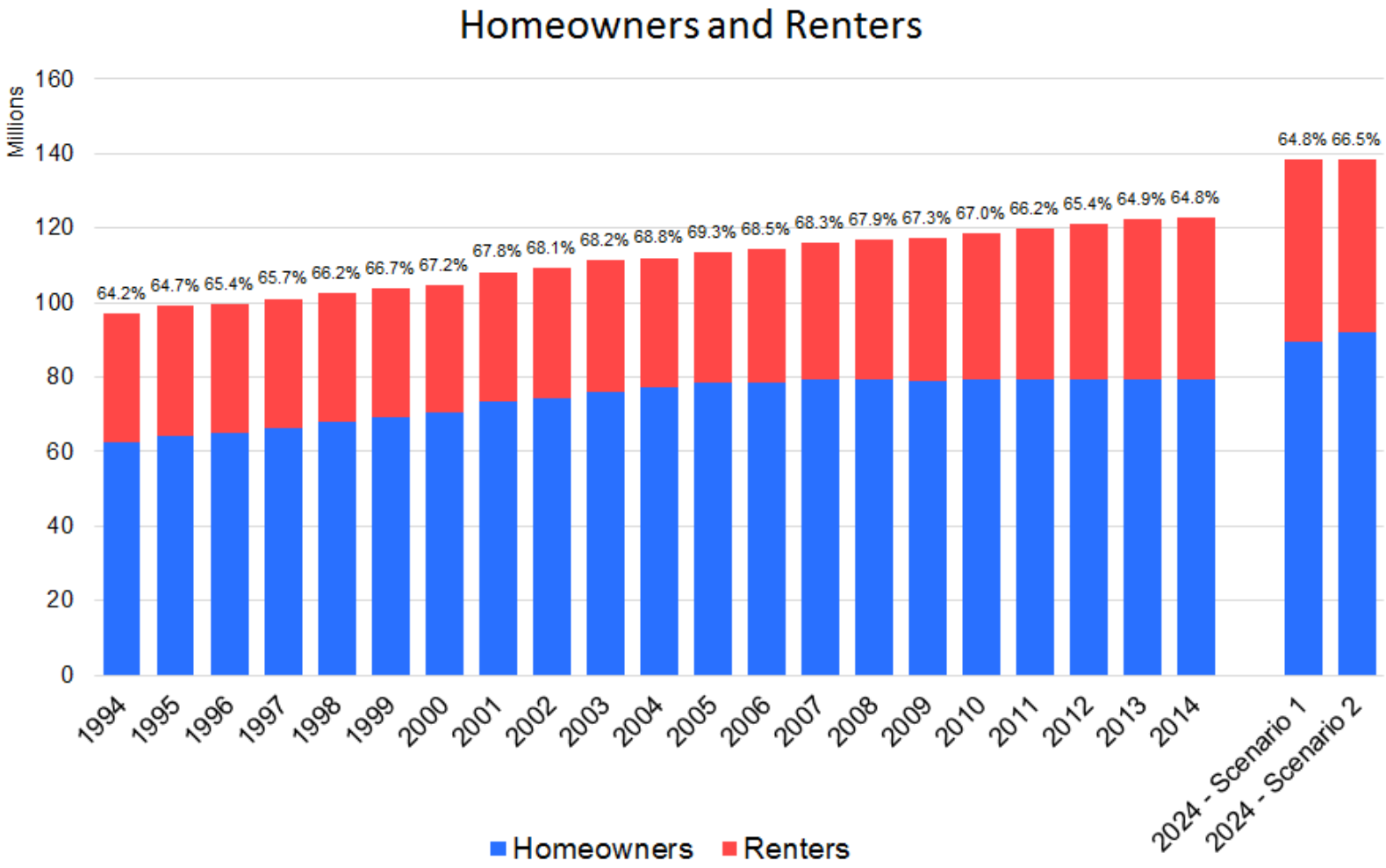
- The majority of our capital is invested in the commercial sectors: CMBS and CMBS IO.
- Approximately 63% of our equity is allocated to Agency.

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

Conclusion

- We believe the opportunity continues to exist to earn above average dividend yields within a mortgage REIT structure
  - The uncertainty of the current environment could cause period to period volatility in our results, but we believe a diversified mortgage REIT model will be able to deliver an above average yield over the long term
  - Higher dividend yields will help to cushion any potential volatility in book value
- Our portfolio naturally delevers over time which gives us the flexibility to reinvest or build our capital for future opportunities
- Long term, we see opportunities for investments in both residential and commercial assets and in markets previously dominated by the Fed/GSEs
- Uncertainty around economic growth, interest rates, regulatory changes, market reaction and global market imbalances requires discipline and vigilance
- We are committed to delivering solid and stable shareholder returns with manageable risk

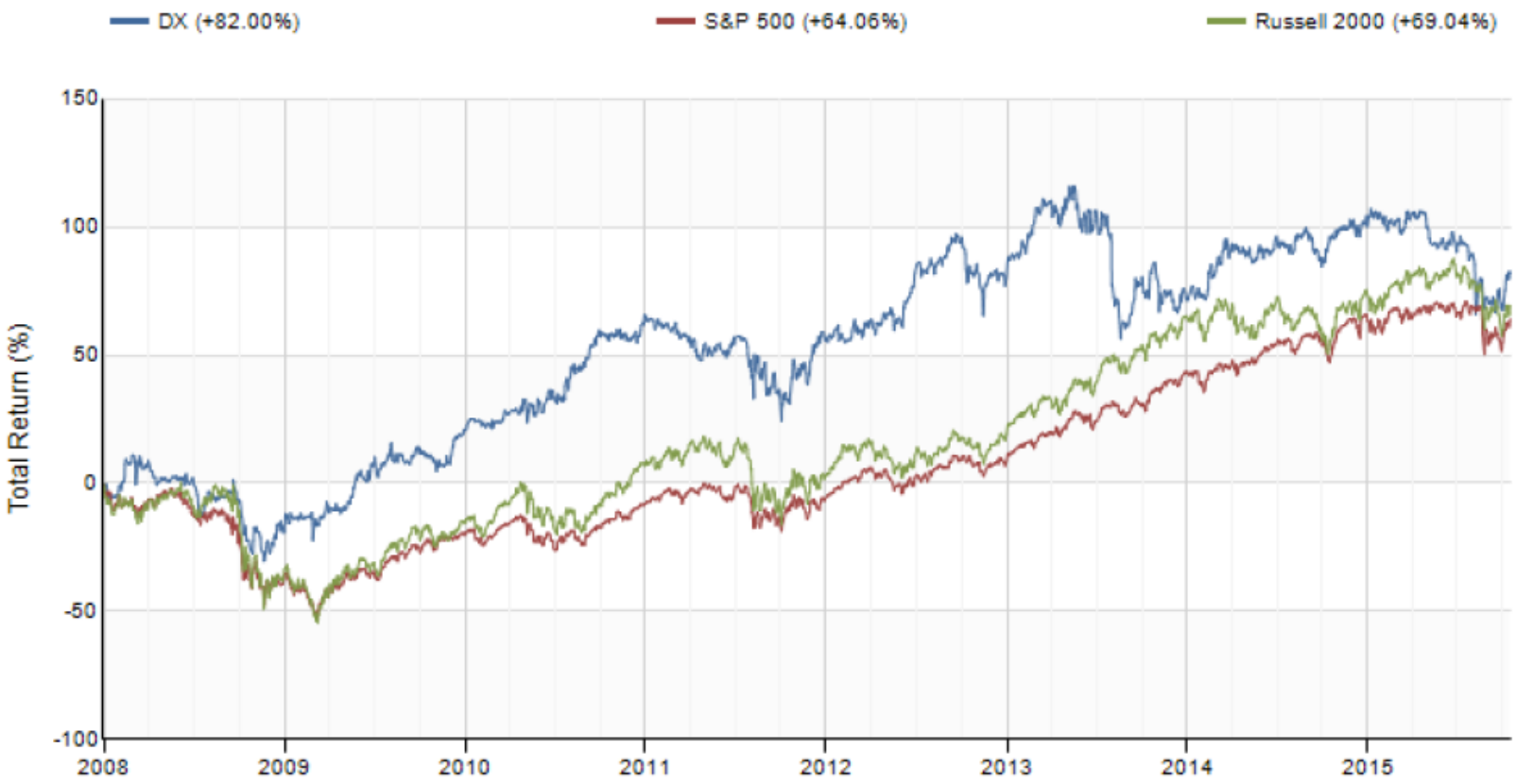
Housing Demand



Source: Census and MBA

Solid Track-Record

Total Return (%) January 1, 2008 - October 16, 2015

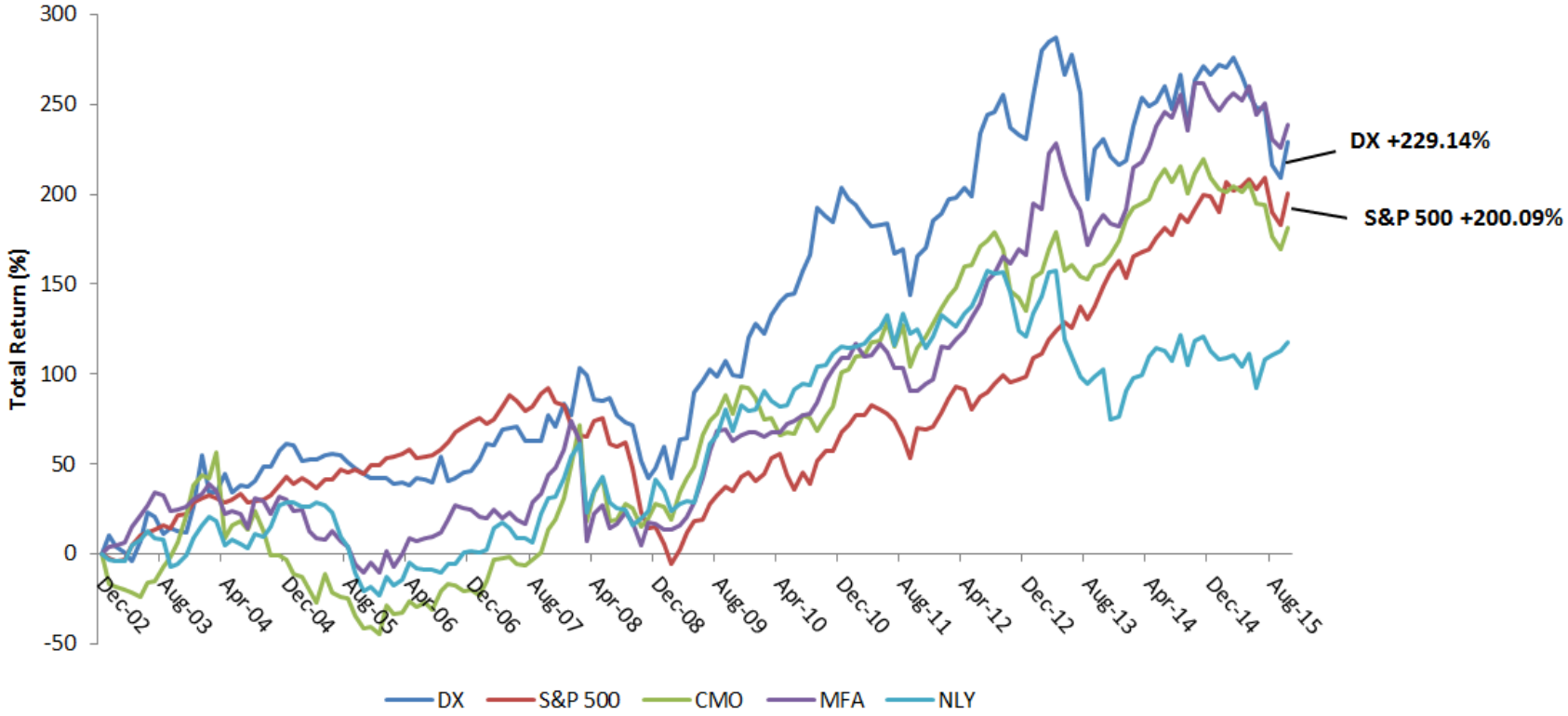


Source: SNL Financial

Historical MREIT Performance

(over a Fed tightening cycle from 2004 to 2006)

Total Return (%) January 1, 2003 - October 16, 2015



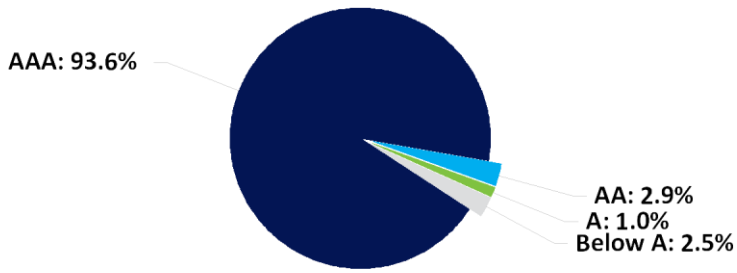
Annualized Total Return for Dynex is 10.3% versus S&P 500 of 8.7%

Source: SNL Financial

APPENDIX

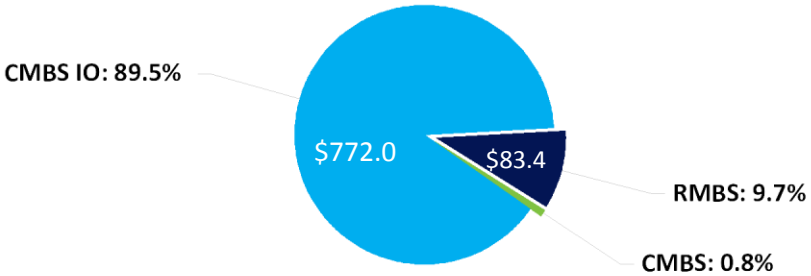
Portfolio Details* *(as of September 30, 2015)*

Credit Quality

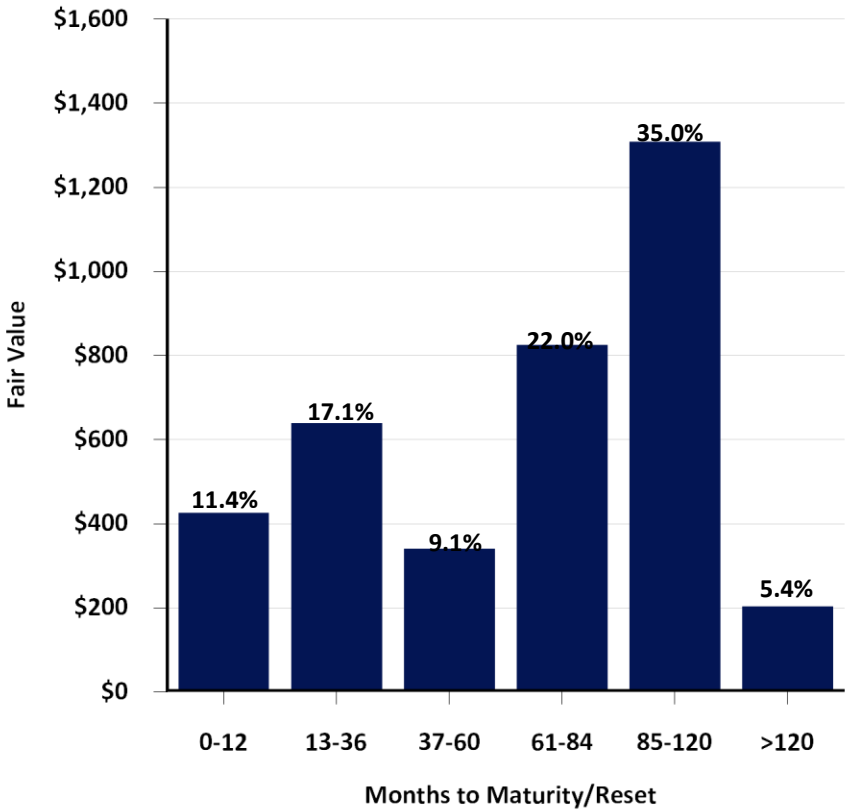


Agency MBS are considered AAA-rated for purposes of this chart.

Net Premium by Asset Type



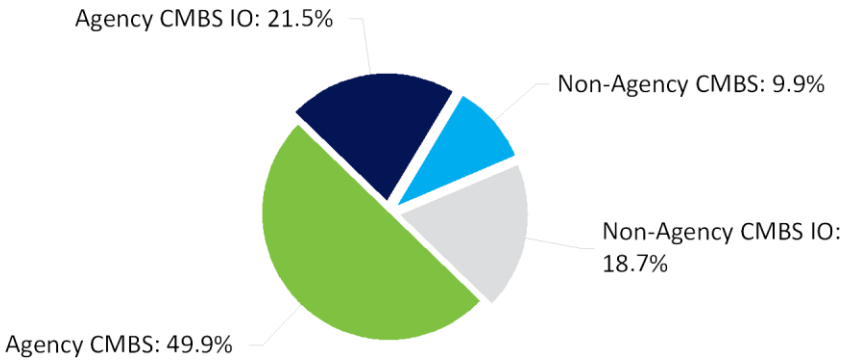
Portfolio Expected Maturity/Reset Distribution



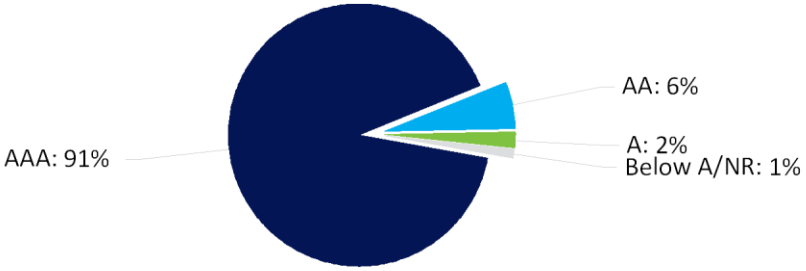
** MBS investments only, excludes loans held for investment.*

CMBS Portfolio Details *(as of September 30, 2015)*

Asset Type



Credit Quality



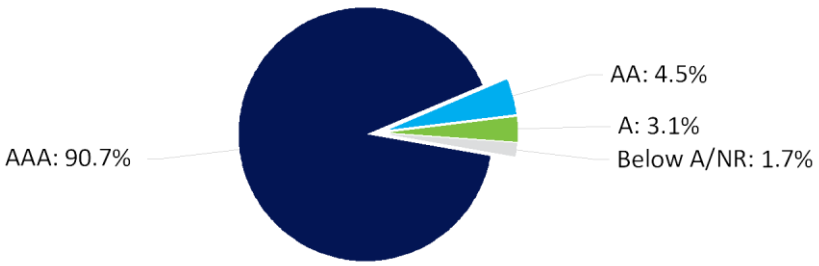
Collateral

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

CMBS

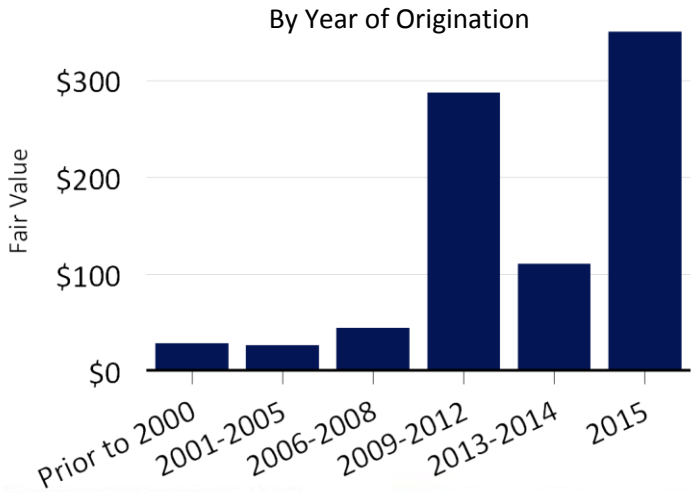
(as of September 30, 2015)

Credit Quality



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

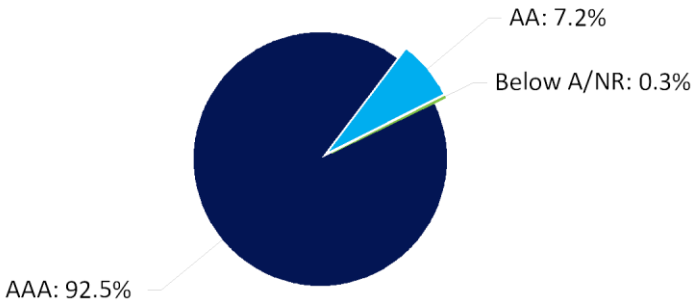
Vintage



CMBS IO

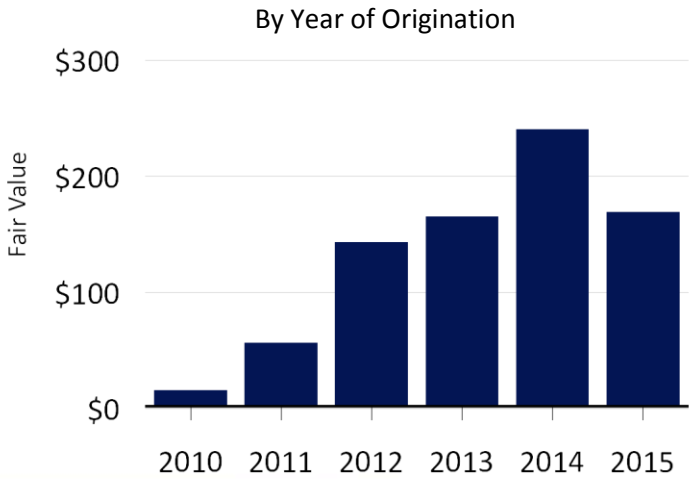
(as of September 30, 2015)

Credit Quality



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

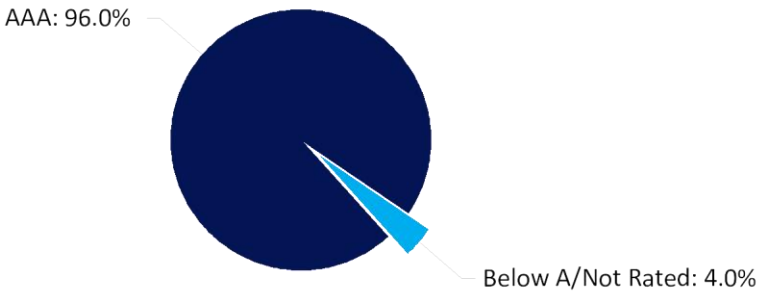
Vintage



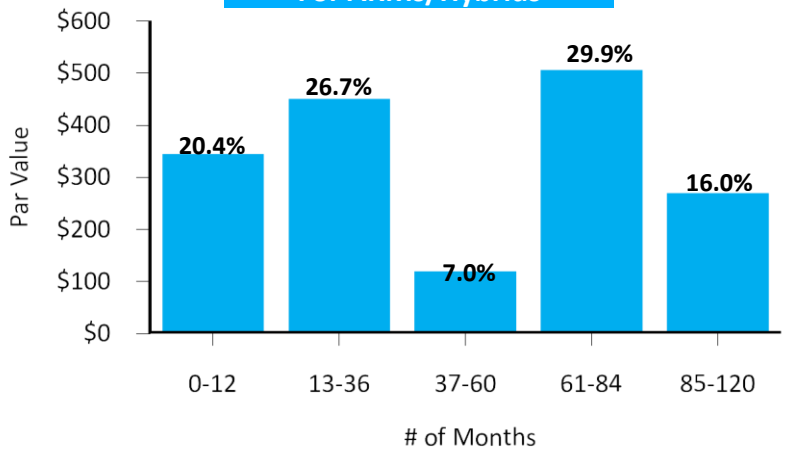
RMBS *(as of September 30, 2015)*

($ in millions)

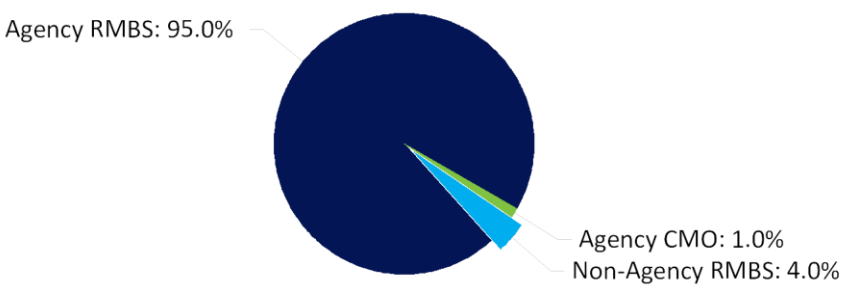
Credit Quality



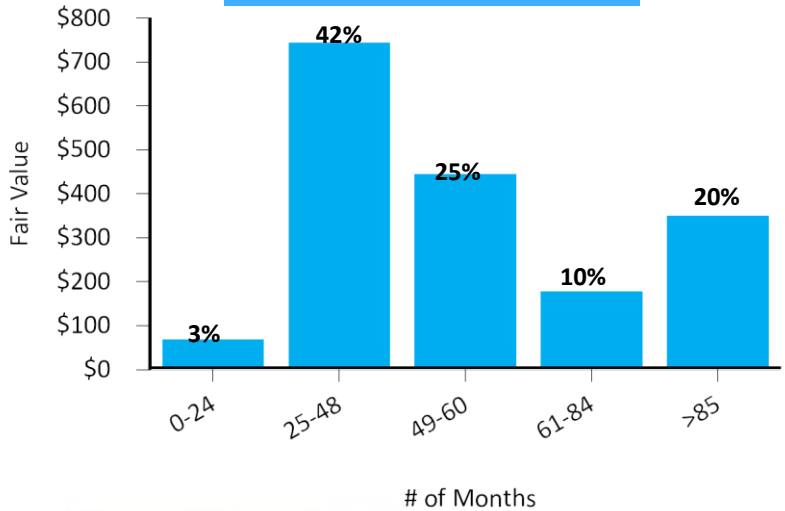
Months to Maturity/Reset For ARMs/Hybrids



Asset Type

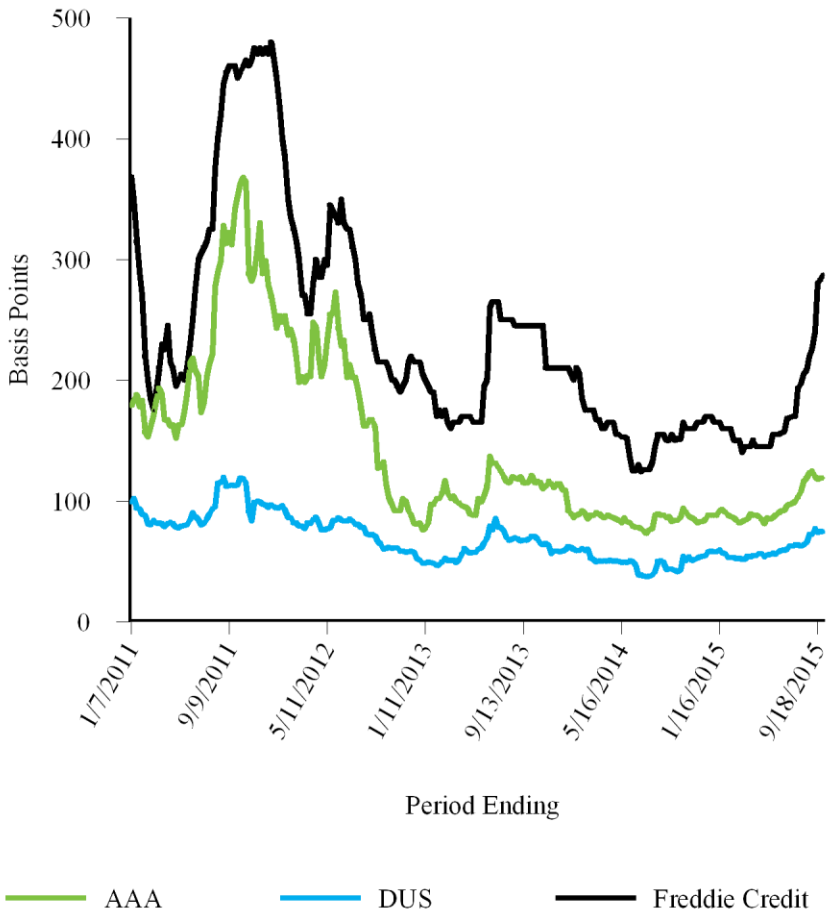


Weighted Average Loan Age

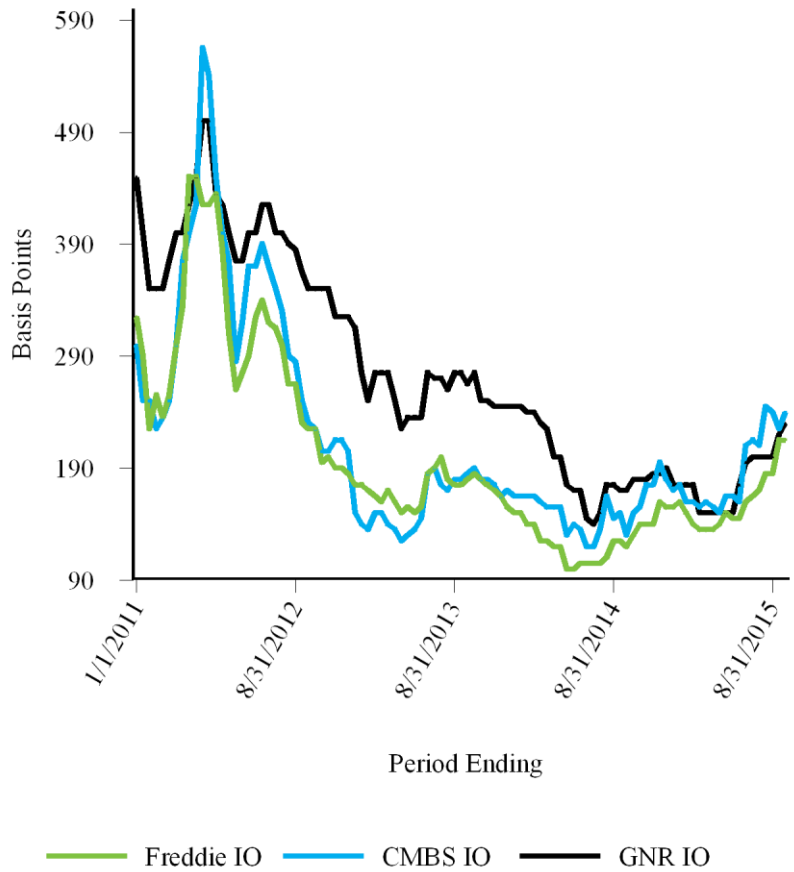


CMBS and CMBS IO Nominal Spreads

CMBS Spreads

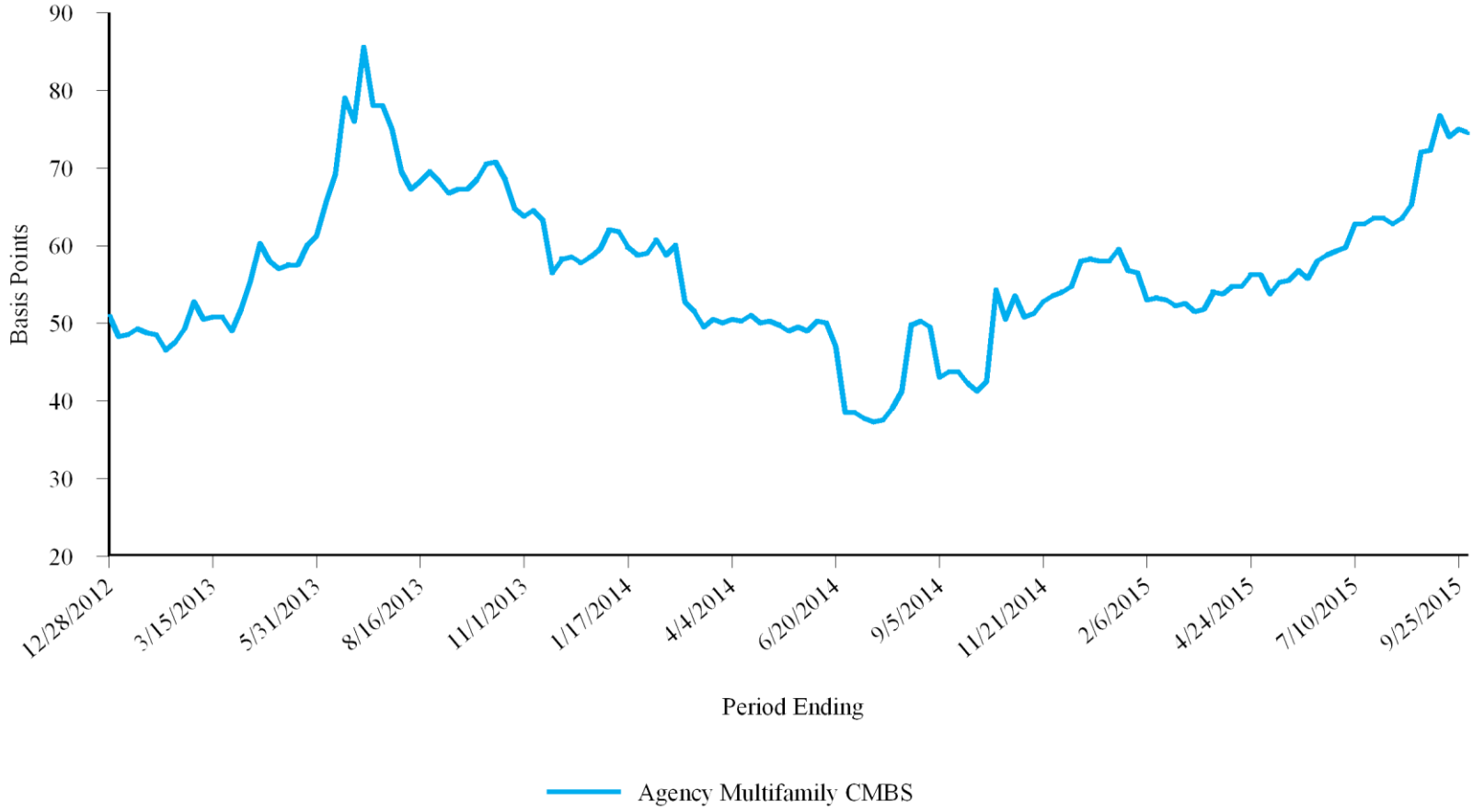


CMBS IO Spreads



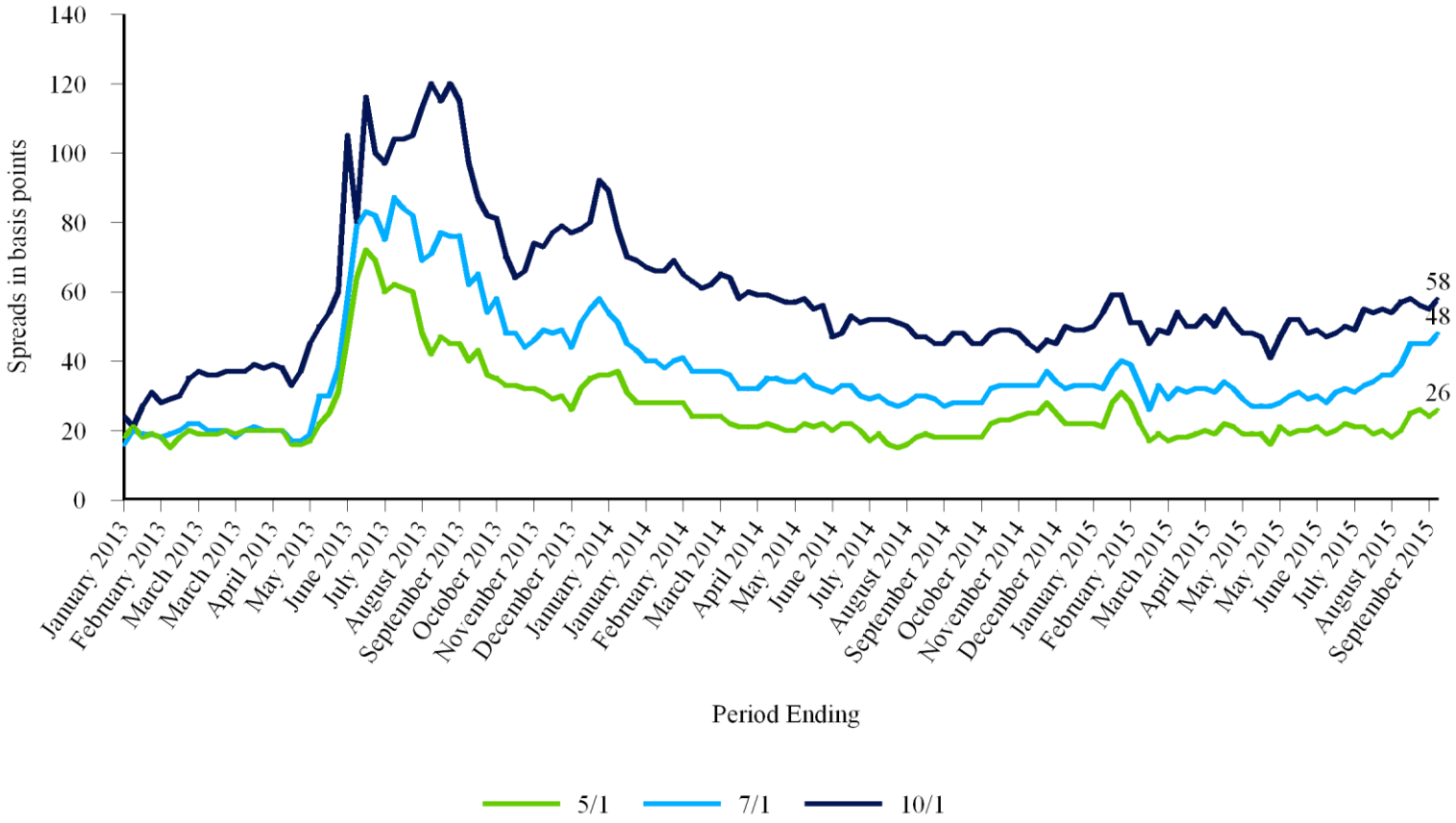
Source: Company data

Agency Multifamily CMBS Nominal Spreads



Source: Company data

Agency RMBS Nominal Spreads



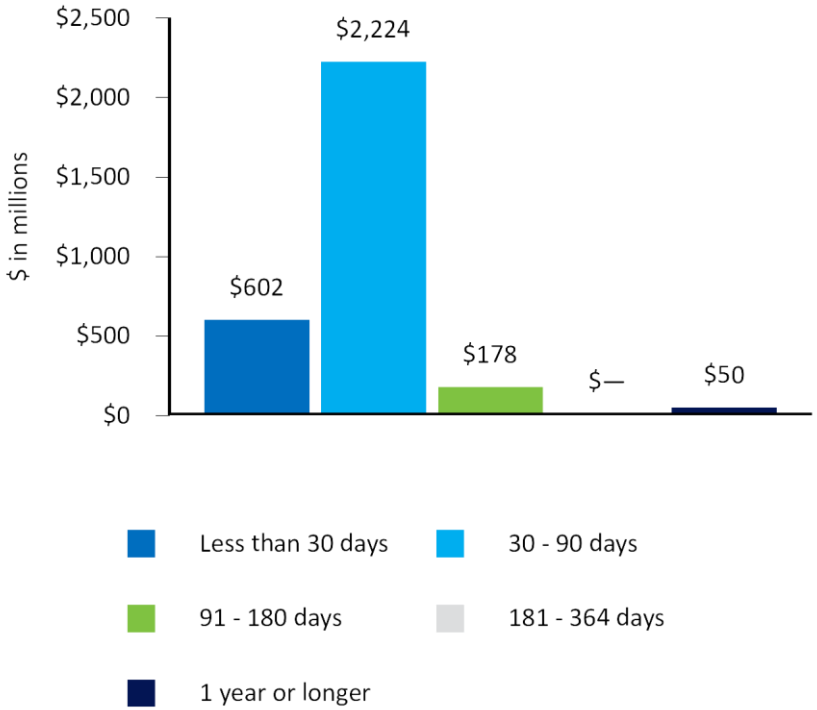
Source: Company data

Spread Risk

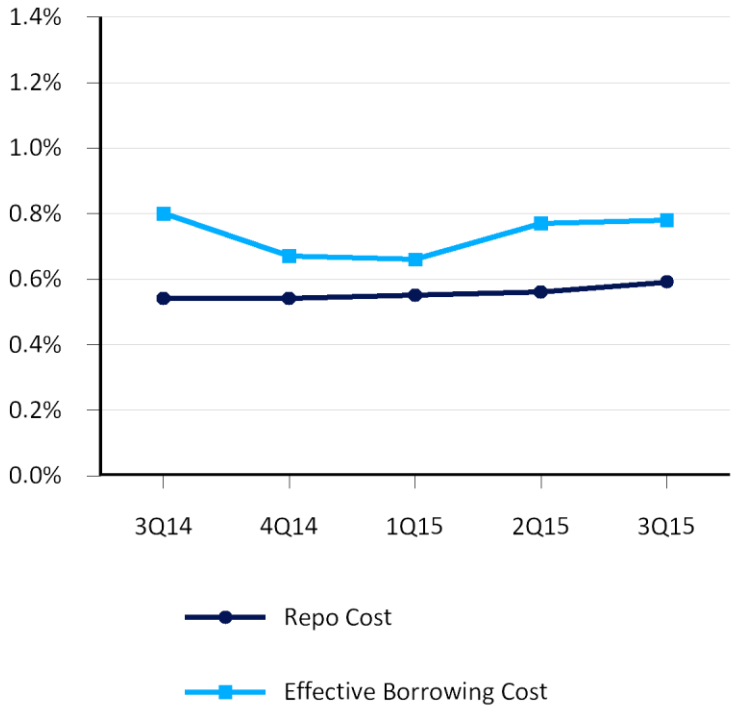
- An asset's "spread" is the market premium above a benchmark rate that reflects the relative riskiness of the asset versus the benchmark.
- Spread risk is the uncertainty in pricing resulting from the expansion and contraction of the risk premium over the benchmark.
- Changes in spreads from period to period will impact our book value through changes in asset prices
- Spreads (and therefore prices) are impacted by the following factors:
  - Fundamentals: Probability of default, cash flow uncertainty
  - Technicals: Supply and demand for various assets
  - Psychology: Reflects the risk appetite of the market and the perceived riskiness of specific assets
- Most mortgage REIT business models are inherently exposed to spread risk. At Dynex, we focus on all three aspects of spread risk. However, changes in pricing due to technicals and psychology are difficult to predict. We manage spread risk over the long-term through portfolio construction.

Financing Details

Repurchase Agreement Amounts by Original Term to Maturity
(as of September 30 , 2015)



Repurchase Agreement and Effective Borrowing Cost [1]
(for the quarterly periods indicated)

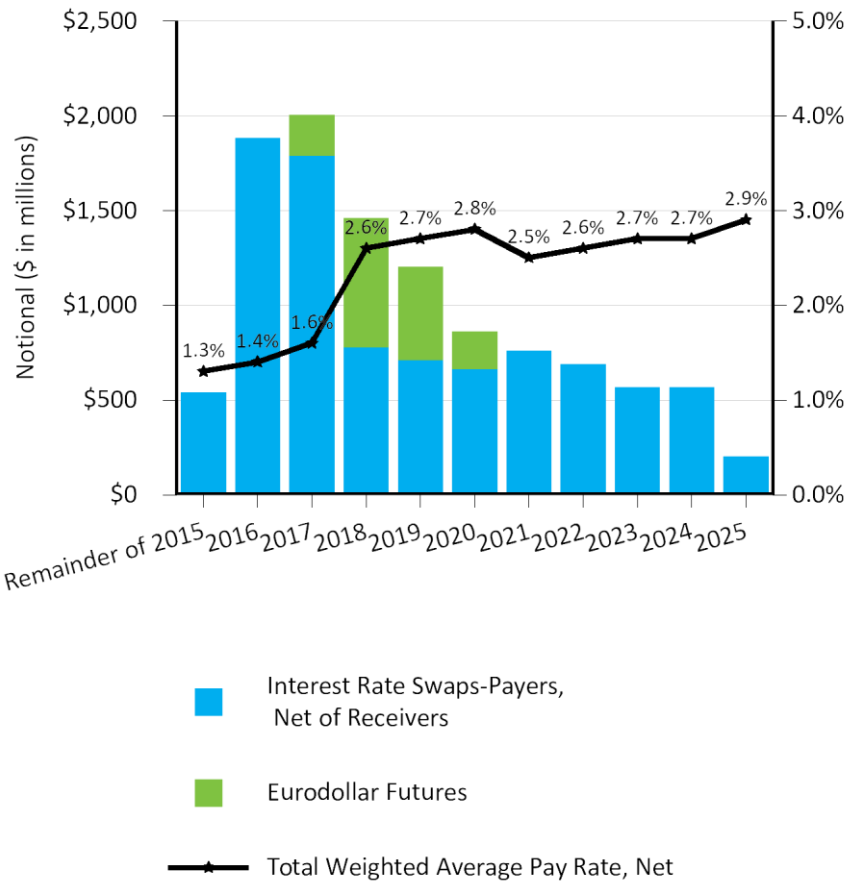


- Our weighted average contractual maturity was 57 days at September 30, 2015 compared to 88 days at June 30, 2015.
- Our repurchase agreement balance was $3.1 billion at September 30, 2015 with 21 counterparties compared to $3.4 billion with 21 counterparties at June 30, 2015. We currently have repurchase agreements available to us with 32 counterparties.

(1) Reconciliations for non-GAAP measures are presented on slides 39-40.

Hedging Details

As of September 30, 2015

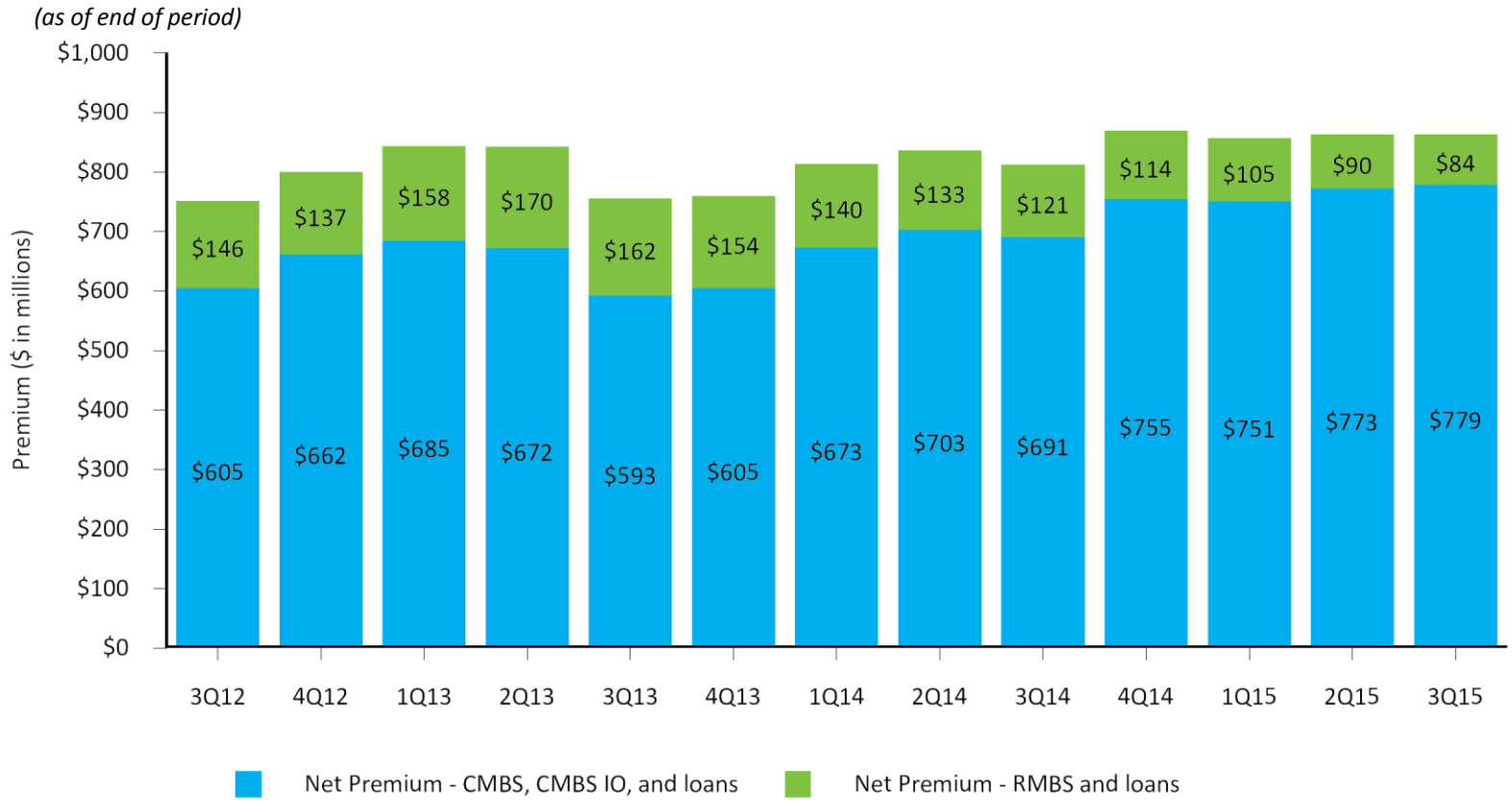


Risk Management

Key Risk	Mitigating Strategy
Interest Rate/Extension Risk	Duration target of 0.5 to 1.5 years 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 call protection RMBS specified pools with diversity of prepayment risk
Credit Risk	94% of MBS are AAA-rated* as of September 30, 2015 Current credit risk is multifamily focused
Spread Risk	Portfolio construction and long-term portfolio strategy
Liquidity Risk	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.*

Investment Premium Allocation



Accounting Disclosure

Reconciliation of GAAP Measures to Non-GAAP Measures

($ in thousands except per share data)

	Quarter Ended				
	9/30/15	6/30/15	3/31/15	12/31/14	9/30/14
Net (loss) income to common shareholders	**($39,271)**	**$28,168**	**($11,766)**	**$1,379**	**$28,572**
Adjustments:					
Amortization of de-designated cash flow hedges [1]	857	857	1,057	1,449	1,442
Change in fair value on derivatives instruments, net	50,997	(18,883)	24,461	20,675	(7,113)
(Gain) loss on sale of investments, net	(113)	1,491	(1,308)	(10,950)	(9,057)
Fair value adjustments, net	(16)	(20)	(39)	(45)	(42)
Core net operating income to common shareholders	**$12,454**	**$11,613**	**$12,405**	**$12,508**	**$13,802**
Core net operating income per share	**$0.24**	**$0.21**	**$0.23**	**$0.23**	**$0.25**
ROAE based on annualized GAAP net income (loss) to common shareholders	(35.5)%	23.3%	(9.5)%	1.1%	22.7%
Adjustments:					
Amortization of de-designated cash flow hedges [1]	0.8%	0.7%	0.8%	1.2%	1.1%
Change in fair value on derivatives instruments, net	46.1%	(15.6)%	19.7%	16.5%	(5.6)%
(Gain) loss on sale of investments, net	(0.1)%	1.2%	(1.1)%	(8.7)%	(7.2)%
Fair value adjustments, net	—%	—%	—%	—%	—%
Adjusted ROAE, based on annualized core net operating income	**11.3%**	**9.6%**	**9.9%**	**10.1%**	**11.0%**

[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									
	9/30/15		6/30/15		3/31/15		12/31/14		9/30/14	
GAAP interest income/ annualized yield	$26,096	2.69%	$24,527	2.63%	$24,099	2.62%	$24,286	2.64%	$26,000	2.73%
GAAP interest expense/ annualized cost of funds [1]	5,859	0.67%	5,542	0.66%	5,371	0.69%	5,652	0.72%	6,058	0.70%
GAAP net interest income/spread	**$20,237**	**2.02%**	**$18,985**	**1.97%**	**$18,728**	**1.93%**	**$18,634**	**1.92%**	**$19,942**	**2.03%**
GAAP interest expense/ annualized cost of funds [1]	$5,859	0.67%	$5,542	0.66%	$5,371	0.69%	$5,652	0.72%	$6,058	0.70%
Amortization of de-designated cash flow hedges [2]	(857)	(0.10)%	(857)	(0.10)%	(1,057)	(0.14)%	(1,449)	(0.19)%	(1,442)	(0.17)%
Net periodic interest costs on derivatives	1,752	0.21%	1,793	0.21%	862	0.11%	1,064	0.14%	2,271	0.27%
Effective borrowing costs	**$6,754**	**0.78%**	**$6,478**	**0.77%**	**$5,176**	**0.66%**	**$5,267**	**0.67%**	**$6,887**	**0.80%**
Adjusted net interest income/spread	**$19,342**	**1.91%**	**$18,049**	**1.86%**	**$18,923**	**1.96%**	**$19,019**	**1.97%**	**$19,113**	**1.93%**

(1) Rates shown are based on annualized interest expense amounts divided by average interest bearing liabilities. Recalculation of annualized cost of funds using total interest expense shown in the table may not be possible because certain expense items use a 360-day year for the calculation while others use actual number of days in the year.
(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.