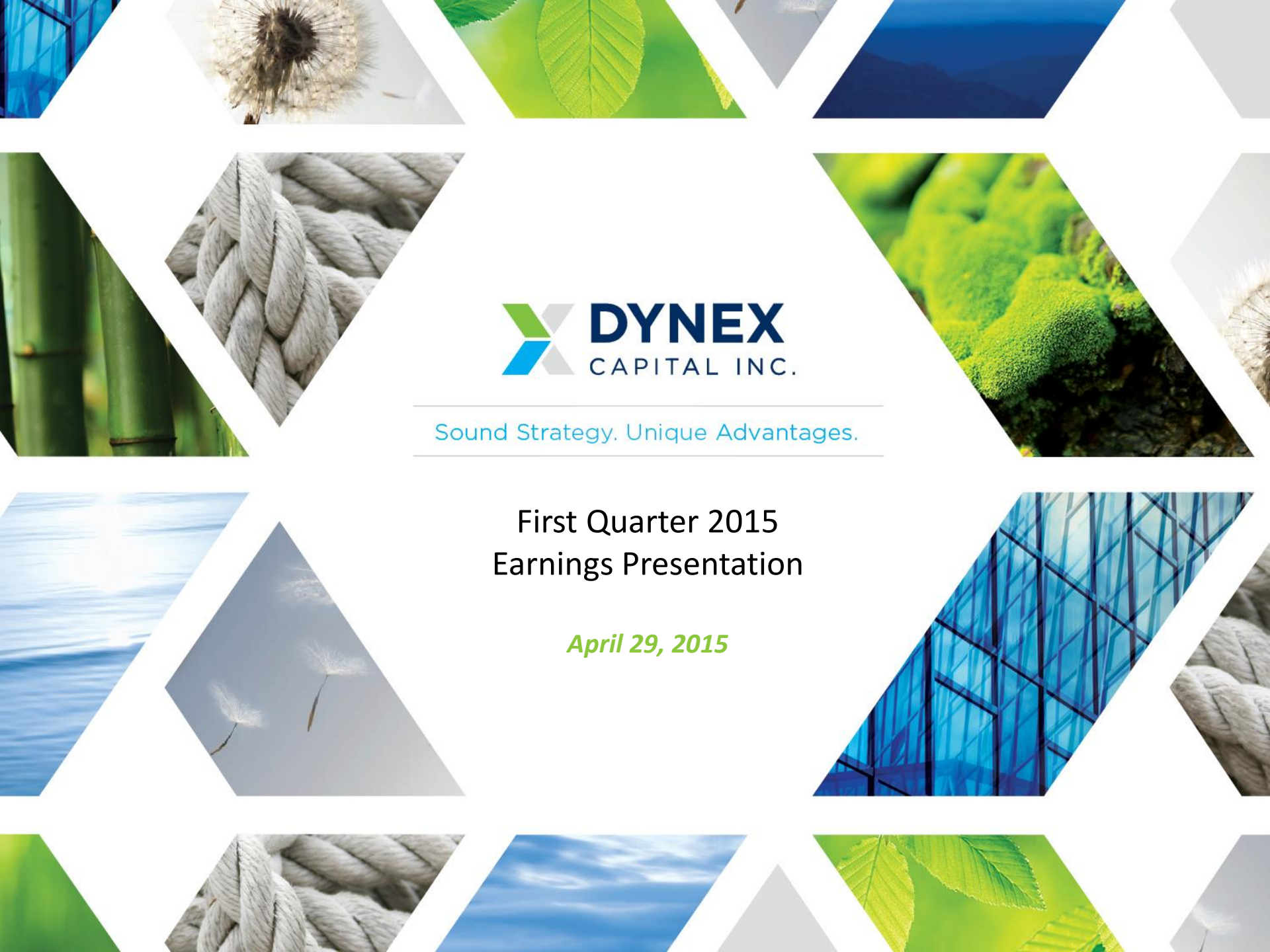


DYNEX CAPITAL INC.

Sound Strategy. Unique Advantages.

First Quarter 2015 Earnings Presentation

April 29, 2015

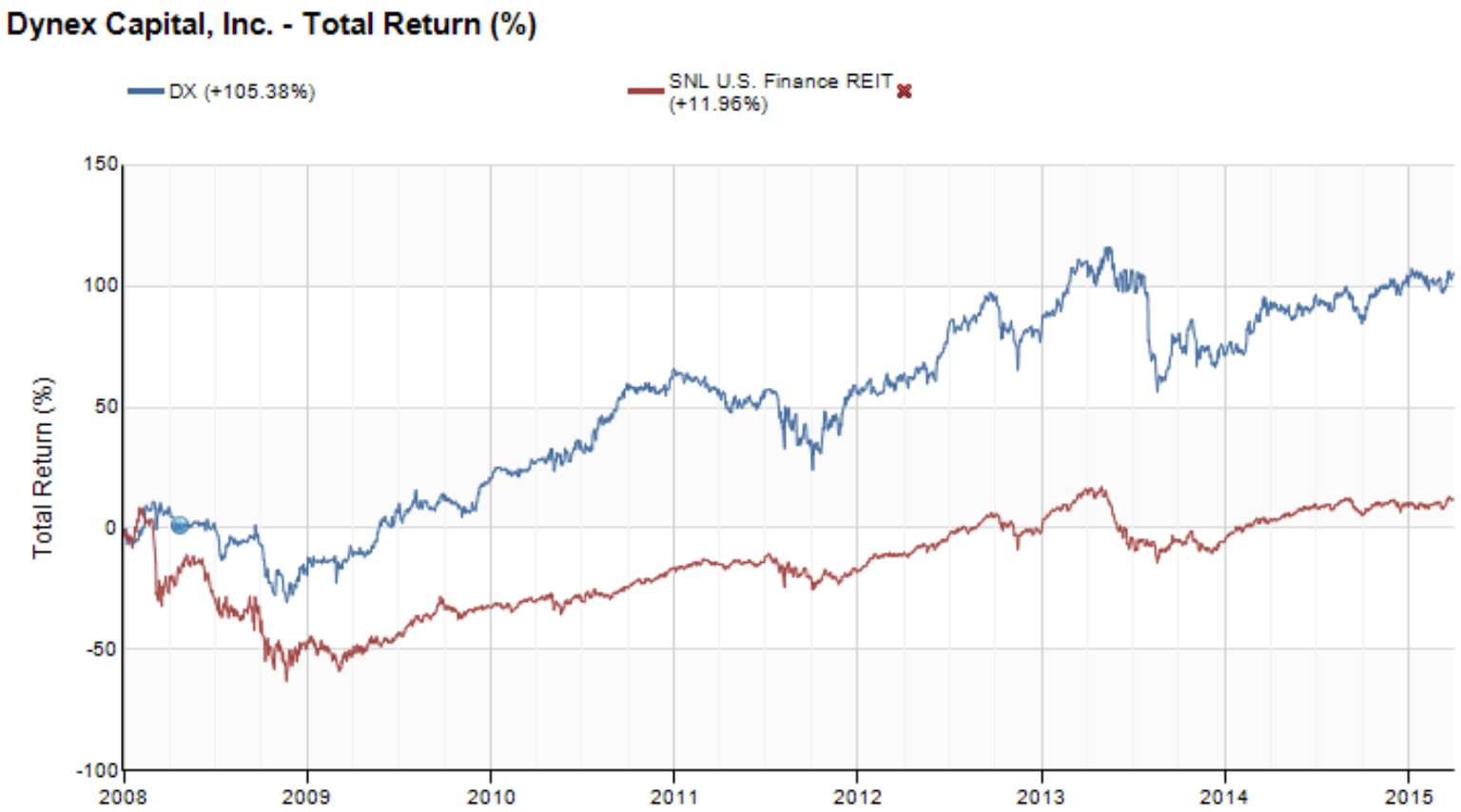
Safe Harbor Statement

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".

Record of Solid Performance



Source: SNL Financial

1Q2015 PERFORMANCE

First Quarter 2015 Highlights

- Core net operating income to common shareholders[1] of $0.23 per common share
- Total comprehensive income to common shareholders, which includes unrealized gains on investments of $22.0 million, was $11.3 million, or $0.21 per common share
- Dividend of $0.24 per common share
- GAAP net loss of $(0.21) per common share, primarily impacted by unrealized losses on derivatives of ($18.7) million and realized losses on terminated derivatives of ($5.7) million.
- GAAP net interest spread of 1.93% and adjusted net interest spread[1] of 1.96%
- Overall leverage increased to 5.7x at March 31, 2015 from 5.1x at December 31, 2014 includes the impact of forward purchases
- Portfolio CPR declined to 8.8% for the first quarter of 2015 from 10.4% for the fourth quarter of 2014

(1) Reconciliations for non-GAAP measures are presented on slides 35-36.

First Quarter 2015 Performance

($ in thousands, except per share amounts)	Income (Expenses)	Per Weighted Average Common Share
Interest income	$24,099	$0.44
Gross interest expense	(4,314)	(0.08)
Net periodic interest costs of derivatives	(862)	(0.01)
Income in limited partnership and other income, net	34	—
G & A expenses	(4,258)	(0.08)
Preferred stock dividends	(2,294)	(0.04)
Core net operating income [(1)]	12,405	0.23
Realized losses on terminated derivatives	(5,720)	(0.10)
Change in fair value of derivatives	(18,741)	(0.34)
Amortization of de-designated cash flow hedges	(1,057)	(0.02)
Gain on sales of investments, net	1,308	0.02
Fair value adjustments, net	39	—
GAAP net loss to common shareholders	(11,766)	(0.21)
Change in fair value of investments, net of sales	21,996	0.40
Amortization of de-designated cash flow hedges	1,057	0.02
Total comprehensive income	$11,287	$0.21

(1) Reconciliations for non-GAAP measures are presented on slides 35-36.

First Quarter 2015 Book Value

- Book value per common share declined $0.06 to $8.96 at March 31, 2015 as shown in reconciliations below:

Book value per common share, January 1, 2015	**$**	**9.02**
Core net operating income per share [1]		0.23
Realized losses on terminated derivatives		(0.10)
Change in fair value of derivatives		(0.34)
Other comprehensive income		0.42
Dividends declared		(0.24)
Stock transactions		(0.03)
Book value per common share, March 31, 2015		**$8.96**

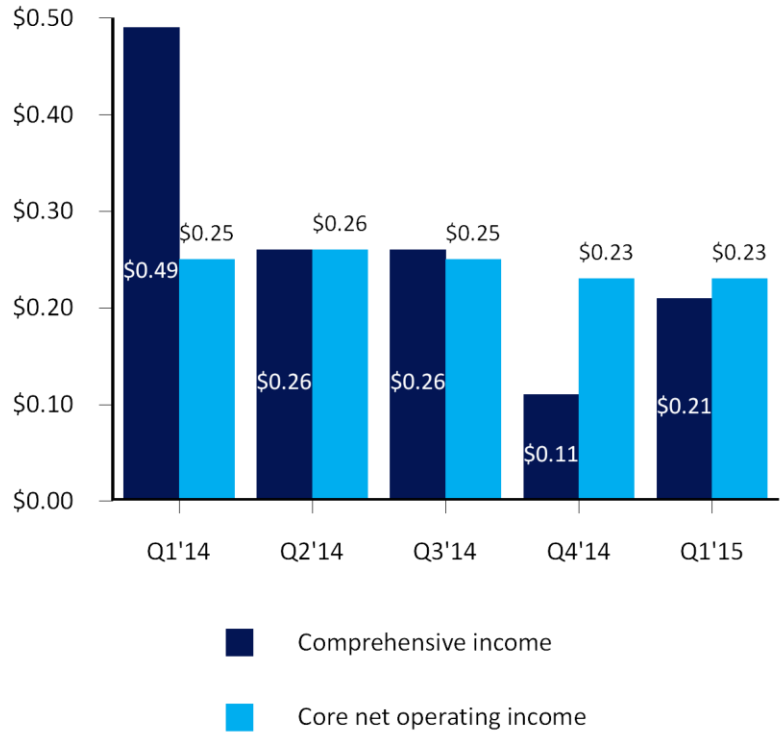
GAAP net loss per common share ($0.21)

- The net decrease in fair value of derivatives and the realized losses on terminated derivatives included in GAAP net loss per common share were partially offset by the net increase in fair value of MBS included in other comprehensive income, resulting in a net impact to book value of ($0.02).

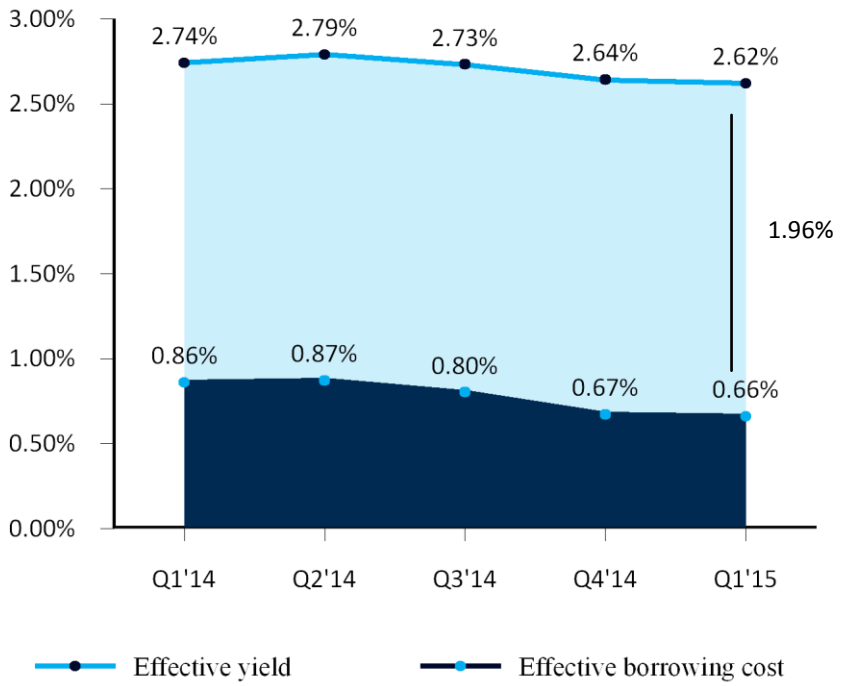
(1) Reconciliations for non-GAAP measures are presented on slides 35-36.
(2) Other non-core items include amortization of de-designated cash flow hedges and fair value adjustments on other assets.

Other Financial Highlights

Financial Measures per Common Share [1]



Adjusted Net Interest Spread [1]



- Differences in comprehensive income and core net operating income[1] result primarily from changes in the fair value of MBS and derivative instruments which are included in comprehensive income but excluded from core net operating income.

- Adjusted net interest spread[1] is the difference between the effective yield earned on our investments and the effective borrowing cost[1] of financing our investments.
- Effective borrowing cost[1] includes net periodic interest expense related to our interest rate swaps which we use to economically hedge interest rate risk arising from our repurchase agreement borrowings used to finance our investments.

(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 35-36.

INVESTMENT PORTFOLIO STRATEGY AND OUTLOOK

Macroeconomic and Policy Factors

- **Divergence in trajectory of growth, inflation and central bank actions across the globe**
  - European Central Bank aggressively pursuing quantitative easing, full impact of which is yet to be felt. Fragile US economy appears on track for growth but could be derailed by domestic or global factors. China, emerging markets facing slowing growth.
  - Full impact of lower oil prices is yet unknown – in the short term, will translate into lower inflation and positive for consumption.
  - Inflation is low globally and many developed countries face disinflationary factors. Catalyst for a sustained move higher in inflation yet to manifest in the US.
  - Strong US dollar has implications for global interest rates and growth.
  - Federal Reserve psychology is hawkish, desirous of moving off zero bound but constrained by the actual performance of the economy and inflation trajectory.

- **Any of the above factors could cause changes in the data that make the timing and pace of Federal Reserve actions still highly uncertain.**

Investment Environment

- **Low overall yields: Global yields continue to remain low given macroeconomic and policy factors in place today.**
- **Spreads still tight across many risk assets: Global risk premiums have declined further since early 2014, as an increasing level of cash seeks higher returns.**
- **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.

Investment Activity

($ in thousands)

	3/31/15	12/31/14	QoQ Change
Investment Assets	$3,922,520	$3,559,939	$362,581
Repurchase Agreements [1]	3,185,843	3,013,110	172,733
Leverage [2]	5.7x	5.1x	.6x
Funding			
Original Days to Maturity	116	144	-28
Remaining Days to Maturity	49	88	-39

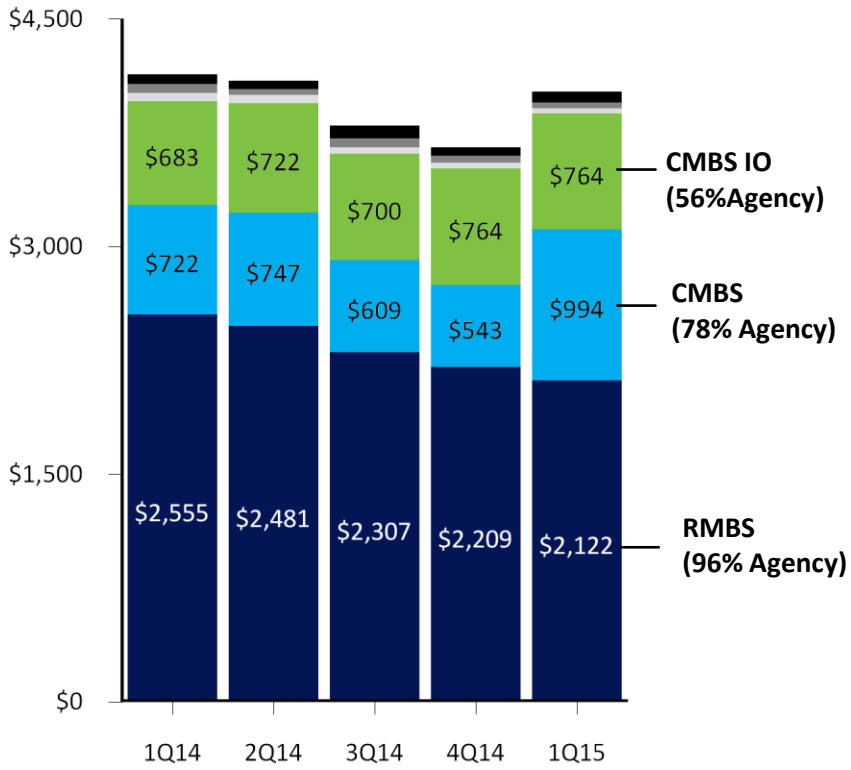
First Quarter 2015 Purchases			
Asset Type	**Settled**	**Unsettled**	**Total**
Agency CMBS (includes IOs)	279,604	196,085	475,689
Non-Agency CMBS (includes IOs)	49,003	—	49,003
Non-Agency RMBS	58,442	—	58,442
Total	**$387,049**	**$196,085**	**$583,134**

[1] Excludes payable for unsettled purchases
[2] Leverage is based on total liabilities divided by stockholders equity

Asset and Equity Allocations *Quarterly Comparison*

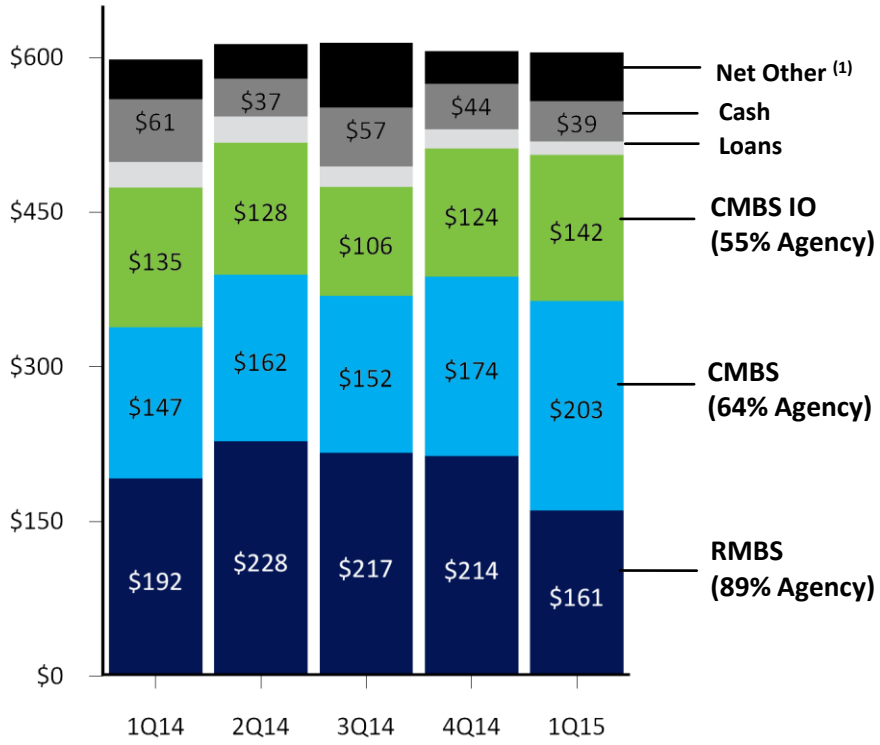
Asset Allocation

Fair Value ($ in millions)



Equity Allocation

Fair Value ($ in millions)



- The majority of assets added during 1Q15 were primarily multifamily Agency CMBS.
- Though the bulk of our investments remain in Agency RMBS, the majority of our capital is invested in CMBS and CMBS IO.

(1) Net other for asset allocation includes fair value of derivative instruments, restricted cash, receivables, and other assets. Net other for equity allocation includes fair value of derivative instruments, restricted cash, receivables, payables, and other assets and liabilities.

How is Dynex Positioned?

- **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
- **Existing Portfolio is designed to perform in a variety of market environments:**
  - Model-estimated book value decline for rising rates[1]
    - (3.3%) in parallel +100 bps, (1.3%) in parallel +50 bp
    - (0.51%) in +25/+75 bps bear steepener
    - When considering spread risk, we expect our book value to decline an additional 5.5% for a 25bp widening in spreads
  - Diversified portfolio position
    - Agency ARM hybrid securities were selected to have limited prepayment risk.
    - Agency multifamily CMBS have limited spread volatility, agency guarantee limits spread widening during risk-off events driven by credit fears
    - Agency and non-agency CMBS IO are correlated to AAA spreads and less volatile than credit sensitive tranches but subject to idiosyncratic credit risk.
  - Protection against rising financing costs
    - 23% of hybrid ARM portfolio resets in 12 months or less
    - Eurodollar futures and swaps protect against rising short rates

[1] **Assumes rates as of 03/31/2015 and 5.7X leverage as of 03/31/2015**

Risk Position

Treasury Yields	As of March 31, 2015	As of December 31, 2014
2Y	0.56%	0.67%
5Y	1.37%	1.65%
10Y	1.94%	2.17%
30Y	2.54%	2.75%

Parallel Change in Treasury Yields (in basis points)	Percentage Change in Projected Market Value of Assets Net of Hedges	
	As of March 31, 2015	As of December 31, 2014
+100	(0.58)%	(0.79)%
+50	(0.23)%	(0.34)%
+25	(0.10)%	(0.15)%
-25	0.07%	0.11%

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 March 31, 2015	As of December 31, 2014
0	+25	(0.01)%	0.04%
+10	+50	(0.04)%	0.02%
+10	+75	(0.11)%	—%
+25	+75	(0.09)%	(0.05)%
+25	0	0.04%	(0.07)%
+50	0	0.07%	(0.15)%
-10	-50	(0.06)%	(0.16)%

Parallel Change in Market Credit Spreads	Percentage Change in Projected Market Value of Assets Net of Hedges	
	As of March 31, 2015	As of December 31, 2014
+50	(1.94)%	(1.64)%
+25	(0.98)%	(0.83)%
-25	0.99%	0.84%
-50	2.00%	1.69%

Dynex Strategy Going Forward

- **Expect to make opportunistic investments and continue grow balance sheet**
  - Investment opportunities continue to be focused on CMBS
    - Agency multifamily CMBS, Agency CMBS IO, non-Agency CMBS IO, single family rental
  - Selective RMBS investing
    - Non-performing loan and re-performing loan securitizations
    - Agency hybrid ARMs
  - Opportunistically buy back shares of common stock if discount to book widens above our threshold
- **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**
  - Formed a captive insurer and applied for membership to the FHLB system
  - Application does not mean acceptance and borrowing capacity is as yet undetermined

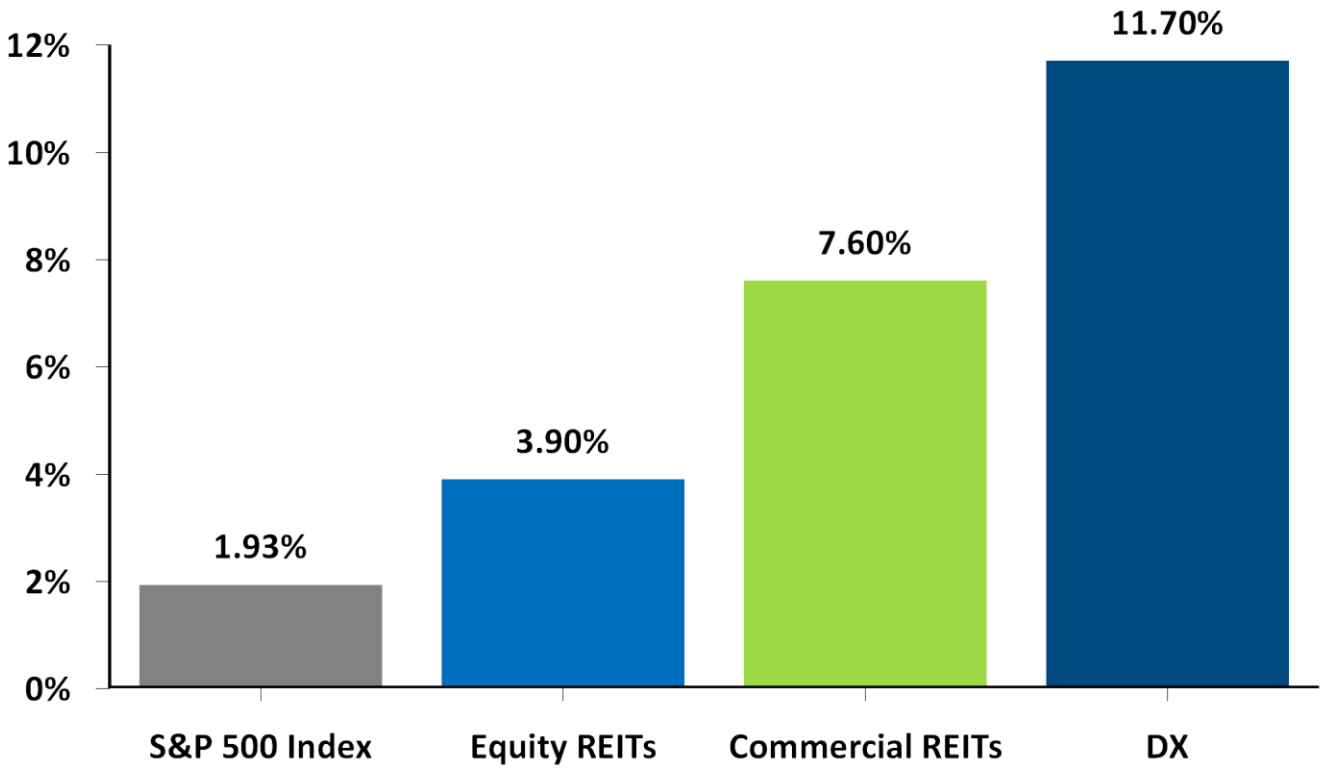
Conclusion

- We believe there continues to be an opportunity to earn above average dividend yields within a mortgage REIT structure, such as Dynex
  - Dynex Capital yields 11.7% versus the S&P average dividend yield of ~2%[1]
  - Dynex Capital yields 11.7% versus the average equity REIT dividend yield of 3.9% and the average commercial mortgage REIT dividend yield of 7.6% [1]
  - Dynex offers a compelling value proposition in an environment of low overall returns for example the U.S. 10 year yields under 2% and some global yields are in negative territory
  - Our investment strategy and thesis have not changed – our portfolio continues to generate an above average dividend yield with a conservative profile
- Long term, we see opportunities for investments in both residential and commercial assets and in markets previously dominated by the Fed/GSEs
  - Private capital for the first time will need to replace the government as the dominant purchaser of MBS
  - As the U.S. housing system is reformed, there should be more opportunities to invest in residential credit
- The current market environment is complex. Uncertainty around economic growth, 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

[1] *As of April 27, 2015*

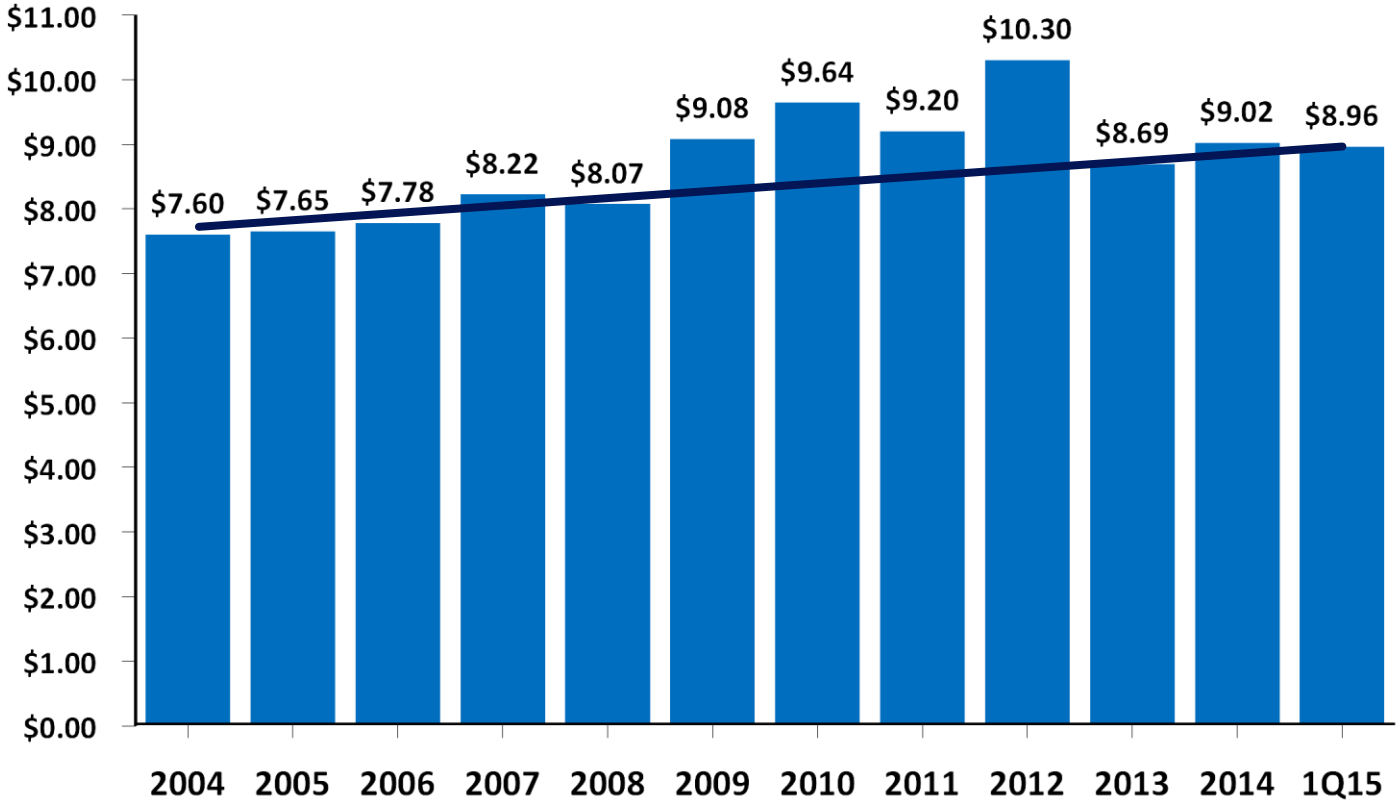
DX Above Average Dividend Yield

(as of April 27, 2015)

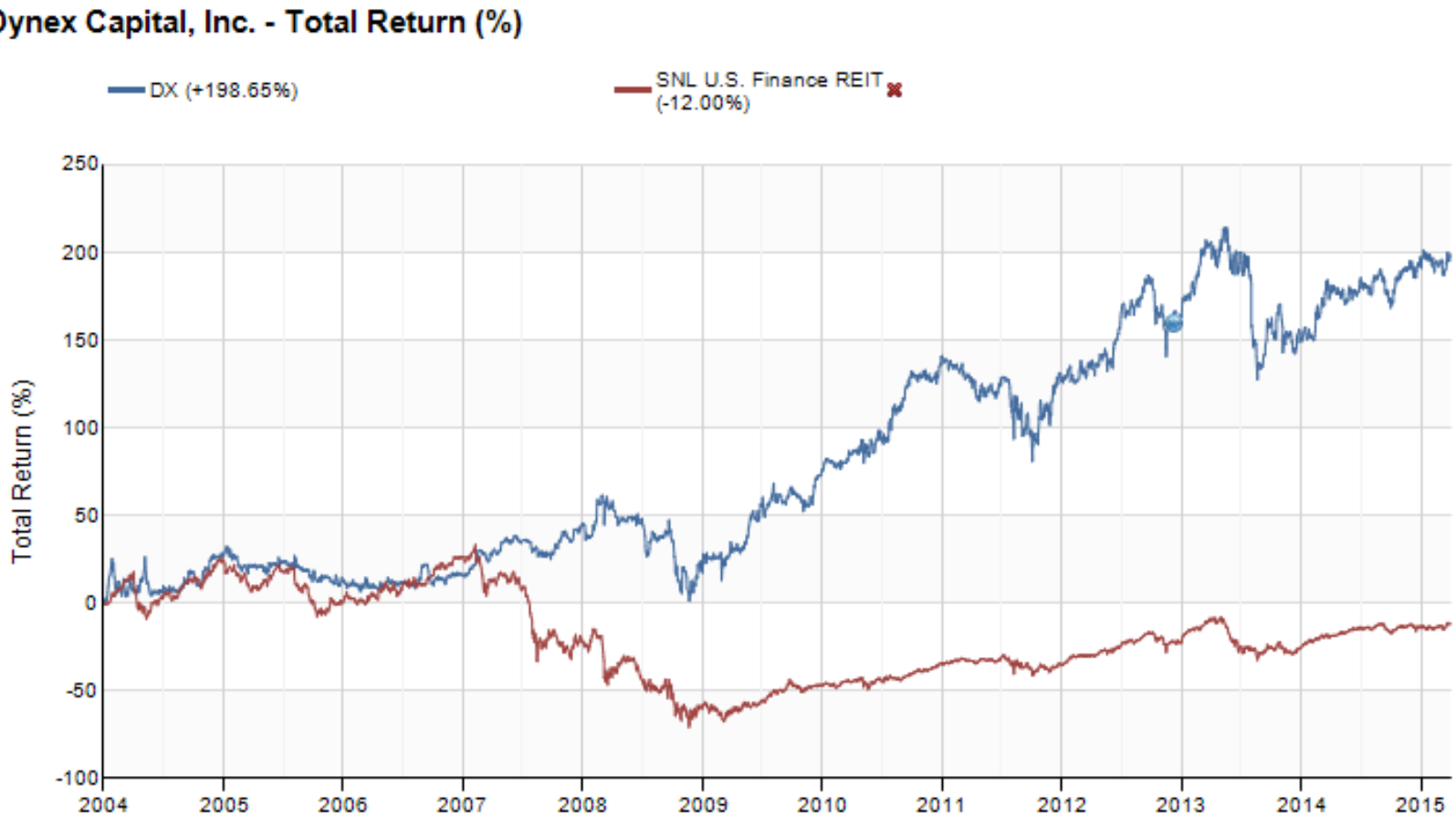


Source: KBW, Bloomberg

Long-term Book Value *(per Common Share)*



Solid Track-Record

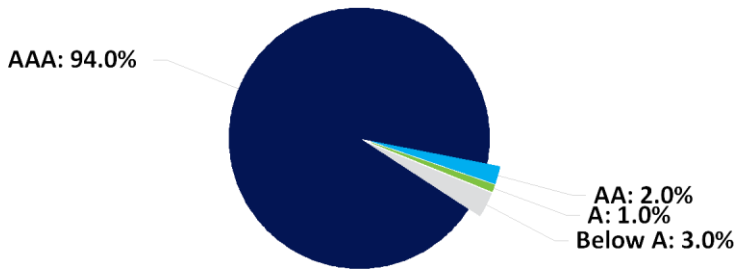


Source: SNL Financial

APPENDIX

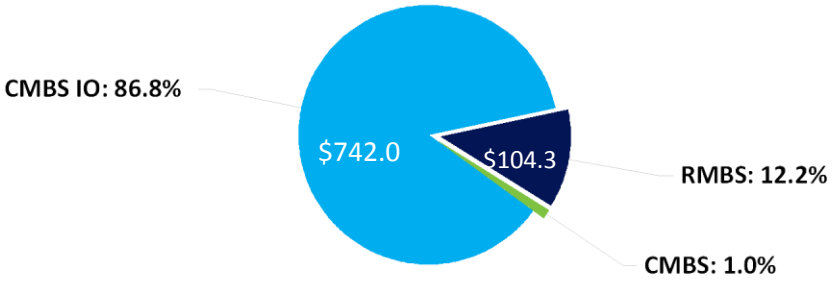
Portfolio Update* *(as of March 31, 2015)*

Credit Quality

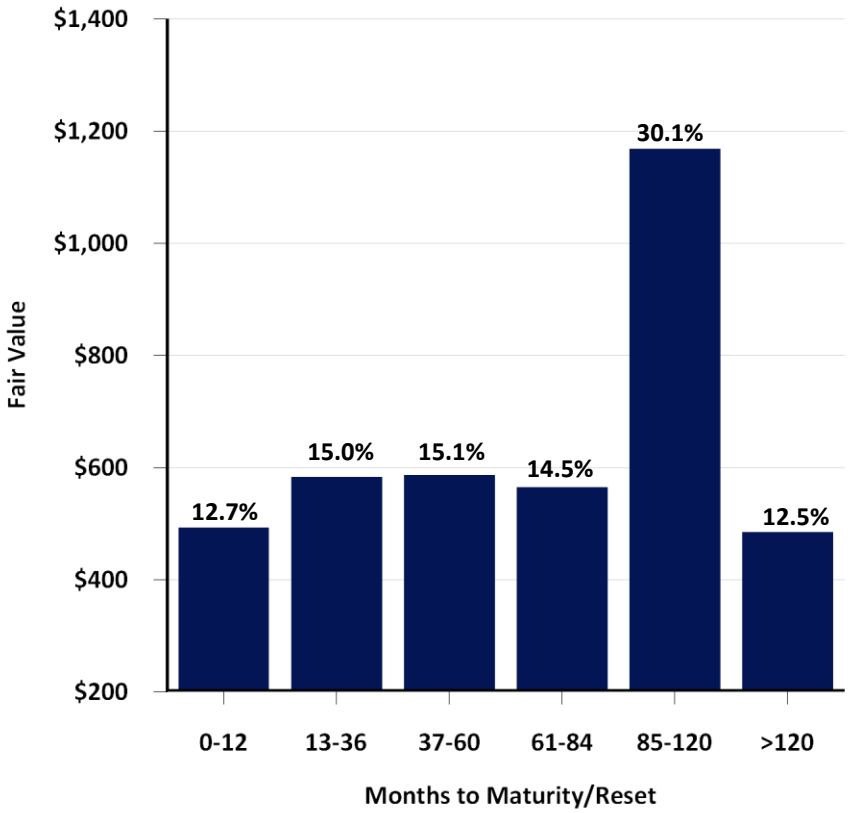


Agency MBS are considered AAA-rated for purposes of this chart.

Net Premium by Asset Type



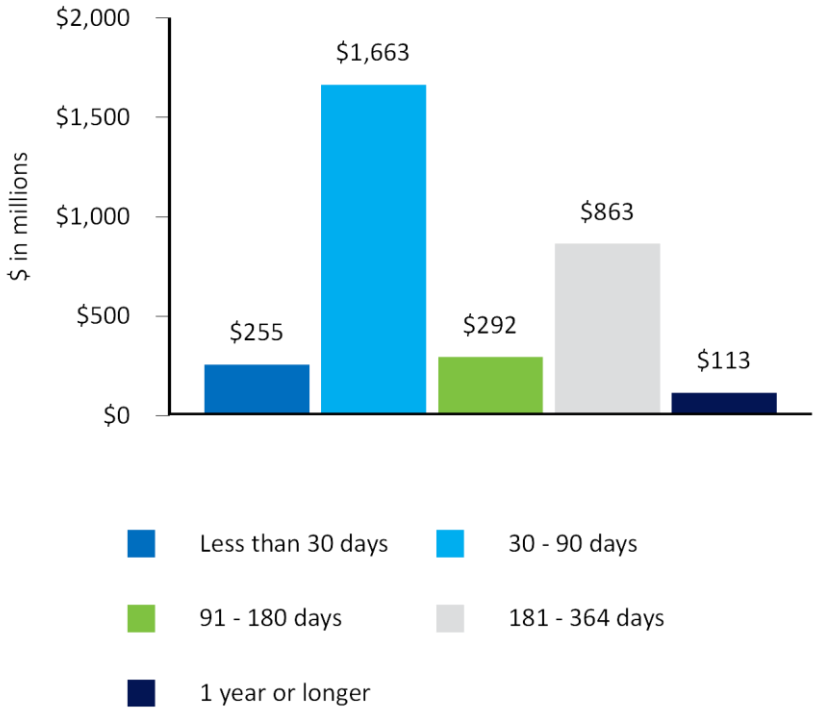
Portfolio Expected Maturity/Reset Distribution



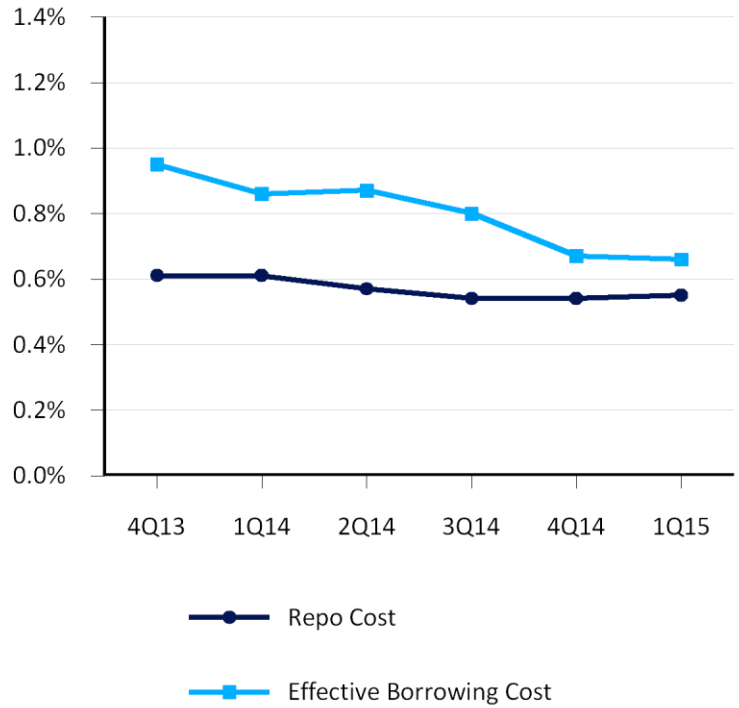
** AFS investments only, excludes loans held for investment.*

Financing Details

Repurchase Agreement Amounts by Original Term to Maturity
(as of March 31, 2015)



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

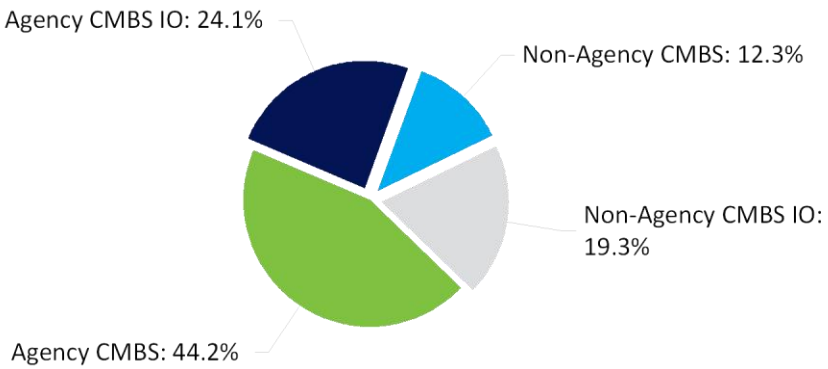


- Our weighted average contractual maturity was 116 days at March 31, 2015 compared to 144 days at December 31, 2014.
- Our repurchase agreement balance was $3.2 billion at March 31, 2015 with 20 counterparties compared to $3.0 billion with 20 counterparties at December 31, 2014. We currently have repurchase agreements available to us with 33 counterparties.

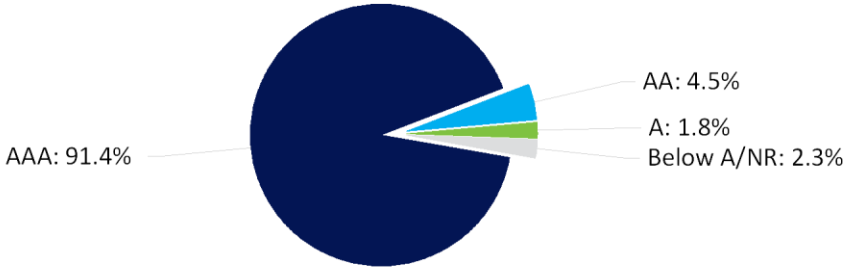
(1) Reconciliations for non-GAAP measures are presented on slides 35-36.

Total CMBS Portfolio *(as of March 31, 2015)*

Asset Type



Credit Quality



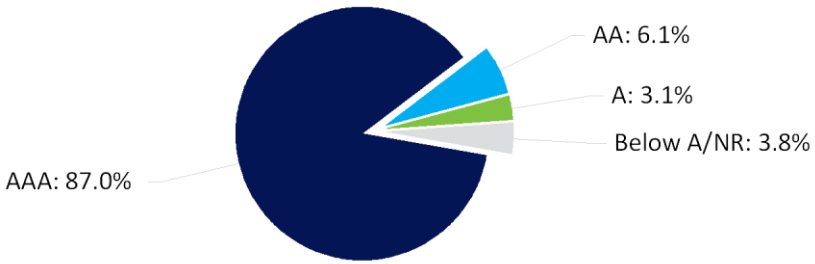
Collateral

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

CMBS

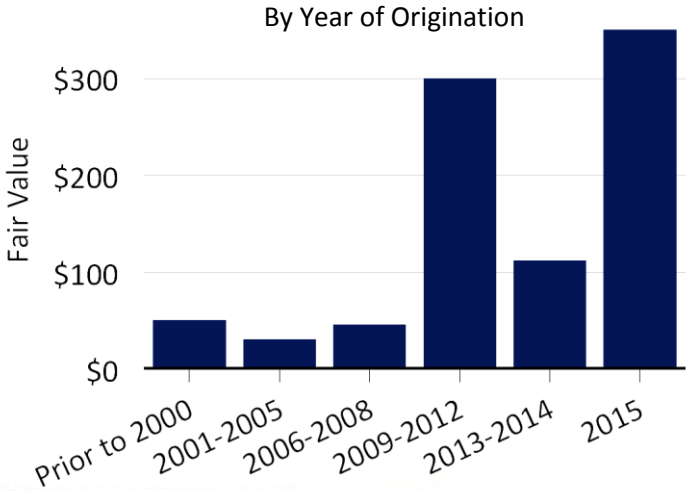
(as of March 31, 2015)

Credit Quality



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

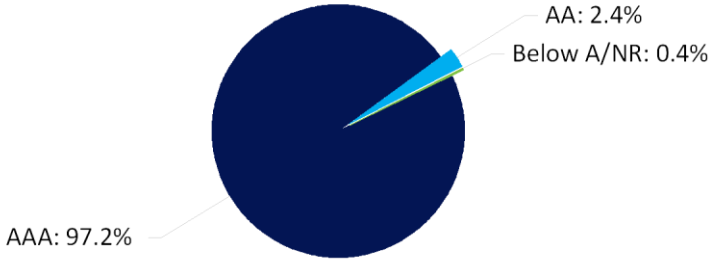
Vintage



CMBS IO

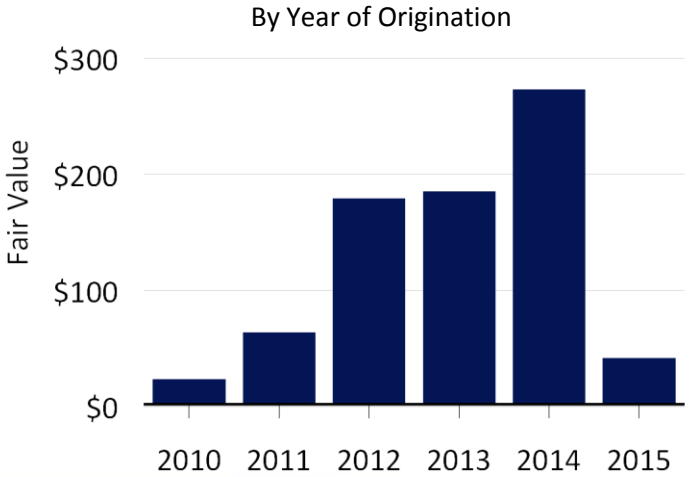
(as of March 31, 2015)

Credit Quality



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

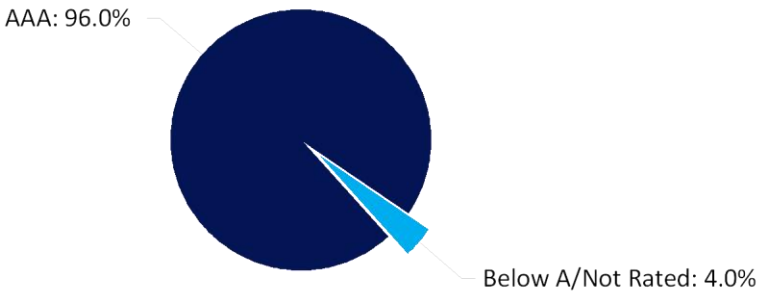
Vintage



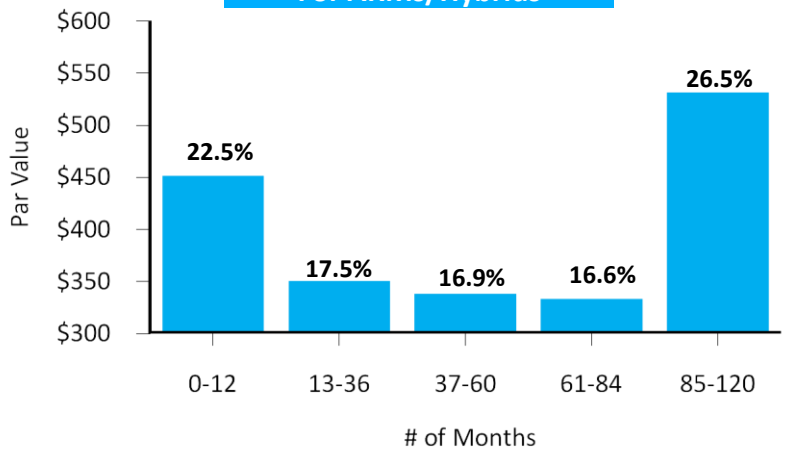
RMBS Portfolio *(as of March 31, 2015)*

($ in millions)

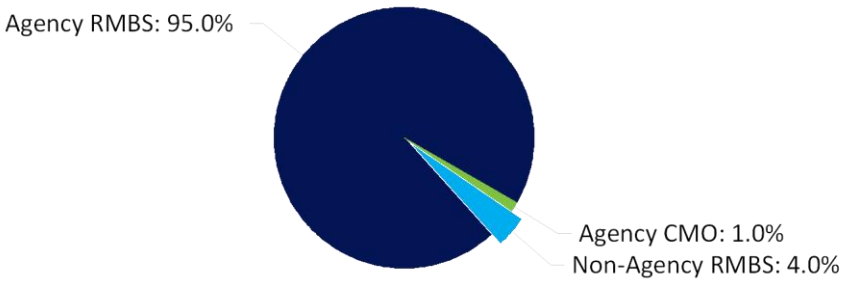
Credit Quality



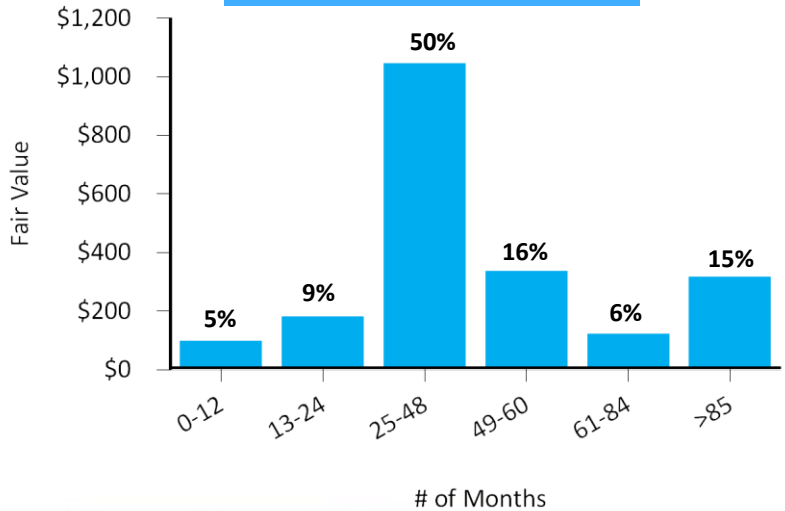
Months to Maturity/Reset For ARMs/Hybrids



Asset Type

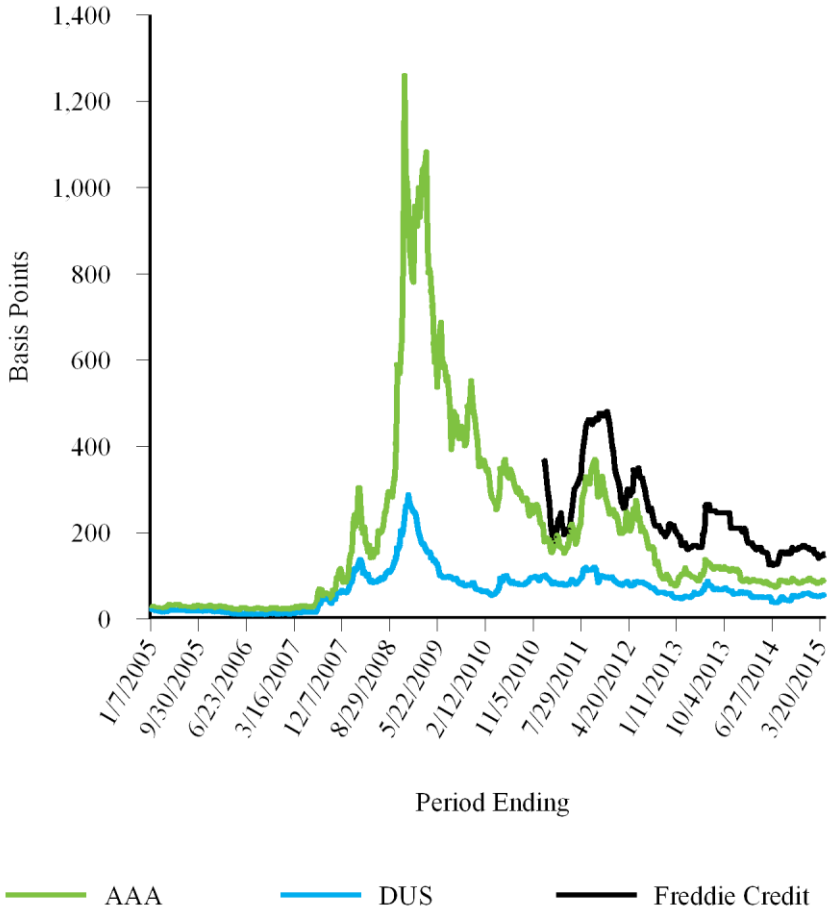


Weighted Average Loan Age

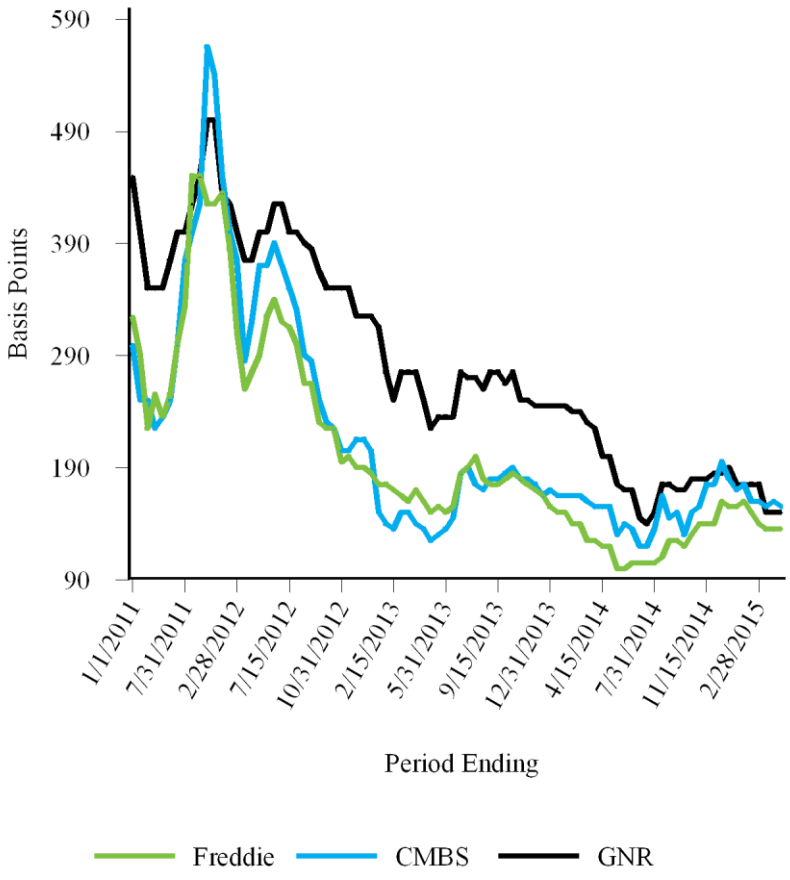


CMBS and CMBS IO Historical Spreads

CMBS Spreads

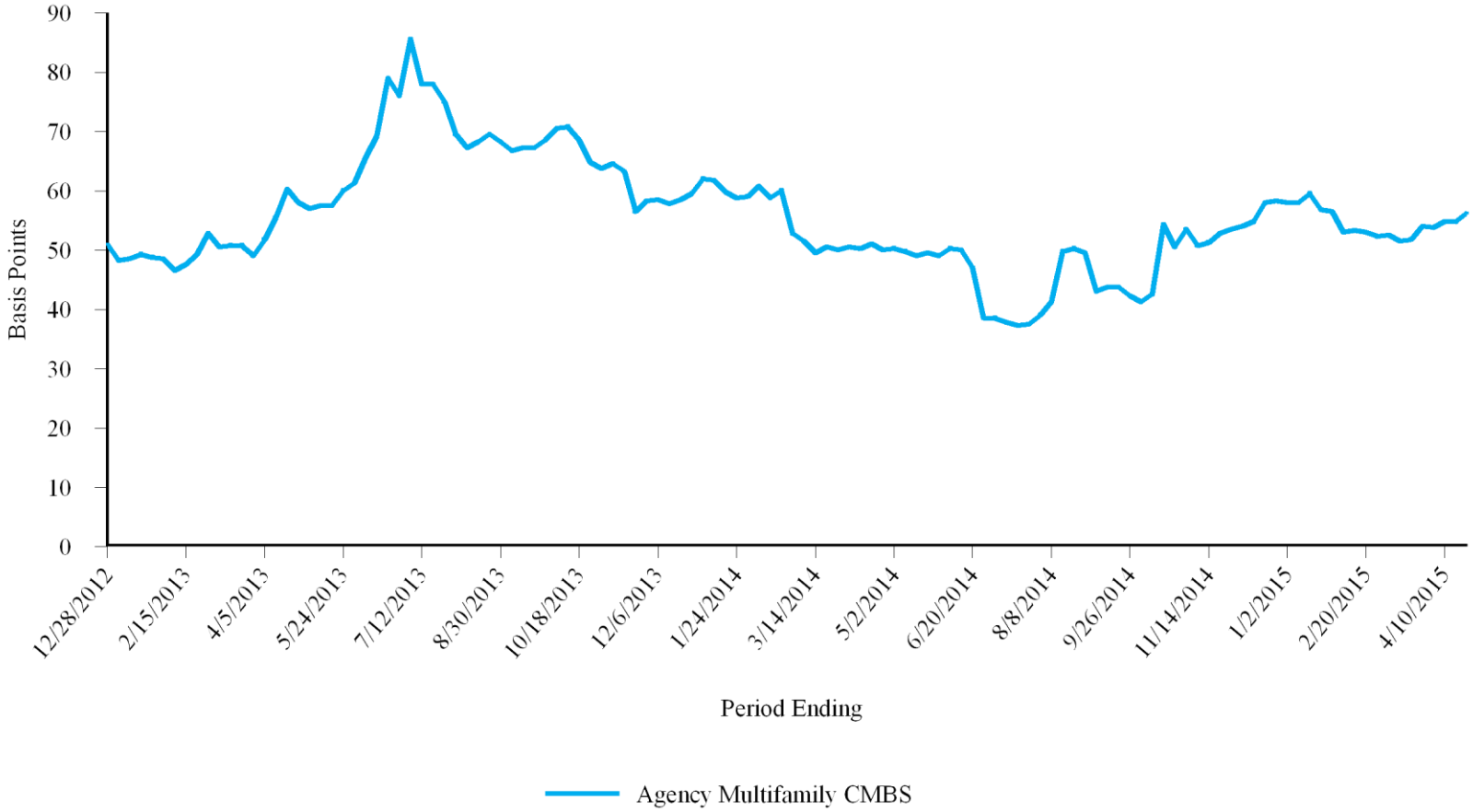


CMBS IO Spreads



Source: Company data

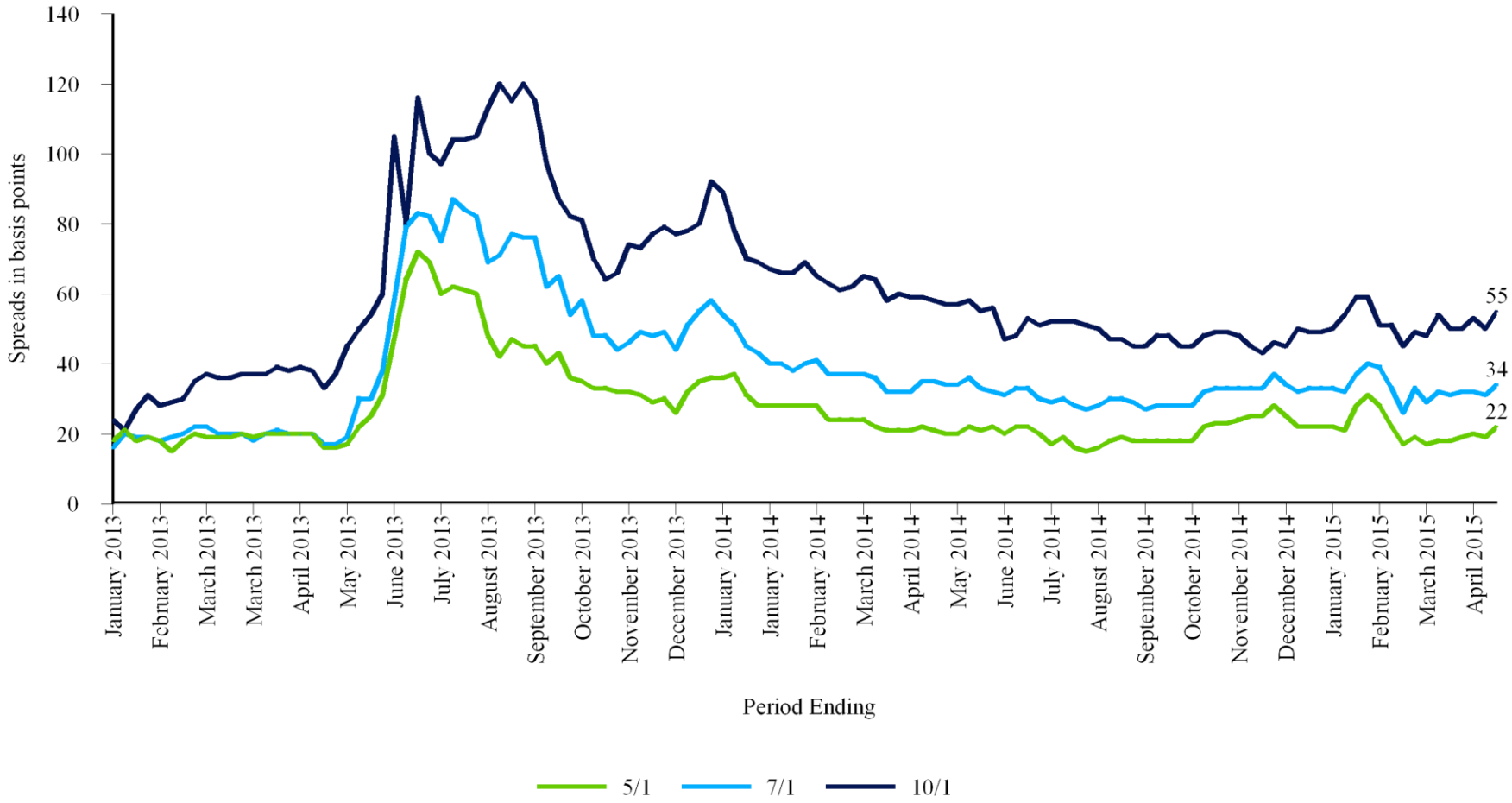
Agency Multifamily CMBS Historical Spreads



Source: Company data

Drivers of Book Value

Agency RMBS Historical Spreads



Source: Company data

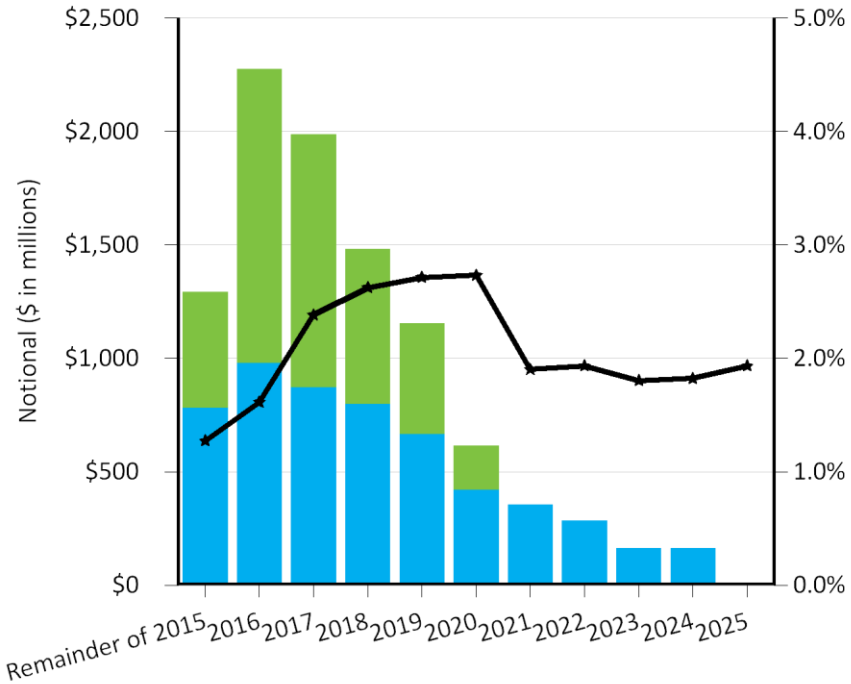
Spread Risk

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

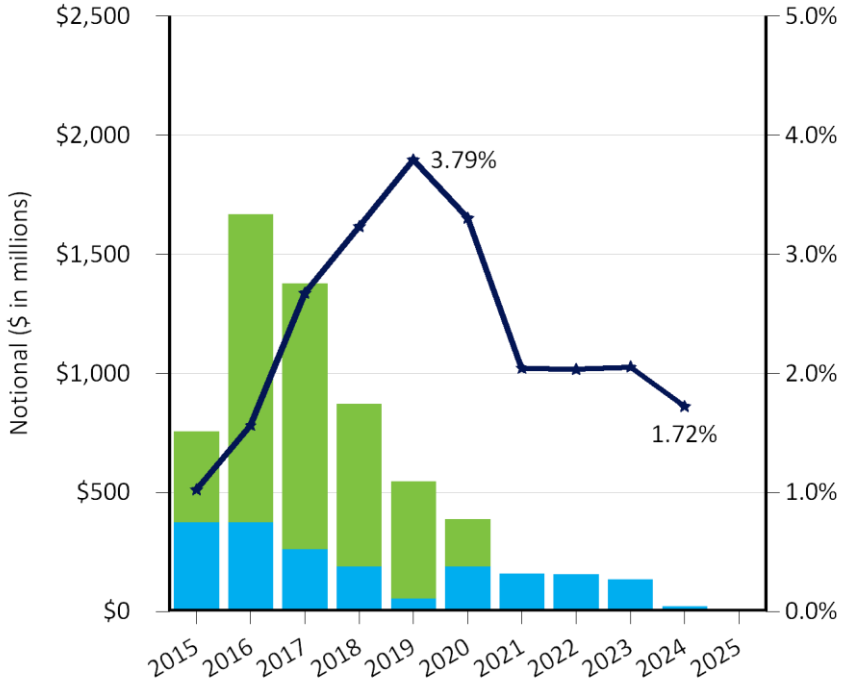
Hedging Details

(Quarterly Comparison)

As of March 31, 2015



As of December 31, 2014



Interest Rate Swaps-Payers, Net of Receivers

Eurodollar Contracts

Total Weighted Average Pay Rate, Net

Interest Rate Swaps-Payers, Net of Receivers

Eurodollar Contracts

Total Weighted Average Pay Rate, Net

Drivers of Book Value and EPS

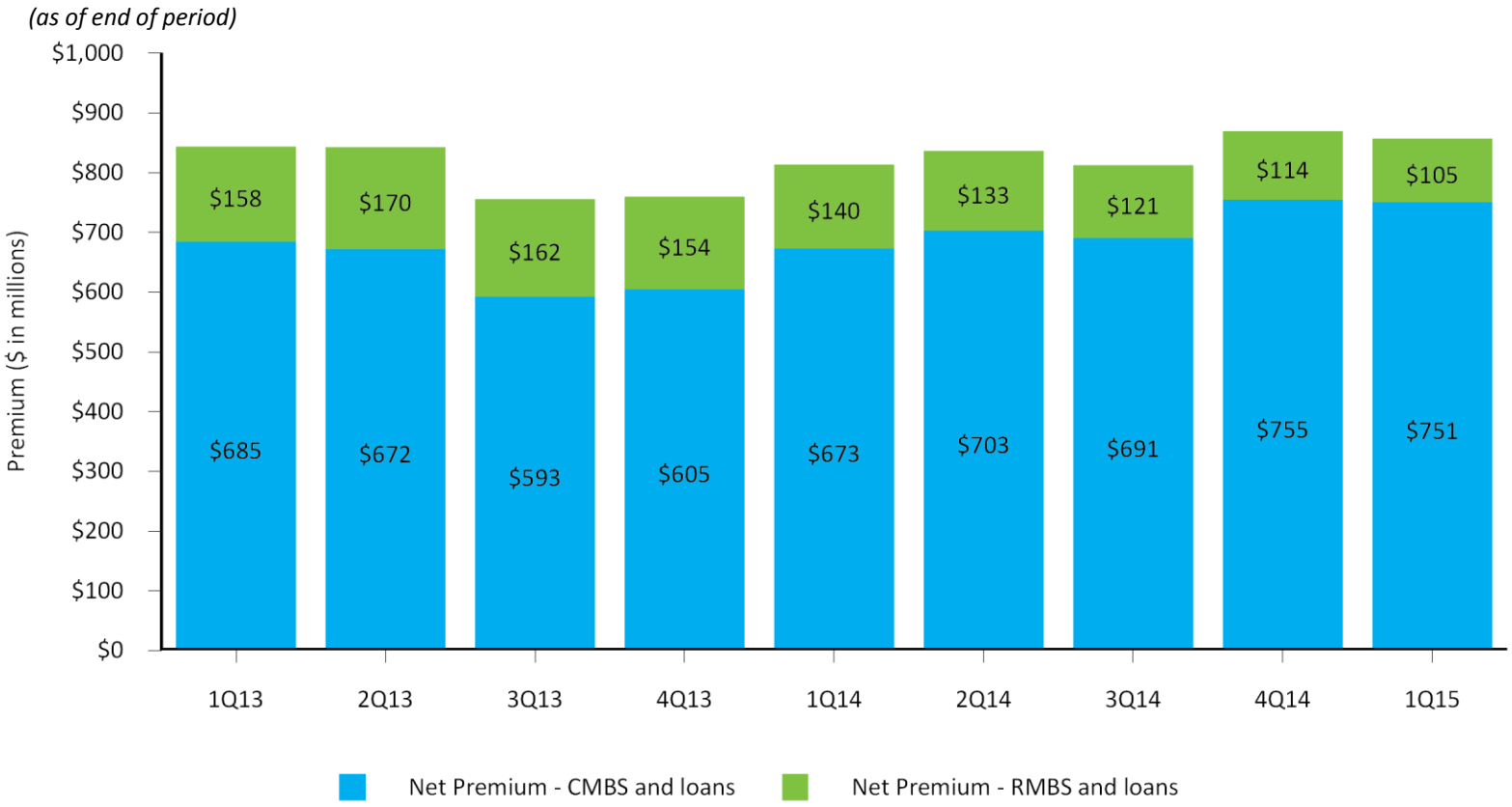
Risk Management

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* at March 31, 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.*

Drivers of EPS

Investment Premium Allocation



Accounting Disclosure

Selected Financial Highlights *(as of and for the quarter ended)*

($ in thousands, except per share amounts)	1Q2015	4Q2014	1Q2014
Net interest income	$ 18,728	$ 18,634	$ 20,007
Loss on derivative instruments, net	$ (25,323)	$ (21,739)	$ (13,422)
Gain (loss) on sale of investments, net	$ 1,308	$ 10,950	$ (3,307)
Net (loss) income to common shareholders	$ (11,766)	$ 1,379	$ (3,028)
Net (loss) income per common share	$ (0.21)	$ 0.03	$ (0.06)
Core net operating income to common shareholders (1)	$ 12,405	$ 12,508	$ 13,746
Core net operating income per common share (1)	$ 0.23	$ 0.23	$ 0.25
Total comprehensive income to common shareholders	$ 11,287	$ 6,234	$ 26,532
Return on average common equity *(annualized)*	(9.5)%	1.1%	(2.5)%
Adjusted return on average common equity *(annualized)* (1)	9.9%	10.1%	11.3%
Dividends per common share	$ 0.24	$ 0.25	$ 0.25
Book value per common share, end of period	$ 8.96	$ 9.02	$ 8.87
Average interest earning assets	$ 3,577,644	$ 3,529,711	$ 4,002,555
Average interest bearing liabilities	$ 3,111,783	$ 3,054,355	$ 3,509,889
Weighted average effective yield (2)	2.62%	2.64%	2.74%
Annualized cost of funds	0.69%	0.72%	0.87%
Net interest spread	1.93%	1.92%	1.87%
Adjusted net interest spread (1)	1.96%	1.97%	1.88%
Debt to shareholders' equity ratio, end of period	5.7x	5.1x	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 non-GAAP measures are presented on slides 35-36.
(2) Weighted average effective yield is based on the average balance of investments which is calculated using daily amortized cost.

Accounting Disclosure

Reconciliation of GAAP Measures to Non-GAAP Measures

($ in thousands except per share data)

	Quarter Ended				
	3/31/2015	12/31/2014	9/30/2014	6/30/2014	3/31/2014
Net (loss) income to common shareholders	**($11,766)**	**$1,379**	**$28,572**	**($8,293)**	**($3,028)**
Adjustments:					
Amortization of de-designated cash flow hedges [1]	1,057	1,449	1,442	1,608	2,288
Change in fair value on derivatives instruments, net	24,461	20,675	(7,113)	20,402	11,211
(Gain) loss on sale of investments, net	(1,308)	(10,950)	(9,057)	477	3,307
Fair value adjustments, net	(39)	(45)	(42)	(88)	(32)
Core net operating income to common shareholders	**$12,405**	**$12,508**	**$13,802**	**$14,106**	**$13,746**
Core net operating income per share	**$0.23**	**$0.23**	**$0.26**	**$0.25**	**$0.29**
ROAE based on annualized GAAP net (loss) income to common shareholders	(9.5)%	1.1%	22.7%	(6.7)%	(2.5)%
Adjustments:					
Amortization of de-designated cash flow hedges [1]	0.8%	1.2%	1.1%	1.3%	1.9%
Change in fair value on derivatives instruments, net	19.7%	16.5%	(5.6)%	16.4%	9.2%
(Gain) loss on sale of investments, net	(1.1)%	(8.7)%	(7.2)%	0.4%	2.7%
Fair value adjustments, net	—%	—%	—%	(0.1)%	—%
Adjusted ROAE, based on annualized core net operating income	**9.9%**	**10.1%**	**11.0%**	**11.3%**	**11.3%**
Average common equity during the period	$497,626	$501,553	$503,861	$497,864	$485,044

[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.*

Accounting Disclosure

Reconciliation of GAAP Measures to Non-GAAP Measures

($ in thousands)

	Quarter Ended									
	3/31/2015		12/31/2014		9/30/2014		6/30/2014		3/31/2014	
GAAP interest income/ annualized yield	$24,099	2.62%	$24,286	2.64%	$26,000	2.73%	$27,718	2.79%	$27,640	2.74%
GAAP interest expense/ annualized cost of funds [1]	5,371	0.69%	5,652	0.72%	6,058	0.70%	6,572	0.75%	7,633	0.87%
GAAP net interest income/spread	**$18,728**	**1.93%**	**$18,634**	**1.92%**	**$19,942**	**2.03%**	**$21,146**	**2.04%**	**$20,007**	**1.87%**
GAAP interest expense/ annualized cost of funds [1]	$5,371	0.69%	$5,652	0.72%	$6,058	0.70%	$6,572	0.75%	$7,633	0.87%
Amortization of de-designated cash flow hedges [2]	(1,057)	(0.14)%	(1,449)	(0.19)%	(1,442)	(0.17)%	(1,608)	(0.18)%	(2,288)	(0.26)%
Net periodic interest costs on derivatives	862	0.11%	1,064	0.14%	2,271	0.27%	2,672	0.30%	2,211	0.25%
Effective borrowing costs	**$5,176**	**0.66%**	**$5,267**	**0.67%**	**$6,887**	**0.80%**	**$7,636**	**0.87%**	**$7,556**	**0.86%**
Adjusted net interest income/spread	**$18,923**	**1.96%**	**$19,019**	**1.97%**	**$19,113**	**1.93%**	**$20,082**	**1.92%**	**$20,084**	**1.88%**

(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.