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Sound Strategy. Unique Advantages.

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## Fourth Quarter 2014 Earnings Presentation

*February 18, 2015*

# Safe Harbor Statement

## NOTE:

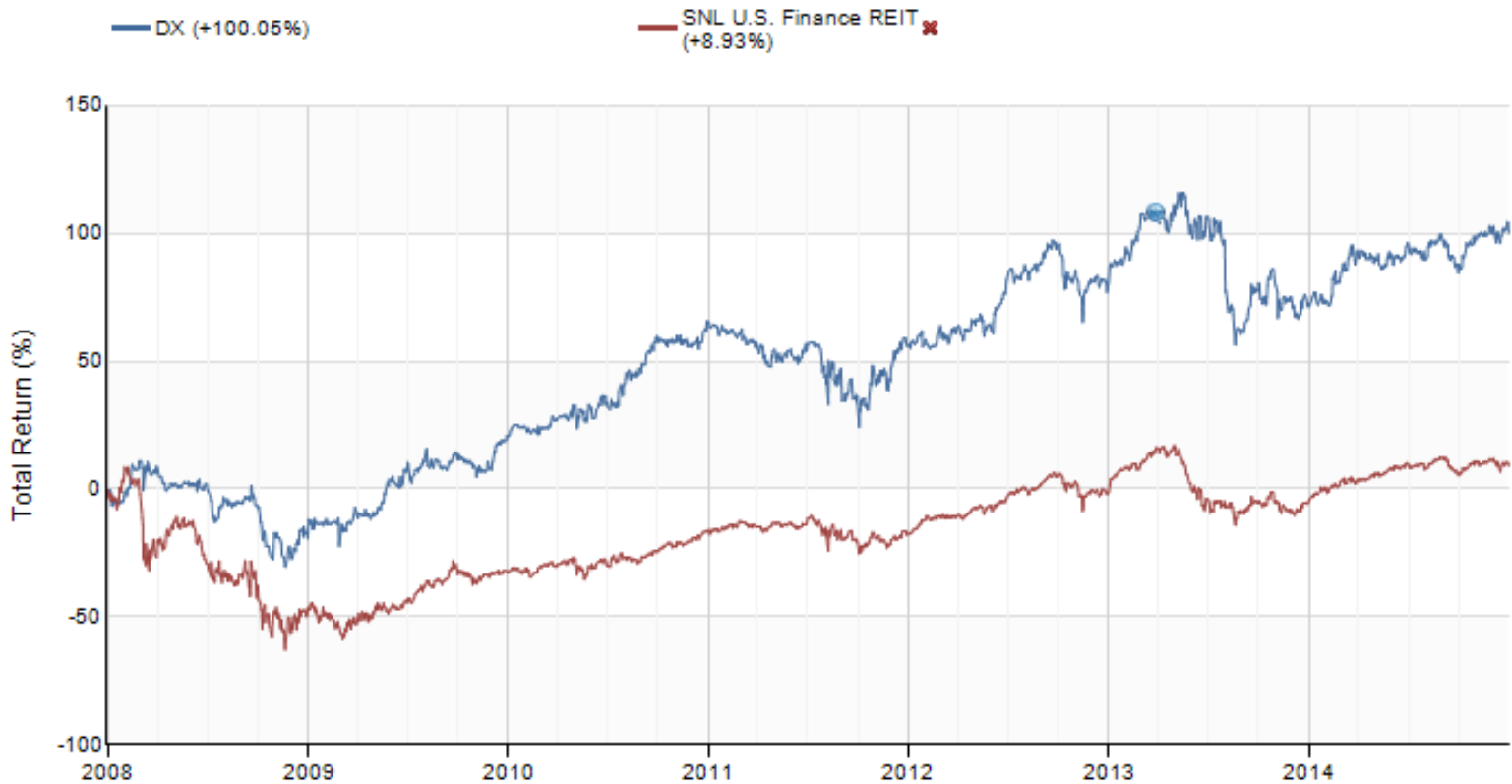
This presentation contains certain statements that are not historical facts and that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this presentation addressing expectations, assumptions, beliefs, projections, future plans, 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, 2013 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption “Risk Factors”.



# Record of Solid Performance

## Dynex Capital, Inc. - Total Return (%)



Source: SNL Financial



## 4Q2014 AND FULL YEAR PERFORMANCE



# Full Year Highlights

- Generated annual economic return to common shareholders of 15.3% on beginning book value per common share of \$8.69 at December 31, 2013
  - Consists of \$1.00 in common dividends declared and a \$0.33 increase in book value per common share during the year
- Delivered core net operating income to common shareholders<sup>(1)</sup> of \$0.99 per share
- Increased GAAP net interest spread to 2.00% and adjusted net interest spread<sup>(1)</sup> to 1.95% for 2014 versus 1.95% and of 1.86% respectively for 2013
- Reduced leverage to 5.1x at December 31, 2014 from 6.2x at December 31, 2013 consistent with our view on macroeconomic conditions
- Generated comprehensive income of \$73.8 million, or \$1.35 per common share, comprised of GAAP net income of \$0.34 and other comprehensive income of \$1.01
- Dividends to common of \$1.00 for 2014 consists of approximately \$0.70 in ordinary income and \$0.30 in capital gains

*(1) Reconciliations for non-GAAP measures are presented on slides 33-36.*



# Fourth Quarter 2014 Highlights

- Generated core net operating income to common shareholders of \$0.23 per share
- Declared a dividend of \$0.25 per common share
- GAAP net interest spread of 1.92% and adjusted net interest spread<sup>(1)</sup> of 1.97%
- Overall leverage declined to 5.1x at December 31, 2014 from 5.2x at September 30, 2014
- Portfolio CPR declined to 10.4% for the fourth quarter from 13.2% for the third quarter
- Comprehensive income was \$6.2 million, or \$0.11 per common share, consisting of net income to common shareholders of \$0.03 per share and \$0.08 per common share of other comprehensive income

*(1) Reconciliations for non-GAAP measures are presented on slides 33-36.*

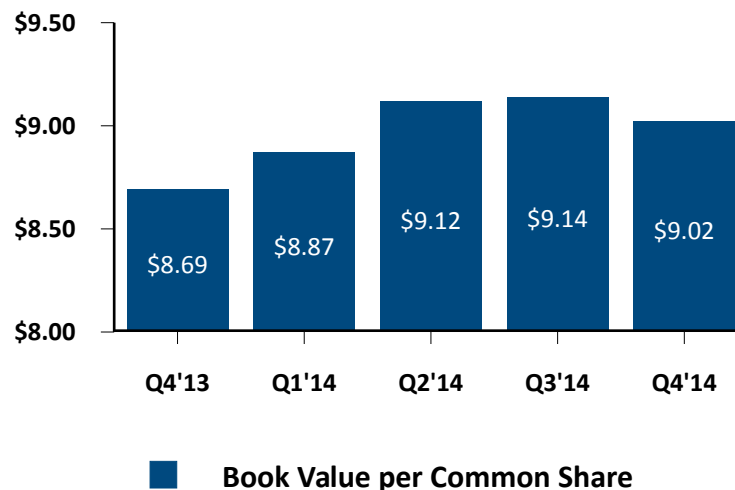




# Fourth Quarter 2014 Book Value

- Book value per common share was \$9.02 at December 31, 2014, a decline of \$0.12 or 1.3%, as shown in reconciliations below:

<b>Beginning book value per common share</b>	<b>\$9.14</b>	<b>Beginning book value per common share</b>	<b>\$ 9.14</b>
Earnings per common share	0.03	Core net operating income per share <sup>(1)</sup>	0.23
Dividends declared	(0.25)	Dividends declared	(0.25)
Other comprehensive income	0.08	Fair value changes, net	(0.12)
Other	<u>0.02</u>	Other	<u>0.02</u>
<b>Ending book value per common share</b>	<b>\$9.02</b>	<b>Ending book value per common share</b>	<b>\$9.02</b>

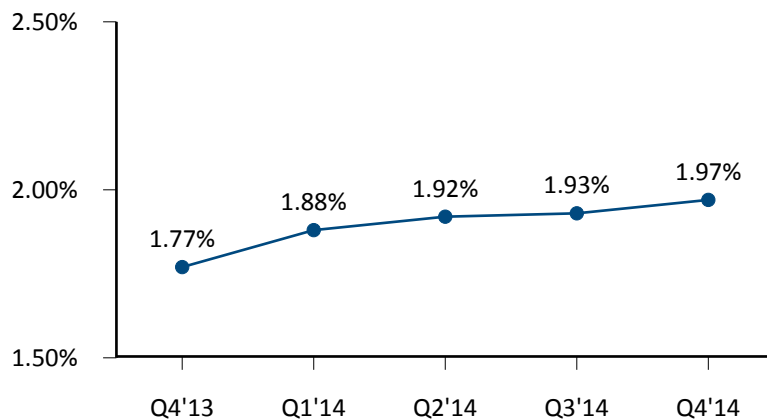


(1) Reconciliations for non-GAAP measures are presented on slides 33-36.

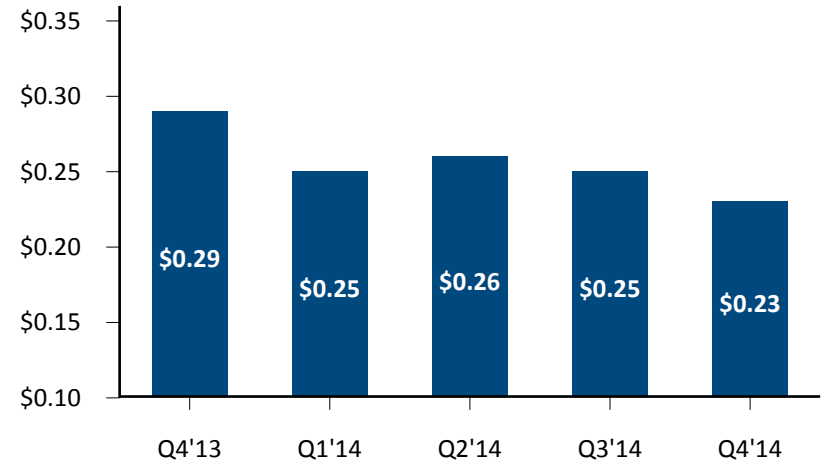
# Other Financial Highlights

- Net interest spread for 2014 has steadily increased as we actively managed our repurchase agreements and also our hedges to reflect our view on FOMC policy
- Core net income has modestly declined as we have reduced earnings assets throughout the year

Adjusted Net Interest Spread <sup>(1)</sup>



Core Net Operating Income per Common Share <sup>(1)</sup>



(1) Reconciliations for non-GAAP measures are presented on slides 33-36.



## INVESTMENT PORTFOLIO STRATEGY AND OUTLOOK



# 2014 - Year in Review, Positioning for 2015

- **Identified the environment as being complex – economic, regulatory and global market factors – and positioned accordingly**
  - Maintained long duration position
  - Discipline and focus on financing and liability management
  - Methodically reduced the balance sheet increasing capital and liquidity
  - Monetized highly profitable investment in credit sensitive CMBS
  - Opportunistic and highly selective on assets added to the balance sheet
- **Entering 2015 in a strong position**
  - Portfolio continues to be designed to perform in a variety of market environments – diversification is a key feature
  - Liquidity and capital positions to withstand temporary volatility and opportunistically add earning assets



# Macroeconomic and Policy Factors

- **Divergence in trajectory of growth, inflation and central bank actions across the globe**
  - Federal Reserve and Bank of England considering if and when to raise rates; European Central Bank and Bank of Japan aggressively easing
  - Fragile US economy appears on track for growth but could be derailed by domestic or global factors. Europe and China facing stagnation and slowing growth respectively. Emerging markets slowing as well.
  - Full impact of lower oil prices as yet unknown – in the short term, will translate into lower inflation and positive for consumption
  - Inflation is low globally. Europe is facing 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 and they remain data dependent
- **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, although some sectors have begun correcting
- **Surprises are likely:** An environment with divergent growth and central bank actions could create volatility and opportunity
- **Federal Reserve in action:** If US economic data unfolds with no negative surprises, Federal Reserve will likely act to raise rates
  - Potential risk to US economic performance due to exogenous factors



# 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<sup>1</sup>
    - (4%) in parallel +100, (1.7%) in parallel +50,
    - (0.25%) in +25/75 bear steepener
  - Diversified portfolio position
    - Agency ARM hybrid securities were selected to have limited prepayment risk.
    - CMBS DUS 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
    - 26% of hybrid ARM portfolio is purely floating rate
    - Eurodollar futures and swaps protect against rising short rates

<sup>1</sup> Assumes rates as of 12/31/2014 and 5.1X Leverage as of 12/31/2014



# Dynex Strategy Going forward

- **Expect to make opportunistic investments and grow balance sheet from year end**
  - Investment opportunities continue to be focused on CMBS
    - DUS, agency CMBS IO, non-agency CMBS IO, Single Family Rental
  - Selective RMBS investing
    - Non-performing loan and Re-performing loan securitizations
    - Agency hybrid ARMs
- **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**



# Interest Rate Sensitivity

Treasury Yields as of December 31, 2014		Parallel Change in Treasury Yields (in basis points)	Percentage Change in Projected Market Value of Assets Net of Hedges	
			As of December 31, 2014	As of September 30, 2014
2Y	0.67%	+100	(0.79)%	(0.98)%
5Y	1.65%	+50	(0.34)%	(0.45)%
10Y	2.17%	+25	(0.15)%	(0.21)%
30Y	2.75%	-25	0.11%	0.18%

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 December 31, 2014	As of September 30, 2014
0	+25	0.04%	(0.03)%
+10	+50	0.02%	(0.12)%
+10	+75	—%	(0.21)%
+25	+75	(0.05)%	(0.26)%
+25	0	(0.07)%	(0.09)%
+50	0	(0.15)%	(0.19)%
-10	-50	(0.16)%	—%

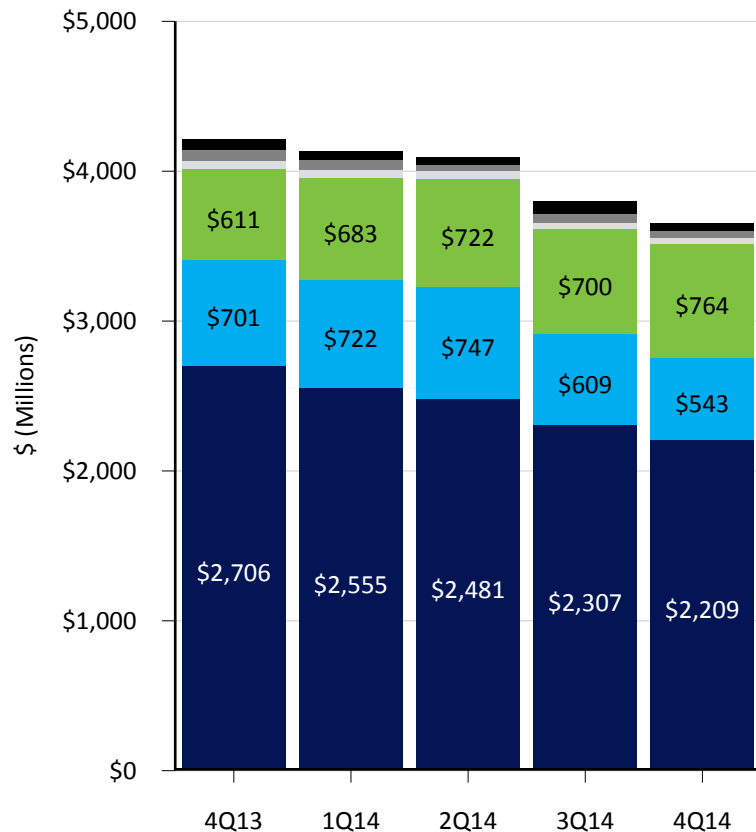
Intermediate curve point shifts are interpolated for non-parallel scenarios



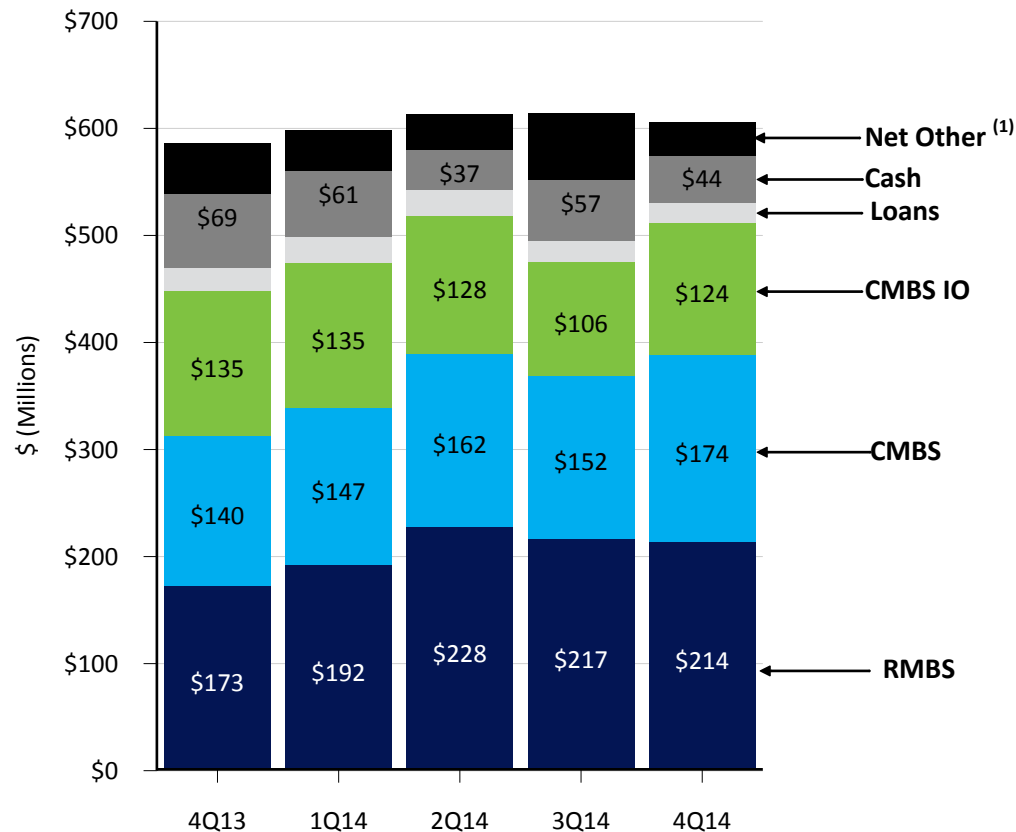


# Asset and Equity Allocations *Quarterly Comparison*

**Asset Allocation**



**Equity Allocation**



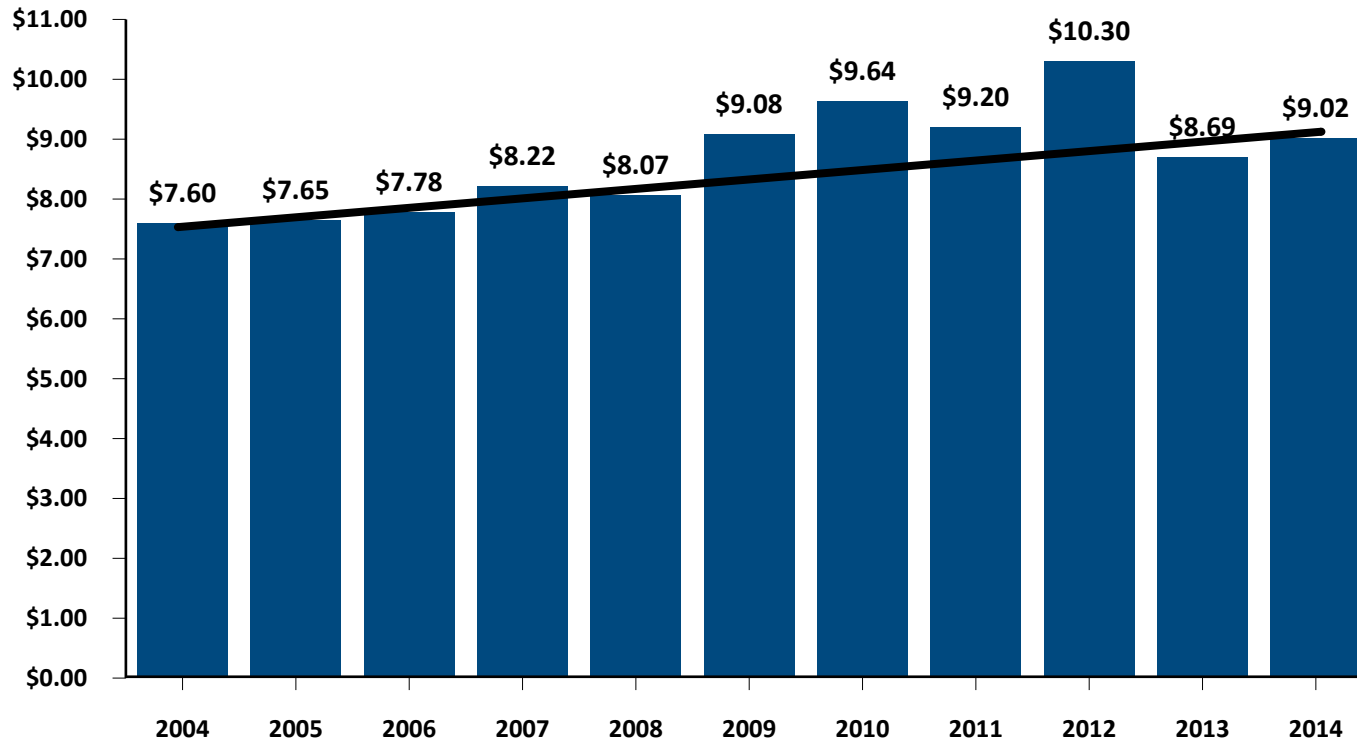
(1) Net other for asset allocation includes fair value of derivative instruments, restricted cash, receivables, and other assets. Net other for equity allocation includes fair value of derivative instruments, restricted cash, receivables, payables, and other assets and liabilities.

# Conclusion

- 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 US 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
- Our investment strategy and thesis have not changed – our portfolio continues to generate an above average dividend yield with a conservative profile
- We are committed to delivering solid and stable shareholder returns with manageable risk

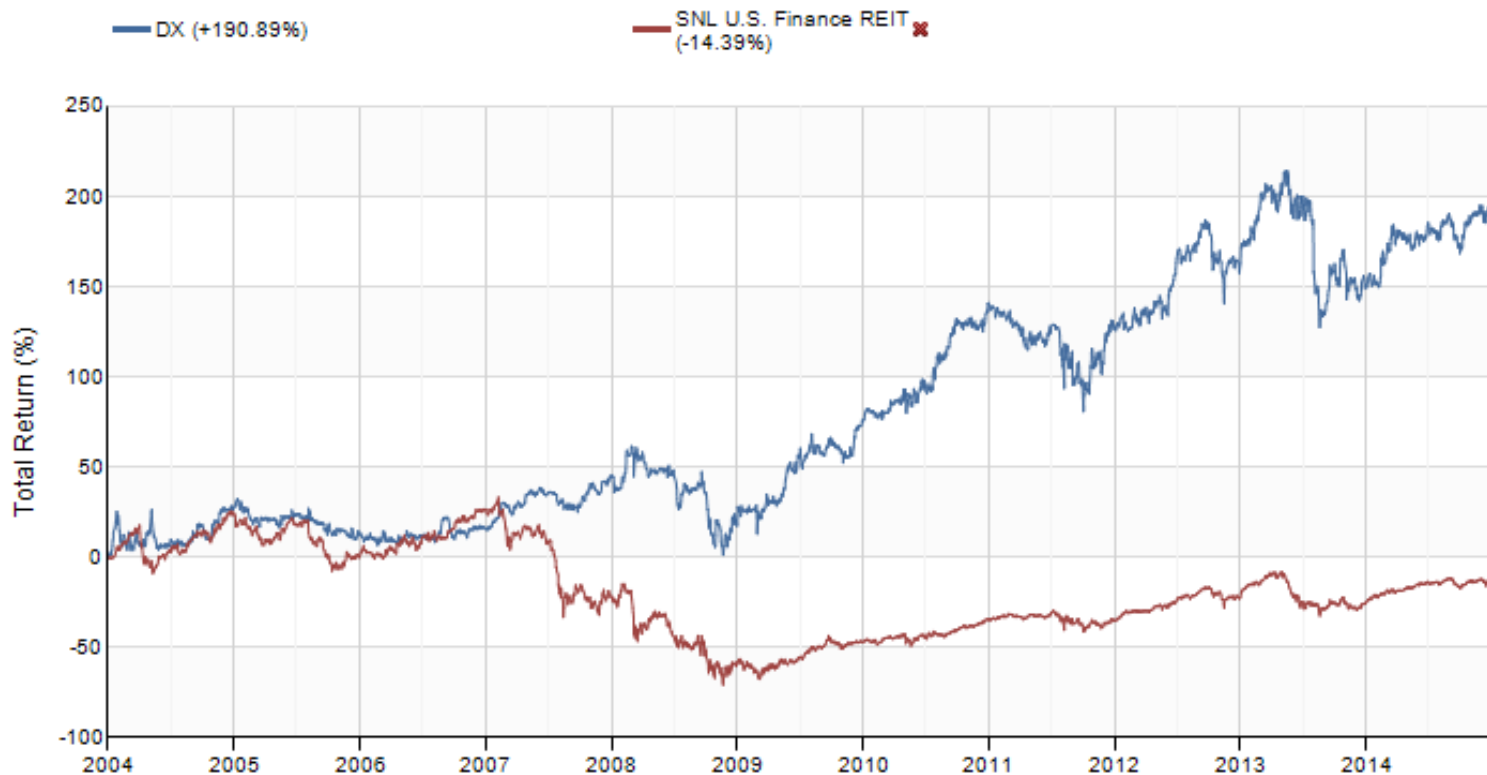


# Long-term Book Value *(per Common Share)*



# Solid Track-Record

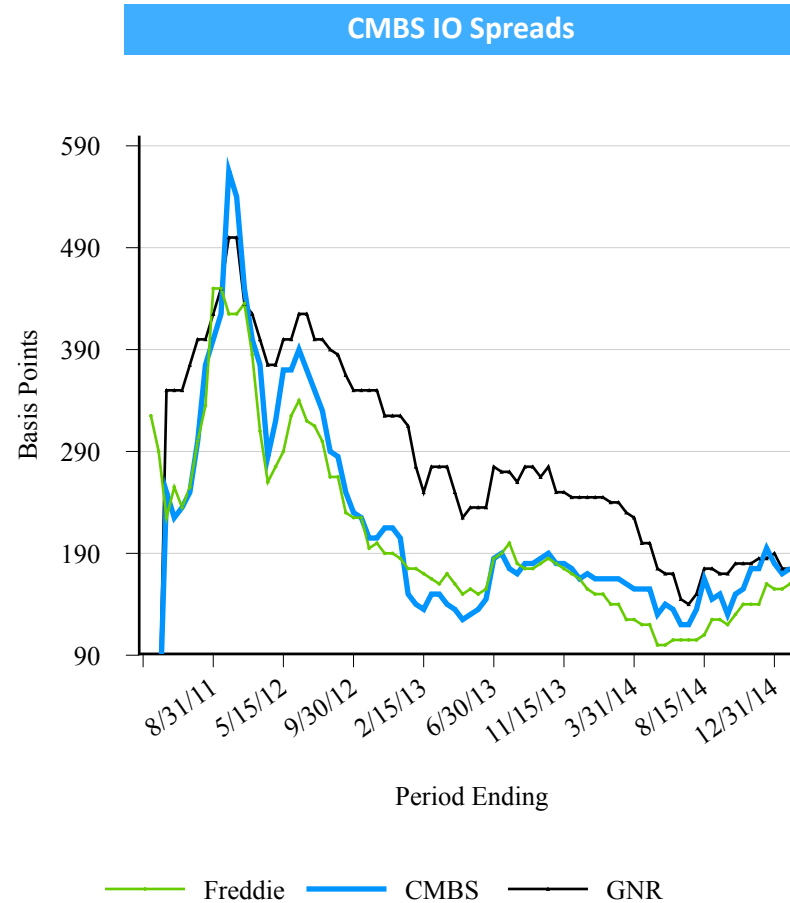
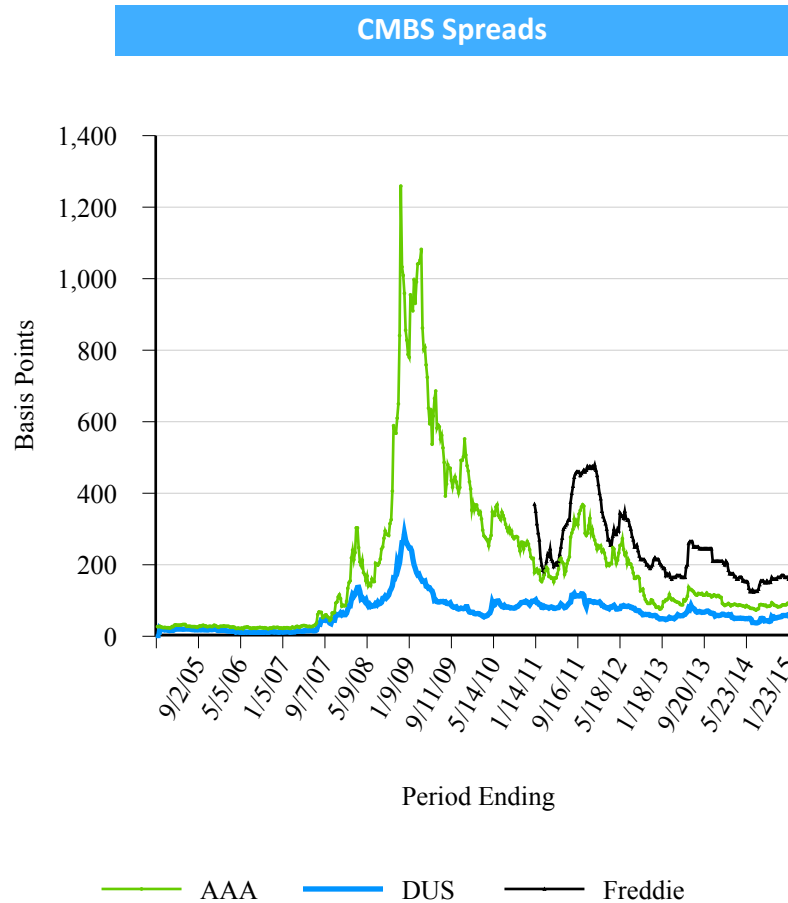
## Dynex Capital, Inc. - Total Return (%)



# APPENDIX



# CMBS and CMBS IO Historical Spreads

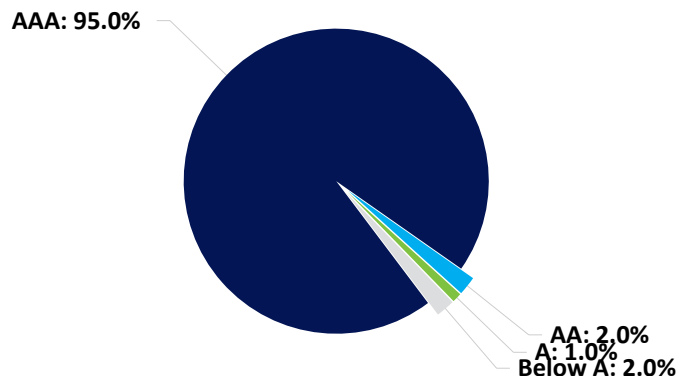


Source: Company data

# Portfolio Update\* *(as of December 31, 2014)*

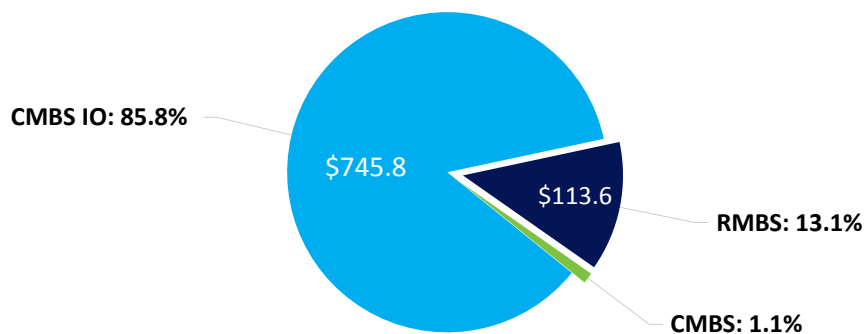
(\$ in millions)

## Credit Quality

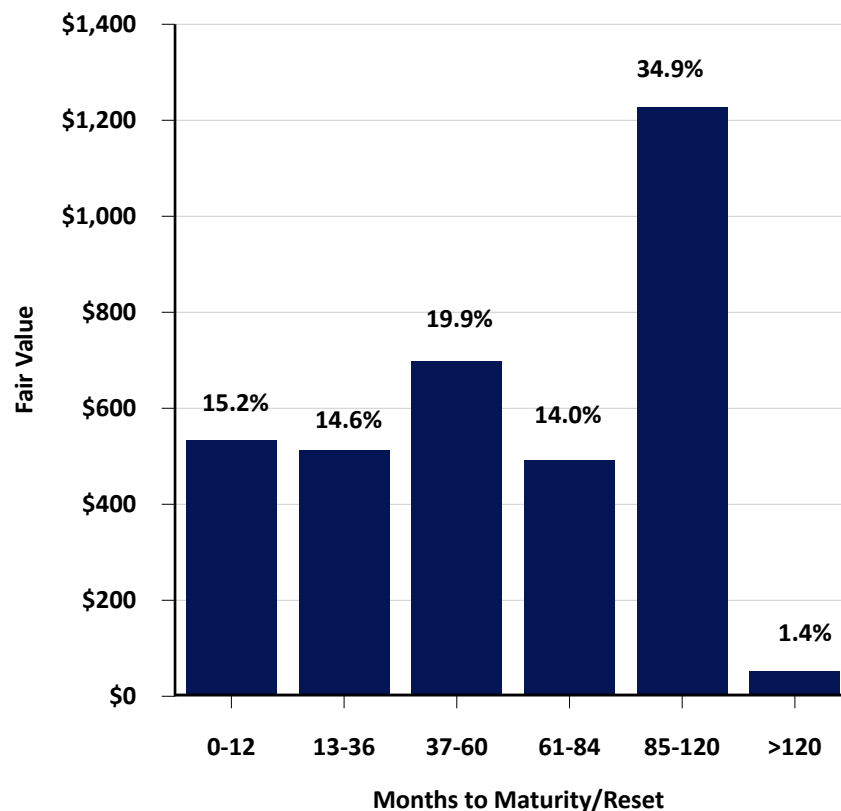


*Agency MBS are considered AAA-rated for purposes of this chart.*

## Net Premium by Asset Type



## Portfolio Expected Maturity/Reset Distribution

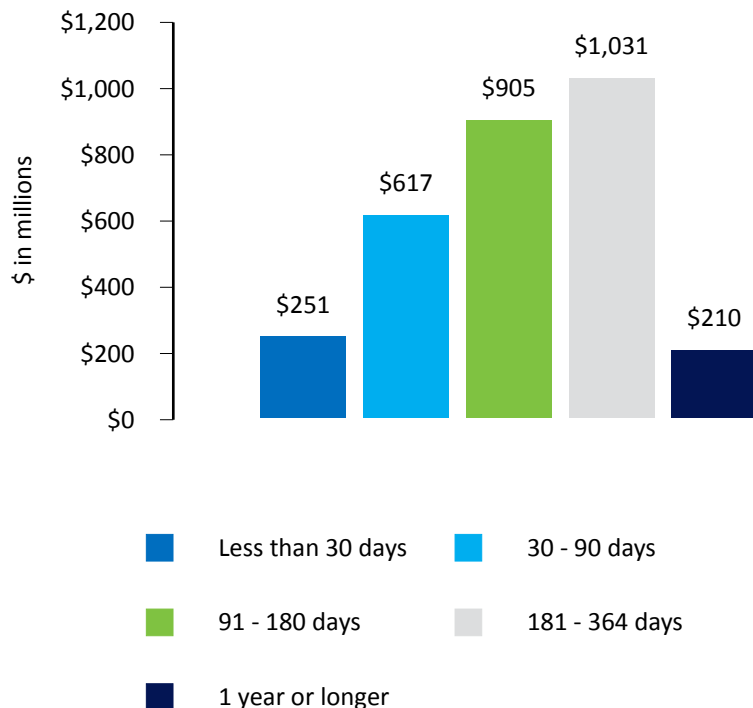


\* AFS investments only, excludes loans held for investment.

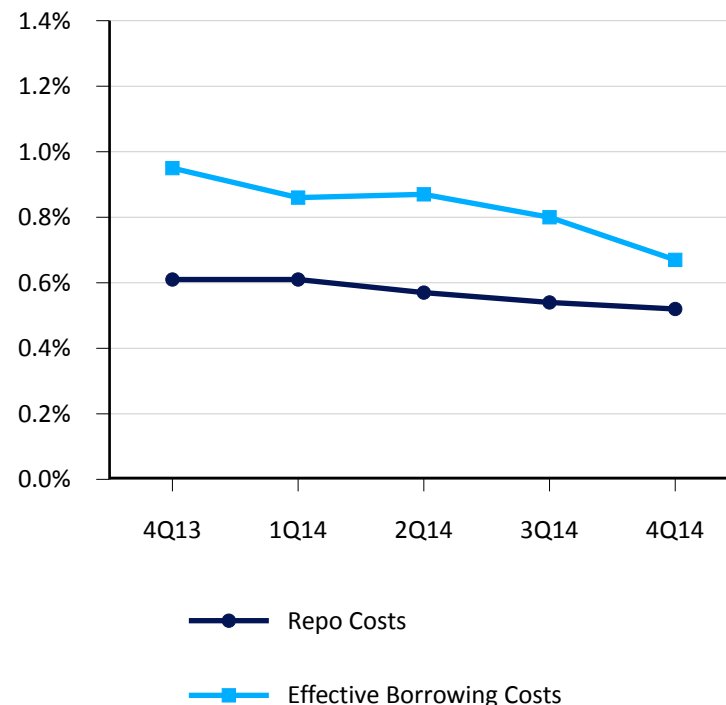


# Financing Details

Repurchase Agreement Amounts by  
Original Term to Maturity  
(as of December 31, 2014)



Repurchase Agreement and  
Effective Borrowing Costs <sup>(1)</sup>  
(for the quarterly periods indicated)

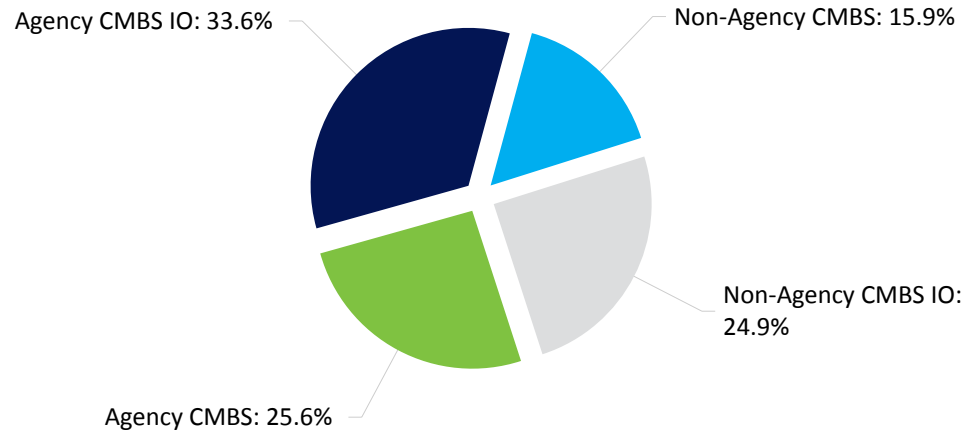


- Our weighted average contractual maturity was 144 days at December 31, 2014 compared to 106 days at September 30, 2014.
- Our repurchase agreement balance was \$3.0 billion at December 31, 2014 with 20 counterparties compared to \$3.2 billion with 21 counterparties at September 30, 2014. We currently have repurchase agreements available to us with [33] counterparties.

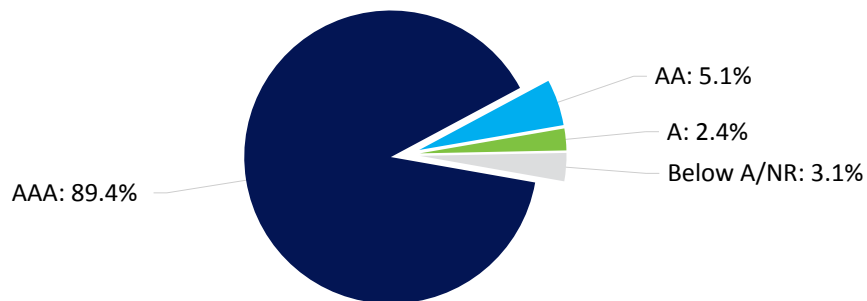
(1) Reconciliations for non-GAAP measures are presented on slides 31-34.

# Total CMBS Portfolio *(as of December 31, 2014)*

Asset Type



Credit Quality



Collateral

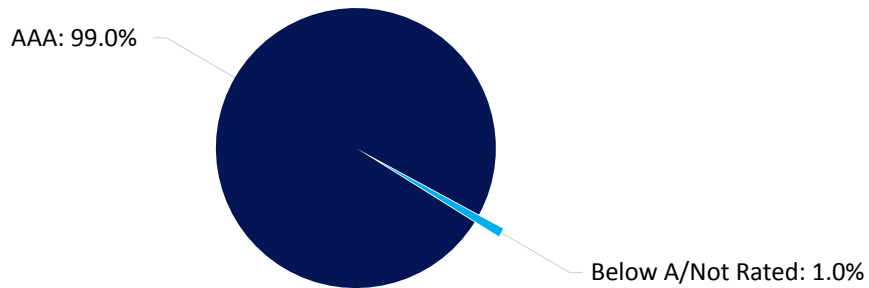


*Agency MBS are considered AAA-rated for purposes of this chart.*

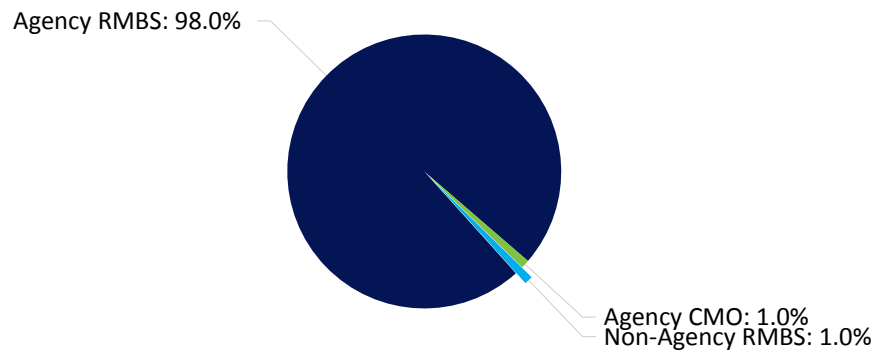
# RMBS Portfolio *(as of December 31, 2014)*

(\$ in millions)

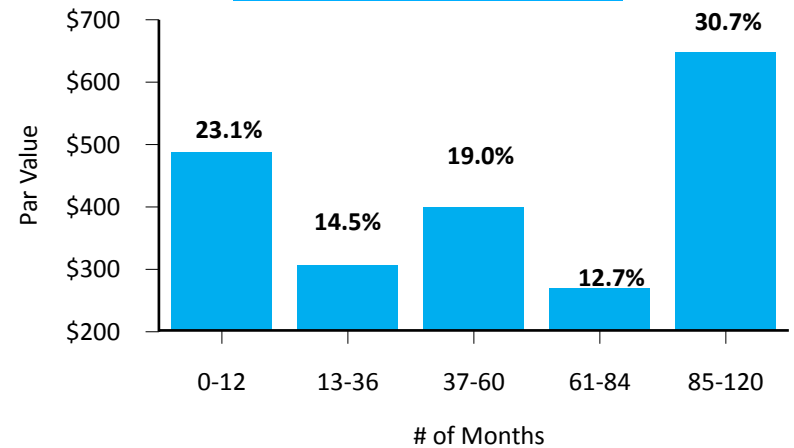
## Credit Quality



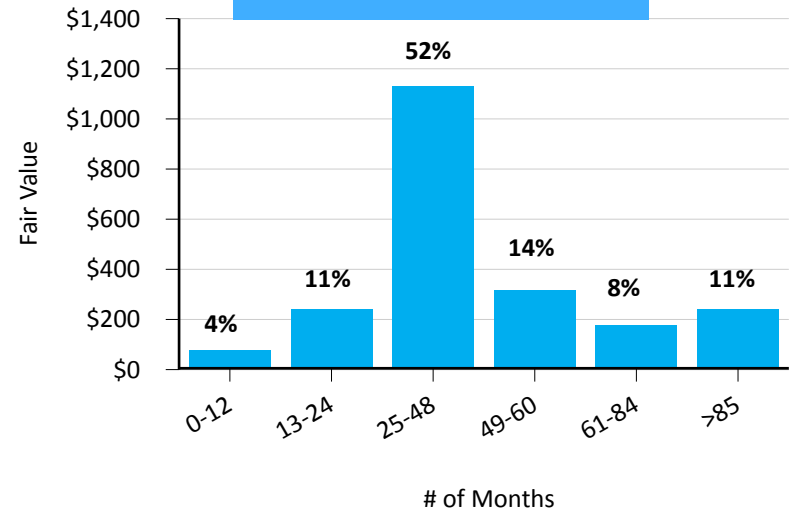
## Asset Type



## Months to Maturity/Reset For ARMs/Hybrids

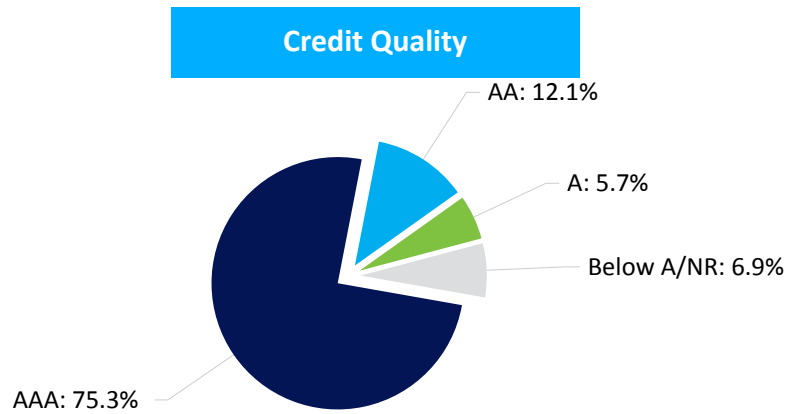


## Weighted Average Loan Age



# CMBS

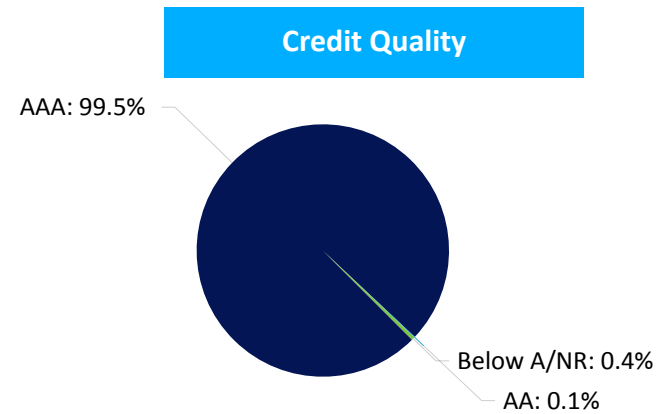
(as of December 31, 2014)



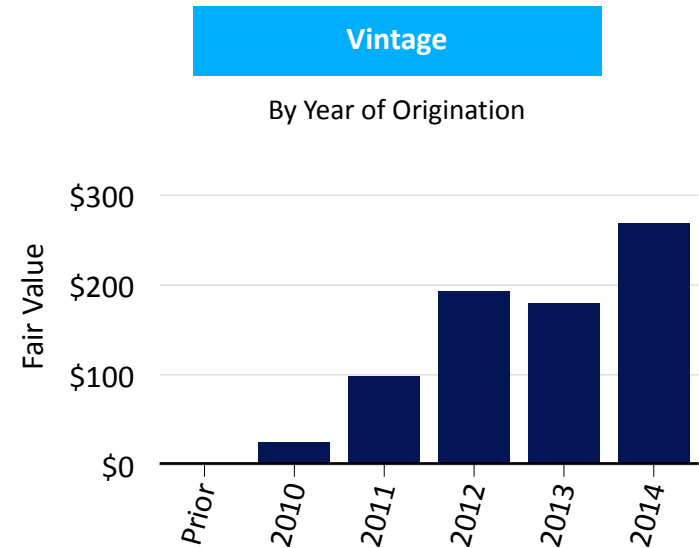
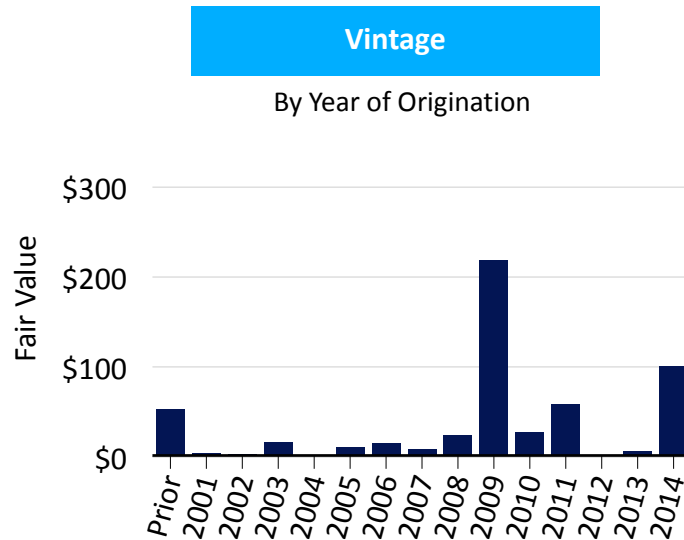
Agency MBS are considered AAA-rated for purposes of this chart.

# CMBS IO

(as of December 31, 2014)



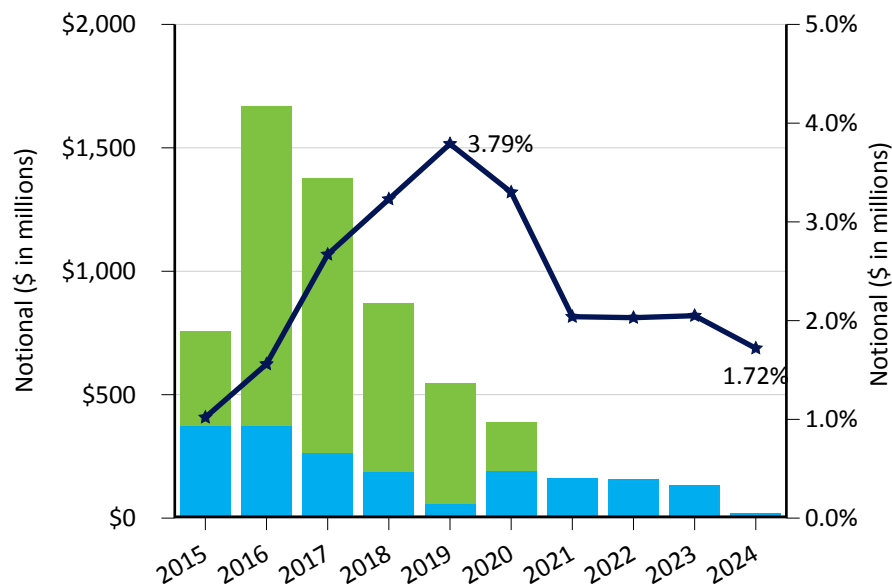
Agency MBS are considered AAA-rated for purposes of this chart.



# Hedging Details

(Annual Comparison)

As of December 31, 2014

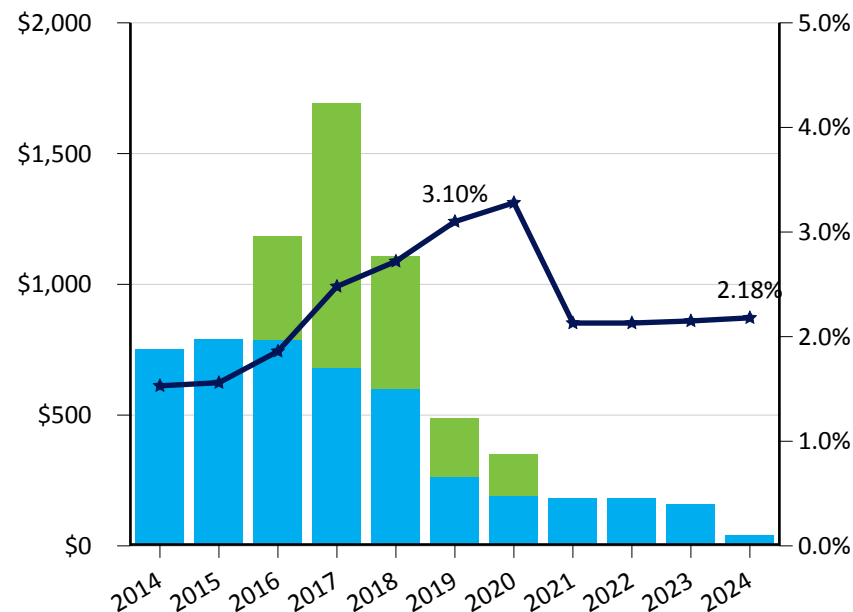


Interest Rate Swaps-Payers, Net of Receivers

Eurodollar Contracts

Total Weighted Average Pay Rate, Net

As of December 31, 2013

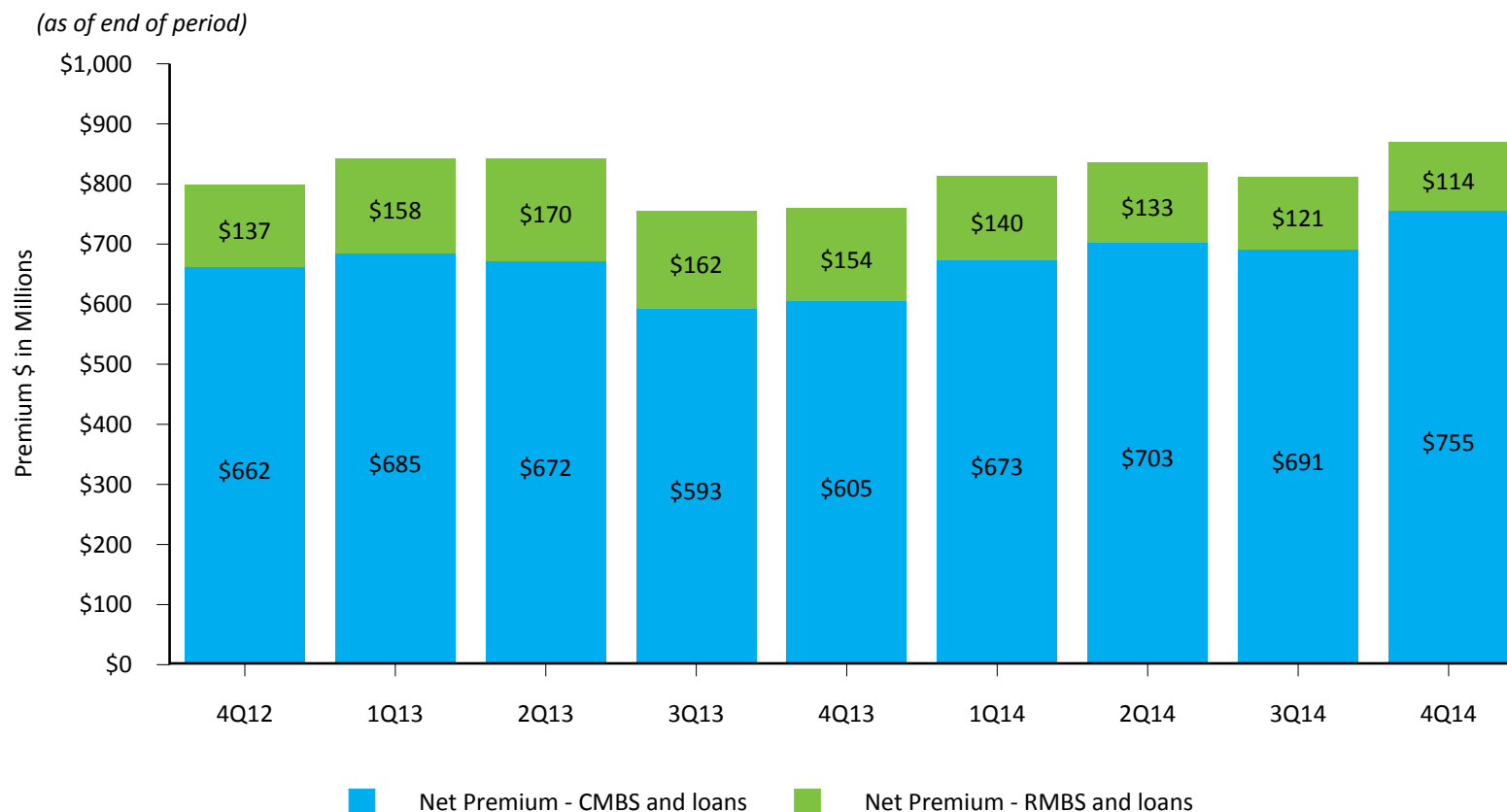


Pay-Fixed Interest Rate Swaps

Eurodollar Contracts

Total Weighted Average Pay Rate

# Investment Premium Allocation



## Spread Risk

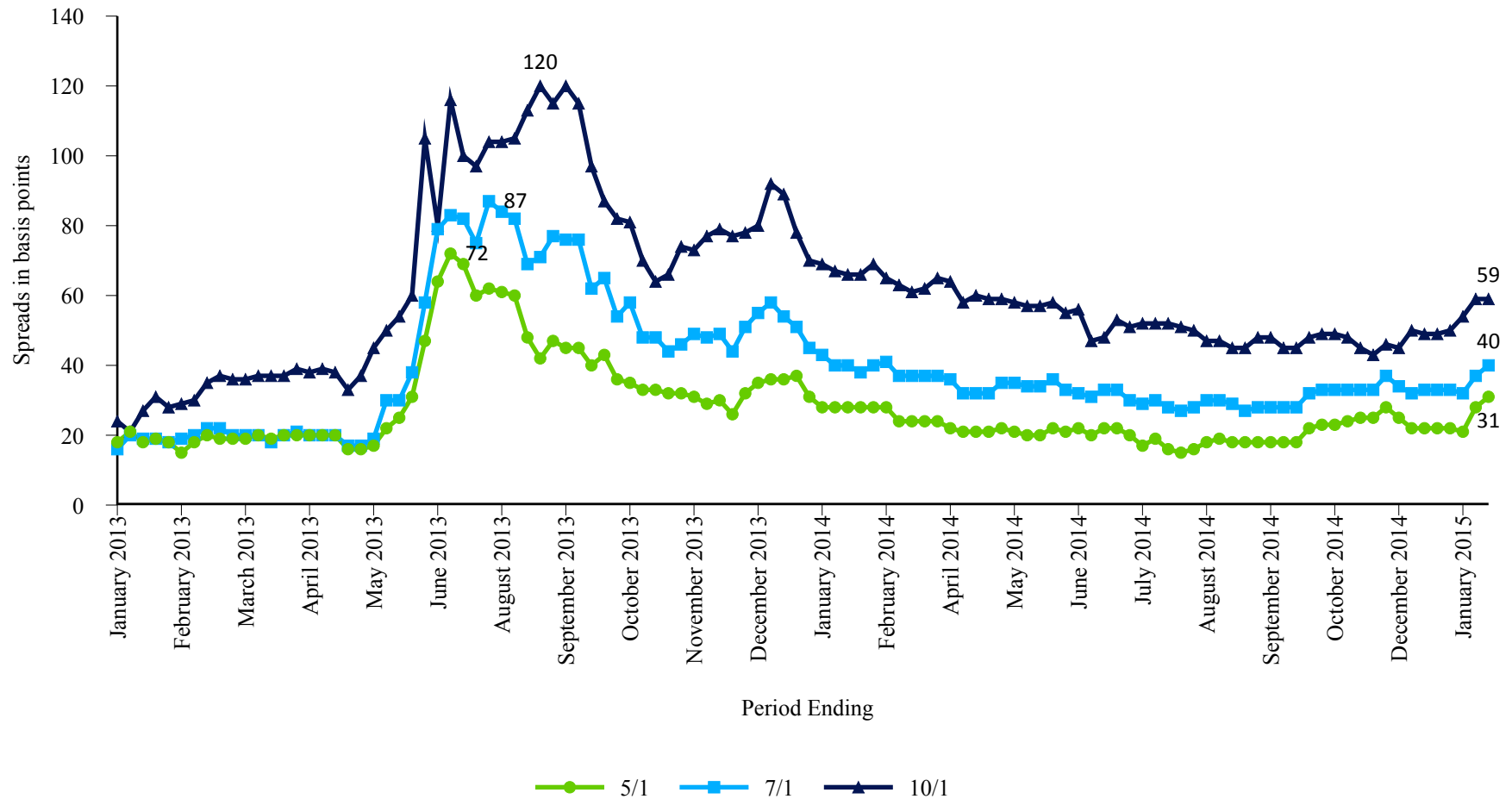
- An asset's "spread" is the market premium above a benchmark rate that reflects the relative riskiness of the asset versus the benchmark.
- Spread risk is the uncertainty in pricing resulting from the expansion and contraction of the risk premium over the benchmark.
- Spreads (and therefore prices) 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.





## Drivers of Book Value

# Agency RMBS Historical Spreads



Source: Company data

# 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	95.0% of MBS are AAA-rated* at December 31, 2014 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.*



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

(\$ in thousands, except per share amounts)	4Q2014	3Q2014	4Q2013
Net interest income	\$ 18,634	\$ 19,942	\$ 20,186
(Loss) gain on derivative instruments, net	\$ (21,739)	\$ 4,842	\$ 2,607
Gain on sale of investments, net	\$ 10,950	\$ 9,057	\$ 757
Net income to common shareholders	\$ 1,379	\$ 28,572	\$ 19,266
Net income per common share	\$ 0.03	\$ 0.52	\$ 0.35
Core net operating income to common shareholders <sup>(1)</sup>	\$ 12,508	\$ 13,802	\$ 15,544
Core net operating income per common share <sup>(1)</sup>	\$ 0.23	\$ 0.25	\$ 0.29
Total comprehensive income to common shareholders	\$ 6,234	\$ 14,090	\$ 19,813
Return on average common equity <i>(annualized)</i>	1.1%	(6.7)%	16.1%
Adjusted return on average common equity <i>(annualized)</i> <sup>(1)</sup>	10.1%	11.0 %	13.0%
Dividends per common share	\$ 0.25	\$ 0.25	\$ 0.27
Book value per common share, end of period	\$ 9.02	\$ 9.14	\$ 8.69
Average interest earning assets	\$ 3,529,711	\$ 3,820,898	\$ 4,123,224
Average interest bearing liabilities	\$ 3,054,355	\$ 3,364,225	\$ 3,620,795
Weighted average effective yield <sup>(2)</sup>	2.64%	2.73 %	2.72%
Annualized cost of funds	0.72%	0.70 %	0.90%
Net interest spread	1.92%	2.03 %	1.82%
Adjusted net interest spread <sup>(1)</sup>	1.97%	1.93 %	1.77%
Debt to shareholders' equity ratio, end of period	5.1x	5.2x	6.2x

*(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 31-34.*

*(2) Weighted average effective yield is based on the average balance of investments which is calculated using daily amortized cost.*

# Reconciliation of GAAP Measures to Non-GAAP Measures

(\$ in thousands except per share data)

	12/31/2014	9/30/2014	Quarter Ended 6/30/2014	3/31/2014	12/31/2013
<b>Net income (loss) to common shareholders</b>	<b>\$1,379</b>	<b>\$28,572</b>	<b>(\$8,293)</b>	<b>(\$3,028)</b>	<b>\$19,266</b>
Adjustments:					
Amortization of de-designated cash flow hedges <sup>(1)</sup>	1,449	1,442	1,608	2,288	2,609
Change in fair value on derivatives instruments, net	20,675	(7,113)	20,402	11,211	(5,636)
(Gain) loss on sale of investments, net	(10,950)	(9,057)	477	3,307	(757)
Fair value adjustments, net	(45)	(42)	(88)	(32)	62
<b>Core net operating income to common shareholders</b>	<b>\$12,508</b>	<b>\$13,802</b>	<b>\$14,106</b>	<b>\$13,746</b>	<b>\$15,544</b>
<b>Core net operating income per share</b>	<b>\$0.23</b>	<b>\$0.25</b>	<b>\$0.26</b>	<b>\$0.25</b>	<b>\$0.29</b>

<b>ROAE based on annualized GAAP net income (loss) to common shareholders</b>	1.1 %	22.7 %	(6.7)%	(2.5)%	16.1 %
Adjustments:					
Amortization of de-designated cash flow hedges <sup>(1)</sup>	1.2 %	1.1 %	1.3 %	1.9 %	2.2 %
Change in fair value on derivatives instruments, net	16.5 %	(5.6)%	16.4 %	9.2 %	(4.7)%
(Gain) loss on sale of investments, net	(8.7)%	(7.2)%	0.4 %	2.7 %	(0.6)%
Fair value adjustments, net	— %	— %	(0.1)%	— %	— %
<b>Adjusted ROAE, based on annualized core net operating income</b>	<b>10.1 %</b>	<b>11.0 %</b>	<b>11.3 %</b>	<b>11.3 %</b>	<b>13.0 %</b>
Average common equity during the period	\$501,553	\$503,861	\$497,864	\$485,044	\$477,432

<sup>(1)</sup> 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 except per share data)

	Year Ended	
	12/31/2014	12/31/2013
<b>Net income to common shareholders</b>	<b>\$18,630</b>	<b>\$60,167</b>
Adjustments:		
Amortization of de-designated cash flow hedges <sup>(1)</sup>	6,788	5,193
Change in fair value on derivatives instruments, net	45,175	1,128
Gain on sale of investments, net	(16,223)	(3,354)
Fair value adjustments, net	(208)	652
<b>Core net operating income to common shareholders</b>	<b>\$54,162</b>	<b>\$63,786</b>
<b>Core net operating income per share</b>	<b>\$0.99</b>	<b>\$1.17</b>
<b>ROAE based on GAAP net income to common shareholders</b>	<b>3.7 %</b>	<b>11.5 %</b>
Adjustments:		
Amortization of de-designated cash flow hedges <sup>(1)</sup>	1.4 %	1.0 %
Change in fair value on derivatives instruments, net	9.1 %	0.2 %
Gain on sale of investments, net	(3.3)%	(0.6)%
Fair value adjustments, net	— %	0.1 %
<b>Adjusted ROAE, based on core net operating income</b>	<b>10.9 %</b>	<b>12.2 %</b>
Average common equity during the period	\$497,081	\$522,432

<sup>(1)</sup> 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									
	12/31/2014		9/30/2014		6/30/2014		3/31/2014		12/31/2013	
GAAP interest income/ annualized yield	\$24,286	2.64 %	\$26,000	2.73 %	\$27,718	2.79 %	\$27,640	2.74 %	\$28,594	2.72 %
GAAP interest expense/ annualized cost of funds <sup>(1)</sup>	5,652	0.72 %	6,058	0.70 %	6,572	0.75 %	7,633	0.87 %	8,408	0.90 %
<b>GAAP net interest income/spread</b>	<b>\$18,634</b>	<b>1.92 %</b>	<b>\$19,942</b>	<b>2.03 %</b>	<b>\$21,146</b>	<b>2.04 %</b>	<b>\$20,007</b>	<b>1.87 %</b>	<b>\$20,186</b>	<b>1.82 %</b>
GAAP interest expense/ annualized cost of funds <sup>(1)</sup>	\$5,652	0.72 %	\$6,058	0.70 %	\$6,572	0.75 %	\$7,633	0.87 %	\$8,408	0.90 %
Amortization of de-designated cash flow hedges <sup>(2)</sup>	(1,449)	(0.19)%	(1,442)	(0.17)%	(1,608)	(0.18)%	(2,288)	(0.26)%	(2,609)	(0.28)%
Net periodic interest costs <sup>(3)</sup>	1,064	0.14 %	2,271	0.27 %	2,672	0.30 %	2,211	0.25 %	3,029	0.33 %
<b>Effective borrowing costs</b>	<b>\$5,267</b>	<b>0.67 %</b>	<b>\$6,887</b>	<b>0.80 %</b>	<b>\$7,636</b>	<b>0.87 %</b>	<b>\$7,556</b>	<b>0.86 %</b>	<b>\$8,828</b>	<b>0.95 %</b>
<b>Adjusted net interest income/spread</b>	<b>\$19,019</b>	<b>1.97 %</b>	<b>\$19,113</b>	<b>1.93 %</b>	<b>\$20,082</b>	<b>1.92 %</b>	<b>\$20,084</b>	<b>1.88 %</b>	<b>\$19,766</b>	<b>1.77 %</b>

(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 included in "interest expense" in accordance with GAAP.

# Reconciliation of GAAP Measures to Non-GAAP Measures

(\$ in thousands)

	Year Ended			
	12/31/2014		12/31/2013	
GAAP interest income/annualized yield	\$105,644	2.76 %	\$127,132	2.96 %
GAAP interest expense/ annualized cost of funds <sup>(1)</sup>	25,915	0.76 %	39,028	1.01 %
<b>GAAP net interest income/spread</b>	<b>\$79,729</b>	<b>2.00 %</b>	<b>\$88,104</b>	<b>1.95 %</b>
GAAP interest expense/annualized cost of funds	\$25,915	0.76 %	39,028	1.01 %
Amortization of de-designated cash flow hedges <sup>(2)</sup>	(6,788)	(0.20)%	(5,193)	(0.15)%
Net periodic interest costs <sup>(3)</sup>	8,218	0.25 %	8,948	0.24 %
<b>Effective borrowing costs</b>	<b>\$27,345</b>	<b>0.81 %</b>	<b>\$42,783</b>	<b>1.10 %</b>
<b>Adjusted net interest income/spread</b>	<b>\$78,299</b>	<b>1.95 %</b>	<b>\$84,349</b>	<b>1.86 %</b>

(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 included in "interest expense" in accordance with GAAP.