CORPORATE GOVERNANCE

Code of Business Conduct and Ethics

INTRODUCTION

Dynex Capital, Inc. and each of its subsidiaries and controlled affiliates (collectively referred to as the "Company") is committed to maintaining the highest standards of business conduct and ethics. The Company's most important asset - integrity - is a reflection of the conduct of its employees, officers and directors. It is the responsibility of each employee, each officer and each director to conduct themselves with the utmost integrity.

This Code of Business Conduct and Ethics (the "Code of Conduct") reflects the Company's guiding principles, and shall govern the actions and conduct of every employee, officer and director of the Company. The Code of Conduct also imposes enhanced responsibility on the officers that oversee the Company's financial organization. For purposes of this Code of Conduct, employees, officers and directors will be referred to as "Company Personnel". No code of business conduct or ethics can, however, effectively substitute for the thoughtful behavior of an ethical officer, director or employee. This Code of Conduct is presented to assist Company Personnel in guiding their conduct to enhance the reputation of the Company. This Code of Conduct is also designed to ensure that all employees, officers and directors are cognizant of certain laws and regulations.

This Code of Conduct has been drafted broadly. In that respect, it is the Company's intent to exceed the minimum requirements of the law and industry practice. Mere compliance with the letter of the law is not sufficient to attain the highest ethical standards. Good judgment and great care must also be exercised to comply with the spirit of the law and of this Code of Conduct.

This Code of Conduct is intended to meet the standards for a code of ethics as defined in the regulations under the Securities and Exchange Commission ("SEC") and the listing standards of the New York Stock Exchange (the "NYSE"). Any waiver of this Code of Conduct for any Company Personnel may be made only upon the affirmative vote of the Company's Board of Directors (the "Board") and must be promptly disclosed to shareholders, as required by applicable law.

The Company intends to enforce the provisions of this Code of Conduct vigorously.

Upholding this Code of Conduct is the responsibility of every officer, director and employee of the Company. Executive Officers of the Company are responsible for enforcement of this Code of Conduct among the employees who report to them.

The requirements of this Code of Conduct are intended to be in addition to policies contained in the Company's Policies Handbook. Where provisions of the Company's Policies Handbook conflict with the provisions of this Code of Conduct, the provisions of this Code of Conduct shall control.

COMPLIANCE WITH APPLICABLE LAWS

The Company is committed to conducting its business in strict compliance with all applicable governmental, state and local laws, rules and regulations, including, but not limited to, laws, rules and regulations related to securities, labor, employment and workplace safety matters. All Company Personnel are expected at all times to conduct their activities on behalf of the Company in accordance with this principle. Any violation of applicable laws, rules and regulations by any Company Personnel should be reported to the Compliance Officer. Company Personnel should seek guidance whenever they are in doubt as to the applicability of any law, rule or regulation or regarding any contemplated course of action.

As a public reporting company with its stock trading on the NYSE, the Company is subject to regulation by the SEC and to the applicable listing standards of the NYSE and to compliance with federal, state and local securities laws, rules and regulations (collectively, "Securities Laws"). The Company's "Statement of Policy Regarding Trading in Company Securities" provides additional provisions regarding compliance with the spirit and letter of these Securities Laws and Company Personnel must pay particular attention to potential violations thereof. Additional information on insider trading issues is included in the Confidentiality section below.

CONFLICTS OF INTEREST

The Company relies on the integrity and undivided loyalty of its officers, directors and employees to maintain the highest level of objectivity in performing their duties. Company Personnel are expected to avoid any situation in which their personal interests conflict, or have the appearance of conflicting, with those of the Company. Company Personnel must not allow personal considerations or relationships to influence them in any way when representing the Company in business dealings.

Conflicts of interest are prohibited as a matter of Company policy, except under guidelines approved by the Board. A conflict situation can arise when an officer, director or employee takes actions or has interests that may make it difficult to perform work on behalf of the Company objectively and effectively. Conflicts also arise when Company Personnel, or a member of his or her family, receives improper personal benefits as a result of his or her position with the Company.

Company Personnel must exercise great care any time their personal interests might conflict with those of the Company. The appearance of a conflict often can be as damaging as an actual conflict. Prompt and full disclosure is always the correct first step towards identifying and resolving any potential conflict of interest. Non-employee directors are expected to make appropriate disclosures to the Board and to take appropriate steps to recuse themselves from Board decisions with respect to transactions or other matters involving the Company as to which they are interested parties or with respect to which a real or apparent conflict of interest exists.

The following sections review several common problems involving conflicts of interest. The list is not exhaustive. Company Personnel have a special responsibility to use his or her best judgment to assess objectively whether there might be even the appearance of acting for reasons other than to benefit the Company and to discuss any conflict openly and candidly with the

Company. Conflicts of interest may not always be evident and Company Personnel should consult with the Compliance Officer if they are uncertain about any situation.

Payments and Gifts

Company Personnel who deal with the Company's lenders, suppliers or other third parties are placed in a special position of trust and must exercise great care to preserve their independence. As a general rule, no Company Personnel should ever receive a payment or anything of value in exchange for a decision involving the Company's business. Similarly, no Company Personnel should ever offer anything of value to government officials or others to obtain a particular result for the Company. Bribery, kickbacks or other improper payments have no place in the Company's business.

The Company recognizes exceptions for gifts which are not excessive in value or are consistent with customary business practices, and customary business entertainment when a clear business purpose is involved. If you are in doubt about the policy's application, the Compliance Officer should be consulted.

Personal Financial Interests; Outside Business Interests

Company Personnel should avoid any outside financial interests that might be in conflict with the interests of the Company. No Company Personnel may have any significant direct or indirect financial interest in or any business relationship with, a person or entity that does business with the Company or is a competitor of the Company, unless otherwise approved by the Board. A financial interest includes any interest as an owner, creditor or debtor. Indirect interests include those through an immediate family member or other person acting on his or her behalf. This policy does not apply to an employee's arms-length purchases of goods or services for personal or family use or to the ownership of shares in a publicly held corporation.

Company Personnel should not engage in outside jobs or other business activities that compete with the Company in any way. Further, any outside or secondary employment (i.e., moonlighting) by employees may interfere with the job being performed for the Company and is discouraged. Under no circumstances may Company Personnel have outside interests that are in any way detrimental to the best interests of the Company.

Company Personnel must disclose to the Compliance Officer any personal activities or financial interests that could negatively influence, or give the appearance of negatively influencing, your judgment or decisions with respect to the Company. The Compliance Officer, after consultation with the Chief Executive Officer, or the Chief Financial Officer, as appropriate, will then determine if there is a conflict and, if so, how to resolve it without compromising the Company's interests.

Corporate Boards

The director of an organization has access to confidential and sensitive information and charts the course of the entity. If Company Personnel are invited to serve as a director of an outside organization, the Company must take safeguards to shield both the Company and such individuals from even the appearance of impropriety. For that reason, any employee invited to

join the board of directors of another organization (including a nonprofit or other charitable organization) must obtain the prior approval of the Chief Executive Officer, or the Chief Financial Officer. Directors who are invited to serve on other the boards of directors of another organization should promptly notify the Chairman of the Board in accordance with the Company's Corporate Governance Guidelines.

Conflict of Interest and Resolution

A conflict situation can arise when an officer, director, or employee takes actions or has interests that conflict with the interests of the Company, or may make it difficult to perform work on behalf of the Company objectively and effectively. Management, employees, members of the Investment Committee, and the Board of Directors (collectively, "Company Personnel"), must not divert for personal gain any business opportunity available to the Company. The duty of loyalty to the Company is violated if any Company Personnel personally profits, or takes actions that enable others to profit, from a business opportunity that rightfully belongs to the Company.

With respect to particular investment opportunities for the Company's capital, in order to avoid any and all potential or actual conflicts of interest, or appearances of conflict of interest, Company Personnel must provide adequate notice to the Company prior to any debt or equity investment in a non-publicly traded entity whose primary business is similar to that of the Company, or can be considered similar to the Company, or is similar to investment opportunities that the Company is actively considering. Notice shall be given to the Chairman of the Nominating & Corporate Governance Committee, and the Chief Executive Officer, or in the absence of the Chief Executive Officer, the Chief Operating Officer or the Chief Financial Officer if Company Personnel desires to make an investment in such non-publicly traded entity. Generally these investment opportunities would include investments in the mortgage REIT, specialty finance, and mortgage banking industries, or investments that otherwise would be considered REIT-eligible. Investment opportunities outside of these industries may be shared by Company Personnel with the Company at their option. However, once such investment opportunities are introduced to the Company, in order to avoid any appearance of impropriety, the Company has the right of first refusal in funding such investment.

With respect to the investment in publicly-traded entities where the Company is actively trading in an investment, Company Personnel shall refrain from buying or selling securities of these publicly-traded entities until a minimum of three (3) business-days after the Company has completed its activity.

In addition, the investment of the Company's capital may in certain rare instances enable members of management, the Investment Committee, and the Board of Directors to personally profit from the same investment opportunity. This problem could arise, for example, if any Company Personnel becomes aware through the use of corporate property, information or position of an investment opportunity (either a loan or equity transaction) in which the Company is or may be interested, and then participates in the transaction personally or informs others of the opportunity before the Company has the chance to participate in the transaction. Company Personnel also are prohibited from using corporate property, information or position for personal gain. Company Personnel owe a duty to the Company to advance its legitimate

interests when the opportunity to do so arises and, in the case of a non-employee director, such director is aware of the Company's possible interest through use of corporate property, information or position.

USE AND PROTECTION OF COMPANY ASSETS

Proper use and protection of the Company's assets is the responsibility of all Company Personnel. Company facilities, materials, equipment, information and other assets should be used only for conducting the Company's business and are not to be used for any unauthorized purpose. Company Personnel should guard against waste and abuse of Company assets in order to improve the Company's productivity.

CONFIDENTIALITY

One of the Company's most important assets is its confidential corporate information. The Company's legal obligations and its competitive position often mandate that this information remains confidential.

Confidential corporate information relating to the Company's financial performance (e.g., monthly, quarterly or annual financial results of the Company's operations) or other transactions or events can have a significant impact on the value of the Company's securities. Premature or improper disclosure of such information may expose the individual involved to onerous civil and criminal penalties.

Company Personnel must not disclose confidential corporate information to anyone outside the Company, except for a legitimate business purpose (such as contacts with the Company's accountants or its outside lawyers). Even within the Company, confidential corporate information should be discussed only with those who have a need to know the information. Company Personnel's obligation to safeguard confidential corporate information continues even after they leave the Company.

The same rules apply to confidential information relating to other companies with which the Company does business. In the course of the many pending or proposed transactions that the Company has under consideration at any given time, there is a great deal of non-public information relating to other companies to which Company Personnel may have access. This could include "material" information that is likely to affect the value of the securities of the other companies.

Company Personnel who learn of material information about lenders, customers, venture partners, acquisition targets or competitors through their work at the Company must keep it confidential and must not buy or sell stock in such companies until after the information becomes public. Company Personnel must not give tips about such companies to others who may buy or sell the stocks of such companies.

The Company has issued a detailed "Statement of Policy Regarding Trading in Company Securities" regarding the use of confidential information in connection with trading in securities. You should become familiar with this policy and the procedures it requires. If you have any

questions regarding trading in the Company's securities or on the basis of confidential information, you should contact the Compliance Officer.

DEALINGS WITH THE PRESS AND COMMUNICATIONS WITH THE PUBLIC

The Company's Chief Executive Officer, President, and Chief Financial Officer are the Company's principal public spokesmen. If someone outside the Company asks Company Personnel questions or requests information regarding the Company, its business or financial results, do not attempt to answer. All requests for information - from reporters, securities analysts, shareholders or the general public - should be referred to the Chief Executive Officer, who will handle the request or delegate it to an appropriate person.

ACCOUNTING AND FINANCIAL REPORTING MATTERS

The Company follows generally accepted accounting principles and standards and, as appropriate, statutory accounting requirements, as well as all applicable laws, regulations and practices for accounting and financial reporting. A system of internal accounting controls has been devised and maintained to provide reasonable assurances that:

- transactions are executed in accordance with management's general or specific authorizations;

- transactions are recorded for the preparation of financial statements in conformity with accepted accounting principles or any other criteria applicable to such statements and to maintain accountability for assets;

- access to assets is permitted only in accordance with management's general or specific authorization; and

- the recorded accountability for assets is compared with the existing assets at reasonable intervals and action is taken with respect to any differences.

It is the policy of the Company to fully and fairly disclose the financial condition and results of operations of the Company in compliance with applicable financial reporting and accounting laws, rules and regulations. Timely, accurate, and understandable disclosures to the public, whether made through press releases, filings with the Securities and Exchange Commission, or through other public methods, enhance the Company's reputation for integrity. To meet its obligations, the Company must rely on employee truthfulness to ensure accuracy of its financial statements. Any employee who is aware of material misstatements or omissions affecting the fair presentation or accuracy of the Company's financial statements is under an obligation to seek to have the statements corrected or, failing that, to report this information promptly in accordance with the reporting provisions of this Code of Conduct.

It is a violation of Company policy to:

- use Company funds or assets for any purpose that violates Company policy;

- maintain or establish undisclosed or unrecorded funds or assets of the Company for any purpose;

- make any false entries on the books or records of the Company, including expense reports or other requests for reimbursement; or

- make or approve payments on behalf of the Company knowing that it might be used for something other than the stated purpose.

In order to promote accurate, complete and understandable financial disclosures to the public, Company employees must make open and full disclosures to, and have honest and prompt discussions with, representatives of the Company's outside auditors. All communications with the Company's outside auditors should be considered confidential.

Officers that oversee the Company's financial organization and all other employees who participate in the preparation or disclosure of financial information about the Company shall perform their responsibilities for accounting and financial reporting in accordance with this Code of Conduct, applicable laws, rules and regulations and the Company's disclosure controls and procedures. These officers shall be responsible for implementing policies and procedures designed to promote timely, accurate, complete, fair and understandable disclosures in reports and documents filed with or submitted to the Securities and Exchange Commission and in other public communications made by the Company.

These officers shall also adopt policies and procedures designed to provide reasonable assurance that assets are safeguarded and that business transactions are properly authorized and accurately recorded on the Company's books and records as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles and any other criteria applicable to such statements.

Company employees are prohibited from taking any action to fraudulently influence, coerce, manipulate or mislead any independent public accountant engaged to perform audit or non-audit services for the Company. Types of conduct that would constitute improper influence include, but are not limited to, directly or indirectly:

- offering or paying bribes or other financial incentives, including offering future employment or contracts for non-auditing services;

- intentionally providing an auditor with inaccurate or misleading analysis;

- threatening to cancel or canceling existing non-audit or audit engagements if the auditor objects to the Company's accounting practices or policies;

- seeking to have a partner of the auditor removed from the audit engagement because the partner objects to the Company's accounting practices or policies;

- blackmailing the auditor; or

- making physical threats.

FAIR DEALING

It is the Company's policy to deal fairly with its customers, lenders, suppliers, competitors and Company Personnel. In the course of business dealings on behalf of the Company, no Company Personnel should take advantage of another person or party through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair business practice.

DISCRIMINATION AND HARASSMENT

The Company is firmly committed to providing equal opportunity in all aspects of employment and will not tolerate illegal discrimination or harassment of any kind. Company Personnel are encouraged to report any acts of discrimination or harassment to the Chief Executive Officer, President or Compliance Officer or to any member of the Nominating & Corporate Governance Committee of the Board.

HEALTH AND SAFETY

The Company strives to provide Company Personnel with a safe and healthy work environment. Company Personnel have a responsibility for maintaining a safe and healthy workplace for all other Company Personnel by following safety and health rules and practices and reporting accidents, injuries and unsafe equipment, practices and conditions.

Violence and threatening behavior are not permitted. Company Personnel should report to work in a condition to perform their duties, free from the influence of illegal drugs and alcohol. The use of illegal drugs in the workplace will not be tolerated.

NO RETALIATION

The Company will not permit retaliation of any kind by or on behalf of the Company and its employees, including discharge, demotion, suspension, threats, harassment, or any other manner of discrimination against an employee in the terms and conditions of employment, for participating or assisting in an investigation or for good faith reports or complaints of violations of this Code of Conduct or other illegal or unethical behavior, whether reported to the Company or to a proper government official or agency.

QUESTIONS ABOUT THE CODE OF CONDUCT; REPORTING SUSPECTED VIOLATIONS

Any questions about how to interpret this Code of Conduct should be raised with the compliance officer (the "Compliance Officer") for this Code of Conduct. Alison Griffin, the Company's Manager of Human Resources, has been designated as the Compliance Officer for purposes of enforcing this Code of Conduct and she may be contacted by telephone at (804) 217-5836 or by e-mail at alison.griffin@dynexcapital.com.

If any Company Personnel know of or suspect any illegal or unethical conduct, or any other violation of this Code of Conduct, they should promptly report this to the Compliance Officer.

In dealing with any issues arising under, or relating to, this Code of Conduct, the Compliance Officer shall, to the extent necessary or appropriate, report to and/or confer with the members of the Board and/or any of its committees. If any Company Personnel are not comfortable in doing so for any reason, or if they feel appropriate action is not being taken, they should contact the Company's Chief Executive Officer, or in his or her absence, the Company's Chief Financial Officer, or the Chairman of the Nominating & Corporate Governance Committee or Audit Committee, as appropriate. No Company Personnel shall be required to identify themselves when reporting a violation.

To the extent possible, the Company will endeavor to keep confidential the identity of anyone reporting a violation of this Code of Conduct. The Company will also keep confidential the identities of Company Personnel about whom allegations of violations are brought, unless or until it is established that a violation has occurred. It is the Company's policy that retaliation against employees who report actual or suspected violations of this Code of Conduct is prohibited; anyone who attempts to retaliate will be subject to disciplinary action, up to and including dismissal.

ENFORCEMENT OF THE CODE OF CONDUCT

The Audit Committee will conduct investigations, as it deems appropriate, into any suspected violations of law, this Code of Conduct or other Company standards. In addition, the Audit Committee may authorize such further or additional investigations, as it deems appropriate. Employees are expected to cooperate in internal investigations of misconduct. Employees who engage in misconduct, violate this Code of Conduct or otherwise fail to meet Company standards may be disciplined up to and including reprimand and dismissal, as well as be subject to civil and criminal charges. If misconduct occurs, the Company is committed to taking prompt and responsive action to correct the situation and discipline responsible individuals.

Managers and supervisors, including officers that oversee the Company's financial organization, may be disciplined if they condone misconduct, do not report misconduct, do not take reasonable measures to detect misconduct, or do not demonstrate the appropriate leadership to ensure compliance. Managers who have supervisory responsibility must use appropriate measures to ensure that disciplinary action against their employees is consistent and appropriate to the situation.

Officers that oversee the Company's financial organization must also take steps to promote honest and ethical conduct in others by directing members of the Company's finance organization to comply with the policies and procedures contained in this Code of Conduct.

WAIVERS

Any waiver of this Code of Conduct for executive officers or directors of the Company may be made only by the Board, or by a Committee of the Board specifically authorized for this purpose, and must be promptly disclosed to the Company's shareholders. The Chief Executive Officer or President may make waivers of this Code of Conduct for non-officer employees, but only upon such employee making full disclosure in advance of the transaction in question.

This Code of Conduct may be amended or modified at any time by the Board. In compliance with the Corporate Governance Guidelines of the Company, this Code of Conduct will be reviewed at least annually by a committee consisting of designated Company employees.

ACKNOWLEDGEMENT

Company Personnel will be asked annually to sign a statement affirming that they have read and understood this Code of Conduct and that they are in compliance with this Code of Conduct. Additionally, Company Personnel will be asked annually to complete a disclosure form regarding the nature of any relationships with customers, lenders, suppliers or third-party that conduct business with the Company and for which the potential for a conflict of interest exists.

Approved on June 8, 2004 by the Board of Directors of Dynex Capital, Inc.