



Sound Strategy. Unique Advantages.

Second Quarter 2015 Earnings Presentation

August 6, 2015

Safe Harbor Statement

NOTE:

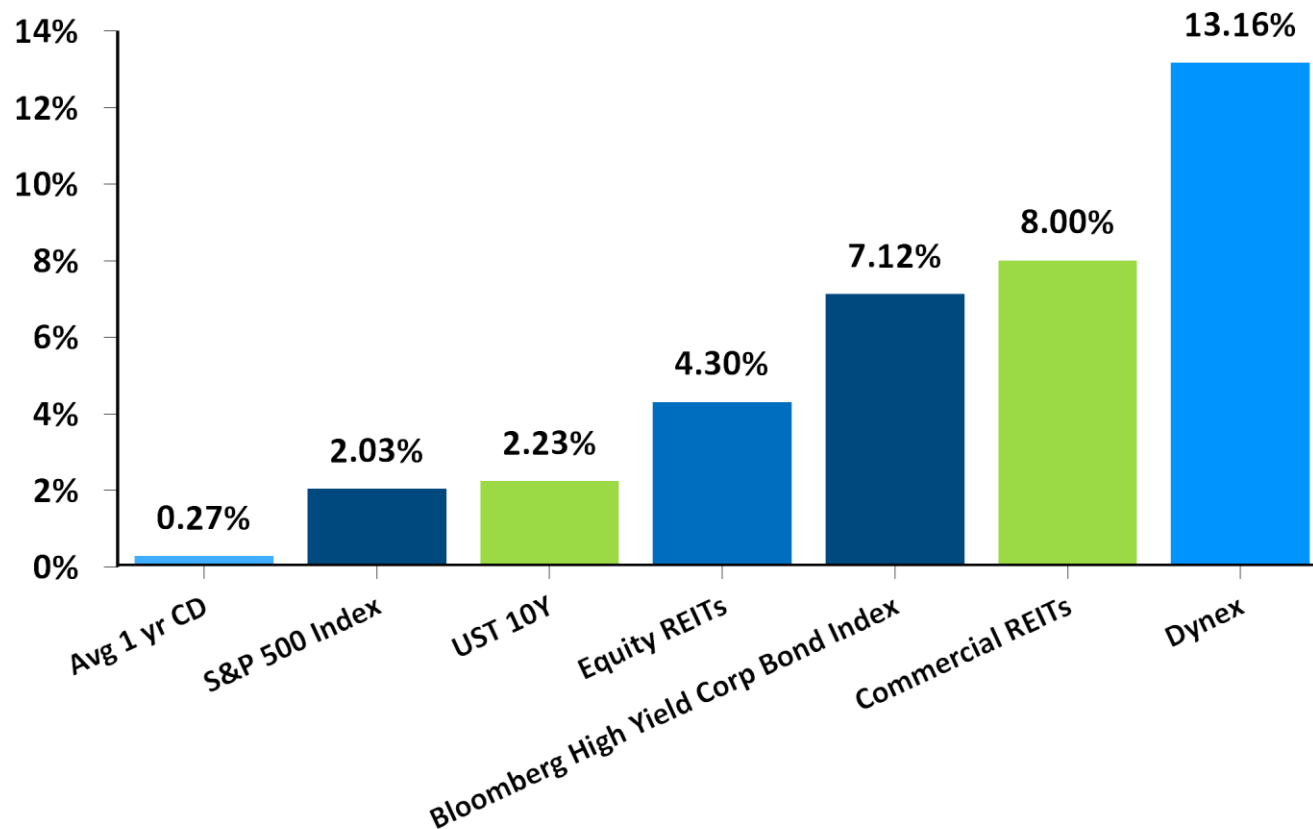
This presentation contains certain statements that are not historical facts and that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this presentation addressing expectations, assumptions, beliefs, projections, future plans, 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”.



Above Average Dividend Yield

(as of August 3, 2015)



Source: KBW, Bloomberg, Bankrate.com

Historical mREIT Performance

(over a Fed tightening cycle)

Total Return (%) January 1, 2003 - August 3, 2015



Source: SNL Financial

2Q2015 PERFORMANCE



Second Quarter 2015 Highlights

- Comprehensive loss to common shareholders of (\$0.21) per common share, consisting of ⁽¹⁾:
 - Core net operating income⁽²⁾ of \$0.21 per common share
 - Change in unrealized gain in MBS, net of hedge instruments of (\$0.40) per share
 - Loss on sale of investments of (\$0.02)
- GAAP net income of \$0.52 per common share
 - Includes \$0.34 of changes in fair value and net realized gains on hedge instruments
- Dividend of \$0.24 per common share
- GAAP net interest spread of 1.97% and adjusted net interest spread⁽²⁾ of 1.86%
- Book value per common share of \$8.53 at June 30, 2015 versus \$8.96 at March 31, 2015 and \$9.02 at December 31, 2014
- Overall leverage increased to 6.2x at June 30, 2015 from 5.7x at March 31, 2015
- Gained membership of our wholly-owned subsidiary in the FHLB Indianapolis in 2Q2015 and borrowed \$108.1 million in advances during the quarter

(1) See detail reconciliation on page 7

(2) Reconciliations for non-GAAP measures are presented on slides 37-38.

Second Quarter 2015 Performance

(\$ in thousands, except per share amounts)	Income (Expenses)	Per Weighted Average Common Share
Interest income	\$24,527	\$0.45
Repurchase agreement and other interest expenses ⁽¹⁾	(4,685)	(0.09)
Net periodic interest costs of derivatives ⁽²⁾	(1,793)	(0.03)
Income from equity method investment and miscellaneous items	612	0.01
G & A expenses	(4,754)	(0.09)
Preferred stock dividends	(2,294)	(0.04)
Core net operating income ⁽³⁾	11,613	0.21
Gain on terminated derivatives, net	629	0.01
Unrealized gains on derivatives	18,254	0.33
Loss on sale of investments, net	(1,491)	(0.02)
Amortization of de-designated cash flow hedges	(857)	(0.01)
Fair value adjustments, net	20	—
GAAP net income to common shareholders	28,168	0.52
Unrealized losses on MBS, net of sales	(40,536)	(0.74)
Amortization of de-designated cash flow hedges	857	0.01
Total comprehensive loss	(\$11,511)	(\$0.21)

(1) Other interest expensed excludes amortization of AOCI related to previously de-designated cash flow hedges.

(2) These costs represent amounts due and payable under derivative hedge instruments for the current period

(3) Reconciliations for non-GAAP measures are presented on slides 37-38.

Second Quarter 2015 Book Value

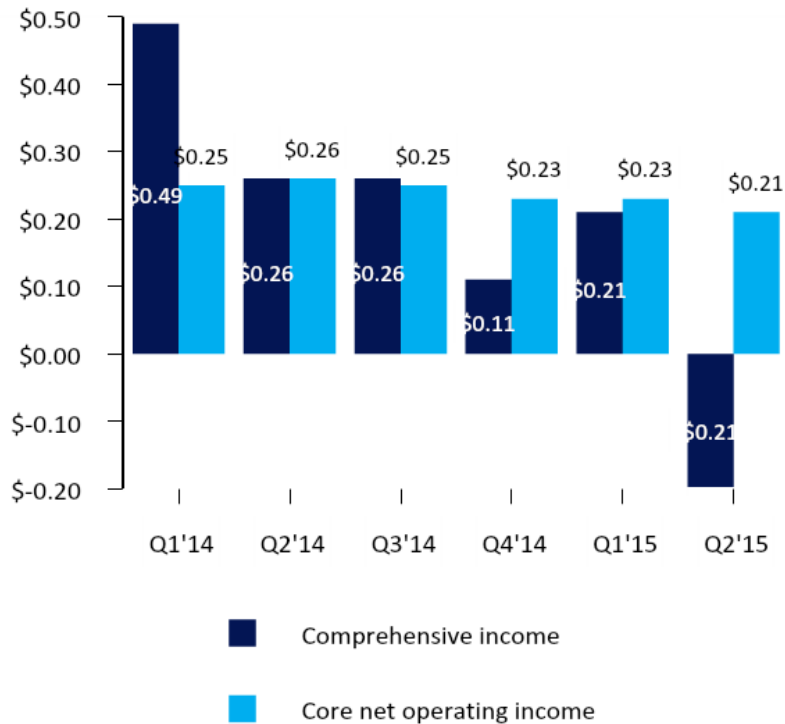
Book value per common share, March 31, 2015	\$8.96	
Core net operating income per share ⁽¹⁾	0.21	} GAAP net income per common share \$0.52
Unrealized and realized gains on derivative hedge instruments	0.34	
Loss on sale of investments	(0.02)	
Amortization of de-designated cash flow hedges	(0.01)	
Unrealized losses on MBS	(0.74)	
Dividends declared	(0.24)	
Stock repurchases and other	0.03	
Book value per common share, June 30, 2015	<u>\$8.53</u>	

- Principal reason for second quarter book value decline was the net decrease in unrealized gain on MBS resulting from spread widening across the investment portfolio and increases in interest rates during the quarter particularly in the 5-10 year part of the curve, partially offset by unrealized and realized gains on derivative hedge instruments

(1) Reconciliations for non-GAAP measures are presented on slides 37-38.

Other Financial Highlights

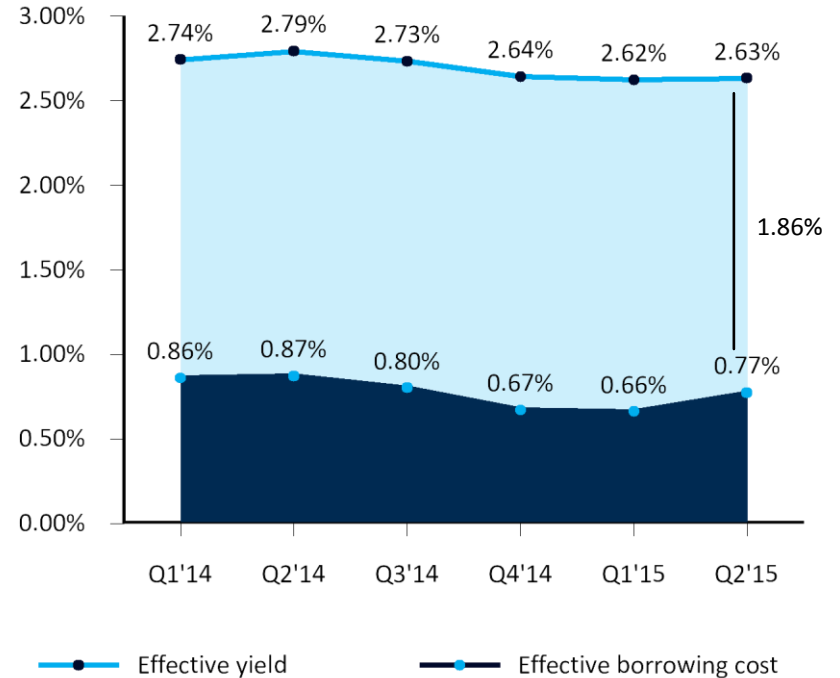
Financial Measures per Common Share ⁽¹⁾



- Differences in comprehensive income and core net operating income⁽¹⁾ result primarily from changes in the unrealized gain on MBS and derivative hedge instruments which are included in comprehensive income but excluded from core net operating income.

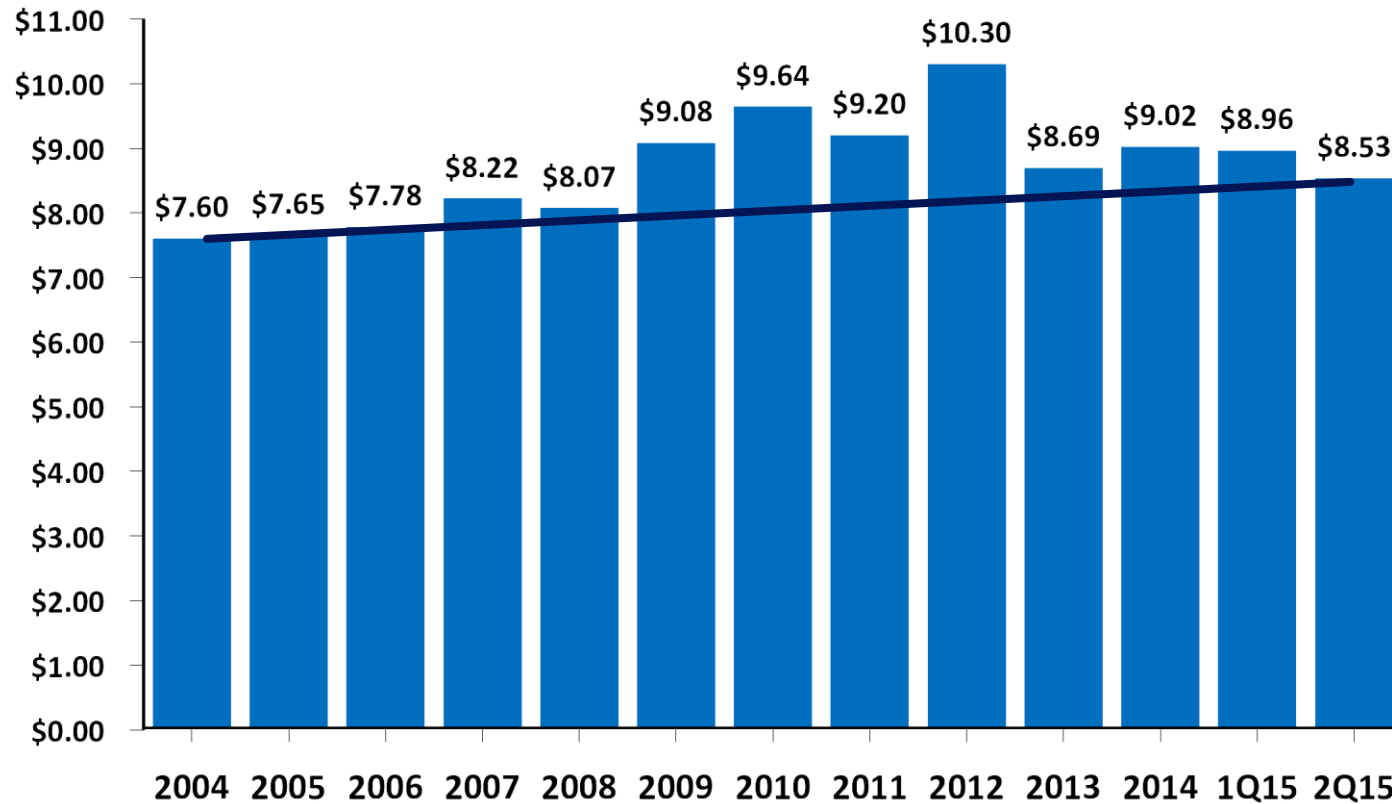
⁽¹⁾ Core net operating income per common share, effective borrowing cost, and adjusted net interest spread are non-GAAP financial measures and are reconciled to their corresponding GAAP measures on slides 37-38.

Adjusted Net Interest Spread ⁽¹⁾



- 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 on our investments and financing.

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



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. "Grexit" risk highlights vulnerability of Euro system.
 - 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, although wider, are still relatively tight across many risk assets:** Global risk premiums have declined 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.



Risk Position

Treasury Yields	As of June 30, 2015	As of March 31, 2015
2Y	0.65%	0.56%
5Y	1.65%	1.37%
10Y	2.35%	1.94%
30Y	3.12%	2.54%

Parallel Change in Treasury Yields (in basis points)	Percentage Change in Projected Market Value of Assets Net of Hedges	
	As of June 30, 2015	As of March 31, 2015
+100	(0.86)%	(0.58)%
+50	(0.39)%	(0.23)%
+25	(0.19)%	(0.10)%
-25	0.16%	0.07%

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 June 30, 2015	As of March 31, 2015
0	+25	(0.05)%	(0.01)%
+10	+50	(0.13)%	(0.04)%
+25	+75	(0.23)%	(0.09)%
+25	0	(0.01)%	0.04%
+50	0	(0.04)%	0.07%
-10	-50	0.02%	(0.06)%

Parallel Change in Market Credit Spreads	Percentage Change in Projected Market Value of Assets Net of Hedges	
	As of June 30, 2015	As of March 31, 2015
+50	(2.18)%	(1.94)%
+25	(1.10)%	(0.98)%
-25	1.12%	0.99%
-50	2.25%	2.00%

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 rates¹
 - (0.86)% in parallel +100 bps, (0.39)% in parallel +50 bp
 - (0.23)% in +25/+75 bps bear steepener
 - A 25 bps widening in option adjusted spreads across the investment portfolio would result in an approximate 7% decline in book value
 - 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
 - 20% of hybrid ARM portfolio resets in 12 months or less
 - Eurodollar futures and swaps protect against rising short rates

¹ Assumes 6.2x leverage and rates as of 06/30/2015

Movement in Spreads

	<u>NOMINAL SPREADS</u>		<u>OAS SPREADS</u>		<u>SPREAD CHANGE</u>	
	<u>3/31/2015</u>	<u>6/30/2015</u>	<u>3/31/2015</u>	<u>6/30/2015</u>	<u>Nominal</u>	<u>OAS</u>
5/1	15	16	(6)	9	1	15
7/1	29	30	(5.0)	14	1	19
10/1	49	48	(7.0)	13.0	(1)	20
New Agency CMBS IO	140	150	140	150	10	10
New DUS	54	60	54	60	6	6
Non-Agency CMBS IO	160	190	160	190	30	30

Source: JP Morgan

Investment Summary

(\$ in thousands)

	<u>6/30/15</u>	<u>3/31/15</u>	<u>QoQ Change</u>
Investments, including receivable ⁽¹⁾	\$3,989,642	\$3,922,520	\$67,122
Repurchase Agreements, including payable ⁽²⁾	3,406,978	3,382,316	24,662
FHLB advances	108,076	—	108,076
Leverage ⁽³⁾	6.2x	5.7x	0.5x
Funding			
Original Days to Maturity	88 days	116 days	(28) days
Remaining Days to Maturity	27 days	49 days	(22) days

Purchases During 2Q15			
<u>Asset Type</u>	<u>Settled</u>	<u>Unsettled</u>	<u>Total</u>
Agency CMBS	\$323,059	\$—	\$323,059
Agency CMBS IO	34,127	—	34,127
Non-Agency CMBS IO	45,648	4,000	49,648
Non-Agency RMBS	9,251	—	9,251
Total	\$412,085	\$4,000	\$416,085

⁽¹⁾ Amount at 6/30/15 includes receivable for investments sold of \$96,168

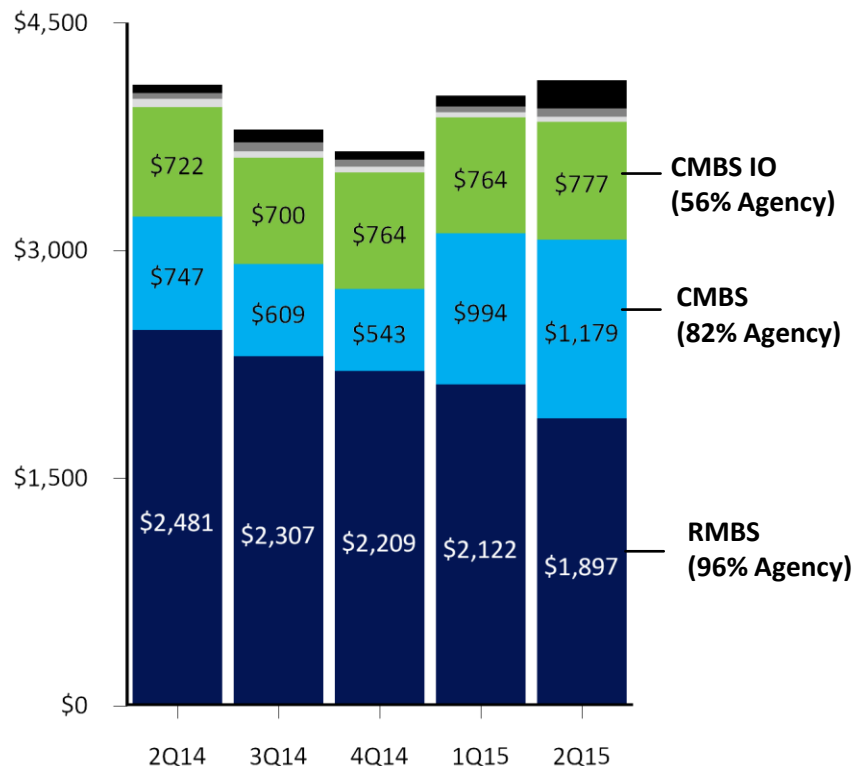
⁽²⁾ Amount includes payable for unsettled purchases of \$4,014 at 6/30/15 and \$196,473 at 3/31/15

⁽³⁾ Leverage is based on total liabilities divided by stockholders equity

Asset and Equity Allocations *Quarterly Comparison*

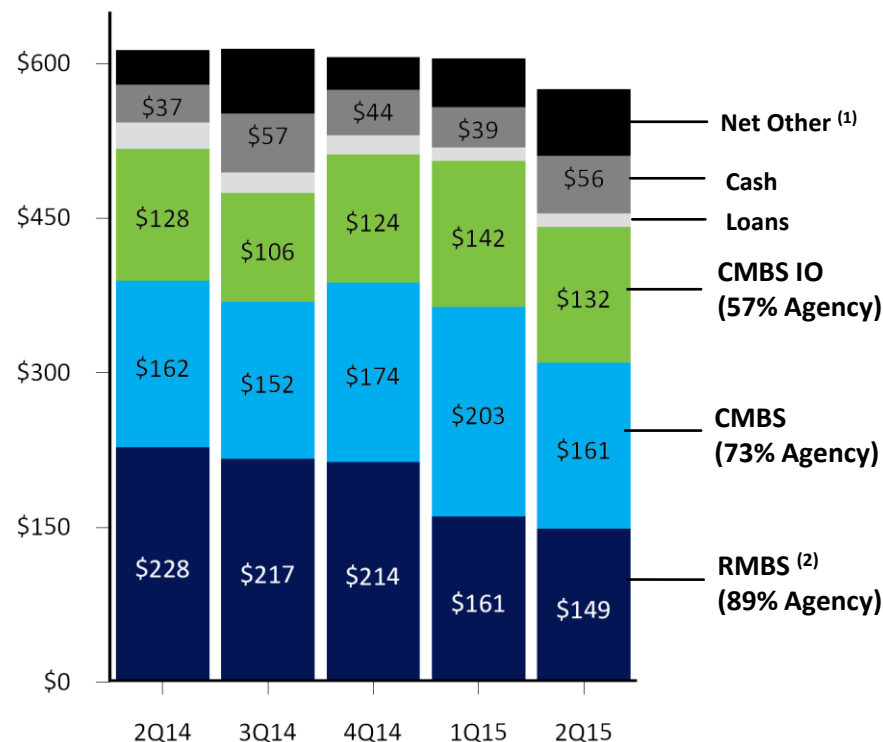
Asset Allocation

Fair Value (\$ in millions)



Equity Allocation

Fair Value (\$ in millions)



- The majority of assets added during 2Q15 were primarily multifamily Agency CMBS.

- The majority of our capital is invested in the commercial sectors; CMBS and CMBS IO.

(1) Fair value of derivative instruments is included in "Net Other" for equity allocation.

(2) Receivable for securities sold of \$96.1 million is included in equity allocated to RMBS.

Dynex Strategy Going Forward

- **Expect to make opportunistic investments and continue to 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**
 - FHLB
 - Private direct financing



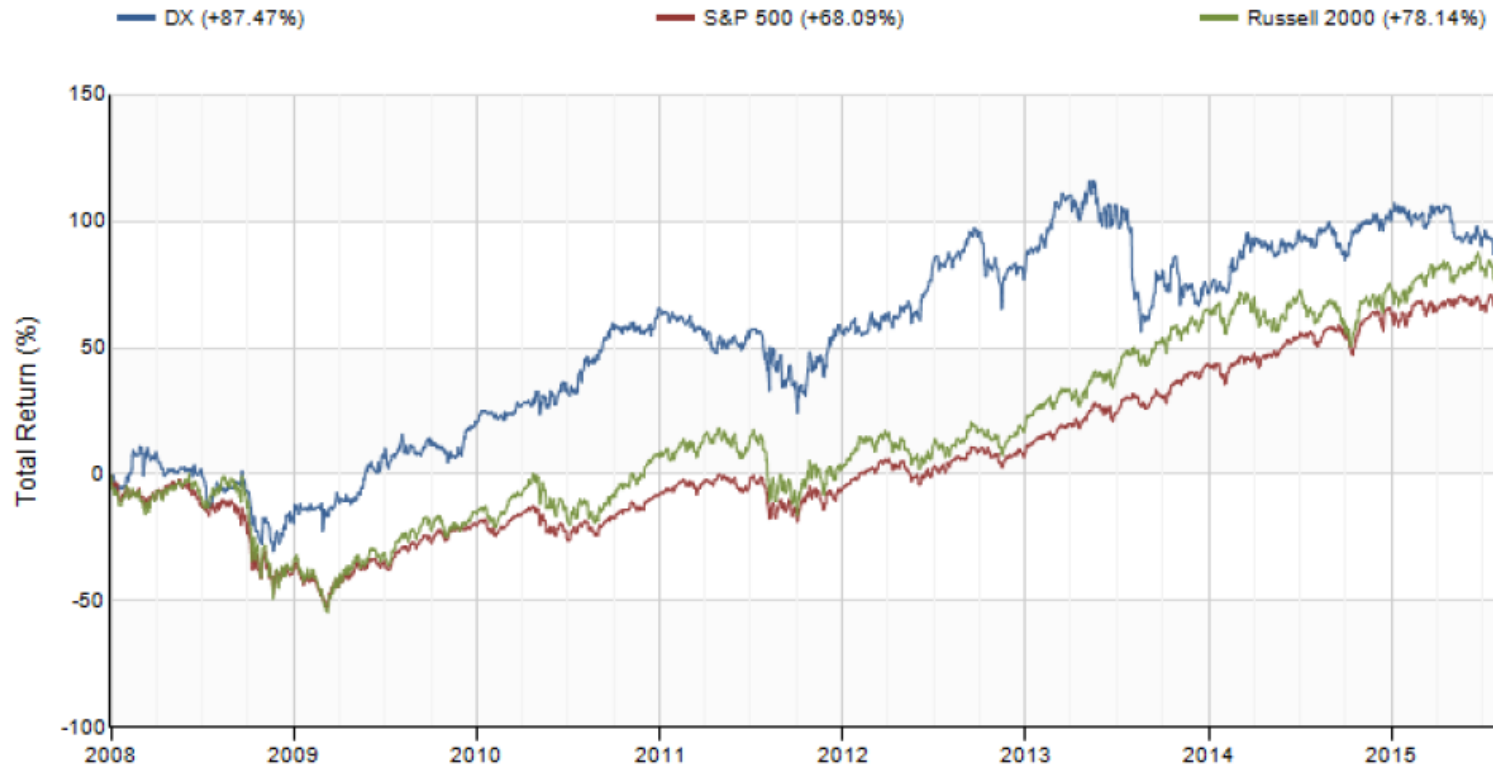
Conclusion

- We believe the opportunity continues to exist to earn above average dividend yields within a mortgage REIT structure
 - The uncertainty of the current environment could cause period to period volatility in our results, but we believe a diversified mortgage REIT model will be able to deliver an above average yield over the long term
 - Higher dividend yields will help to cushion any potential volatility in book value
- Our investment strategy and thesis have not changed – we continue to view that higher quality, short duration assets is the right investment strategy in today's environment
 - Our portfolio naturally delevers over time which gives us the flexibility to reinvest or build our capital for future opportunities
- Long term, we see opportunities for investments in both residential and commercial assets and in markets previously dominated by the Fed/GSEs
- Uncertainty around economic growth, 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



Solid Track-Record

Total Return (%) January 1, 2008 - August 3, 2015



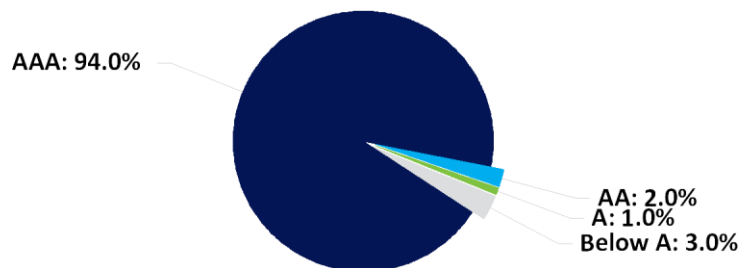
Source: SNL Financial

APPENDIX



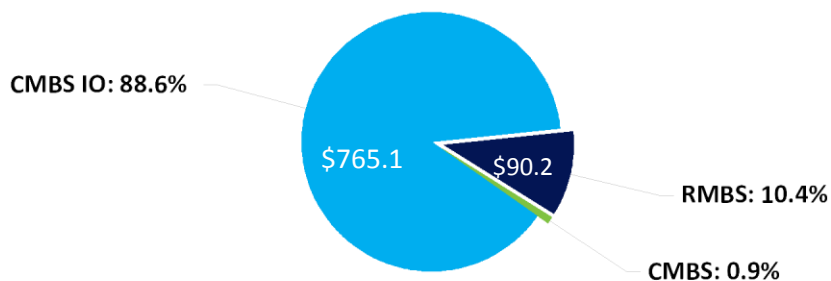
Portfolio Details* *(as of June 30, 2015)*

Credit Quality

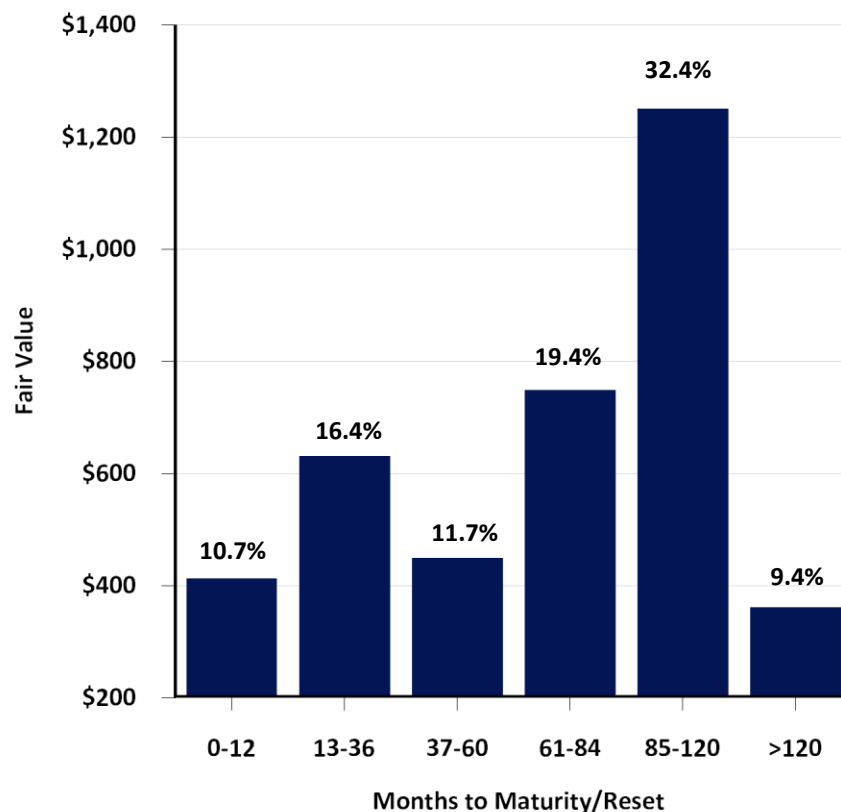


Agency MBS are considered AAA-rated for purposes of this chart.

Net Premium by Asset Type



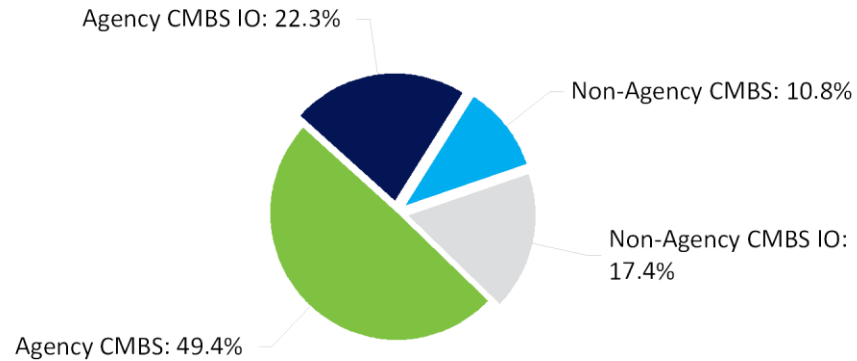
Portfolio Expected Maturity/Reset Distribution



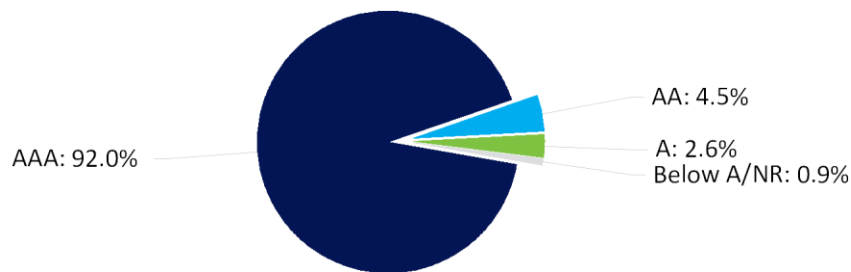
* MBS investments only, excludes loans held for investment.

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

Asset Type



Credit Quality



Collateral

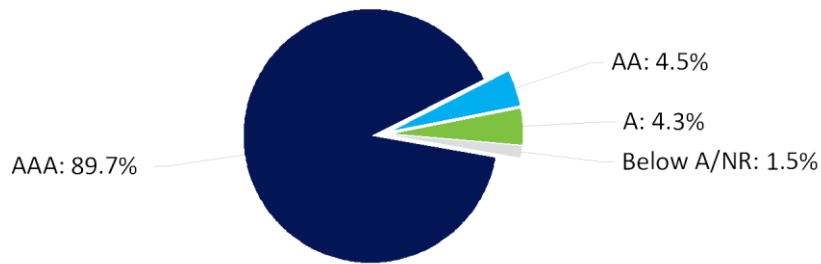


Agency MBS are considered AAA-rated for purposes of this chart.

CMBS

(as of June 30, 2015)

Credit Quality

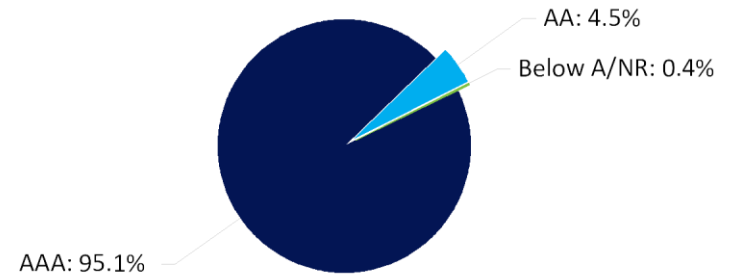


Agency MBS are considered AAA-rated for purposes of this chart.

CMBS IO

(as of June 30, 2015)

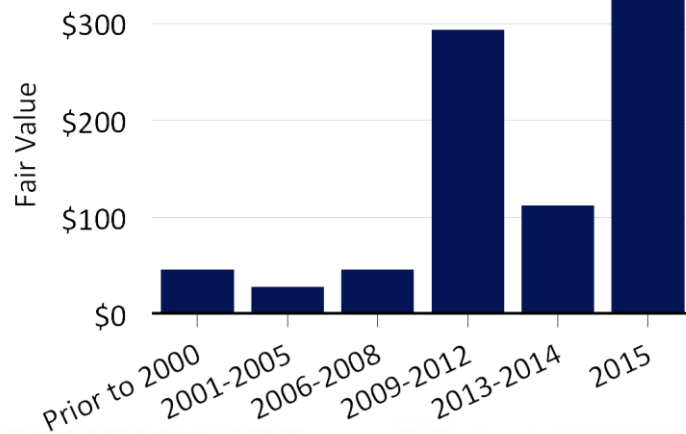
Credit Quality



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

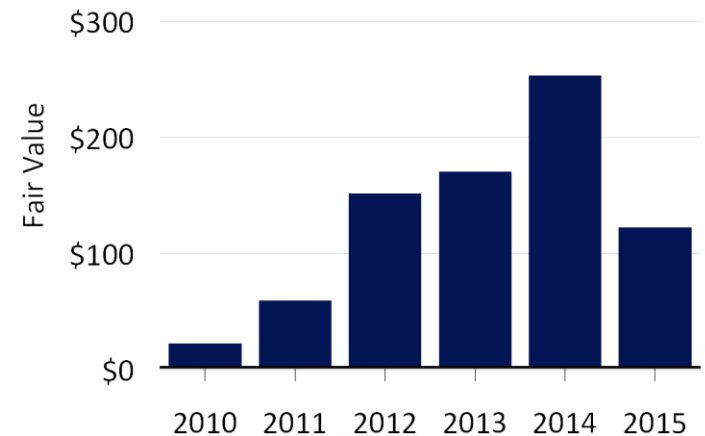
Vintage

By Year of Origination



Vintage

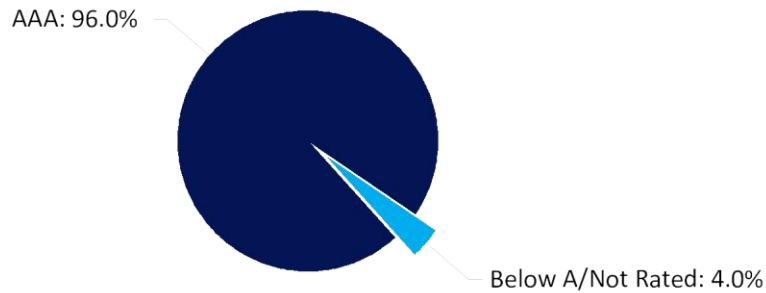
By Year of Origination



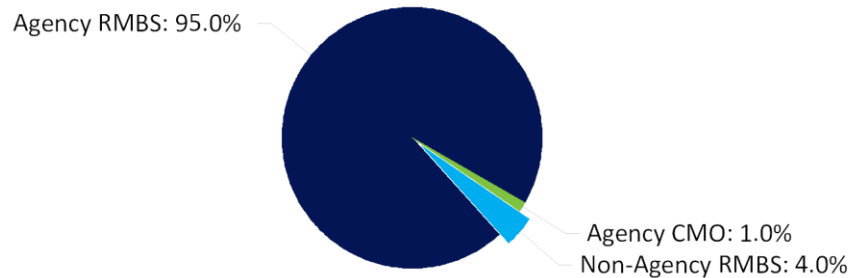
RMBS *(as of June 30, 2015)*

(\$ in millions)

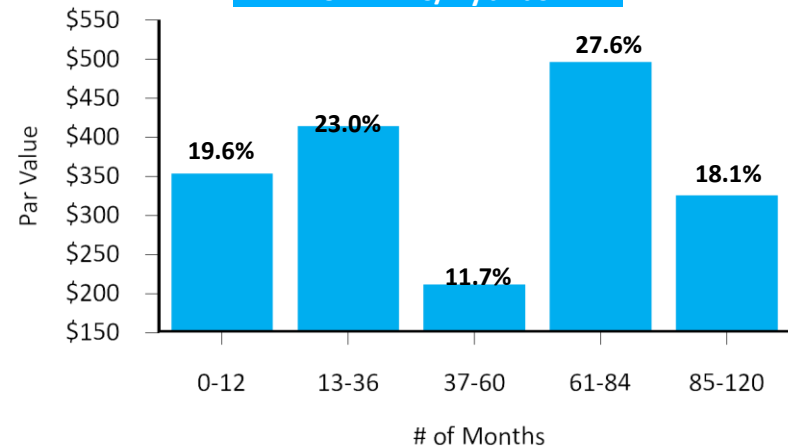
Credit Quality



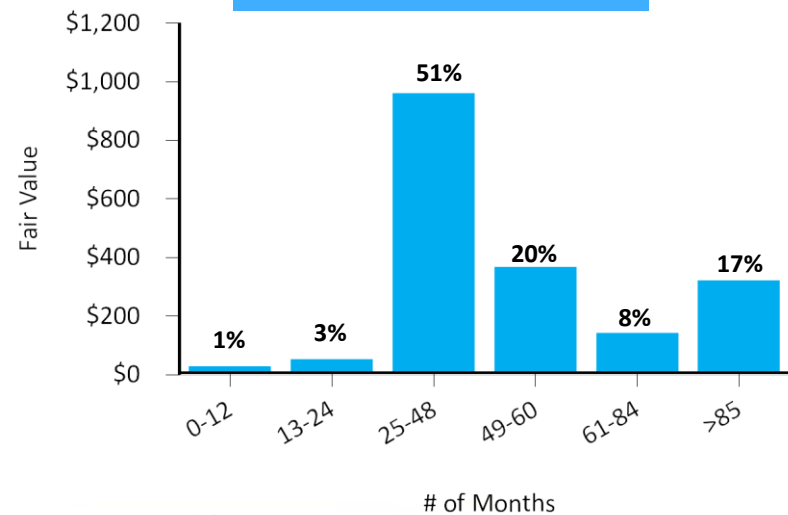
Asset Type



Months to Maturity/Reset For ARMs/Hybrids

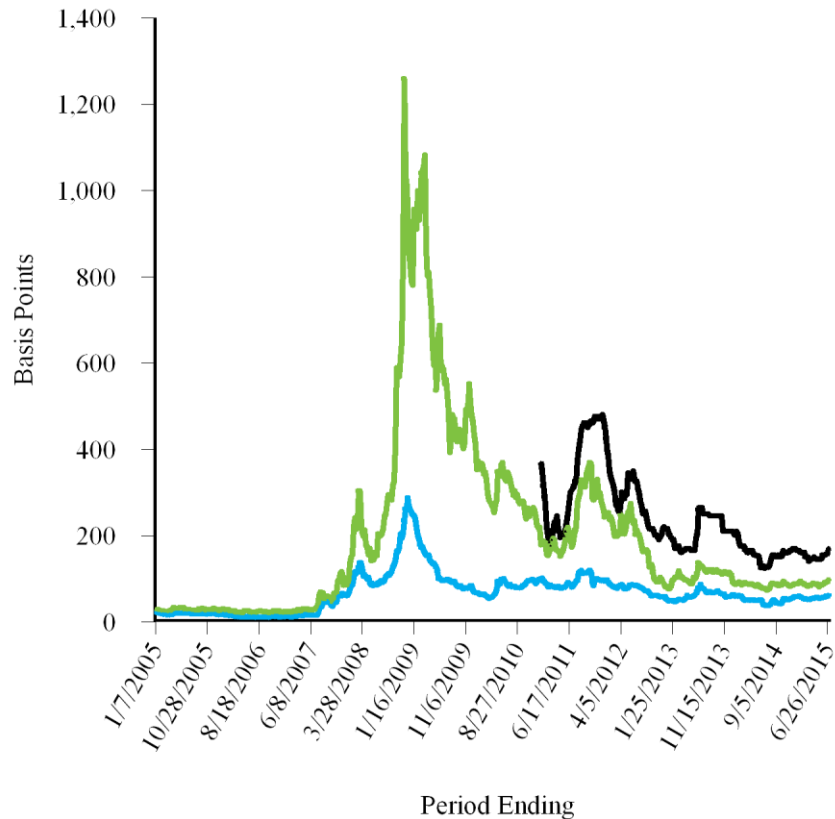


Weighted Average Loan Age



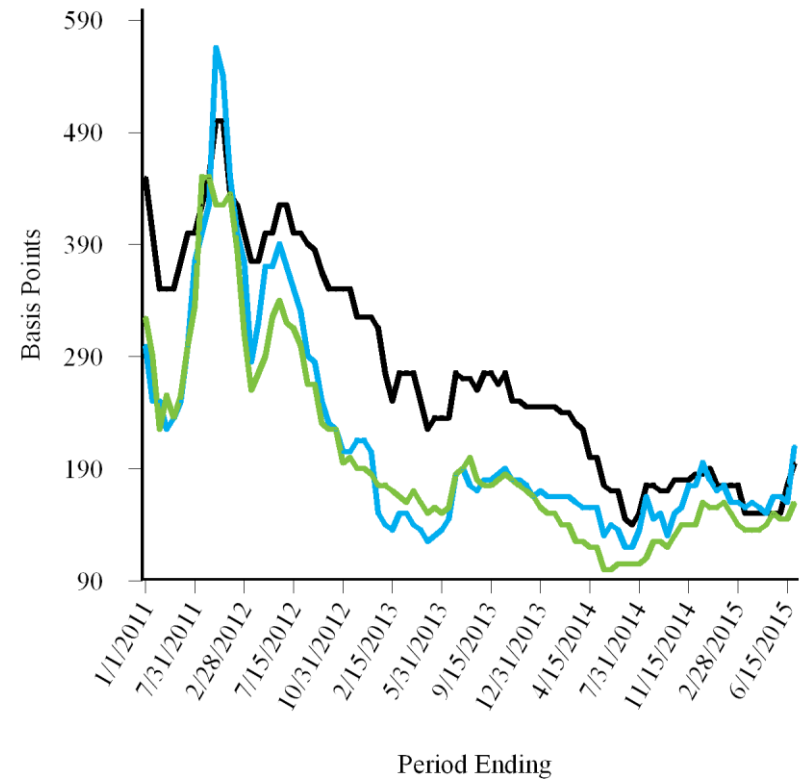
CMBS and CMBS IO Nominal Spreads

CMBS Spreads



AAA DUS Freddie Credit

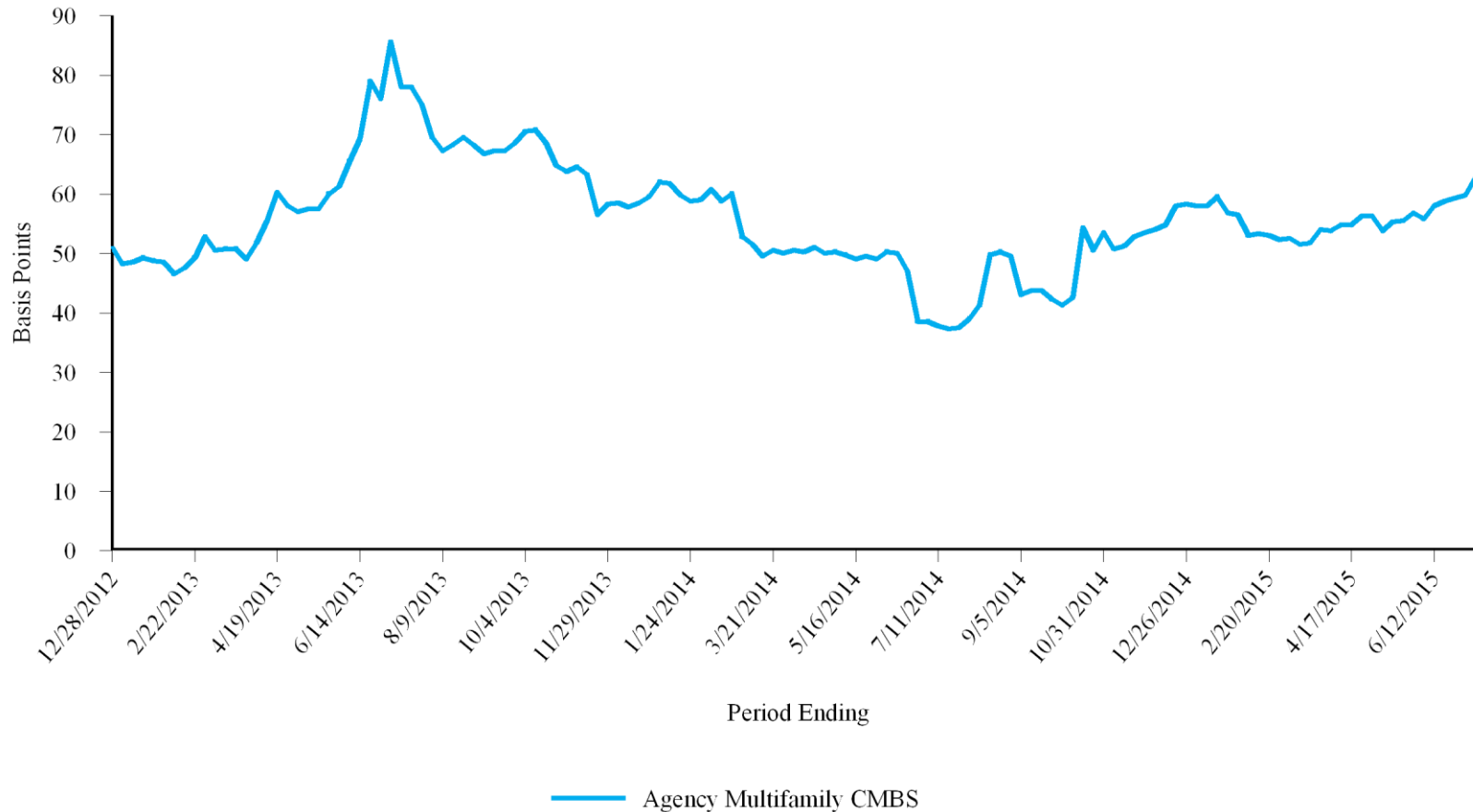
CMBS IO Spreads



Freddie IO CMBS IO GNR IO

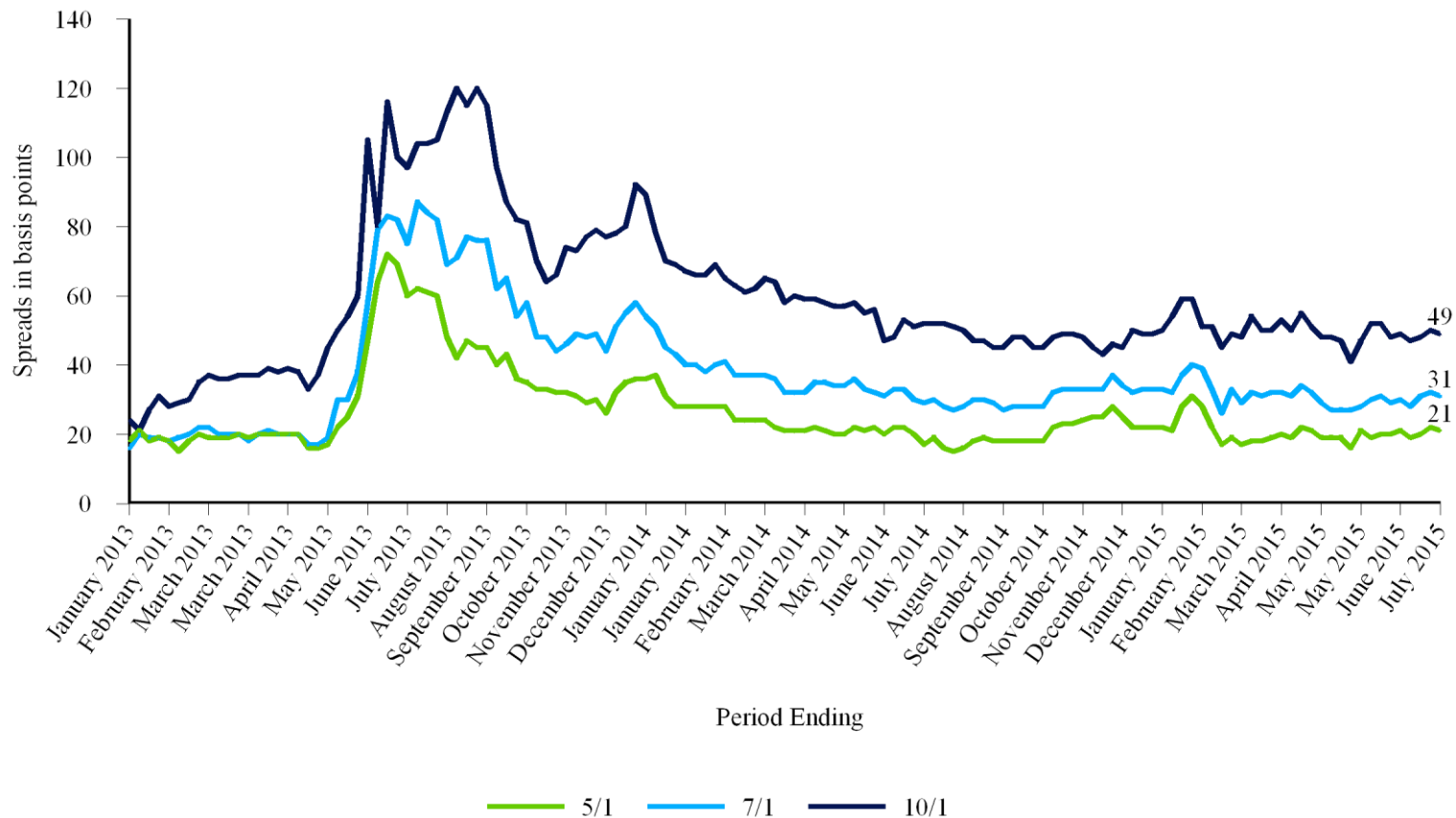
Source: Company data

Agency Multifamily CMBS Nominal Spreads



Source: Company data

Agency RMBS Nominal Spreads



Source: Company data

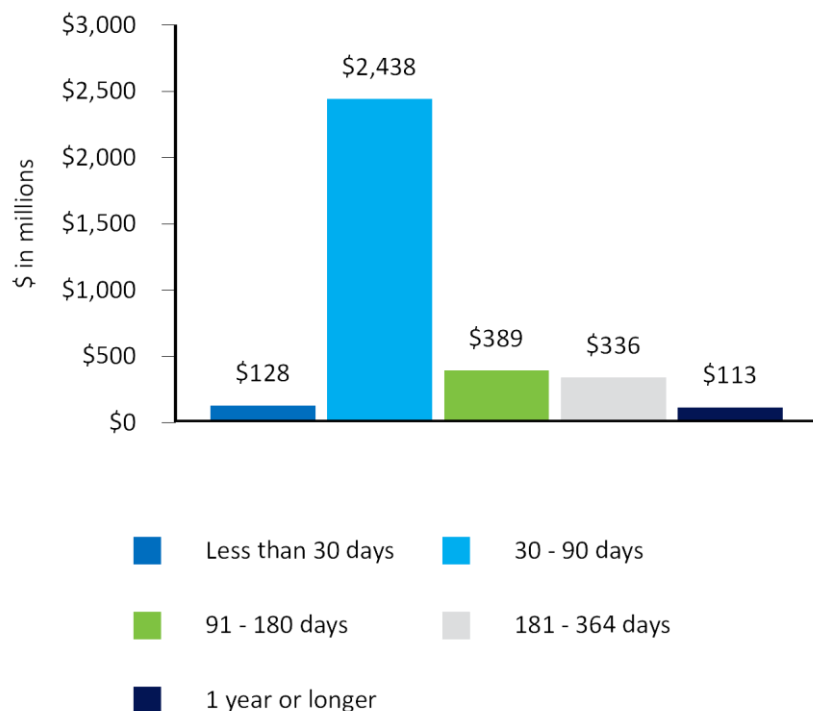
Spread Risk

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

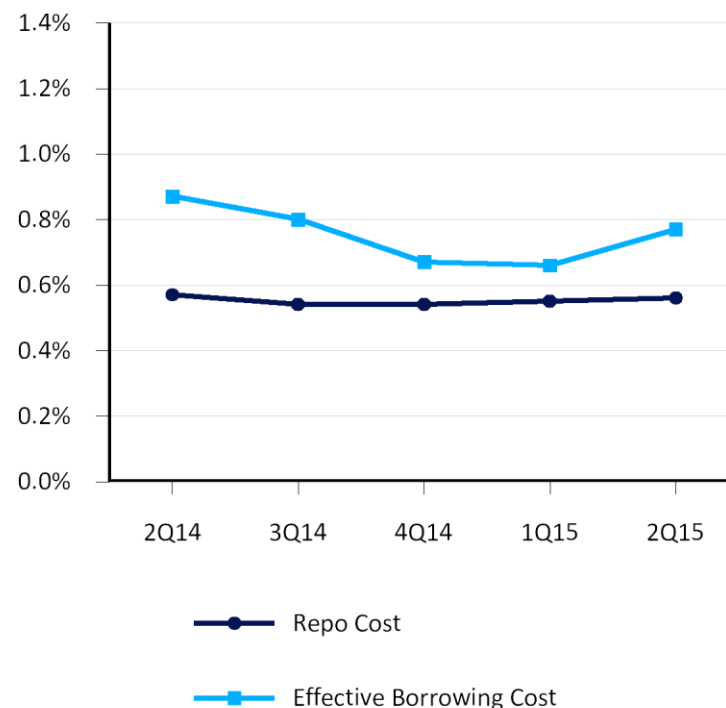


Financing Details

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



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



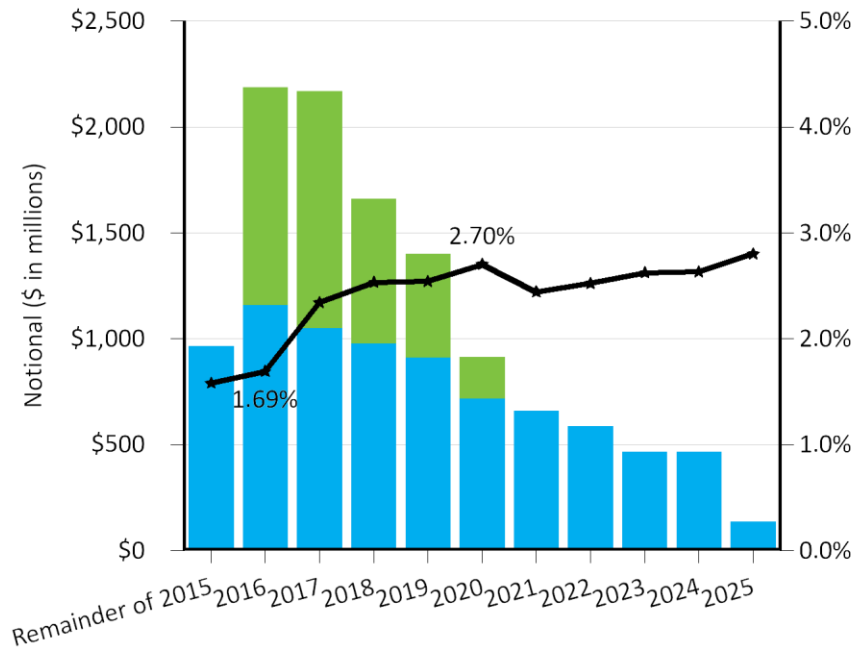
- Our weighted average contractual maturity was 88 days at June 30, 2015 compared to 116 days at March 31, 2015.
- Our repurchase agreement balance was \$3.4 billion at June 30, 2015 with 21 counterparties compared to \$3.2 billion with 20 counterparties at March 31, 2015. We currently have repurchase agreements available to us with 32 counterparties.

(1) Reconciliations for non-GAAP measures are presented on slides 37-38.

Hedging Details

(Quarterly Comparison)

As of June 30, 2015

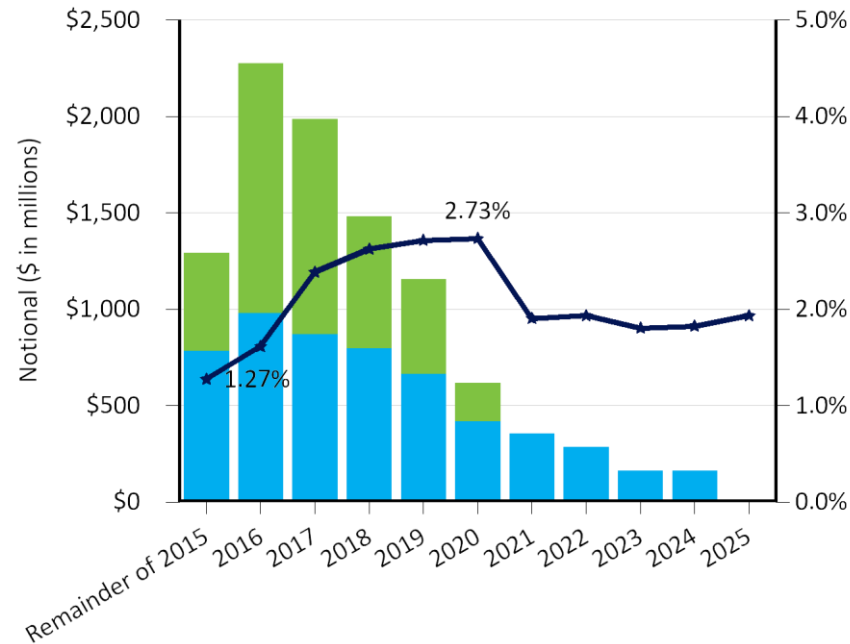


Interest Rate Swaps-Payers,
Net of Receivers

Eurodollar Futures

Total Weighted Average Pay Rate, Net

As of March 31, 2015



Interest Rate Swaps-Payers,
Net of Receivers

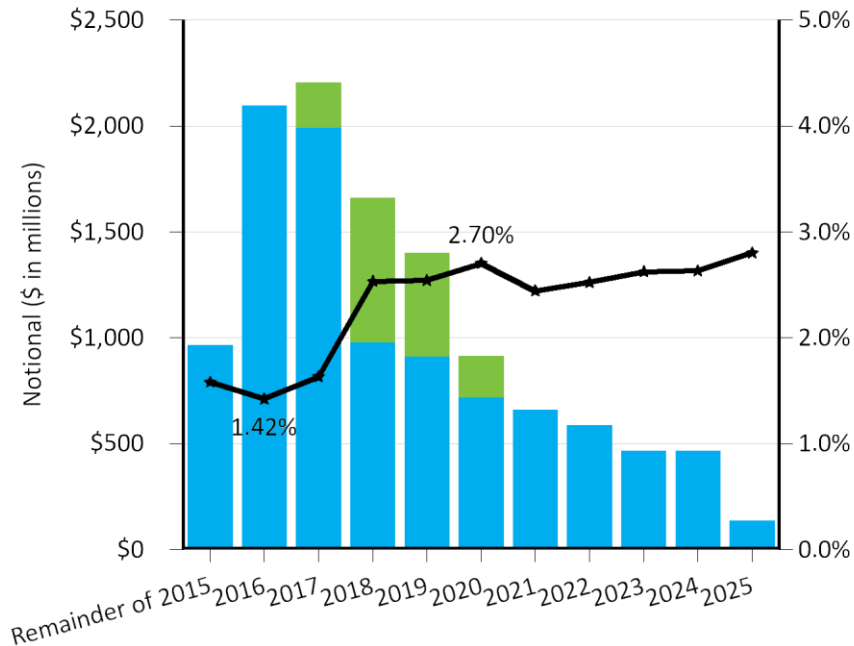
Eurodollar Futures

Total Weighted Average Pay Rate, Net

Hedging Details

(Activity subsequent to June 30, 2015)

As of July 31, 2015



Interest Rate Swaps-Payers,
Net of Receivers



Eurodollar Futures



Total Weighted Average Pay Rate, Net

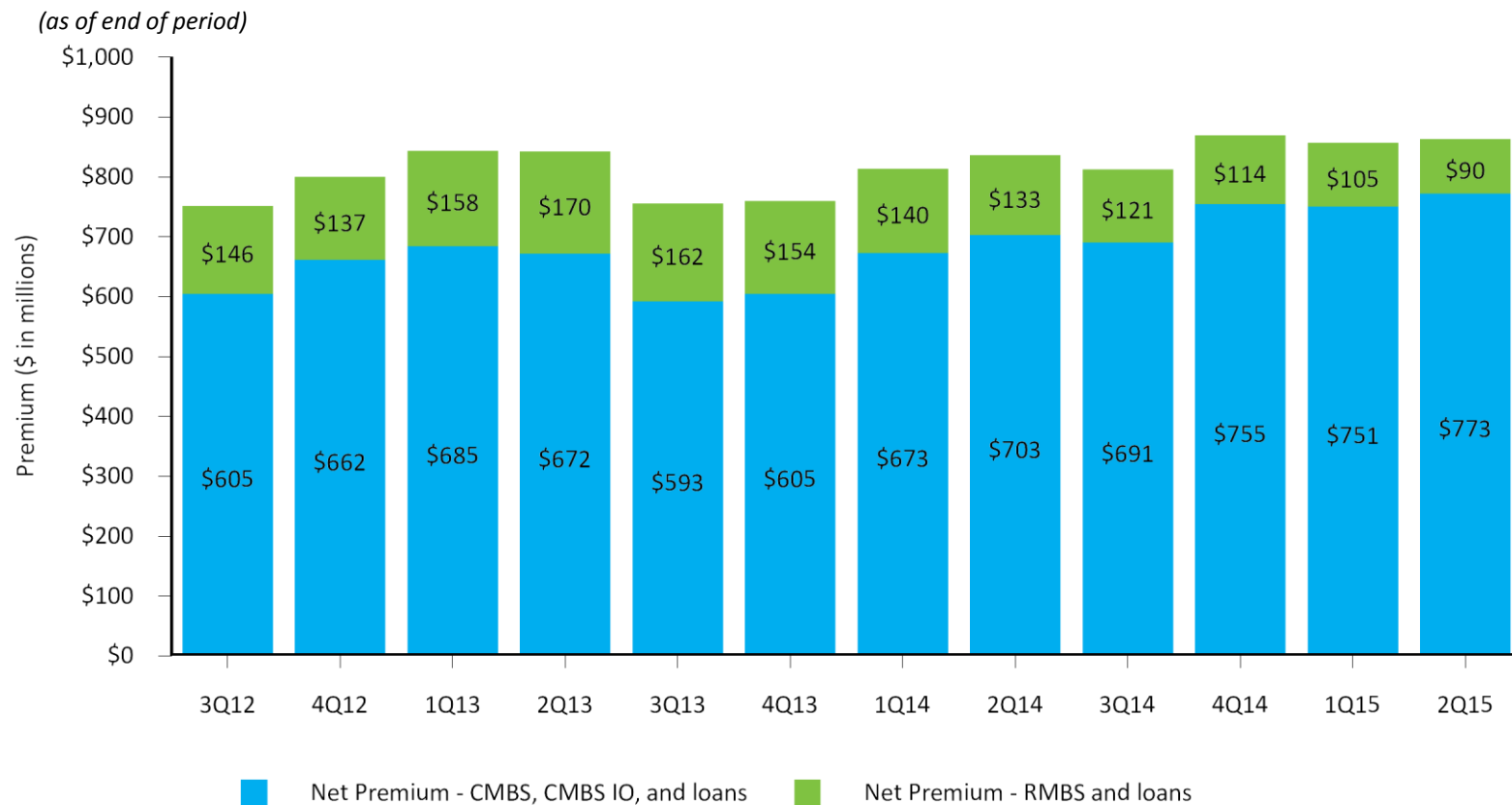
Risk Management

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	94% of MBS are AAA-rated* as of June 30, 2015 Current credit risk is multifamily focused
Spread Risk	Portfolio construction and long-term portfolio strategy
Liquidity Risk	Diversified repurchase agreement counterparties and low leverage Unencumbered liquidity to meet expected risk events

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



Investment Premium Allocation



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

(\$ in thousands, except per share amounts)	2Q2015	1Q2015	2Q2014
Net interest income	\$ 18,985	\$ 18,728	\$ 21,146
Gain (loss) on derivative instruments, net	\$ 17,090	\$ (25,323)	\$ (23,074)
(Loss) gain on sale of investments, net	\$ (1,491)	\$ 1,308	\$ (477)
Net income (loss) to common shareholders	\$ 28,168	\$ (11,766)	\$ (8,293)
Net income (loss) per common share	\$ 0.52	\$ (0.21)	\$ (0.15)
Core net operating income to common shareholders ⁽¹⁾	\$ 11,613	\$ 12,405	\$ 14,106
Core net operating income per common share ⁽¹⁾	\$ 0.21	\$ 0.23	\$ 0.26
Total comprehensive (loss) income to common shareholders	\$ (11,511)	\$ 11,287	\$ 26,906
Return on average common equity <i>(annualized)</i>	23.3%	(9.5)%	(6.7)%
Adjusted return on average common equity <i>(annualized)</i> ⁽¹⁾	9.6%	9.9%	11.3%
Dividends per common share	\$ 0.24	\$ 0.24	\$ 0.25
Book value per common share, end of period	\$ 8.53	\$ 8.96	\$ 9.12
Average interest earning assets	\$ 3,748,536	\$ 3,577,644	\$ 3,944,154
Average interest bearing liabilities	\$ 3,320,760	\$ 3,111,783	\$ 3,466,651
Weighted average effective yield ⁽²⁾	2.63%	2.62%	2.79%
Annualized cost of funds	0.66%	0.69%	0.75%
Net interest spread	1.97%	1.93%	2.04%
Adjusted net interest spread ⁽¹⁾	1.86%	1.96%	1.92%
Debt to shareholders' equity ratio, end of period	6.2x	5.7x	5.7x

(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 37-38.

(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)

	Quarter Ended				
	<u>6/30/2015</u>	<u>3/31/2015</u>	<u>12/31/2014</u>	<u>9/30/2014</u>	<u>6/30/2014</u>
Net (loss) income to common shareholders	\$28,168	(\$11,766)	\$1,379	\$28,572	(\$8,293)
Adjustments:					
Amortization of de-designated cash flow hedges ⁽¹⁾	857	1,057	1,449	1,442	1,608
Change in fair value on derivatives instruments, net	(18,883)	24,461	20,675	(7,113)	20,402
Loss (gain) on sale of investments, net	1,491	(1,308)	(10,950)	(9,057)	477
Fair value adjustments, net	(20)	(39)	(45)	(42)	(88)
Core net operating income to common shareholders	\$11,613	\$12,405	\$12,508	\$13,802	\$14,106
Core net operating income per share	\$0.21	\$0.23	\$0.23	\$0.25	\$0.26
ROAE based on annualized GAAP net income (loss) to common shareholders	23.3%	(9.5)%	1.1%	22.7%	(6.7)%
Adjustments:					
Amortization of de-designated cash flow hedges ⁽¹⁾	0.7%	0.8%	1.2%	1.1%	1.3%
Change in fair value on derivatives instruments, net	(15.6)%	19.7%	16.5%	(5.6)%	16.4%
Loss (gain) on sale of investments, net	1.2%	(1.1)%	(8.7)%	(7.2)%	0.4%
Fair value adjustments, net	—%	—%	—%	—%	(0.1)%
Adjusted ROAE, based on annualized core net operating income	9.6%	9.9%	10.1%	11.0%	11.3%
Average common equity during the period	\$483,546	\$497,626	\$501,553	\$503,861	\$497,864

⁽¹⁾ Amount recorded as a portion of "interest expense" in accordance with GAAP related to the amortization of the balance remaining in accumulated other comprehensive loss as of June 30, 2013 as a result of the Company's discontinuation of cash flow hedge accounting.

Reconciliation of GAAP Measures to Non-GAAP Measures

(\$ in thousands)

	Quarter Ended									
	<u>6/30/2015</u>		<u>3/31/2015</u>		<u>12/31/2014</u>		<u>9/30/2014</u>		<u>6/30/2014</u>	
GAAP interest income/ annualized yield	\$24,527	2.63%	\$24,099	2.62%	\$24,286	2.64%	\$26,000	2.73%	\$27,718	2.79%
GAAP interest expense/ annualized cost of funds ⁽¹⁾	5,542	0.66%	5,371	0.69%	5,652	0.72%	6,058	0.70%	6,572	0.75%
GAAP net interest income/spread	\$18,985	1.97%	\$18,728	1.93%	\$18,634	1.92%	\$19,942	2.03%	\$21,146	2.04%
GAAP interest expense/ annualized cost of funds ⁽¹⁾	\$5,542	0.66%	\$5,371	0.69%	\$5,652	0.72%	\$6,058	0.70%	\$6,572	0.75%
Amortization of de-designated cash flow hedges ⁽²⁾	(857)	(0.10)%	(1,057)	(0.14)%	(1,449)	(0.19)%	(1,442)	(0.17)%	(1,608)	(0.18)%
Net periodic interest costs on derivatives	1,793	0.21%	862	0.11%	1,064	0.14%	2,271	0.27%	2,672	0.30%
Effective borrowing costs	\$6,478	0.77%	\$5,176	0.66%	\$5,267	0.67%	\$6,887	0.80%	\$7,636	0.87%
Adjusted net interest income/spread	\$18,049	1.86%	\$18,923	1.96%	\$19,019	1.97%	\$19,113	1.93%	\$20,082	1.92%

(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.