



Sound Strategy. Unique Advantages.

Fourth Quarter Earnings Presentation

February 19, 2014

Safe Harbor Statement

NOTE:

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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 following: the risks and uncertainties referenced in our Annual Report on Form 10-K for the year ended December 31, 2012 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption “Risk Factors.”



2013 PERFORMANCE



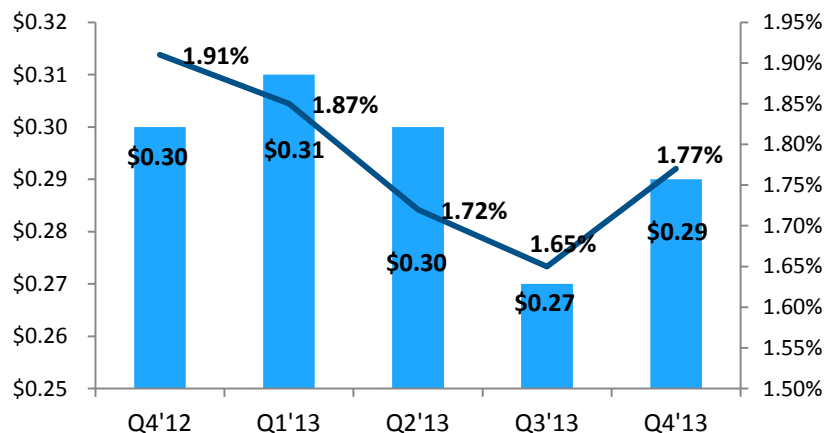
2013 in Review

- Portfolio designed to perform in a variety of market environments
- Disciplined, long-term focused approach to portfolio construction was an advantage:
 - Limited extension risk in short duration portfolio
 - Portfolio diversification ensured stable cash flows
 - Hedge strategy provided protection as interest rates rose
 - Low leverage and conservative liquidity management protected capital
- Financial Highlights
 - Dividends of \$1.12 per share, GAAP earnings of \$1.10 per share and an ROE of 11.5% core earnings of \$1.17 per share resulting in core ROE of 12.2%
 - Repurchased over 872,000 shares for a total cost of \$6.9 million, and \$42.1 million remaining on total authorization of \$50 million
- Building for the Future
 - Tom Akin named Executive Chairman, Byron Boston Chief Executive Officer, effective January 1, 2014
 - Smriti Popenoe joins Dynex team as Co-Chief Investment Officer
 - Valerie Mosley and Robert A. Salcetti join Dynex Board, expanding independent member count to 5



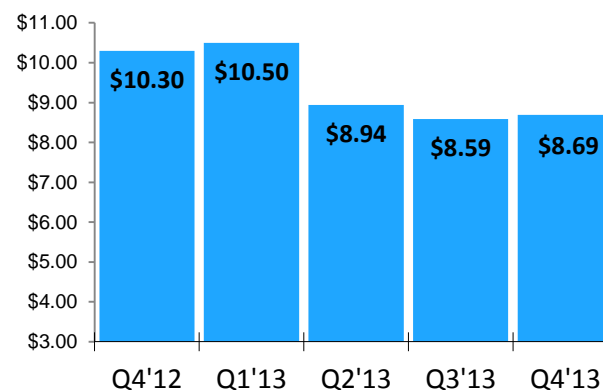
Key Financial Metrics

Core Net Operating Income per Common Share and Adjusted Net Interest Spread ⁽¹⁾



- Core net operating income per share for the fourth quarter was \$0.29 per share versus a dividend of \$0.27 per share
- For the year, core net operating income was \$1.17 per share versus a dividend of \$1.12 per share
- Fourth quarter core net operating income includes \$0.03 per share from reduced executive incentive compensation expense
- Adjusted net interest spread increased from less hedging expense from terminated current pay-fixed interest rate swaps

Book Value per Common Share ⁽²⁾



- Book value per common share increased \$0.10 per common share in the fourth quarter as spread tightening on assets and derivative positions offset the increase in rates during the quarter
- Book value was down for the year primarily due to spread widening on assets

(1) These items are non-GAAP measures. See reconciliation on slide 40.

(2) See reconciliation on slide 42.

Hedge Detail (Interest Rate Swaps and Eurodollars)

(\$ in millions)

Effective Period	Notional					
	As of 12/31/2013			As of 9/30/2013		
	Swaps	Eurodollars	Total	Swaps	Eurodollars	Total
2014	\$ 751	\$ -	\$ 751	\$ 1,333	\$ 250	\$ 1,583
2015	\$ 790	\$ -	\$ 790	\$ 1,136	\$ 551	\$ 1,687
2016	\$ 790	\$ 394	\$ 1,184	\$ 882	\$ 1,276	\$ 2,158
2017 and later	\$ 2,291	\$ 1,904	\$ 4,195	\$ 2,624	\$ 2,975	\$ 5,599

- Hedges include pay fixed interest rate swaps and Eurodollar futures
- Eurodollar futures are forward starting three month swaps that fix LIBOR rates for each 3 month period
- During 4Q13, we terminated \$902 million in swaps and \$2.8 billion in Eurodollar futures primarily in the 1-3 year part of the curve
- Swap payments and changes in value of both swaps and Eurodollars is included in the income statement as “gain (loss) on derivatives, net”
- Terminating these swaps removes the pay-fixed component for those periods

OUTLOOK AND STRATEGY



Macroeconomic and Policy factors

- With GDP growth between 2.5% – 3.5% and inflation below its targeted level, the Federal Reserve is likely to maintain the targeted Federal funds rate low for an “extended period”
- Given the many structural and demographic shifts, the US economic growth trajectory is still uncertain and forecasting economic performance is difficult
- Structure of global finance seems unsustainable
- Inflation levels are stable or declining and could become a surprise factor
- Fundamental trends in employment do not yet suggest robust economic growth
- Federal Reserve: Janet Yellen as new Fed Chairman, her ability to control FOMC and communicate policy effectively as yet unproven
- Global Monetary Policy: Foreign central bank actions could cause unexpected results
- Regulatory Policy: FHFA Director, Housing Finance Reform, Banking sector reform
 - Uncertain, restrictive and changing rapidly
 - Final form of banking regulations still unclear but has potential to impact repo markets
- Fiscal Policy
 - Uncertain, has potential to materially impact economic outcomes



Investment Environment

- Market Fundamentals:
 - Positive trends in place in both residential and commercial real estate
 - Accessibility and availability of financing given the amount of liquidity in the system
 - Impact of regulation
 - Global risk premiums have declined as an increasing level of cash seeks to find higher returns – spreads significantly tighter across many risk assets
 - Higher degree of vigilance and discipline required in this environment
 - Government exit from mortgage market looms
 - Functional stand alone credit markets to compete with GSEs not in place
- Market Technicals: Prices have been distorted by global central bank participation in the capital markets and the Fed's exit is a key factor
 - As we have always expected, the Hybrid ARM market is gaining in attractiveness as more investors are seeking short-duration assets
 - Sizable investor base for 30yr MBS outside of Fed has yet to develop at current valuations
 - Dealer balance sheets and their commitment to make markets have been negatively impacted by regulation
- Market Psychology
 - Psychology will continue to be influenced by perceptions of economic data and Federal Reserve monetary policy



Implications for Dynex Strategy

- Market expectations of higher interest rates is becoming supportive of our short-duration Hybrid ARM investment portfolio and credit fundamentals supporting our CMBS assets continue to be strong
- The decline in risk premiums across asset classes, when viewed against the backdrop of macro and market factors requires a higher level of discipline and caution. Our leverage as of 12/31/2013 of 6.2x reflects this view.
- Going forward, we expect to:
 - Maintain investments in current portfolio and continue to earn cash flow with the opportunity to roll down the curve
 - Maintain positive duration on the front end of the yield curve
 - Exercise more diligence when making investments because returns are lower. We continue our disciplined approach to capital deployment – assessing risk adjusted returns in the context of net interest income and book value volatility.
 - Maintain lower levels of leverage to capitalize on spread widening opportunities
 - Opportunistically reposition asset portfolio and hedges
 - Actively manage repo counterparty relationships



Interest Rate Sensitivity

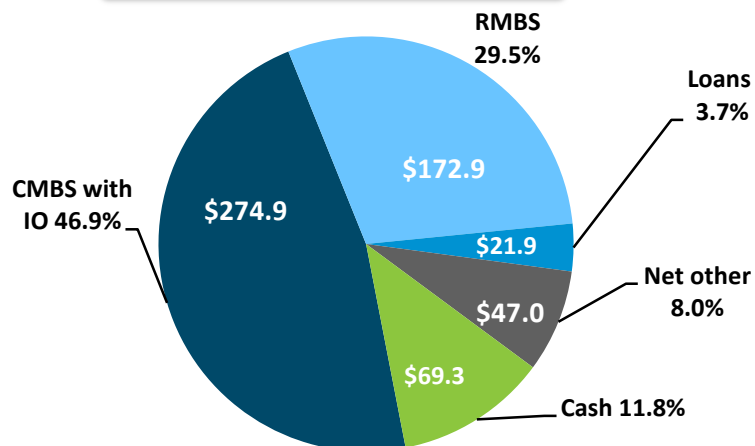
Treasury Yields		Parallel Shift in Interest Rates	Percentage Change in Projected Market Value of Assets Net of Hedges
as of December 31, 2013			
2Y	0.38%	<i>(in basis points)</i>	December 31, 2013
5Y	1.74%		
10Y	3.02%	+100	(1.89)%
30Y	3.97%	+50	(0.90)%
		+25	(0.40)%

Curve Shift 2 yr	Curve Shift 10 yr	Percentage Change in Projected Market Value of Assets Net of Hedges
<i>(in basis points)</i>	<i>(in basis points)</i>	December 31, 2013
0	+25	(0.16)%
+10	+50	(0.45)%
+10	+75	(0.67)%
+10	+100	(0.92)%
+25	0	(0.30)%
+50	0	(0.51)%
-10	-50	0.26%

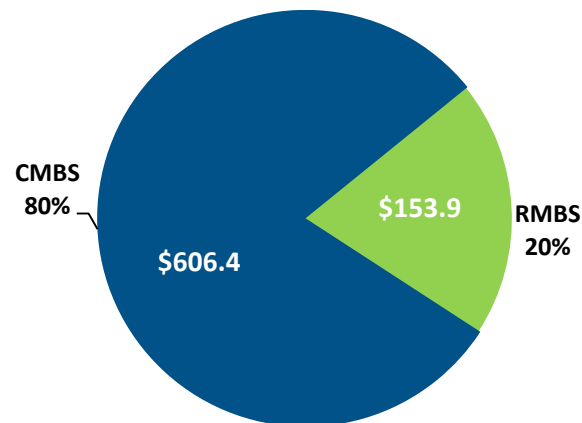
Portfolio Update (as of December 31, 2013)

(\$ in millions)

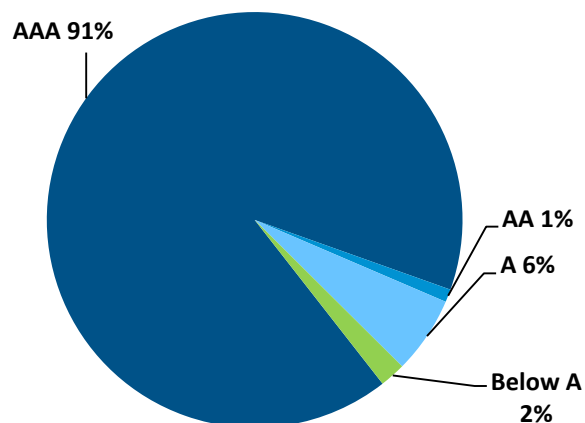
Equity Capital Allocation



Net Premium by Asset Type

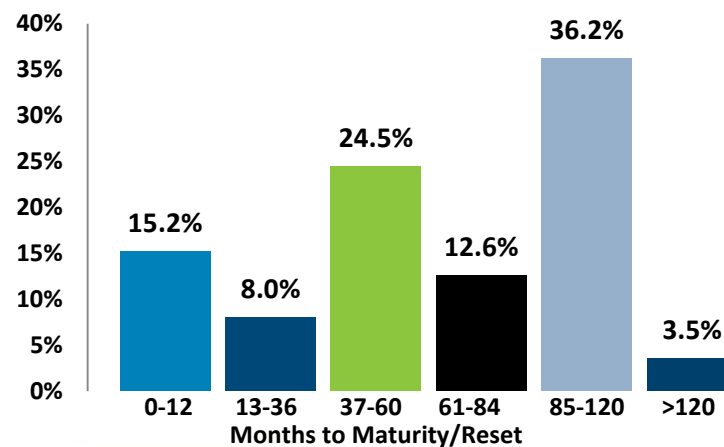


Credit Quality



(Agency MBS are considered AAA-rated)

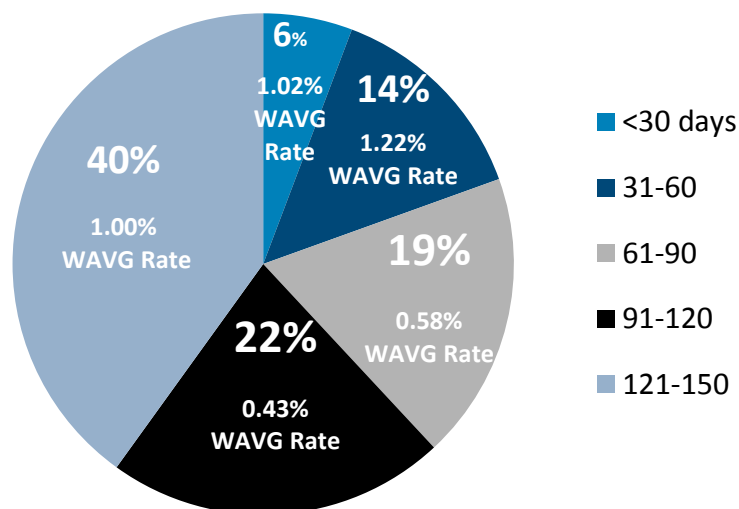
Portfolio Expected Maturity/Reset Distribution



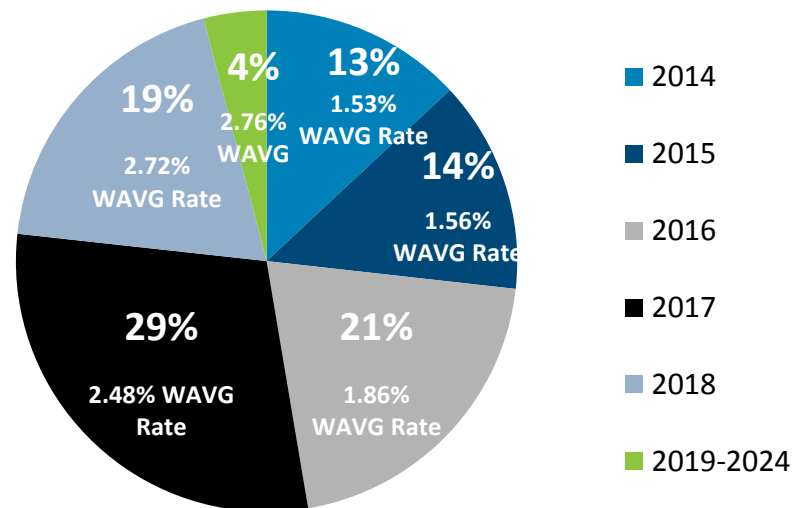
Financing Details

(as of December 31, 2013)

Repurchase Agreements by Original Maturity



Hedges by Effective Date



- Our weighted average contractual maturities were extended to 114 days from 91 days at Sep 30. Our de-designation of hedge accounting and demand for repo in the current low rate environment allowed us to extend maturities.
- Our cost of funds remained flat from 3Q2013. Costs increased due to the longer term financing associated with our agency ARM portfolio that was offset by some tightening in funding spreads coupled with a reduction in Libor on our non-agency products. Effective borrowing costs, including interest rate swaps, was at 0.95% compared to 1.17% in the 3rd quarter. This decrease was a result of adjustments made to our swap portfolio in 4Q 2013.
- Our Repo balance at 12/31/13 was \$3,580,754 with 31 counterparties vs \$3,674,850 at 9/30/13.
- Impact of bank regulation means counterparty management will be key

CMBS Investment Thesis

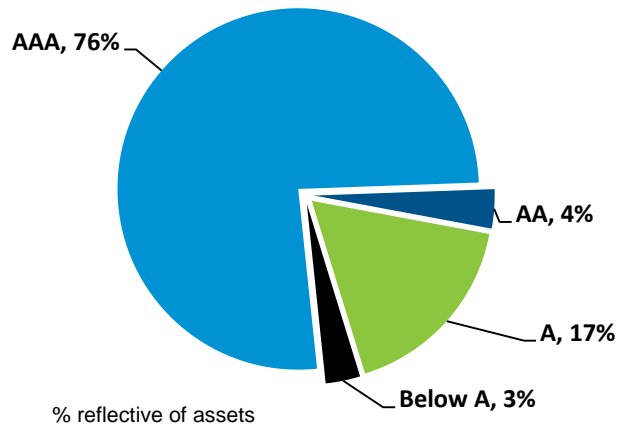
- CMBS market has rebounded since the crisis with better underwriting, more subordination, and broad investor participation
- Fundamentals still positive for Commercial Real Estate, particularly multifamily, given demographic fundamentals and attitude shifts
- Market technicals are favorable given deep liquidity, deep investor participation and favorable supply
- Market psychology reflects “risk on” view and a flatter credit curve



CMBS Portfolio

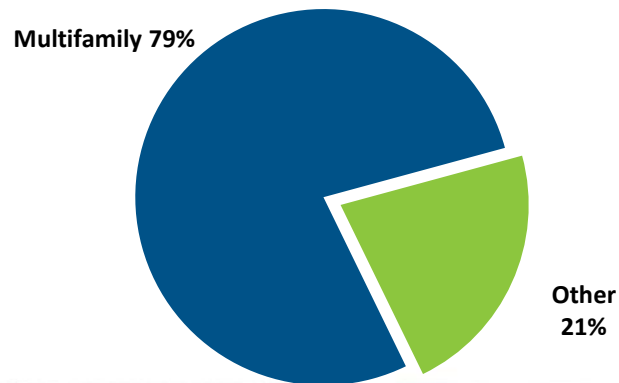
(as of December 31, 2013)

Credit Quality

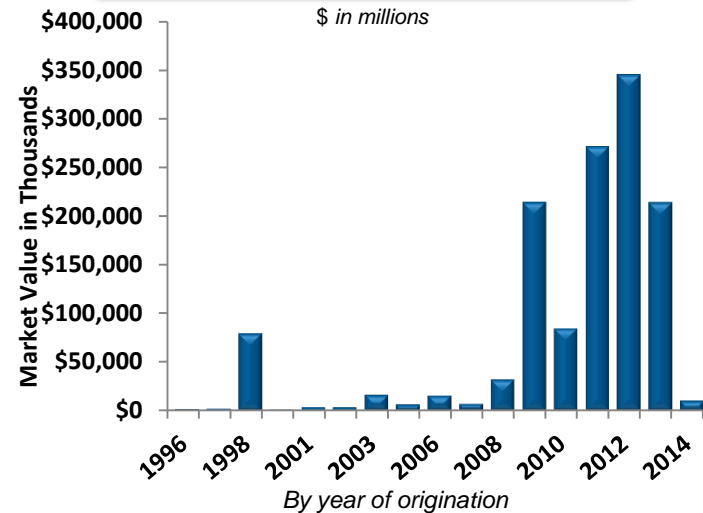


Agency CMBS are considered AAA-rated as of the date presented.
Includes CMBS IO securities.

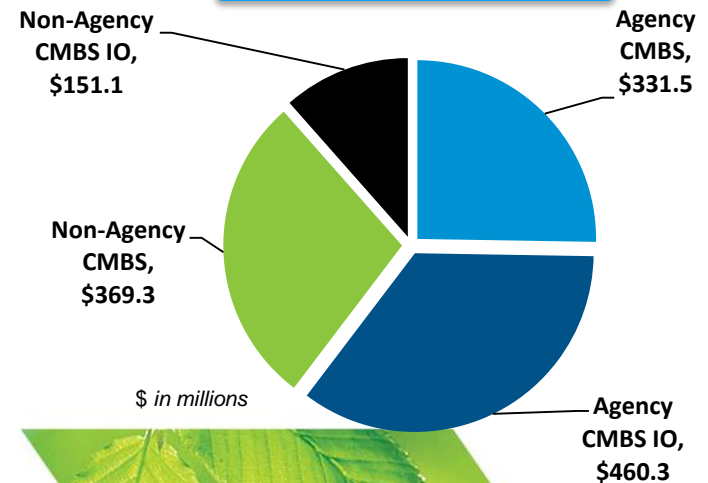
Collateral



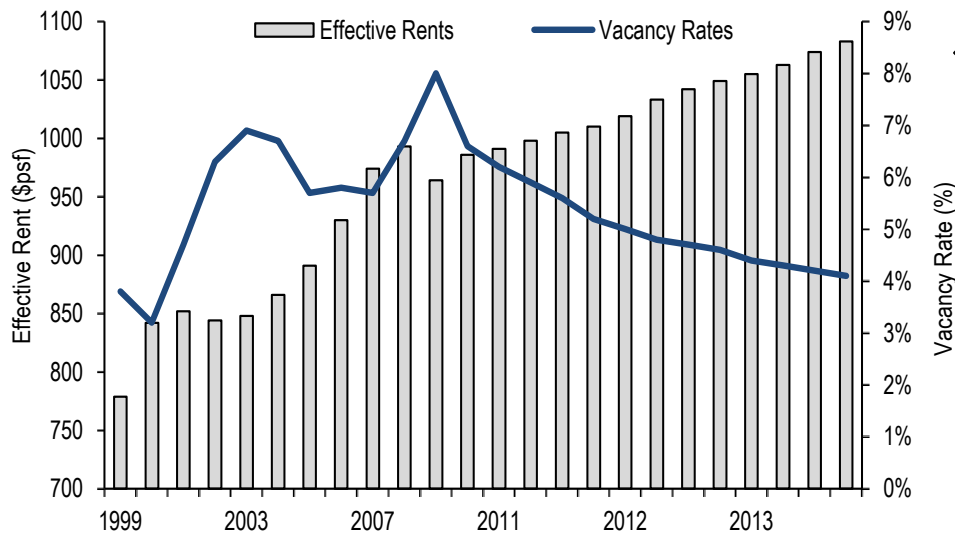
Vintage



Asset Type

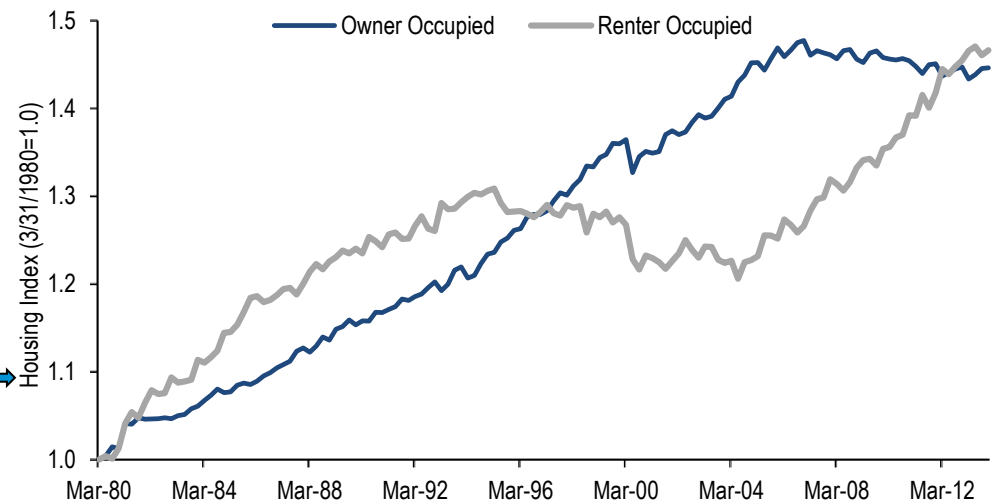


Multifamily Trends



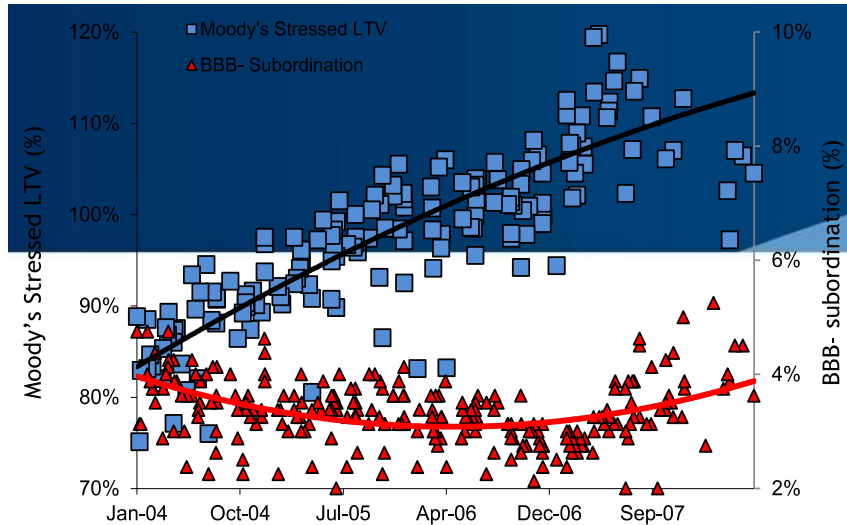
National effective rents for Multifamily have continued to increase while vacancy rates have declined.

Growth in owner occupied housing units has stabilized while renter occupied units continued to increase in 2013.



Source: REIS, Bank of America, Merrill Lynch Research

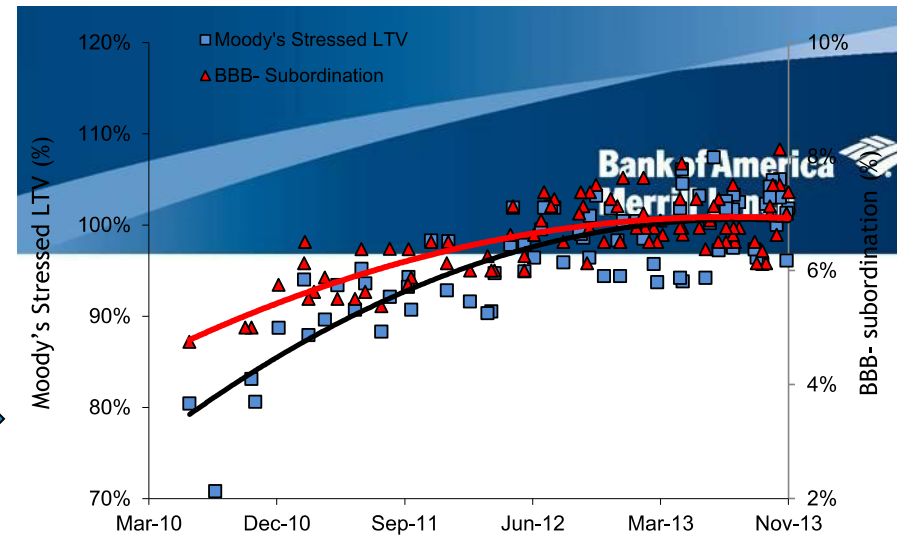
CMBS Trends



Source: BofA Merrill Lynch Global Research, Trepp, Moody's

CMBS 2.0 reflects a more orderly relationship between subordination levels and stressed LTVs – providing support to our investments in senior IO tranches.

Between 2004-2008, subordination levels did not keep up with stressed LTVs.



Source: BofA Merrill Lynch Global Research, Trepp, Moody's

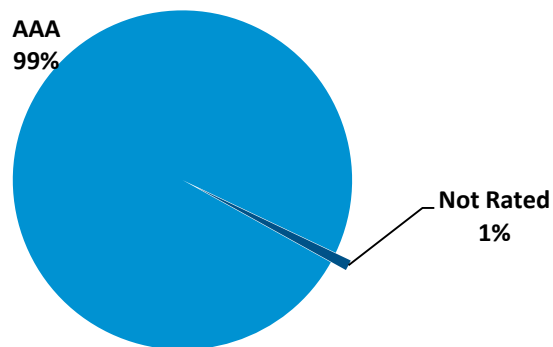
RMBS Investment Thesis

- Hybrid ARMs diversified across product type:
 - Extension risk limited
 - Agency guarantee
 - Steep yield curve offers opportunity to roll down
- Fundamentals
 - Slowing trend in prepayments for premium securities
 - Refinancing activity slowed down as rates rose
 - Valuations have improved reflecting advantages of shorter duration investments in a rising rate environment and slowing prepayments
- Technicals
 - Net Hybrid ARM supply remains negative
 - Originator pipelines significantly lower than in 2013
 - Strong demand for shorter duration cash flow across investor types
 - Steep yield curve and rising rates could cause an increase in ARM supply
- Psychology
 - Lower risk profile is attractive
 - Reduction in large scale asset purchases by Federal Reserve could have spillover effect

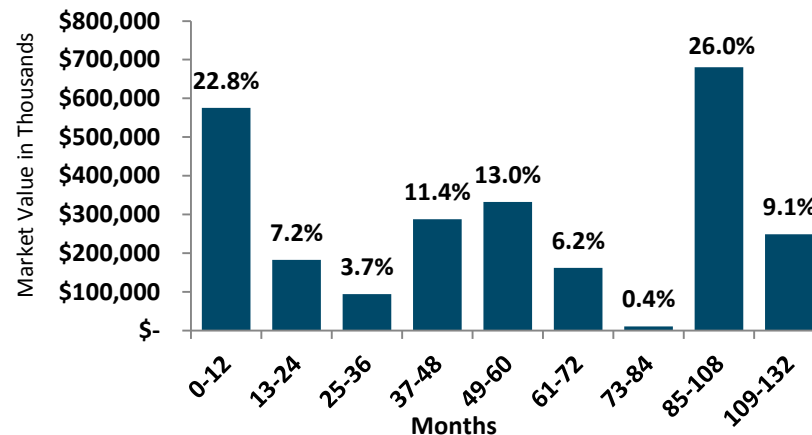
RMBS Portfolio

(as of December 31, 2013)

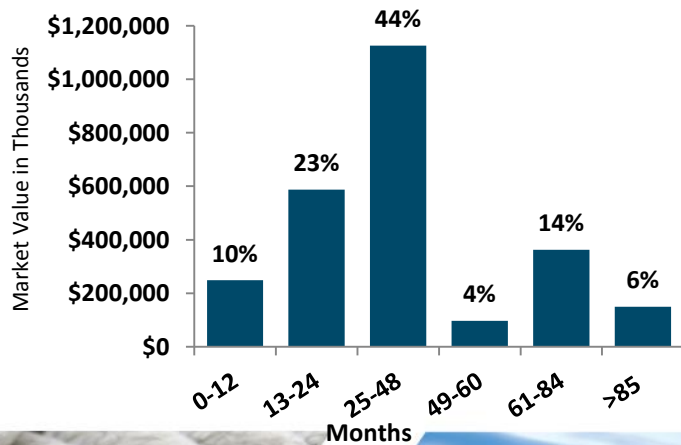
Credit Quality



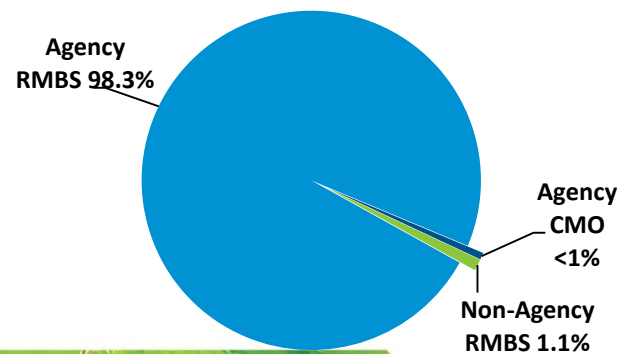
Months to Maturity/Reset



Weighted Average Loan Age



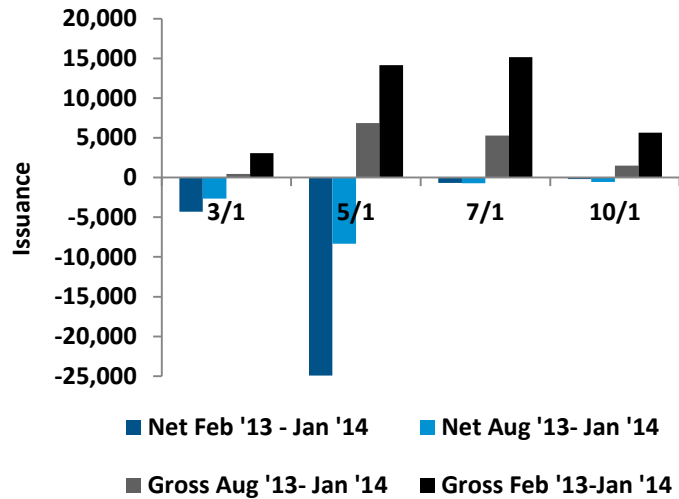
Asset Type



RMBS Trends

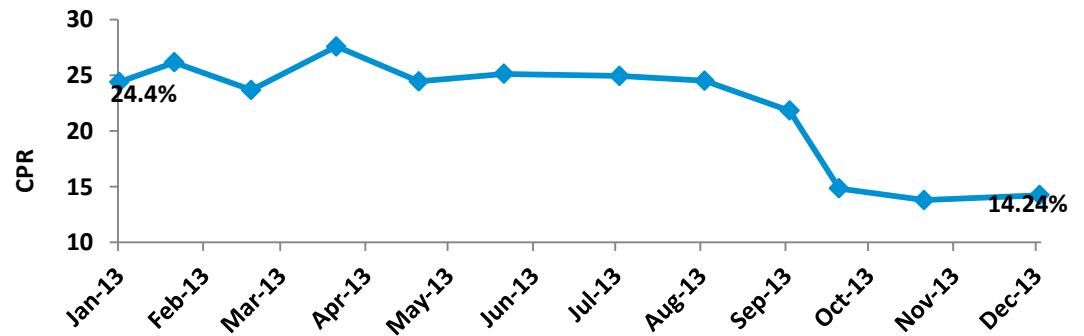
RMBS Gross and Net Issuance

(\$ in mm)



Source: J.P. Morgan

DX Hybrid ARM Portfolio Prepayment Speeds



Source: Based on Company data

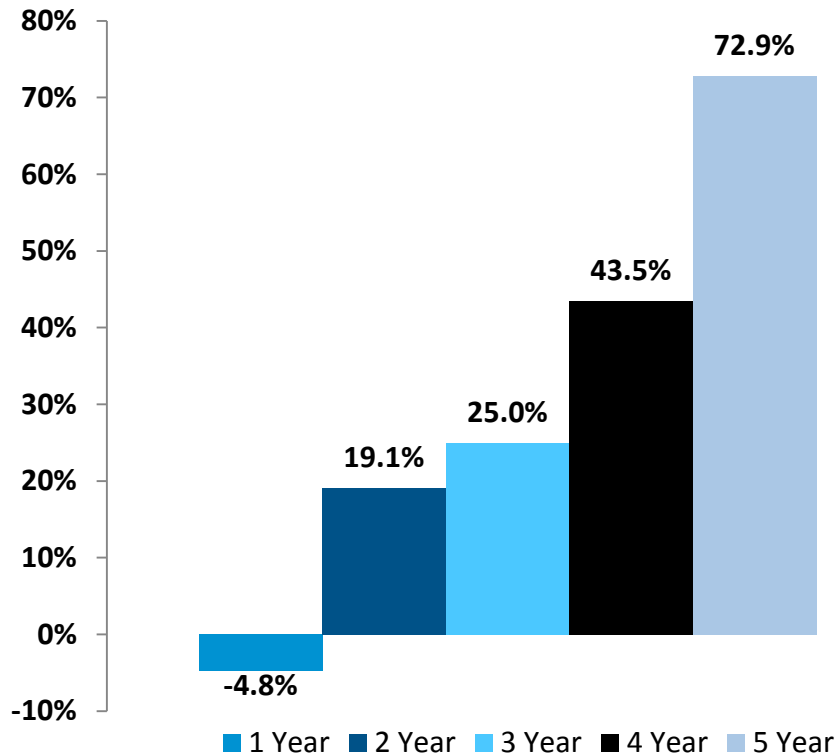
Conclusion

- The macro environment of lower short term rates and a steeper yield curve continues to provide an attractive opportunity to earn carry
- Uncertainty around economic growth, regulatory changes, market reaction and global market imbalances require discipline and vigilance
- Risk adjusted returns are lower than the extraordinary opportunities of several years ago, as well as since mid-2013
- At this point, we are maintaining a positive duration gap focused on the short end of the curve, maintaining lower leverage, and opportunistically increasing our exposure to CMBS vs RMBS
- Longer term, we see opportunities for investments in both residential and commercial assets and in markets currently dominated by the Fed/GSE's



Managing for the Long-Term (as of December 31, 2013)

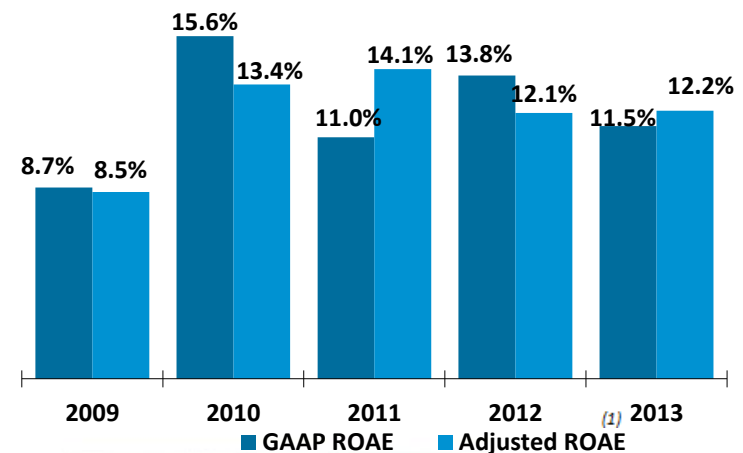
Historical Economic Return to Common Shareholders



Dividends per Common Share



Return on Average Equity



(1) Non-GAAP measure. See reconciliation on slide 40.

APPENDIX



Fourth Quarter 2013 Highlights

GAAP net income of \$0.35 per common share. Core net operating income to common shareholders ⁽¹⁾ of \$0.29 per common share for the quarter

GAAP return on average common equity of 16.1%. Adjusted return on average common equity ⁽²⁾ of 13.0% for the quarter

Net interest spread of 1.82% this quarter. Adjusted net interest spread ⁽³⁾ was 1.77% this quarter.

Book value per common share of \$8.69 at December 31, 2013 vs. \$10.30 at December 31, 2012

Average interest earning assets were \$4.12 billion and portfolio CPR of 11.7%.

Common dividend of \$0.27 per share, for a 13.5% yield based on an \$8.00 closing price on December 31, 2013

Overall leverage decreased to 6.2x equity capital at the end of the quarter

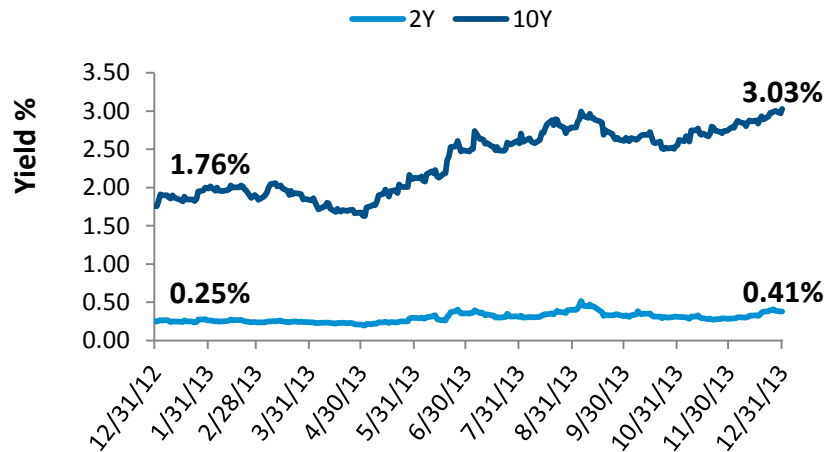
(1) Non-GAAP measure. See reconciliation on slide 40.

(2) Non-GAAP measure based on core net operating income. See reconciliation on slide 40.

(3) Non-GAAP measure. See reconciliation on slide 41.

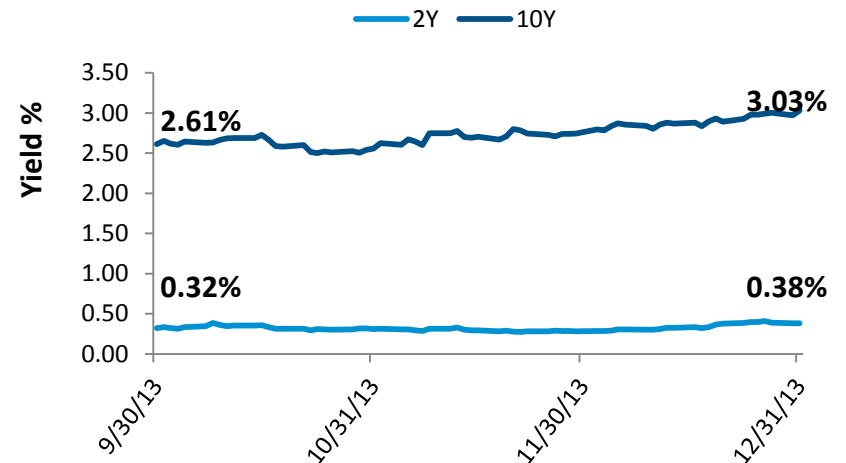
Market Environment

Annual Comparison



- Treasury yield curve steepened dramatically over 2013
- 2 year rate remains anchored, reflecting Fed's intention to keep short rates low

Quarterly Comparison



- 10 year treasury yields were under pressure at year end but have since rallied
- 2 year remains relatively stable in comparison

Source: Bloomberg

CMBS v. RMBS

CMBS

- Explicit call protection
- Short duration, predictable “bond like” cash flows
- Predictably rolls down the curve
- Complementary cash flow profile to our RMBS investments
- Opportunity for credit spread tightening

RMBS

- No explicit call protection
- Implicit call protection through asset selection
- Short duration, limited extension
- Less predictable, but efficiently rolls down the curve



What is Roll-Down?

- The Federal Reserve is in an easing mode, intent on keeping short rates low for a considerable amount of time. As a result the Treasury yield curve is exceptionally steep, meaning short-term rates are substantially lower than long-term rates.
- The combination of these factors provides investors in well structured bonds and bonds with shorter maturity/reset dates with an opportunity to “roll down the curve”.
- As a bond ages it will increase in price as it rolls down the curve. This occurs because the bond is valued at successively lower yields (due to the steepness of the yield curve) and thus potentially higher prices.

Treasury Yield Curve	3 month	2 year	5 year	7 year	10 year	30 year
(as of 1/2/2014)	0.06	0.382	1.719	2.415	2.88	3.923
		3/1	5/1	7/1	10/1	
Hybrid Arm 2.5% coupon		\$ 103.03	\$ 102.22	\$ 100.41	\$ 98.12	



Capital Allocation

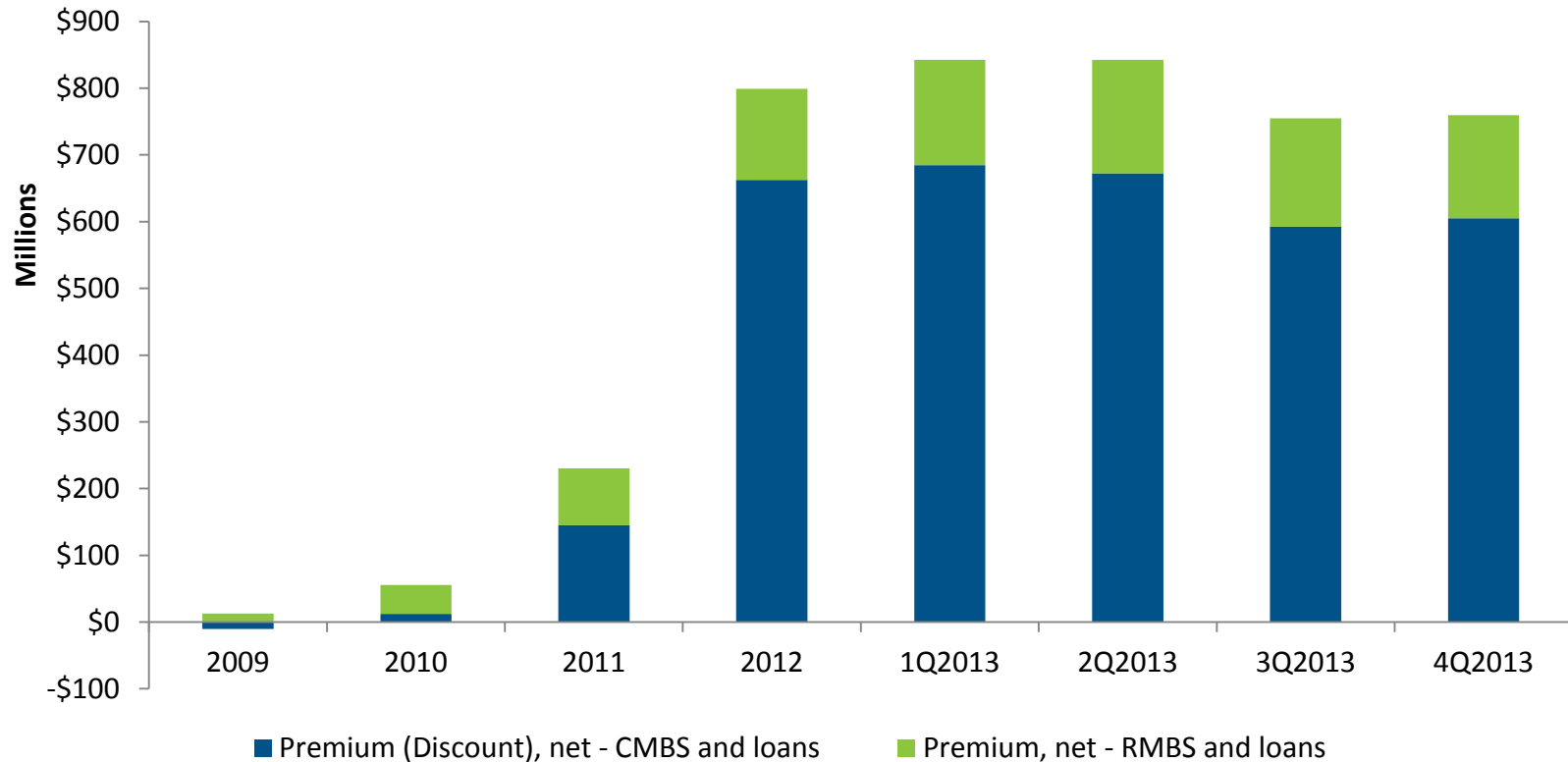
(as of December 31, 2013)

(\$ in thousands)	Asset Carrying Basis	Associated Financing ⁽¹⁾ / Liability Carrying Basis	Allocated Shareholders' Equity	% of Shareholders' Equity
Agency MBS	\$ 3,483,978	\$ 3,149,470	\$ 334,508	57.1%
Non-Agency MBS	534,183	420,991	113,192	19.3%
Securitized mortgage loans	54,748	33,565	21,183	3.6%
Other investments	675	—	675	0.1%
Derivative instruments	18,488	6,681	11,807	2.0%
Cash and cash equivalents	69,330	—	69,330	11.8%
Restricted cash	13,385	—	13,385	2.3%
Other assets/other liabilities	42,350	20,554	21,796	3.8%
	\$ 4,217,137	\$ 3,631,261	\$ 585,876	100.0%

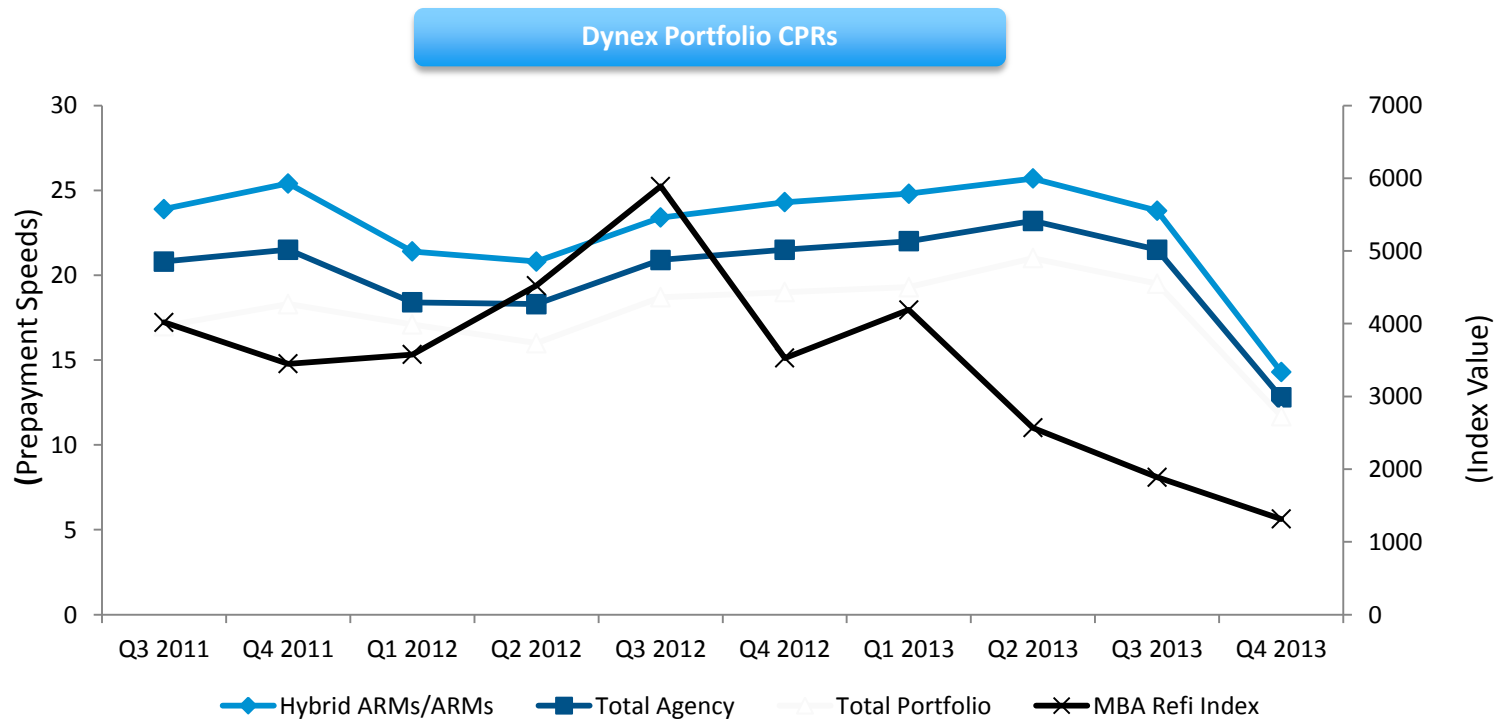
⁽¹⁾Associated financing for investments includes repurchase agreements and securitization financing issued to third parties (which is presented on the Company's balance sheet as "non-recourse collateralized financing"). Associated financing for derivative instruments represents the fair value of the interest rate swap agreements in a liability position.

Investment Premium Allocation

(as of end of period)

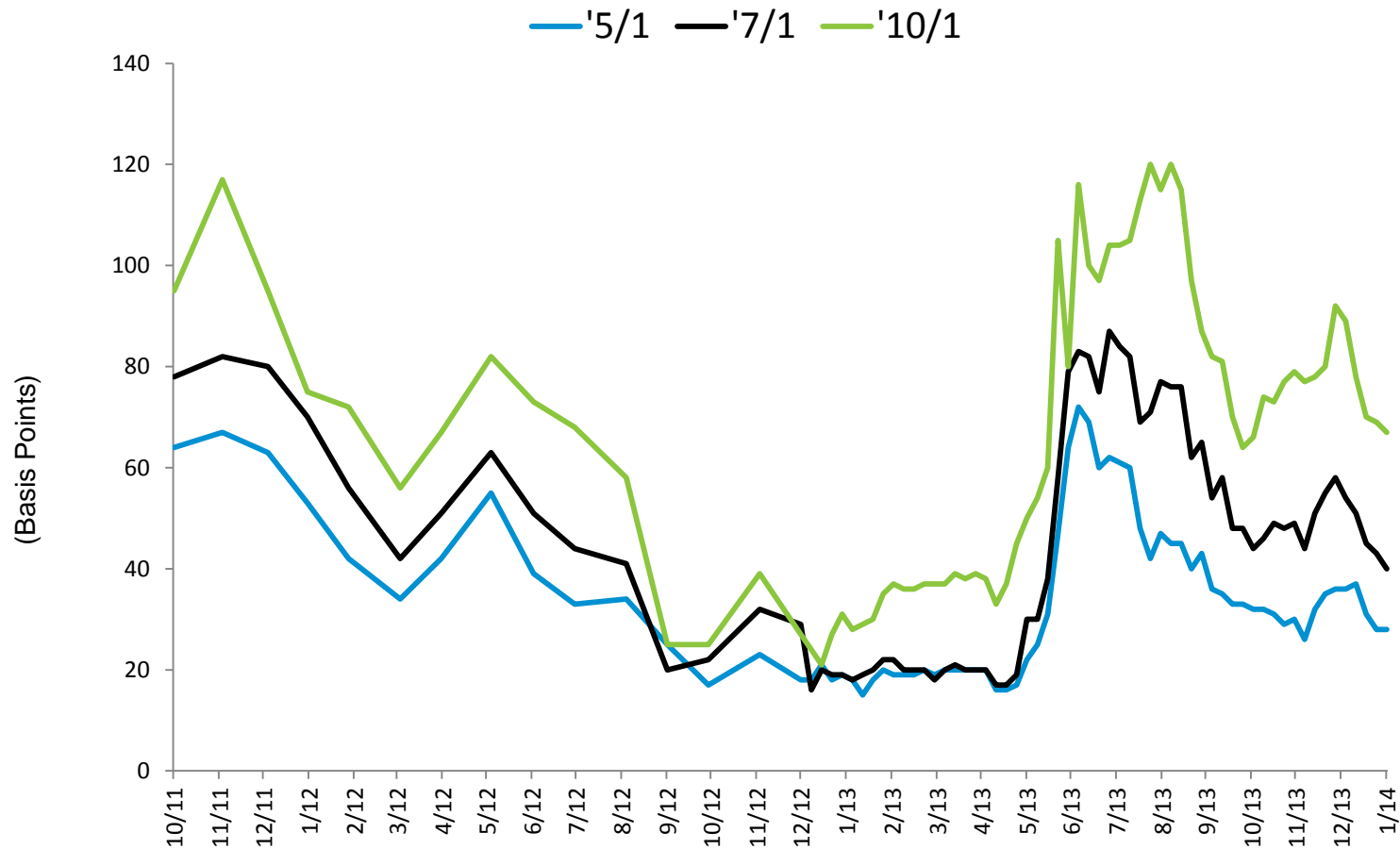


Prepayment Speeds versus Refinancing Index



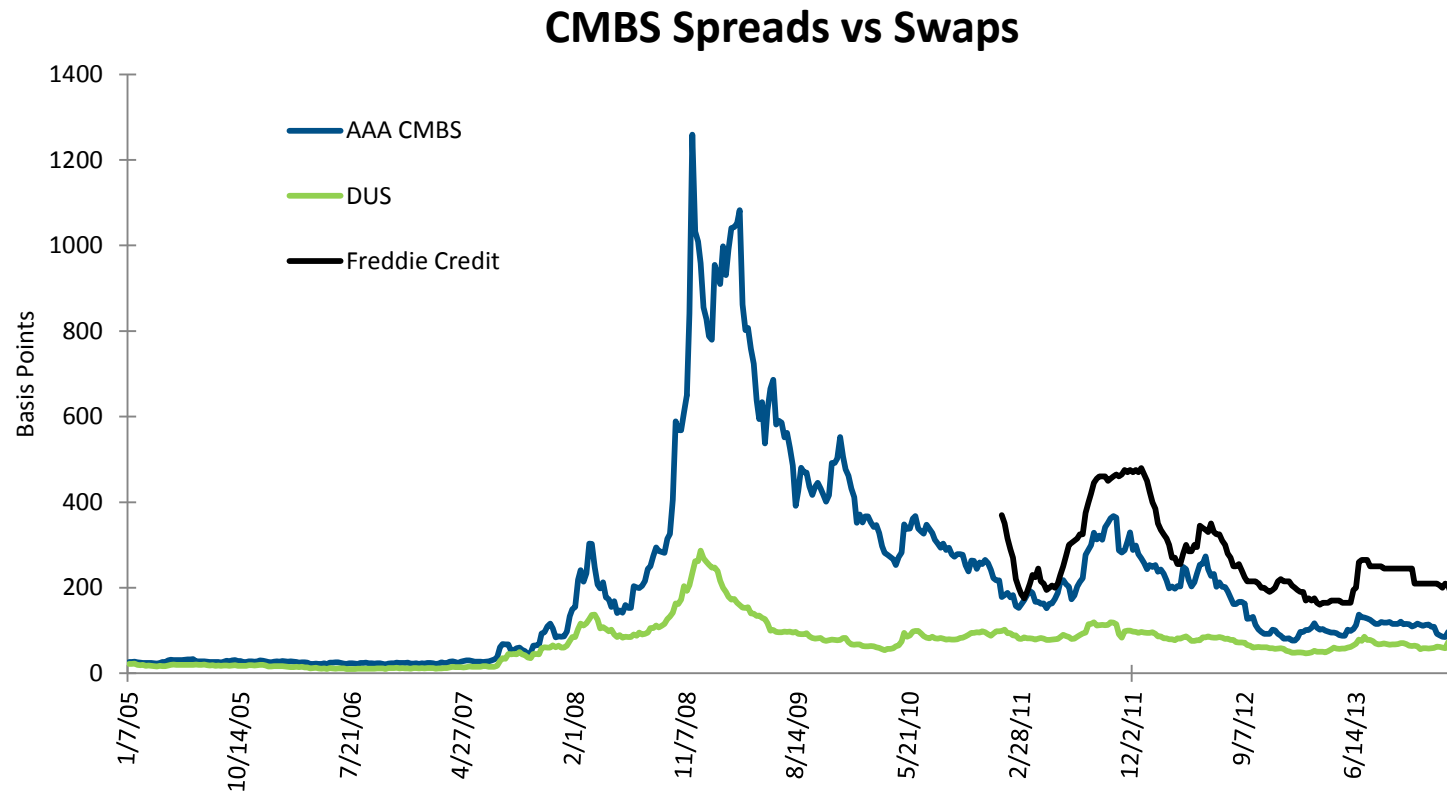
MBA REFI Index Source: Bloomberg

Hybrid ARM Zero-Volatility Spreads



Drivers of Book Value

CMBS Credit 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.
- 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 very difficult to predict. We manage spread risk over the long-term through portfolio construction.



Drivers of Book Value

Spread Changes

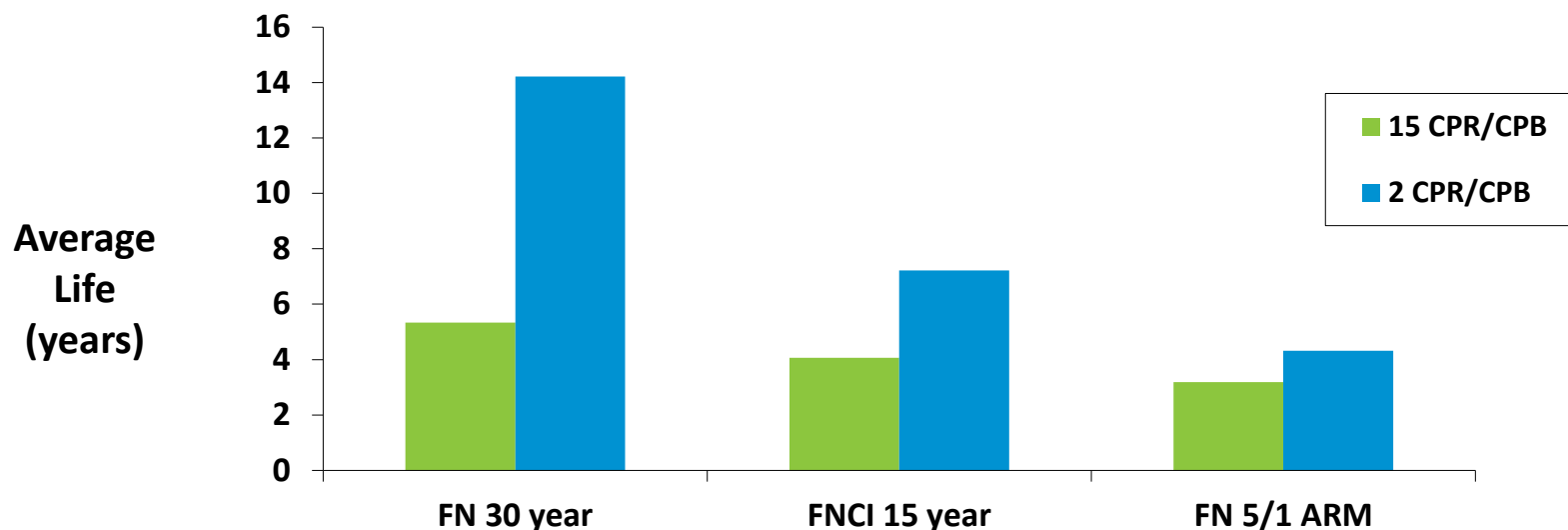
Assets	December 31, 2013	September 30, 2013	Change
2 year vs. 10 year UST spread	265	230	35
Hybrid ARM 5/1 (2.0% coupon) spread to UST	30	40	-10
Hybrid ARM 10/1 (2.5% coupon) spread to UST	76	80	-4
Agency CMBS spread to interest rate swaps	58	72	-14
'A'-rated CMBS spread to interest rate swaps	220	255	-35
Agency CMBS IO spread to UST	165	200	-35
IG Index spread to UST	135	166	-31
HY Index spread to UST	460	531	-71
CMBX.NA.A.6 (2012 'A'-rated)	205	270	-65

Note: Amounts represent basis point spread to benchmark as noted.

Source: JP Morgan

Drivers of Book Value

Extension Risk *(as of January 2, 2014)*



	Price	Coupon	WAC	Speed	Average Life	Average Life Extension
FN 30yr	\$98-11	3.50%	4.04%	15 CPR 2 CPR	5.36 years 14.36 years	~9 years
FNCI 15yr	\$101-31	3.0%	3.50%	15 CPR 2 CPR	4.07 years 7.22 years	~3 years
FN 5/1 ARM	\$102-19	2.57%	3.31%	15 CPB 2 CPB	3.17 years 4.26 years	~1 year

Risk Management

Key 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 call protection RMBS specified pools with diversity of prepayment risk
Credit Risk	91% of investment portfolio is AAA-rated*at December 31, 2013 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: \$69.3 million of cash and cash equivalents, \$127.2 million of unpledged Agency MBS at December 31, 2013

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



Financing Comparison

\$ in thousands

Repurchase Agreements				
	as of 12/31/13		as of 9/30/13	
Original Maturity	Balance	WAVG Rate	Balance	WAVG Rate
<30 days	\$206,112	1.02%	\$486,150	0.85%
31-60	492,145	1.22%	677,725	0.96%
61-90	665,019	0.58%	333,007	0.41%
91-120	783,371	0.43%	1,021,594	0.47%
121-150	1,434,349	1.00%	583,888	0.41%
>150	-	-	572,833	0.45%



Hedging Comparison *(Swaps and Eurodollars)*

\$ in thousands

	as of 12/31/13		as of 9/30/13	
Year effective	WAVG Notional Balance	WAVG Rate	WAVG Notional Balance	WAVG Rate
4Q2013	-	-	\$1,586,444	1.55%
2014	\$751,148	1.53%	1,583,496	1.51%
2015	790,000	1.56%	1,686,975	1.55%
2016	1,184,393	1.86%	2,157,582	1.89%
2017	1,691,943	2.48%	1,875,110	2.52%
2018	1,106,407	2.72%	1,415,296	2.93%
2019-2024	232,767	2.76%	384,673	3.26%

Selected Financial Highlights

(as of and for the quarter ended)

(\$ in thousands, except per share amounts)	<u>4Q2013</u>	<u>3Q2013</u>	<u>4Q2012</u>
Net interest income after provision	\$ 20,186	\$ 22,948	\$ 21,123
Gain (loss) on derivative instruments, net	\$ 2,607	\$ (24,019)	\$ (1)
Gain (loss) on sale of investments, net	\$ 757	\$ (825)	\$ 2,044
General and administrative expenses	\$ (1,825)	\$ (3,629)	\$ (3,501)
Net income (loss) to common shareholders	\$ 19,266	\$ (6,921)	\$ 18,330
Net income (loss) per common share	\$ 0.35	\$ (0.13)	\$ 0.34
Core net operating income to common shareholders ⁽¹⁾	\$ 15,544	\$ 14,885	\$ 16,161
Core net operating income per common share ⁽¹⁾	\$ 0.29	\$ 0.27	\$ 0.30
Return on average common equity (annualized)	16.1%	(5.7)%	13.0%
Adjusted return on average common equity (annualized) ⁽¹⁾	13.0%	12.3 %	11.4%
Dividend per common share	\$ 0.27	\$ 0.27	\$ 0.29
Book value per common share, end of period	\$ 8.69	\$ 8.59	\$ 10.30
Interest earning assets, end of period	\$ 4,073,584	\$ 4,202,846	\$ 4,175,662
Average interest earning assets	\$ 4,123,224	\$ 4,371,485	\$ 4,117,527
Average interest bearing liabilities	\$ (3,620,795)	\$ (3,859,653)	\$ (3,655,229)
Net interest spread	1.82%	1.94 %	1.93%
Adjusted net interest spread ⁽¹⁾	1.77%	1.65 %	1.91%
Portfolio CPR (excluding CMBS IO)	11.7%	19.5 %	19.0%
Debt to shareholders' equity ratio, end of period	6.2x	6.4x	5.9x

⁽¹⁾ Core net operating income to common shareholders (including on a per share basis), adjusted return on average common equity and adjusted net interest spread are non-GAAP financial measures. Reconciliations of these non-GAAP financial measures are provided on slide 40 and slide 41.

Non-GAAP Reconciliation

DYNEX CAPITAL, INC.
RECONCILIATION OF GAAP NET INCOME (LOSS) TO COMMON SHAREHOLDERS TO CORE
NET OPERATING INCOME TO COMMON SHAREHOLDERS
(UNAUDITED)

(\$ in thousands except per share data)

	QTD 12/31/2013	QTD 9/30/2013	QTD 6/30/2013	QTD 3/31/2013	QTD 12/31/2012	YTD 2013
GAAP net (loss) income-common	19,266	(6,921)	29,442	18,381	18,330	60,167
Adjustments:						
Loss (gain) on sale of investments	(757)	825	(2,031)	(1,391)	(2,044)	(3,354)
Fair value adjustments, net	62	(150)	600	140	43	652
Change in FV of derivatives, net	(5,636)	18,548	(11,626)	(157)	(168)	1,128
Amortization of de-designated hedges in AOCI	2,609	2,583	—	—	—	5,193
Core net operating income	15,544	14,885	16,385	16,973	16,161	63,786
Core EPS	0.29	0.27	0.30	0.31	0.30	1.17
Basic shares	54,409,341	54,903,637	54,973,561	54,300,020	54,317,505	54,647,643
Diluted shares	54,409,341	54,903,637	54,973,561	54,300,774	54,317,505	54,647,643
Average equity	477,431,879	484,356,279	560,449,459	567,489,374	565,158,625	522,431,748
GAAP ROE	16.1 %	(5.7)%	21.0 %	13.0 %	13.0 %	11.5 %
Loss (gain) on sale of investments	(0.6)%	0.7 %	(1.4)%	(1.0)%	(1.4)%	(0.6)%
Fair value adjustments, net	0.1 %	(0.1)%	0.4 %	0.1 %	—%	0.1 %
Unrealized loss (gain) on derivative instruments, net	(4.7)%	15.3 %	(8.3)%	(0.1)%	(0.1)%	0.2 %
Amortization of de-designated hedges in AOCI	2.2 %	2.1 %	—%	—%	—%	1.0 %
Adjusted ROE	13.0 %	12.3 %	11.7 %	12.0 %	11.4 %	12.2 %

(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 hedge accounting.

Accounting Disclosure

Non-GAAP Reconciliation

DYNEX CAPITAL, INC.
RECONCILIATION OF GAAP INTEREST EXPENSE TO EFFECTIVE BORROWING COSTS
AND OF GAAP NET INTEREST SPREAD TO ADJUSTED NET INTEREST SPREAD
(UNAUDITED)
(\$ in thousands)

	QTD		QTD		QTD		QTD		QTD		YTD		YTD	
	12/31/2013		9/30/2013		6/30/2013		3/31/2013		12/31/2012		2013		2012	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
GAAP interest income/yield	28,594	2.72 %	31,666	2.82 %	33,890	2.86 %	32,982	3.04 %	31,576	3.04 %	127,132	2.96 %	113,548	3.25 %
GAAP interest expense/cost of funds	8,408	0.90 %	8,718	0.88 %	11,446	1.11 %	10,456	1.15 %	10,431	1.11 %	39,028	1.01 %	35,147	1.12 %
Net interest income/spread	20,186	1.82 %	22,948	1.94 %	22,444	1.75 %	22,526	1.89 %	21,145	1.93 %	88,104	1.95 %	78,401	2.13 %
GAAP interest expense/cost of funds	8,408	0.90 %	8,718	0.88 %	11,446	1.11 %	10,456	1.15 %	10,431	1.11 %	39,028	1.01 %	35,147	1.12 %
Amort of de-designated hedges	(2,609)	(0.28)%	(2,583)	(0.26)%	—	—%	—	—%	—	—%	(5,193)	(0.15)%	—	—%
Net periodic interest costs	3,029	0.33 %	5,471	0.56 %	274	0.03 %	174	0.02 %	169	0.02 %	8,948	0.24 %	654	0.02 %
Effective borrowing costs	8,828	0.95 %	11,606	1.18 %	11,720	1.14 %	10,630	1.17 %	10,600	1.13 %	42,783	1.10 %	35,801	1.14 %
Adjusted net interest income/spread	19,766	1.77 %	20,060	1.65 %	22,170	1.72 %	22,352	1.87 %	20,976	1.91 %	84,349	1.86 %	77,747	2.11 %

(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.

(3) Amount equals the net interest payments (including accrued amounts) related to interest rate derivatives during the period which are not already included in "interest expense" in accordance with GAAP.

Book Value Reconciliation

	YTD Book Value (\$ in thousands)	Book Value Per Common Share
Beginning shareholders' equity, as of January 1, 2013	\$ 616,710	\$10.30
GAAP net income:		
Core net operating income	63,786	1.18
Amortization of de-designated cash flow hedges	(5,193)	(0.10)
Unrealized gains on derivative instruments, net of realized losses on terminations	(1,128)	(0.02)
Gain on sale of investments, net	3,354	0.06
Fair value adjustments, net	(652)	(0.01)
Other comprehensive income (loss)	(86,327)	(1.59)
Dividends declared	(61,261)	(1.13)
Balance before capital transactions	529,289	8.69
Issuance of Series B preferred stock	54,251	(0.04)
Issuance of common stock	7,555	-
Repurchases and forfeits of common stock	(7,480)	-
Amortization of restricted stock, net of other capitalized expenses	2,261	0.04
Ending shareholders' equity , as of December 31, 2013	\$ 585,876	\$8.69