

A photograph of a lighthouse perched on a dark, craggy rock cliff. The lighthouse is a multi-tiered structure with a white base and a reddish-brown upper section. The lantern room at the top is brightly lit, casting a warm glow. To the left of the lighthouse is a smaller, single-story building with a red roof and several windows, some of which are also lit. The background is a clear, deep blue sky, suggesting twilight. The overall mood is serene and iconic.

Two Harbors Investment Corp.

Analyst & Investor Day

New York Stock Exchange

October 10, 2012

July Hugen, Investor Relations

Agenda

Time	Schedule
10:45 a.m. ET	Registration
11:05 a.m. ET	Opening Remarks
11:10 a.m. ET	Ivy Zelman <i>Guest Speaker</i>
11:50 a.m. ET	Luncheon
12:30 p.m. ET	Thomas Siering <i>Executive Overview</i>
12:45 p.m. ET	William Roth <i>Market & Portfolio Update</i>
1:25 p.m. ET	Brad Farrell <i>Financial Review</i>
1:35 p.m. ET	Q & A
1:55 p.m. ET	Closing Remarks
2:00 p.m. ET	Adjourn

Safe Harbor Statement

Forward-Looking Statements

This presentation includes “forward-looking statements” within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Actual results may differ from expectations, estimates and projections and, consequently, readers should not rely on these forward-looking statements as predictions of future events. Words such as “expect,” “target,” “assume,” “estimate,” “project,” “budget,” “forecast,” “anticipate,” “intend,” “plan,” “may,” “will,” “could,” “should,” “believe,” “predicts,” “potential,” “continue,” and similar expressions are intended to identify such forward-looking statements. These forward-looking statements involve significant risks and uncertainties that could cause actual results to differ materially from expected results. Factors that could cause actual results to differ include, but are not limited to, higher than expected operating costs, changes in prepayment speeds of mortgages underlying our RMBS, the rates of default or decreased recovery on the mortgages underlying our non-Agency securities, failure to recover certain losses that are expected to be temporary, changes in interest rates or the availability of financing, the impact of new legislation or regulatory changes on our operations, the impact of any deficiencies in the servicing or foreclosure practices of third parties and related delays in the foreclosure process, the inability to acquire mortgage loans or securitize the mortgage loans we acquire, the inability to acquire residential real properties at attractive prices or lease such properties on a profitable basis, the impact of new or modified government mortgage refinance or principal reduction programs, and unanticipated changes in overall market and economic conditions.

Readers are cautioned not to place undue reliance upon any forward-looking statements, which speak only as of the date made. Two Harbors does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statement to reflect any change in its expectations or any change in events, conditions or circumstances on which any such statement is based. Additional information concerning these and other risk factors is contained in Two Harbors’ most recent filings with the Securities and Exchange Commission. All subsequent written and oral forward looking statements concerning Two Harbors or matters attributable to Two Harbors or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above.

Market Landscape

Guest Speaker

Ivy Zelman

Zelman & Associates



- Leading authority on the housing industry.
- Founded Zelman & Associates in 2007, focused on extensive macro and company-specific research, including coverage of 34 individual stocks.
- Former Managing Director at Credit Suisse in homebuilding-related equity research.
- *Institutional Investors'* All-America Research Team for 12 consecutive years including eight number one rankings.
- Six first-place rankings in Greenwich Associates' Institutional Research Services.
- Number one earnings estimator among over 3,300 security analysts by *Forbes Magazine* for 3 consecutive years.
- Frequently quoted in the *Wall Street Journal* and *New York Times*, as well as guest authority on CNBC.
- Ranked 14th in *Builder Magazine's* Power Broker List of the 50 most influential people in homebuilding in 2005 and 2006 along with George W. Bush and Alan Greenspan.

Executive Overview

Executive Overview

Tom Siering

President & Chief Executive Officer



- President & Chief Executive Officer since inception in 2009.
- Partner of Pine River Capital Management since 2006.
- Previously a partner at EBF & Associates leading the Value Investment Group.
- Former portfolio manager specializing in distressed, credit and value strategies for Merced Partners, LP and Tamarack International Limited.
- Founding member of the Financial Markets Department at Cargill, Incorporated.
- Bachelor of Business Administration with a major in Finance from the University of Iowa.

Compelling Market Drivers

Executive Overview

We have the opportunity to serve as a permanent source of capital to the mortgage sector.

- The U.S. government has indicated its intent to reduce its involvement in the RMBS market and banks are adjusting their portfolios due to new regulatory framework for capital and liquidity requirements.
- Private capital, such as mortgage REITs, is essential to fill the void in housing and mortgage sectors. Reducing the role of the GSEs should be universally popular as it mitigates credit exposure for the taxpayer.
- It will take many years to address all the issues surrounding housing finance.
- The Fed is the largest buyer in the mortgage market today.
- Policy considerations are increasingly important to the performance of the market.
- The Federal Reserve's commitment to continue to keep short-term interest rates low provides funding visibility.

RMBS Investment Universe

- Flexibility as a hybrid REIT to take advantage of opportunities in both Agency and non-Agency sectors.

Hybrid Mortgage REIT

- Residential mortgage-backed securities (RMBS)
- Residential mortgage loans
- Residential real properties
- Other financial assets

Mission

- To be recognized as the industry-leading hybrid mortgage REIT.

Objectives

- Optimize shareholder value.
- Provide attractive risk-adjusted returns.

Two Harbors Today

- Largest hybrid mortgage REIT focused on investing in residential mortgage-backed securities.
- Total RMBS portfolio of over \$15 billion.
- \$3.4 billion market capitalization¹.
 - Completed eight stock offerings raising approximately \$2.5 billion.
- Talented and deep bench in Minnesota and New York.
 - Mortgage team at Pine River provides research and analytics.
- Robust operational and risk management platform to generate sustainable growth.
- Best-in-class disclosure and governance.
- Of the 33 million outstanding warrants, approximately 16 million have been exercised for proceeds of \$175 million.
- Purchased roughly 1,670 single-family residential properties as of the end of September 2012.

Talented and Deep Bench

Executive Overview

A solid foundation for managing business operations and risk.

Investor Relations team provides best-in-class transparency, disclosure and investor reporting.

Experienced RMBS investment team focused on cross-sector, relative-value approach.

Real-time risk analysis and investment committee oversight.

Business Diversification informs unique ideas for value creation.

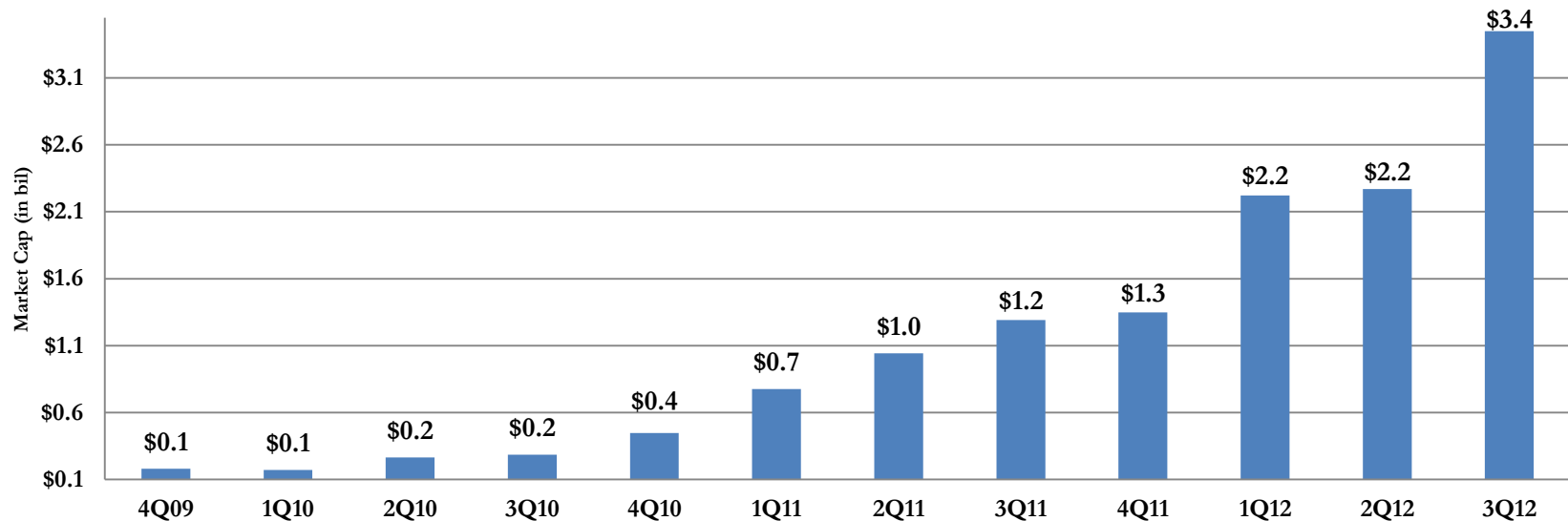
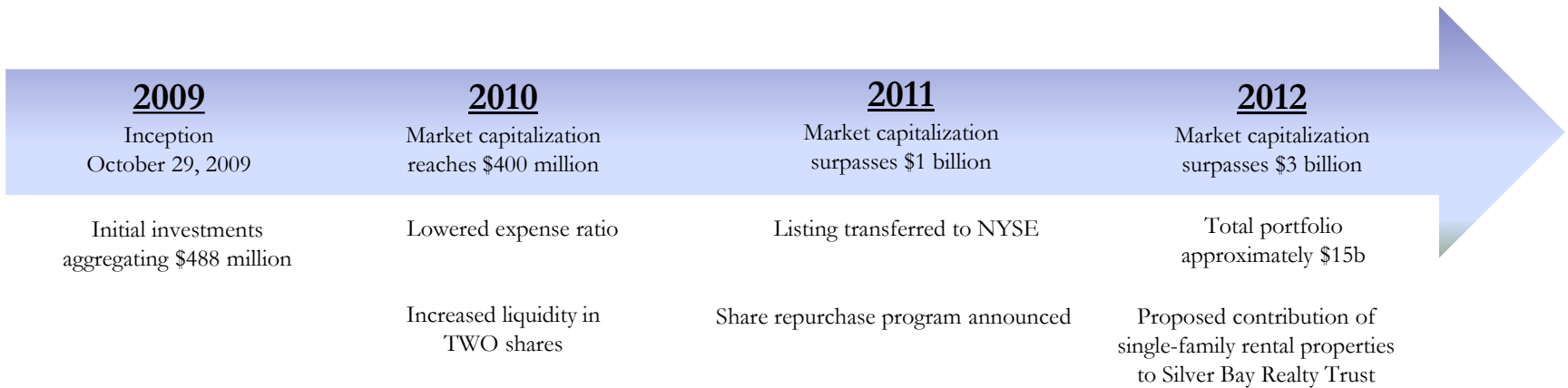


Legal team navigates changing legal backdrop and ensures strong governance practices.

Accounting and Tax teams focus on robust financial reporting and disclosure.

Building a Strong Franchise

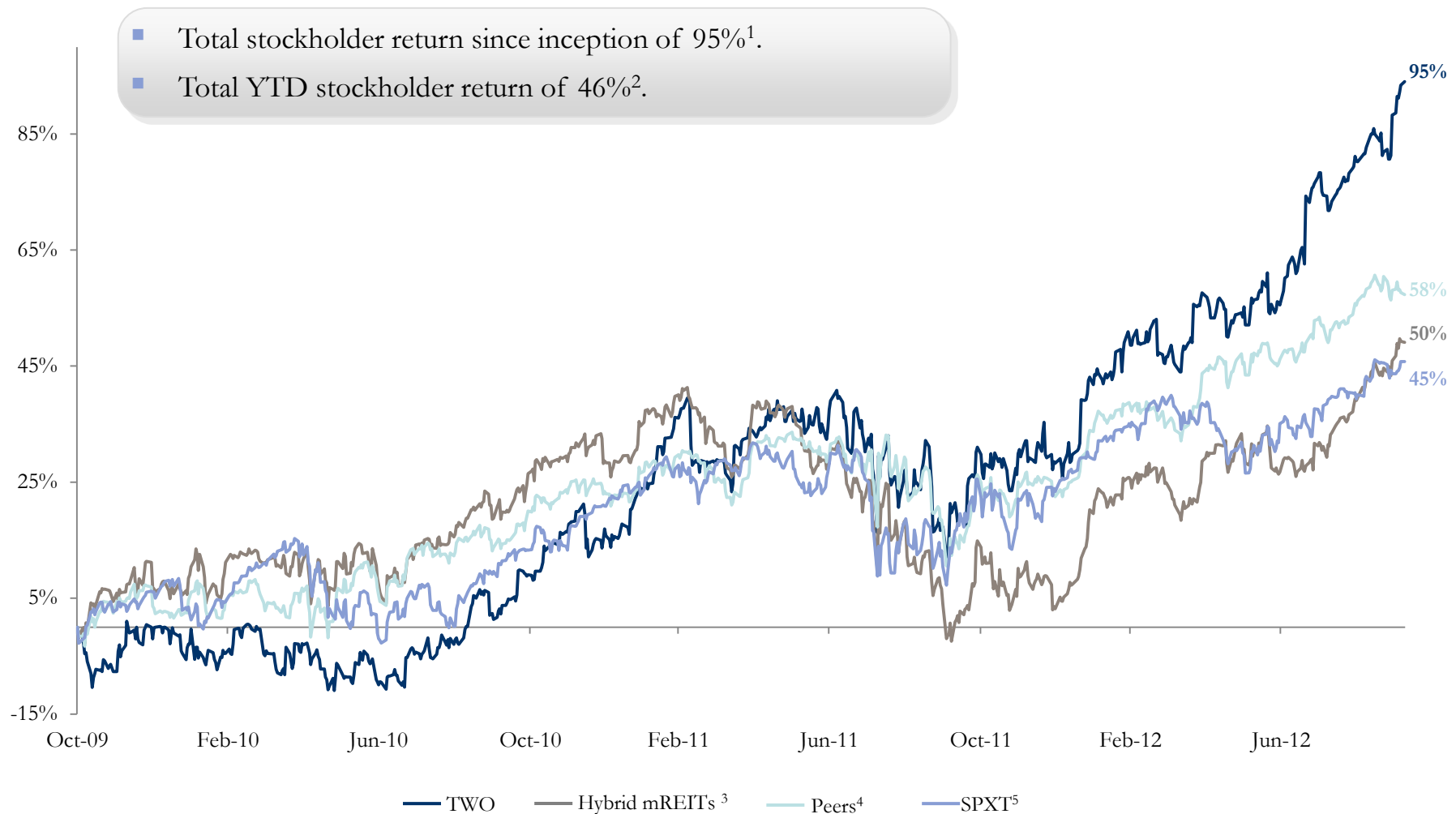
Executive Overview



Source: Bloomberg

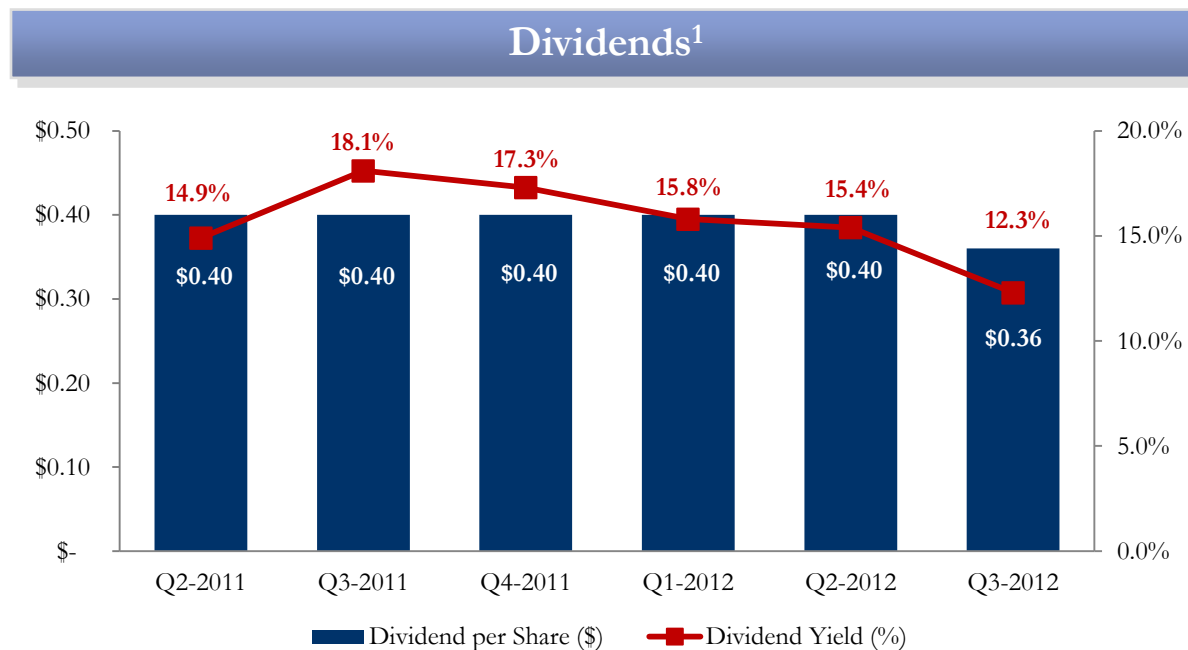
Delivering Total Return

Executive Overview



Dividend History

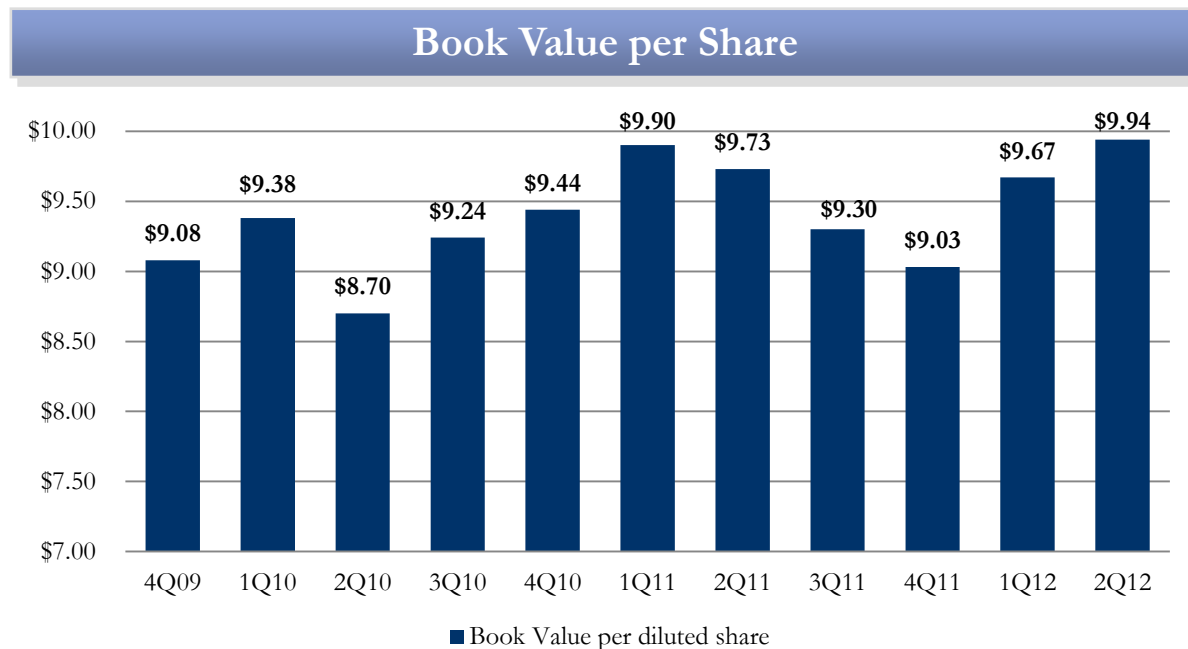
- Our primary goal is to provide returns through dividend distributions.
- Stockholders with us from inception have received \$4.50 per share.



(1) Historical dividends may not be indicative of future dividend distributions. The company ultimately distributes dividends based on its taxable income per common share, not GAAP earnings. The annualized dividend yield on the company's common stock is calculated based on the closing price of the last trading day of the quarter.

Book Value History

- Focus on maintaining book value stability, as healthy book value is critical to dividend generation over time.
- Goal is to increase book value through opportunistic capital allocation and security selection.
- During the third quarter, our book value per share rose substantially, to well north of \$11.00.



Positioned for Continued Performance

Executive Overview

- Established track record of delivering exceptional results and shareholder returns.
- Flexible hybrid structure to opportunistically invest in Agency and non-Agency securities.
- Disciplined investment and effective hedging strategies to manage risk.
- Robust operational foundation to support our business.
- Business diversification strategy to leverage opportunity and create shareholder value.
- Demonstrated commitment to exemplary financial stewardship, corporate governance and transparency.

Portfolio Update

Portfolio Update

Bill Roth

Co-Chief Investment Officer

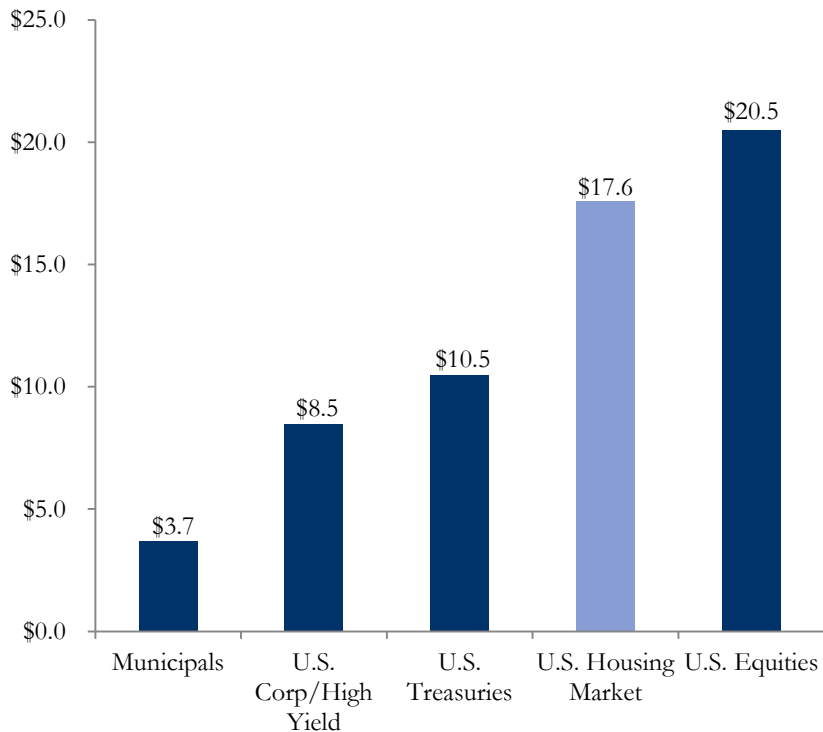


- Co-Chief Investment Officer since October 2009.
- Partner of Pine River Capital Management.
- Three decades of experience in the mortgage securities market.
- Managing Director at Citigroup overseeing a proprietary trading book focusing on mortgage and asset-backed securities.
- Salomon/Citi New York Mortgage Sales Department; managed Chicago Financial Institutions Sales Group.
- M.B.A. from the University of Chicago Graduate School of Business and a B.S. in Finance and Economics from Miami University.

U.S. Financial and Mortgage Market

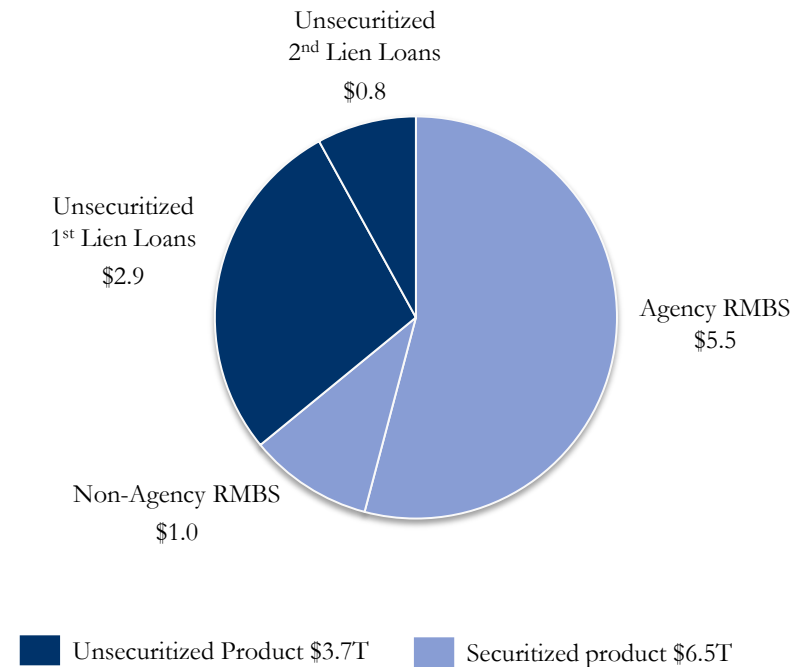
Financial Markets

\$ Trillions



U.S. Mortgage Market

\$ 10.2 Trillion



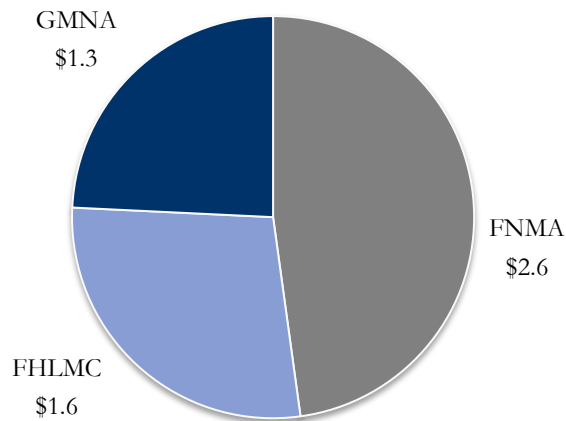
Residential sector represents an extremely large asset class.

Agency Market Overview

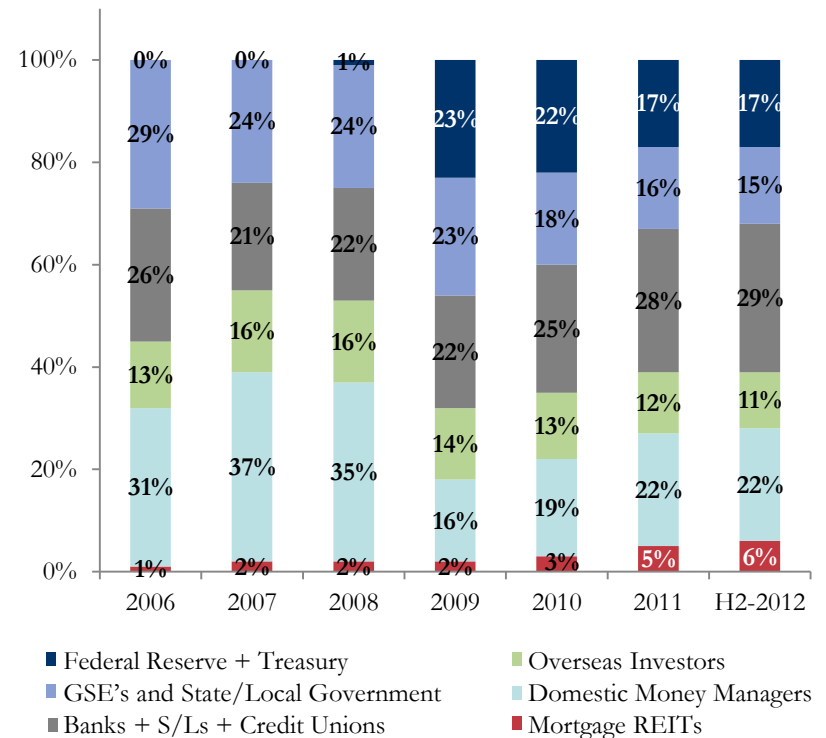
Portfolio Update

Agency Market¹

\$ 5.5 Trillion



Agency Ownership²



The government is highly involved in the mortgage market.

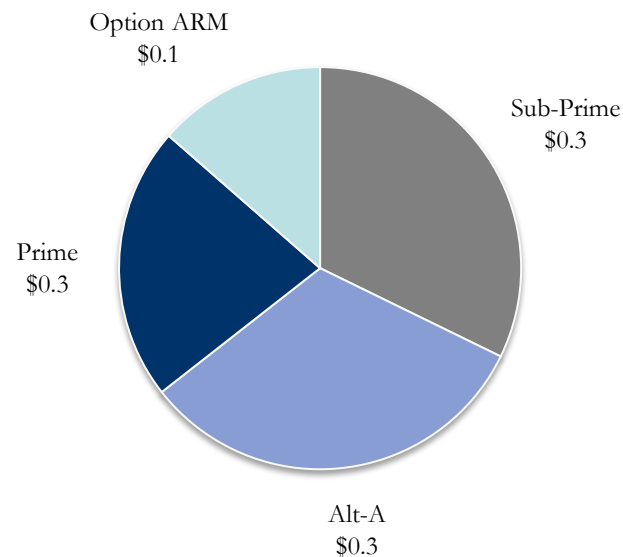
- (1) Source: Amherst Securities Group LP. Data presented as of June 2012.
 (2) Source: Nomura Securities, public company filings and estimates of Two Harbors and its external manager, PRCM Advisers LLC.

Non-Agency Market Overview

Portfolio Update

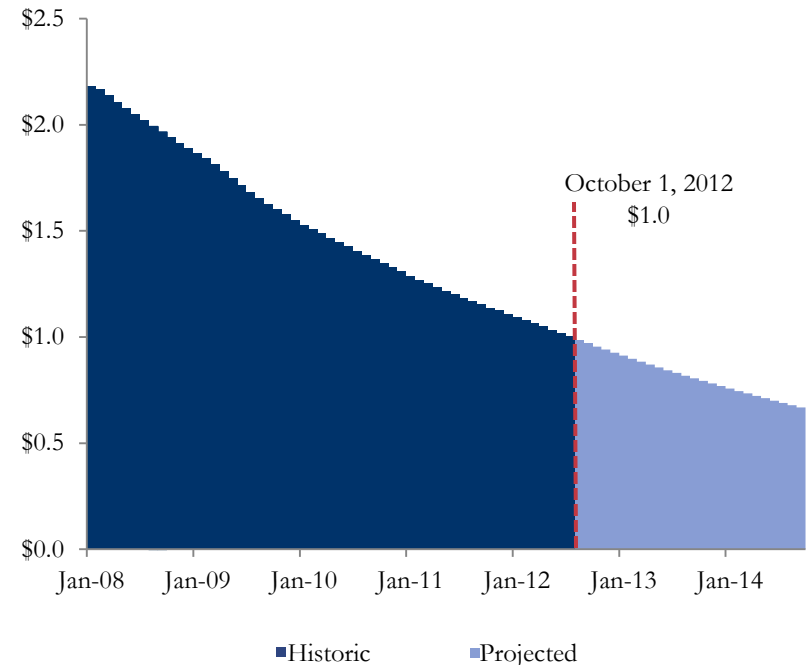
Non-Agency Market¹

\$ 1.0 Trillion



Non-Agency Mortgages Outstanding²

\$ Trillions



Non-Agency supply is decreasing as a result of legacy pay downs and minimal new originations.

- (1) Source: Amherst Securities Group LP. Data presented as of June 2012.
 (2) Source: Estimates of Two Harbors and its external manager, PRCM Advisers LLC. Non-Agency mortgages outstanding presented as of October 2012.

Macroeconomic

- QE3 announcement on September 13th. Open-ended MBS purchases of an additional \$40 billion per month, totaling ~\$70 billion per month.
- Federal Reserve's commitment to keep target federal funds rate low until mid-2015.
- Housing market appears to be stabilizing. Market is firm at the lower price end.

Agency RMBS

- Agency spreads have tightened.
- HARP is working.
- Prepayment speeds on generic paper is expected to remain fast.
- Guarantee fees (g-fees) have increased, including state-level fees.

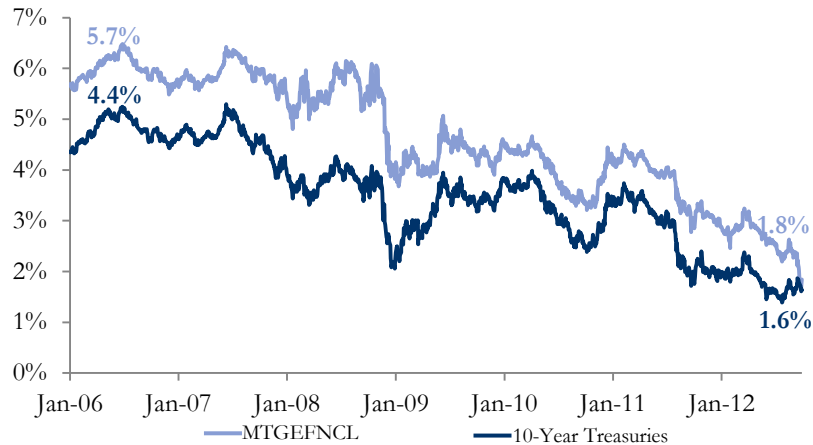
Non-Agency RMBS

- Credit-sensitive assets have rallied.
- Loan performance of underlying collateral continues to improve.
- Loss-adjusted yields continue to be attractive relative to other asset classes.

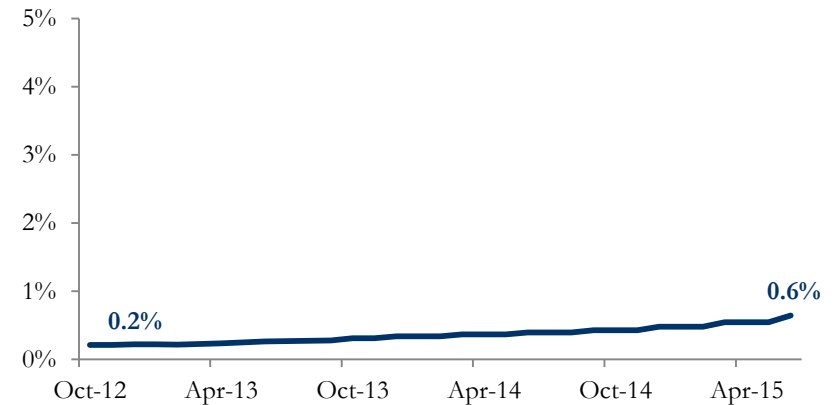
Current Market Trends

Portfolio Update

10-Year Treasuries vs. Current Coupon Yield¹



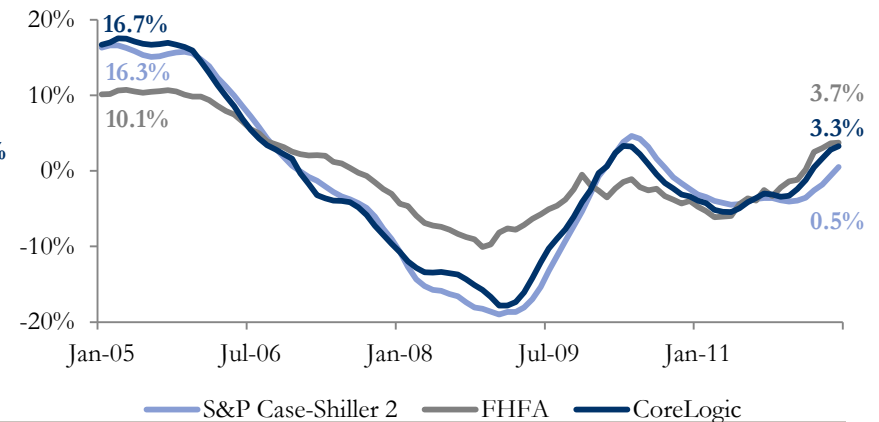
1 Month Forward LIBOR Rates²



2-Year vs. 10-Year Treasury Spread³



Housing Stabilization⁴



- (1) Source: Bloomberg.
- (2) Source: Intex.
- (3) Source: Bloomberg.
- (4) Sources: J.P. Morgan Home Price Monitor, CoreLogic, Case-Shiller Fiserv and FHFA.

Agency Spreads Are Tighter

Fannie Mae Current Coupon – 5/10Yr U.S. Treasury Yield

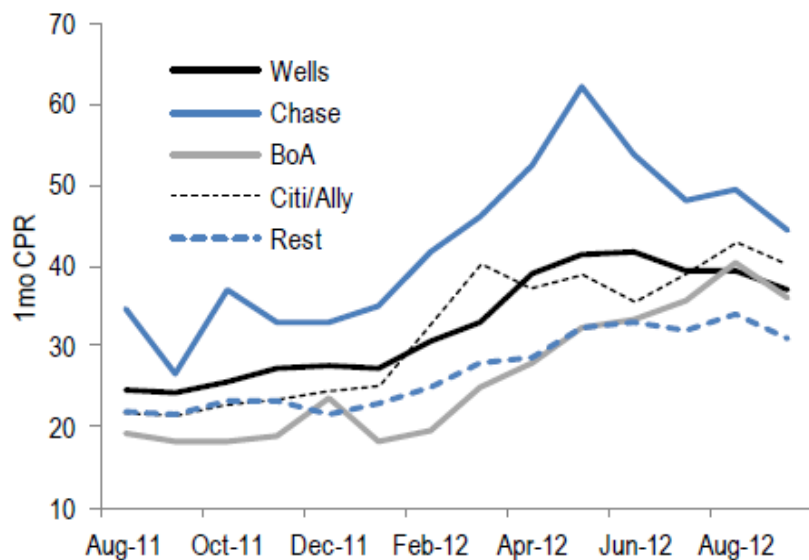


Sources: The Yield Book and RBS.

HARP is Working

Portfolio Update

HARP Speeds by Servicer¹



Larger servicers are aggressively pursuing HARP.

HARP Scorecard²

FMNA	5.5	6.0	6.5
Pre-HARP 2.0 Baseline (October to December 2011)			
	26.7	23.3	21.3
HARP 2.0 Online			
April 2012	34.4	31.6	27.1
May 2012	39.6	36.2	32.0
June 2012	39.9	37.2	32.9
July 2012	40.4	38.3	33.6
August 2012	42.7	38.8	33.7
3 Mo Avg. vs. Baseline	14.3	14.8	12.1

Speeds are consistently elevated compared to pre-HARP.

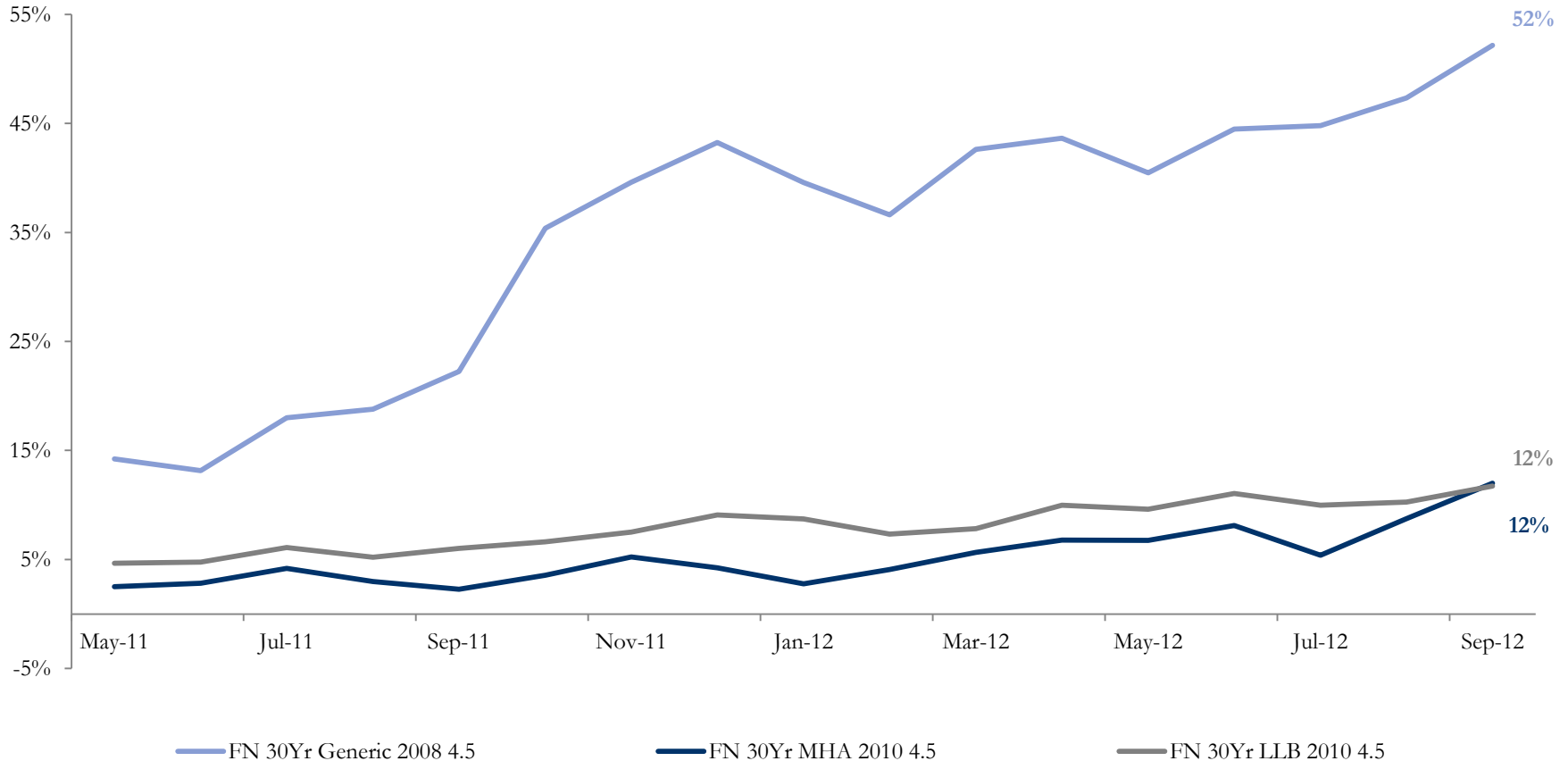
Source: J.P. Morgan.

- (1) Aggregate speeds observed on Gold 30-year '06-'08 vintage 5.95%+ WAC loans by current servicer over the past year, based on Freddie loan level data.
- (2) Average 1-month CPR Q4'11 used as a baseline, compared to observed speeds for April to August 2012 for Fannie and Freddie 30-year 5.5%-6.5% coupons.

Generics Remain Fast

Portfolio Update

LLB and MHA Pools vs. Generics



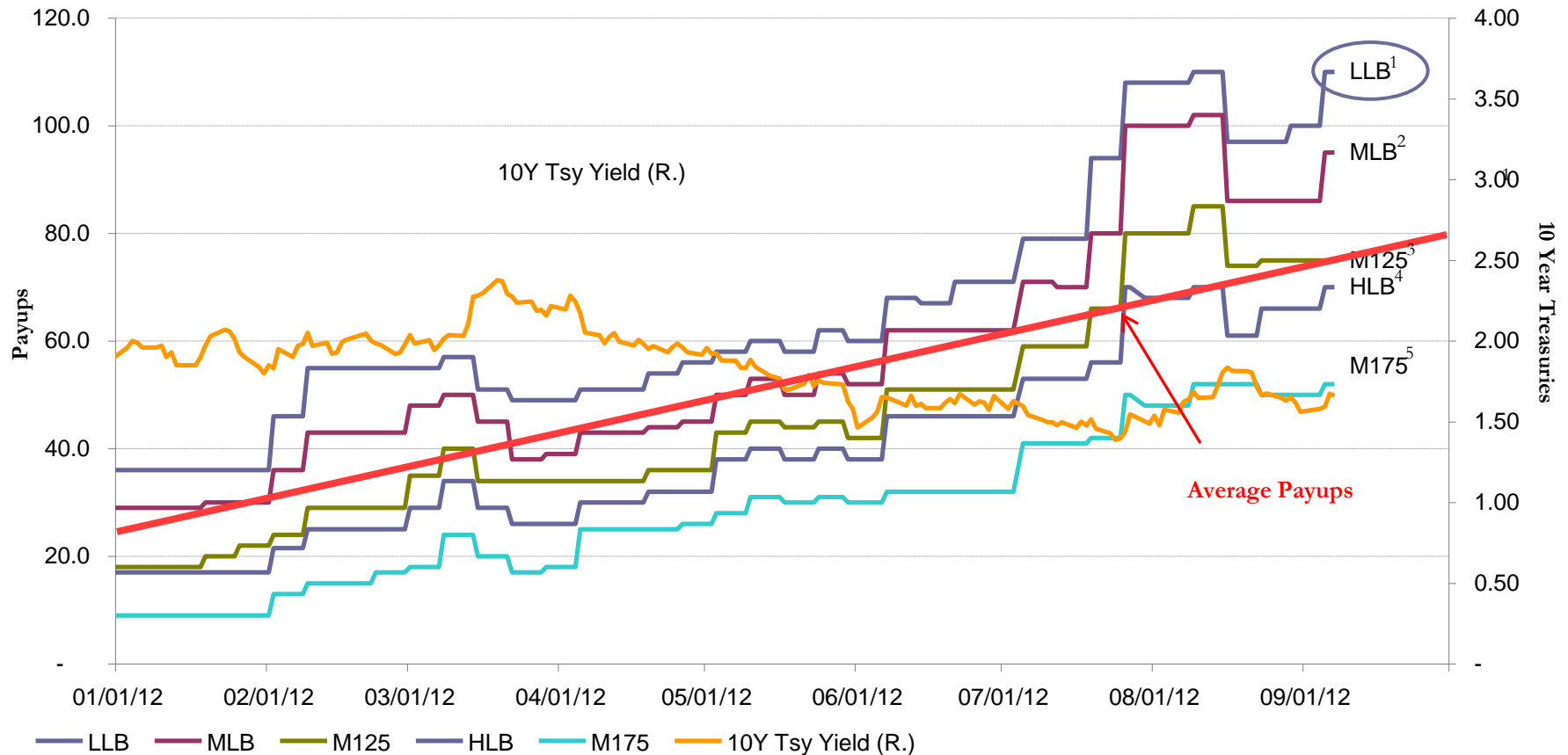
Speeds on generics are expected to remain fast in comparison to prepayment protected pools.

Source: J.P. Morgan and eMBS. Data presented as of October 5, 2012.

Specified Pool Payups vs. TBA

Portfolio Update

FNMA 30 Year 4.0s Specified Pool Payups



Payups for prepayment protected pools have increased during the year.



Source: J.P. Morgan.

- (1) LLB represents securities collateralized by loans of less than or equal to \$85K.
- (2) MLB represents securities collateralized by loans of less than or equal to \$110K.
- (3) M125 represents securities collateralized by loans of less than or equal to \$125K.
- (4) HLB represents securities collateralized by loans of less than or equal to \$150K.
- (5) M175 represents securities collateralized by loans of less than or equal to \$175K.

Prepayment Protected Pools Offer Value

Portfolio Update

Coupon	Generic	LLB ¹ Payup	LLB ¹ Price	MHA 80 Payup	MHA 80 Price
4.0	\$107.81	\$3.75	\$111.56	\$2.07	\$109.88
4.5	\$108.31	\$4.78	\$113.09	\$2.85	\$111.16

Coupon	Generic Yield	LLB ¹ Yield	MHA 80 Yield
4.0	0.3%	2.1%	2.0%
4.5	0.5%	2.2%	2.1%

Coupon	Generic OAS ²	LLB OAS ^{1,2}	MHA 80 OAS ²
4.0	(53) bps	34 bps	45 bps
4.5	(30) bps	51 bps	67 bps

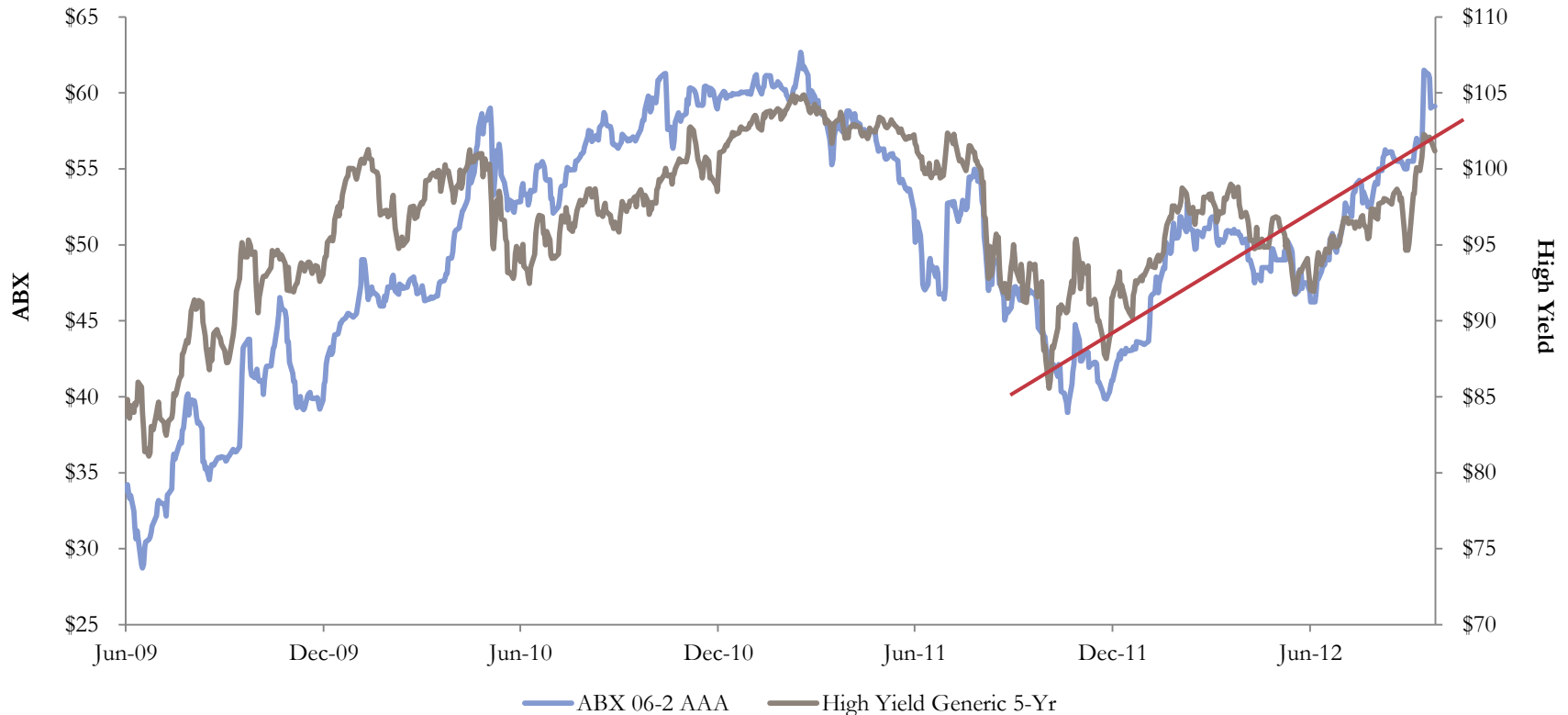
Source: Barclays. Data presented as of October 2, 2012.

- (1) LLB represents securities collateralized by loans of less than or equal to \$85K.
- (2) OAS represents option adjusted spread.

Credit Rally in 2012

Portfolio Update

ABX vs. High Yield

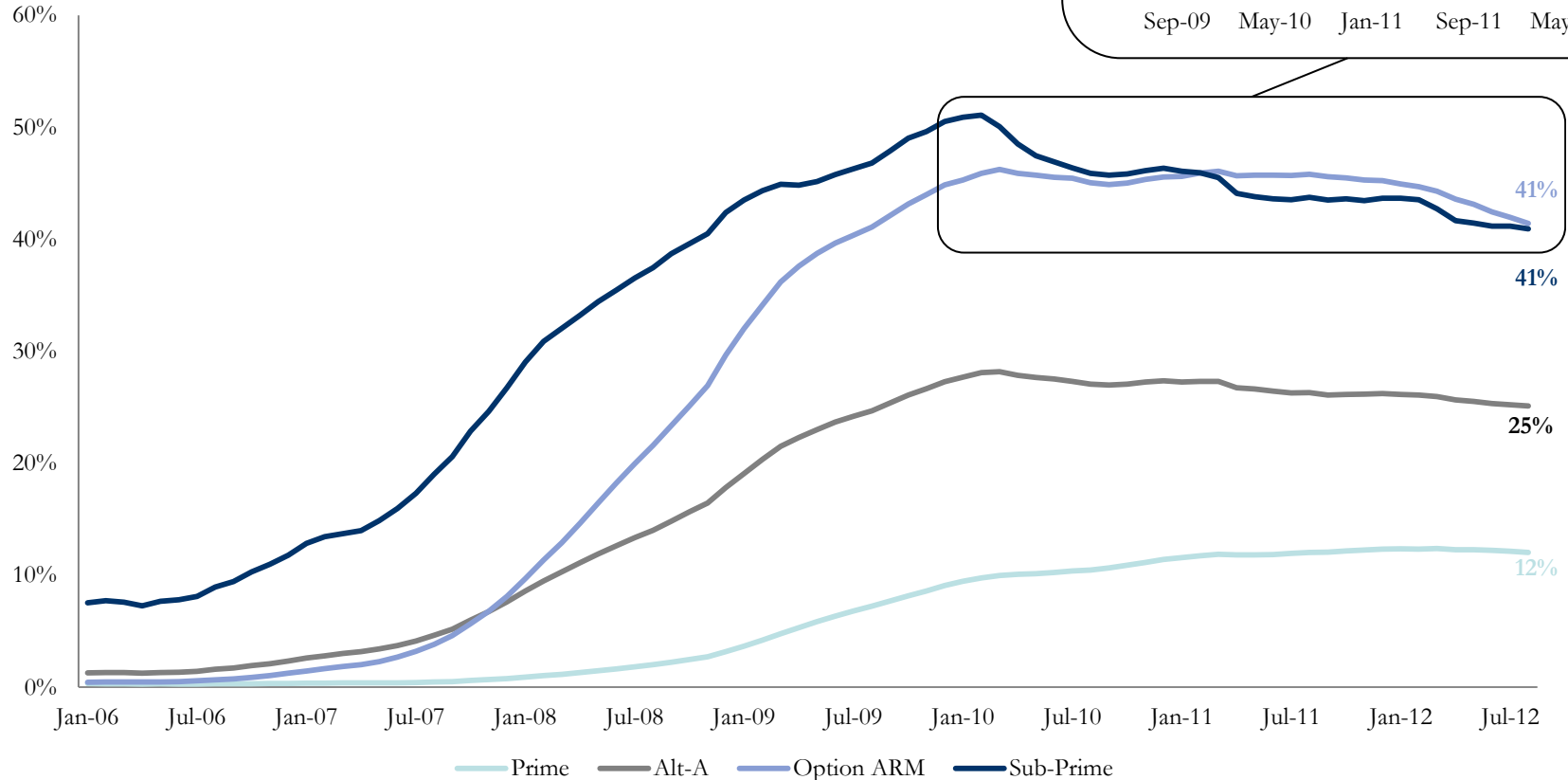


Credit-sensitive assets rally with mortgage-backed securities outperforming.

Source: Bloomberg.

Non-Agency Delinquencies

60+ Day Delinquencies



Delinquencies have stabilized with notable improvement in Sub-Prime.

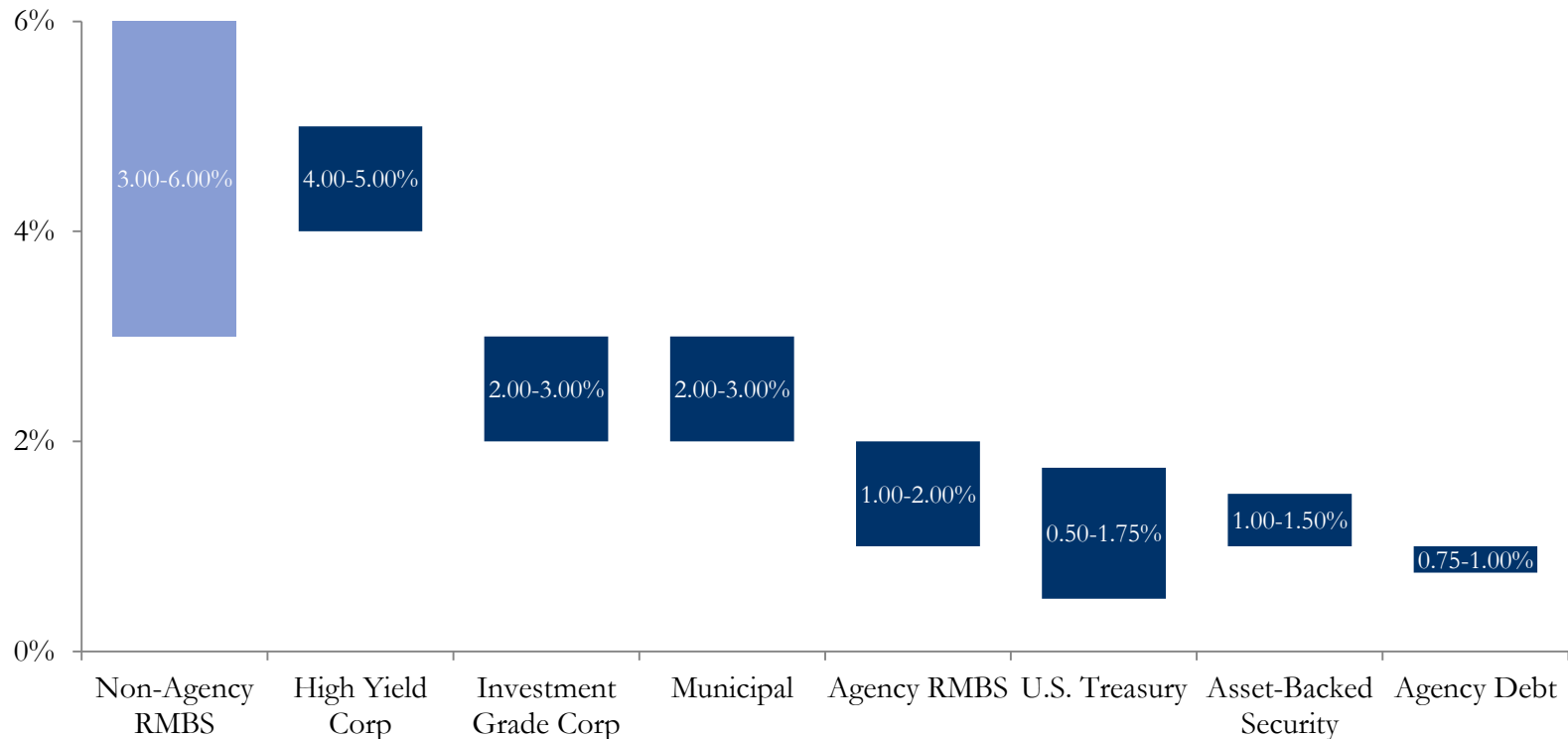
Source: Loan Performance.

Non-Agencies Remain Attractive

Portfolio Update

Market Yields

Estimates as of September 28, 2012



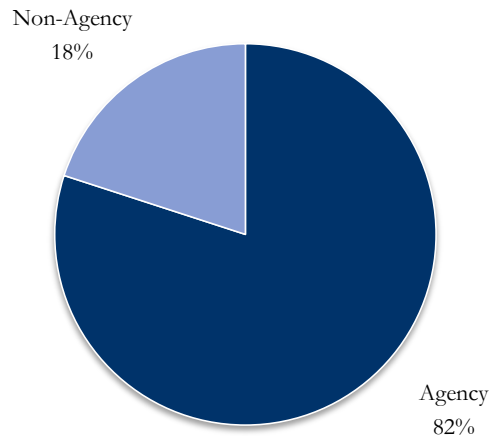
Portfolio Overview

Portfolio Update

RMBS Portfolio

Aggregate Portfolio: \$11.0B

As of June 30, 2012



Post-July 2012 Deployment

Aggregate Portfolio: Over \$15.0B

Asset Allocation (%): Agency Mid-80s/Non-Agency Mid-Teens

Capital Allocation (%): Agency Mid-50s/Non-Agency Mid-30s

Residential Real Properties 7%

Agency Strategy

- Attractive returns with moderate leverage in 6.0x - 7.0x range.
- Intense focus on prepayment stability intended to provide for sustainable yields.
- Stable cash flows make interest rate hedging more effective.
- Portfolio's implied or explicit prepayment protection of 97%.

Non-Agency Strategy

- Attractive loss-adjusted yields. Leverage in 1.0x - 1.5x range.
- Focus on deeply discounted bonds.
- Improving underlying loan performance: Declining delinquencies, relatively stable housing prices and servicers' actions benefit bond holders.
- Potential benefit from policy actions and housing recovery over time.

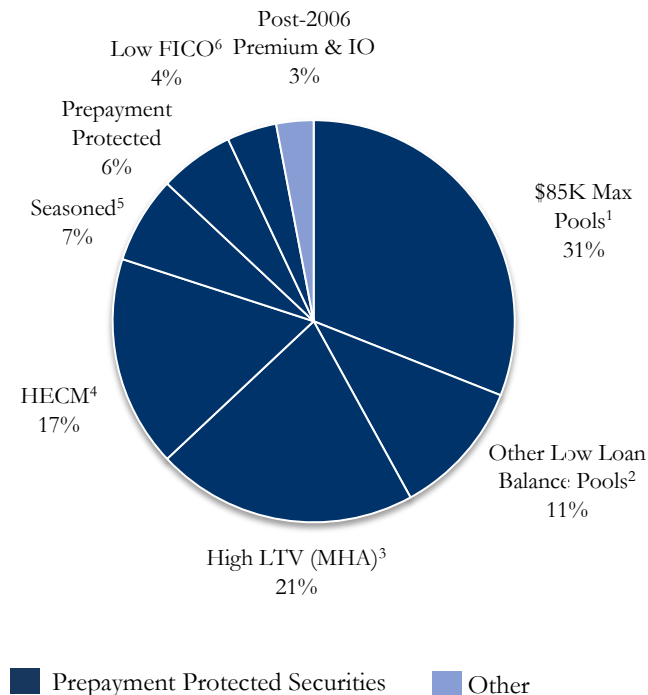
Agency Portfolio

Portfolio Update

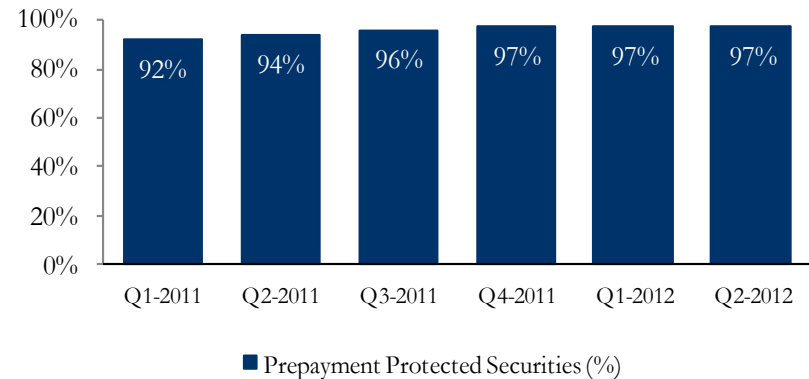
Agency RMBS Portfolio

Agency Portfolio: \$9.0B

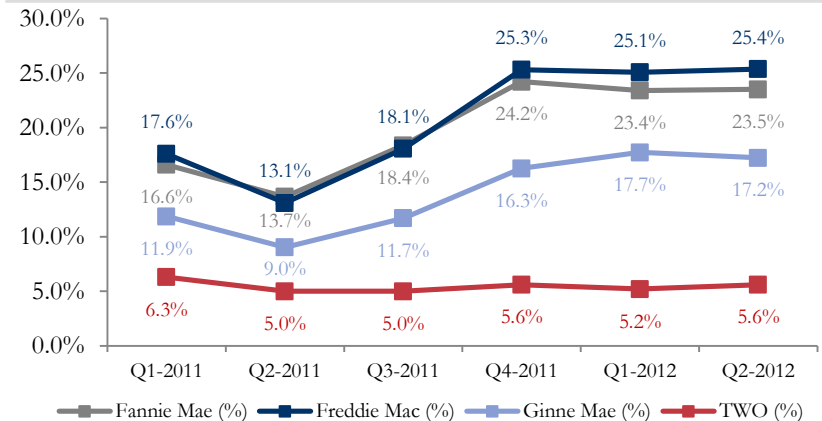
As of June 30, 2012



Prepayment Protected Securities⁷



Two Harbors' CPR vs. Cohorts⁸



TWO Prepayment Protected Securities

Portfolio Update

Agency Portfolio

As of September 30, 2012

	Market Value	(\$B)	% of Agency Portfolio	Dominant Age Type	Dominant Prepay Type ¹
30-Year Fixed	\$	9.0	70%	New	LLB, MLB & MHA
15-Year Fixed		0.5	4%	New & Seasoned	LLB
	\$	9.5	74%		
HECM	\$	1.9	15%	New	HECM
Hybrid ARMs		0.2	2%	Seasoned & Super Seasoned	Seasoned & Super Seasoned
Other-Fixed		0.7	5%	Seasoned	Prepayment Lockout
IOs and IIOs		0.5	4%	Seasoned & Super Seasoned	Mixture
Total	\$	12.8			

Source: Estimates of Two Harbors and its external manager, PRCM Advisers LLC. Data presented as of September 30, 2012.

- (1) LLB represents securities collateralized by loans of less than or equal to \$85K. MLB represents securities collateralized by loans of less than or equal to \$110K. MHA represent securities collateralized by loans with greater than or equal to 80% loan-to-value ratio. These loans are largely held by borrowers who have refinanced through HARP. Home Equity Conversion Mortgage loans (or "HECM") are loans that allow the homeowner to convert home equity into cash collateralized by the value of their home. Prepayment lockout securities represent the percentage of Agency RMBS securities with explicit prepayment protection.

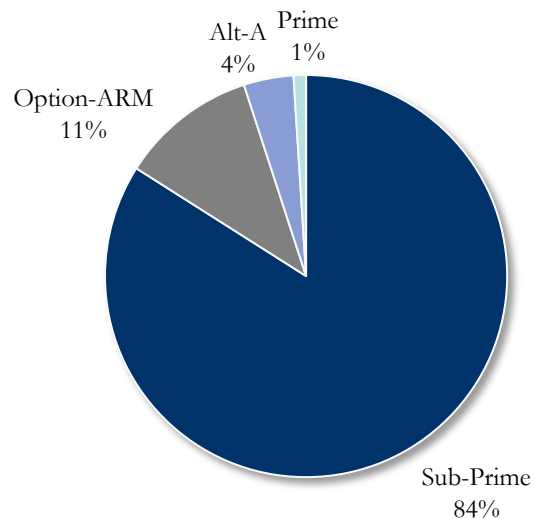
Non-Agency Portfolio

Portfolio Update

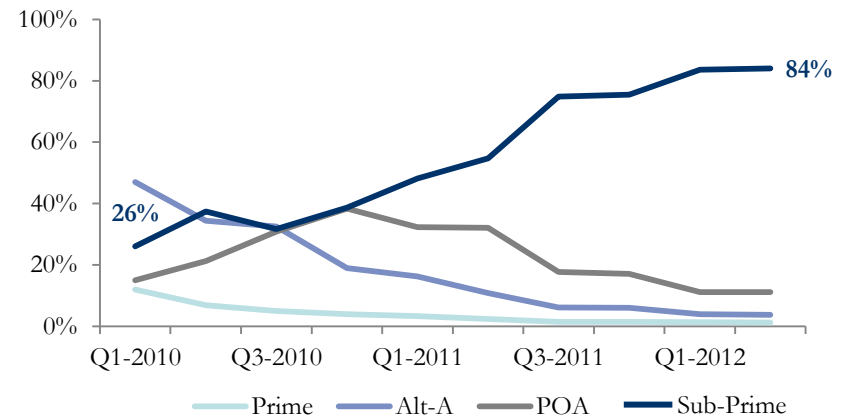
Non-Agency Portfolio

Non-Agency Portfolio: \$2.0B

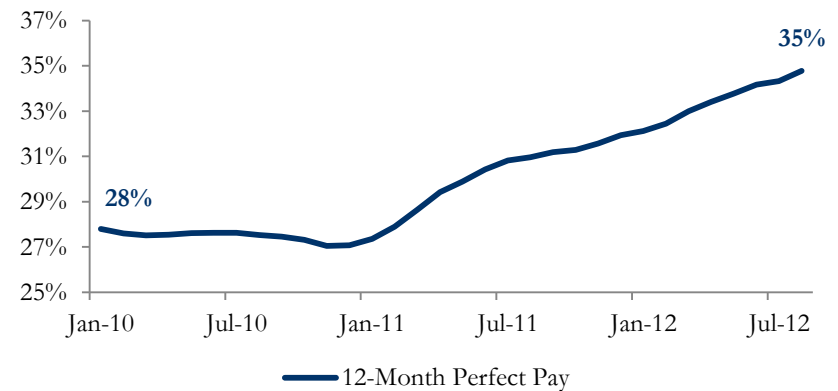
As of June 30, 2012



Sub-Prime Exposure



Sub-Prime Cohort 12-Month Perfect Pay¹

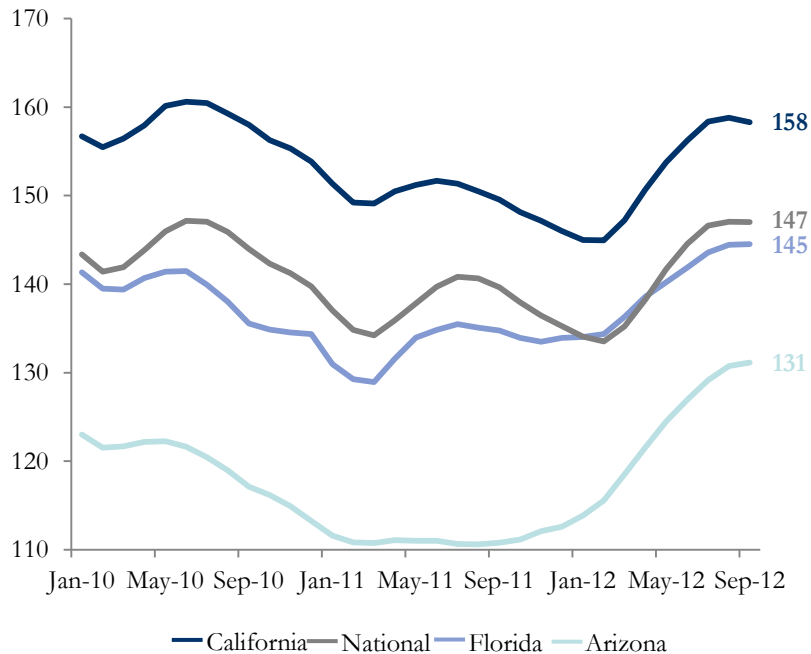


(1) Source: Loan Performance.

State Performance

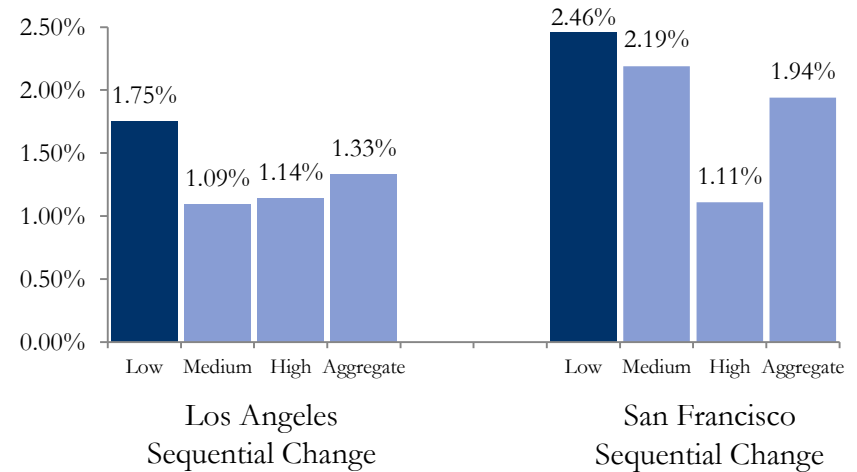
Portfolio Update

HPA Analysis by State



Hardest hit states are showing indications of housing recovery.

Case Shiller by Tier



Lower tiers displaying signs of improvement.

Source: Core Logic and Case Schiller.

Portfolio Update

Represents actual bond held in Two Harbors' portfolio as of the filing date of this presentation. Collateral summary and yield analysis scenarios represent the views of Two Harbors and its external manager, PRCM Advisers LLC, and are provided for illustration purposes only and may not represent all assumptions used. Actual results may differ materially.



TWO HARBORS
Investment Corp.

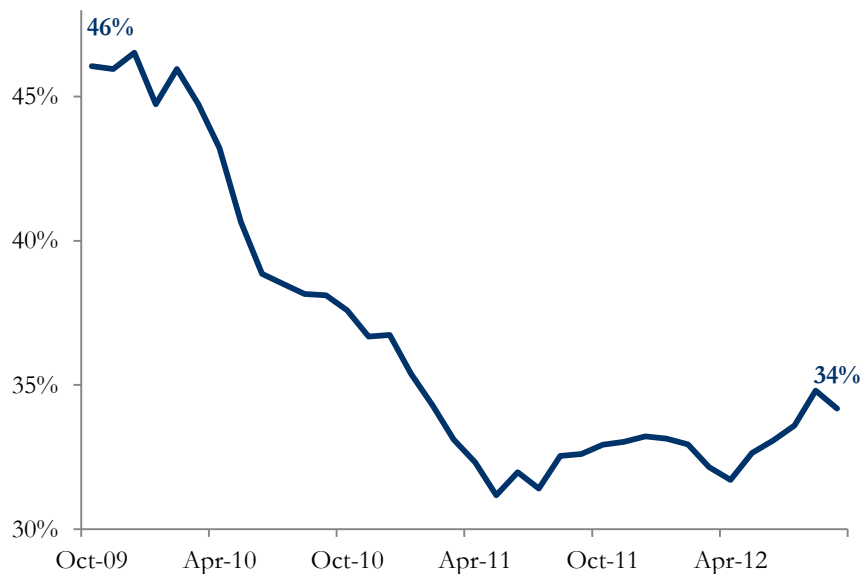
(5) Strong recovery, flat and severe downturn models assume a 15% increase, no change and a 15% decrease in housing prices over two years.

Delinquencies and MTM LTVs

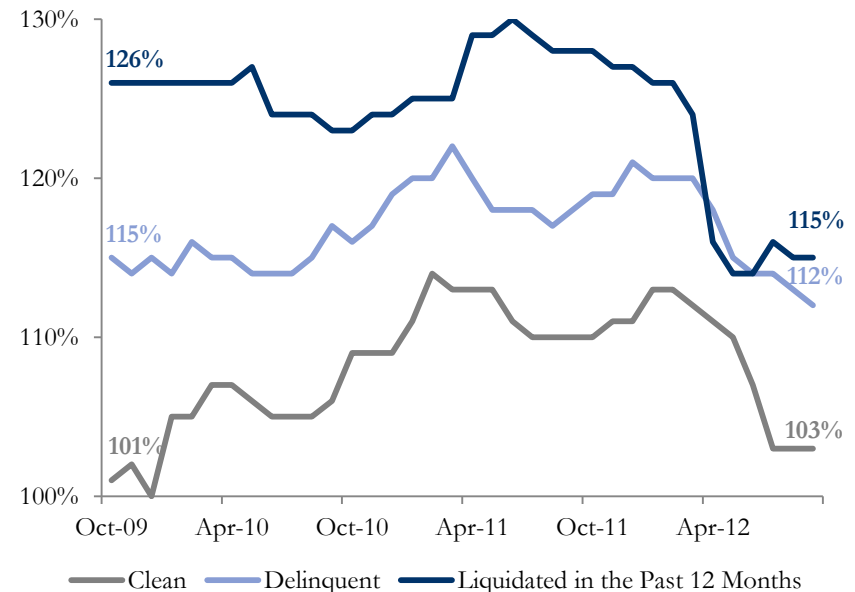
Discount Sub-Prime Senior Bond – HEAT 2006-3 2A4

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60+ Day Delinquencies



MTM LTV¹



Underlying performance has improved over time.

Source: Loan Performance and Bloomberg.

(1) Represents average MTM LTV. "MTM LTV" means mark-to-market loan-to-value ratio. "Delinquent" refers to loans in which the borrower is over 30 days late on his mortgage payment.

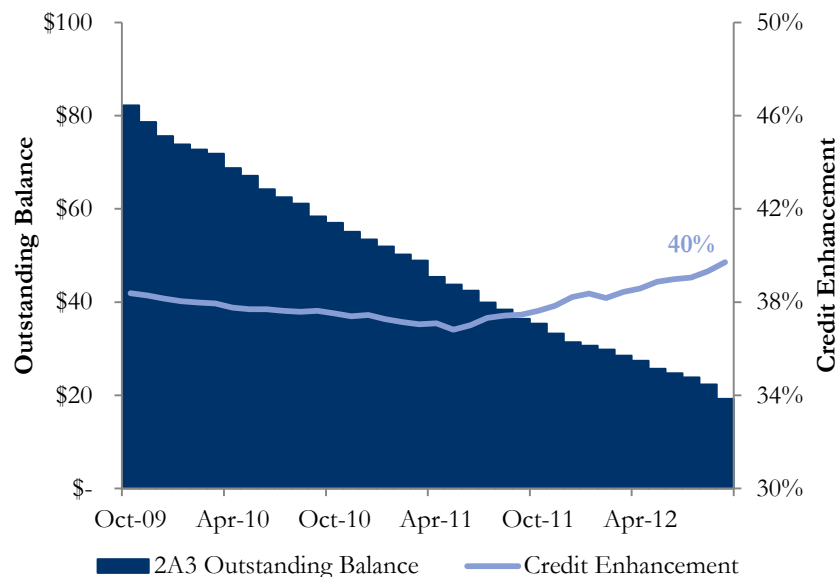
Credit Enhancement and Market Price

Portfolio Update

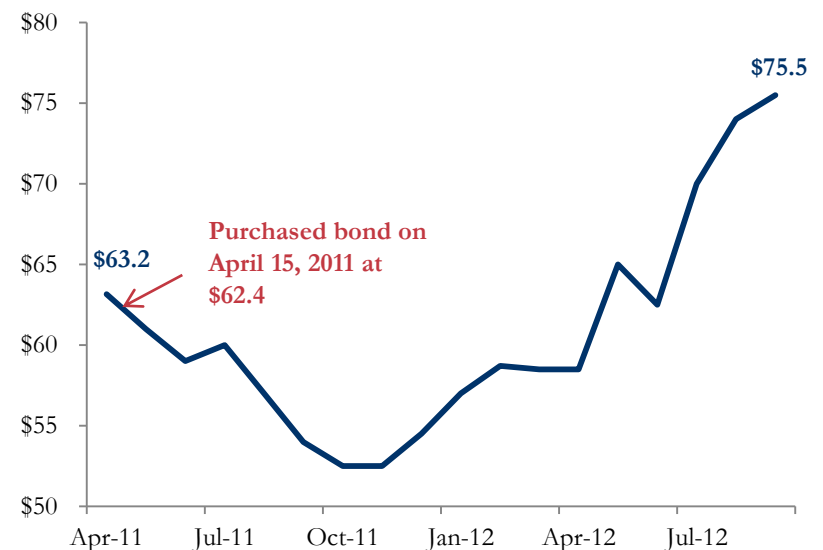
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Credit Enhancement

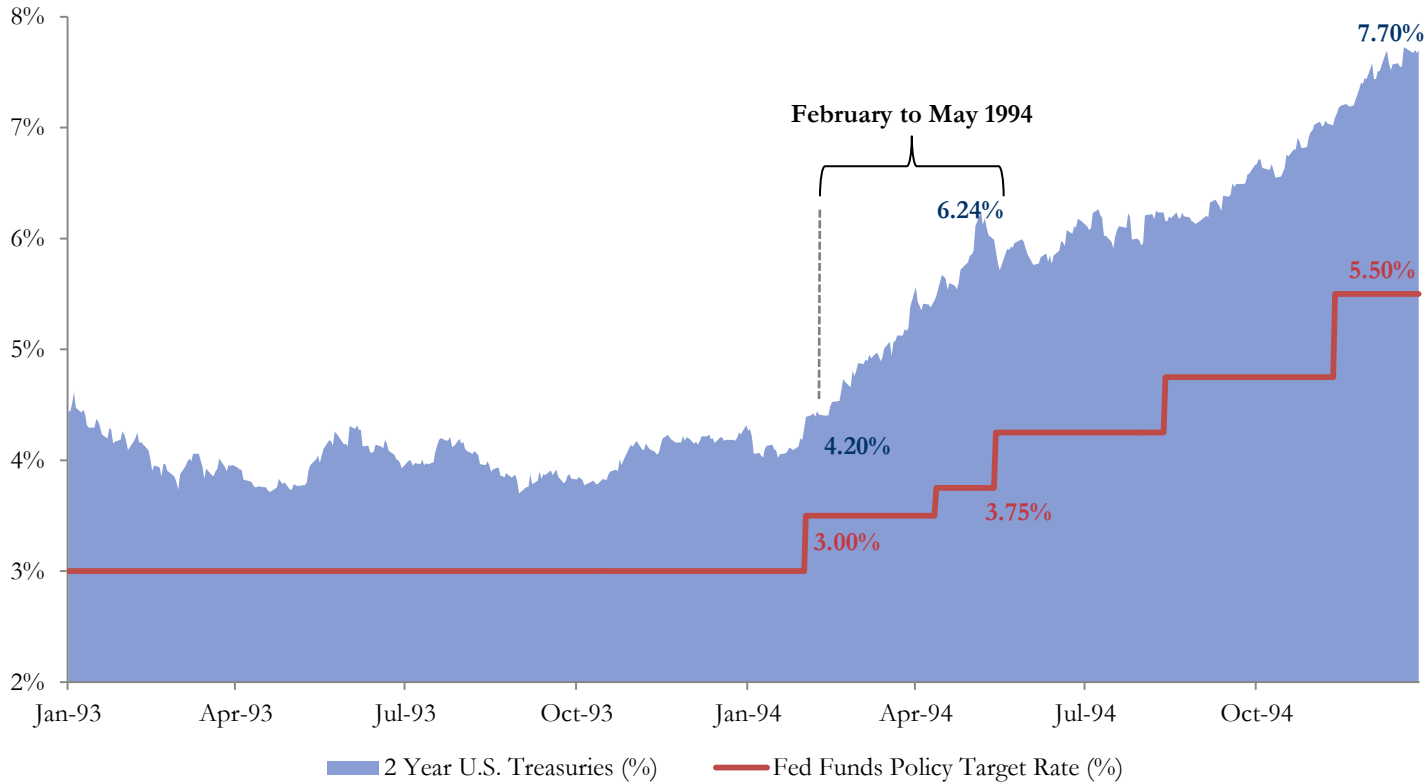


Market Price



Hedging Interest Rate Exposure Is Key

Portfolio Update



Interest rates can move quickly during rising rate environments.

Protecting Book Value

Portfolio Update

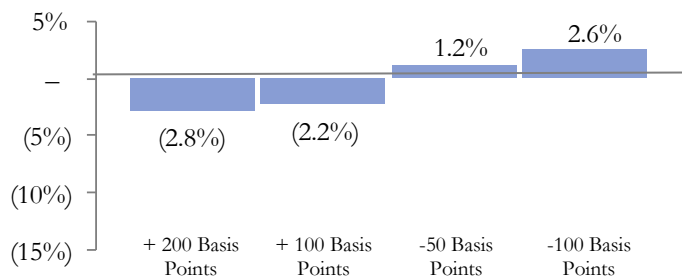
Hedging Strategy

- Objective of protecting book value in a rising interest rate environment.
- Multifaceted hedging approach, including swaps, swaptions and interest-only bonds.
- Daily monitoring of interest rate exposures.

Sensitivity to Interest Rate Movements

Impact to Book Value

As of July 31, 2012



TWO Risk Management Report Excerpt

As of July 31, 2012

Strategy \$ Millions	Up 200 Basis Points	Up 100 Basis Points	No Change	Down 50 Basis Points	Down 100 Basis Points
Total Agency	\$ (726.4)	\$ (353.9)		\$ 120.3	\$ 190.7
Agency Pools				---	---
HECM Pools		Δ (\$372.5)		---	---
etc.	---	---		---	---
NonMtge		Δ \$158.4		---	---
Swap				---	---
Swaption	\$ 245.1	\$ 86.7		\$ (21.1)	\$ (38.4)
etc.	---	---		---	---
Grand Total	---	---		---	---

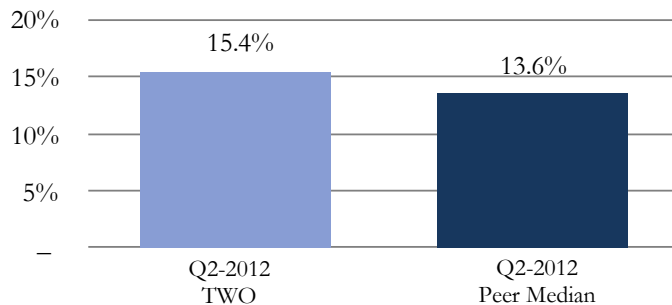
- Stable Agency cash flows limit extension risk.
- Negative convexity of Agency RMBS calls for options as part of an effective hedging strategy.
- Swaptions mute the effect of higher rates.

Note: The information on this slide is presented for illustrative purposes. Estimates as of July 31, 2012.

Attractive Returns With Lower Risk

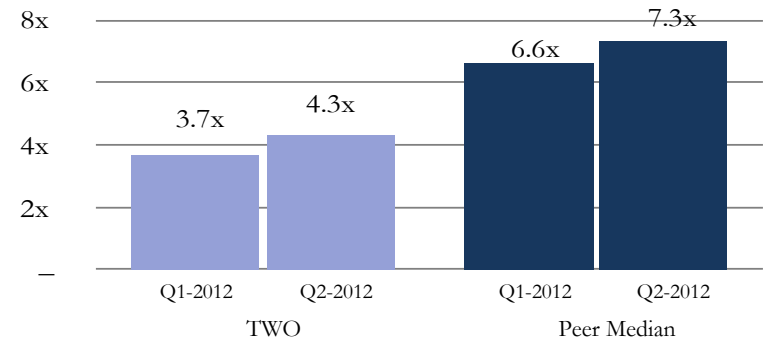
Superior asset selection and risk management drive returns while taking on less risk.

Attractive & Comparable Dividend Yield¹...

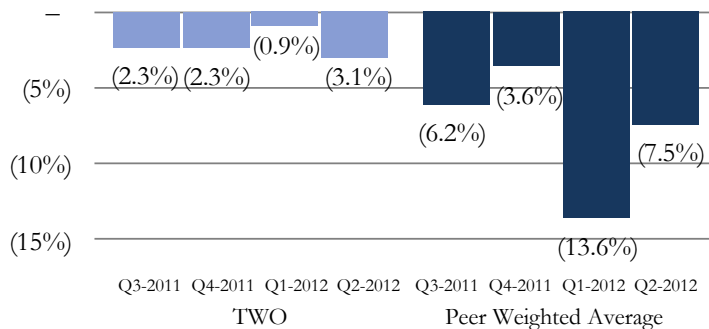


TWO Q3-2012 dividend of 12.3% compared to Peer Median of 11.9%.

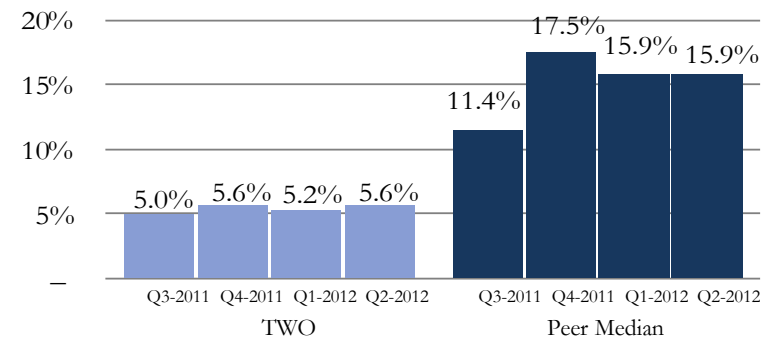
... With Lower Leverage²...



... Less Interest Rate Exposure³...



... And Less Prepayment Risk⁴



Note: All peer financial data on this slide based on available June 30, 2012 financial information as filed with the SEC. Peers include AGNC, ANH, ARR, CIM, CMO, CYS, HTS, IVR, MFA and NLY.

(1) Reported second quarter 2012 dividend annualized, divided by closing share price as of June 30, 2012. Dividend data based on peer company press releases.

(2) Debt-to-equity defined as total borrowings to fund RMBS securities and Agency derivatives divided by total equity. Q2-2012, Q1-2012 and Q4-2011 data not available for CIM; utilizes Q3-2011 data for comparative purposes.

(3) Represents estimated percentage change in equity value for +100bps change in interest rates. Change in equity value is asset change adjusted for leverage. Data not available for CYS and CMO. Q2-2012, Q1-2012 and Q4-2011 data not available for CIM; utilizes Q3-2011 data for comparative purposes.

(4) Represents the constant prepayment rate, or CPR, on the Agency RMBS portfolios. Q2-2012, Q1-2012 and Q4-2011 data not available for CIM; utilizes Q3-2011 data for comparative purposes.

Financial Review

Brad Farrell

Chief Financial Officer



- Chief Financial Officer and Treasurer since January 2012.
- Previously, Brad was the Financial Controller for Two Harbors.
- Career focused on overseeing financial management, reporting and business analysis for public financial service companies.
- Prior, Vice President and Executive Director of External Reporting for GMAC ResCap, a diversified real estate company, responsible for its public filing and bank holding company reporting initiatives.
- B.S.B.A. from Drake University; Certified Public Accountant (inactive).

- Mitigate financial and counterparty risks.
- Maintain compliant accounting standards and controls.
- Achieve reporting transparency through robust disclosure.
- Oversee financial planning and expense management.
- Comply with REIT status and 1940 Act requirements.
- Deliver considerations for dividend declaration.

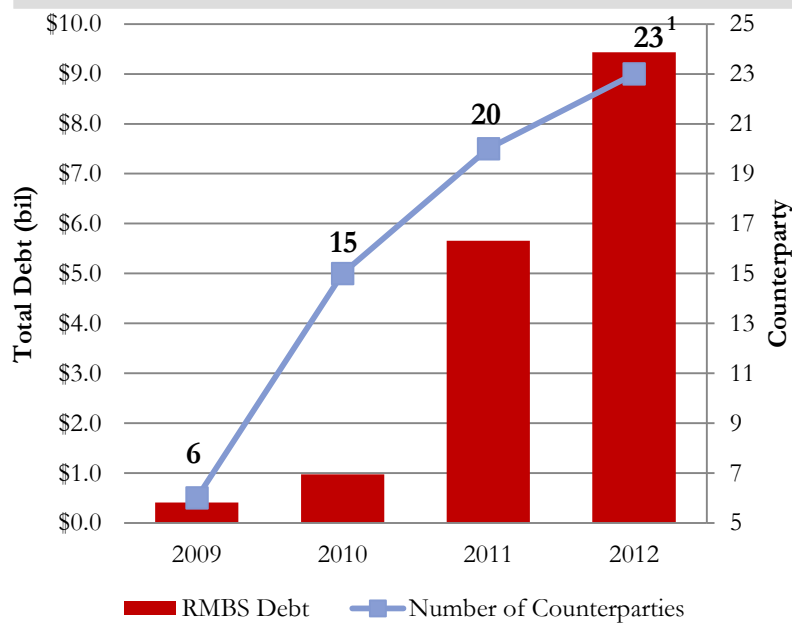
Financing Profile

Financial Review

- As of June 30, 2012, we had 23 repo counterparties providing \$9.4 billion of financing.
- Expansion of financing counterparties to support company growth focused on diversification and credit quality of counterparty.

- Long duration and laddered repo maturities.
- Daily margin and excess liquidity management.
- Stress tests for shifts in market value and advance rates.

Counterparties vs. Total Debt



Financing

Repurchase Agreements: RMBS and Agency Derivatives ²	June 30, 2012 Amount (\$M)	Percent (%)
Within 30 days	\$3,168	33%
30 to 59 days	2,326	25%
60 to 89 days	1,692	18%
90 to 119 days	730	8%
120 to 364 days	1,391	15%
One year and over	129	1%
	\$9,436	

(1) As of June 30, 2012.

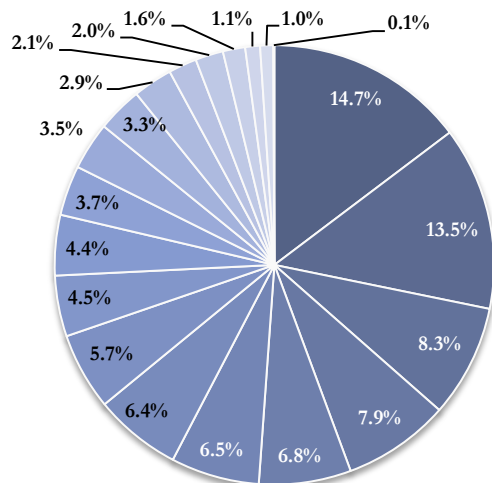
(2) Does not include repurchase agreements collateralized by U.S. Treasuries of \$1.0 billion and mortgage loans held-for-sale of \$4.8 million as of June 30, 2012.

Financing Profile

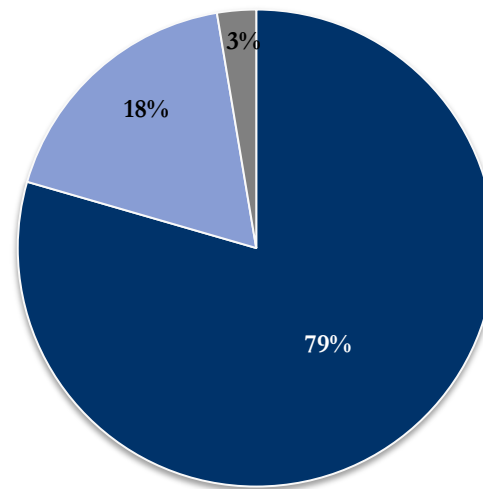
Financial Review

- Quantity and quality of counterparties is meaningful to our RMBS financing profile.
- Broad diversification in our Agency counterparties supports portfolio growth and provides a mean to manage both available capacity and counterparty risk.
- The vast majority of our non-Agency repo is held with counterparties with a CDS spread of 50 to 200.

Diverse Agency Counterparties



High-Quality non-Agency Counterparties



■ CDS Spread 50 to 200 ■ CDS Spread 201 to 250 ■ CDS Spread 250+

Counterparty Risk Management

- Our counterparty risk management focus allows us to proactively address market and company specific events.
 - Team focused solely on counterparty risk management across Pine River and Two Harbors.
 - Dashboards (as illustrated below) across key metrics evaluate the health and solvency of our counterparties.
 - Robust credit quality reviews of potential counterparties.
 - Extensive legal review and negotiations of contractual arrangements.
- Approximately 60% of our Agency repo is with counterparties based in North America and 64% of our non-Agency repo is with counterparties based in North America.

Credit Tier ¹	Traffic Light ²	Systemically Important ³	Tier 1 Ratio	5 yr CDS 7/31/12	5 yr CDS 8/31/12	Credit Rating			
						Moody's	Outlook	S&P	Outlook
1		Yes	14.7%	100	100	Aa3	Neg	A+	Neg
2		Yes	13.8%	244	223	Baa2	Neg	A-	Neg
3		Yes	11.9%	280	267	A2	Neg	A	Stable

Core vs. GAAP EPS

Financial Review

Operating Performance

(In millions, except for per share amounts)

	Core Earnings	Realized Gains	Unrealized MTM	Q2-2012 Financials
Interest income	\$105.9	\$ -	\$ -	\$105.9
Interest expense	15.5	-	-	15.5
Net interest income	90.4	-	-	90.4
Net other-than-temporary impairment losses	-	-	(4.5)	(4.5)
Gain (loss) on investment securities, net	-	0.7	1.1	1.8
Loss on interest rate swap and swaptions ¹	(7.7)	(7.2)	(46.1)	A (61.0)
Gain (loss) on other derivative instruments ²	3.7	(24.1)	12.8	B (7.6)
Other income (expense)	0.1	(0.1)	0.1	0.1
Total other loss	(3.9)	(30.7)	(32.1)	(66.7)
Management fees & other operating expenses	11.8	-	-	11.8
Net income (loss) before income taxes	74.7	(30.7)	(36.6)	7.4
Income tax benefit	1.4	10.1	5.1	16.6
Net income (loss)	76.1	(20.6)	(31.5)	24.0
Other Comprehensive Income – Unrealized gain on available for sale securities, net	-	-	117.6	A 117.6
Comprehensive income (loss)	\$76.1	(\$20.6)	\$86.1	\$141.6

Inverse IO	7.6
CDS	(3.9)
Total	3.7

C

A

B

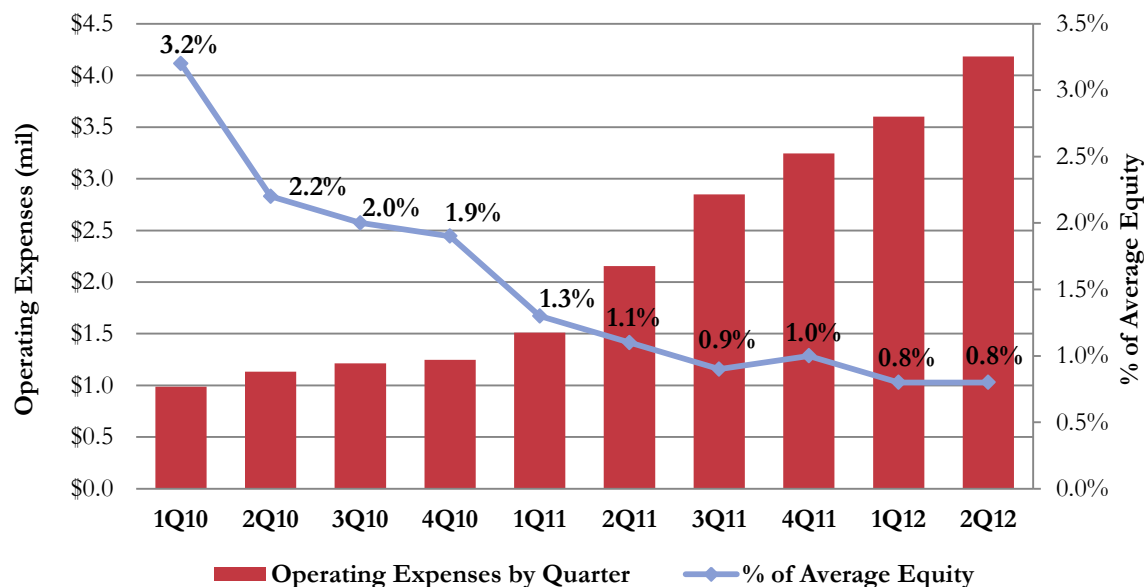
- (1) Second quarter 2012 loss on interest rate swap agreements of \$6.9 million includes \$0.7 million in interest costs for swaps associated with U.S. Treasuries.
- (2) Core Earnings includes \$3.9 million of net premium amortization on credit default swaps for the second quarter of 2012.

Operating Expense Management

Financial Review

- Downward trend in expense ratio (as a percentage of average equity) driven by economies of scale and thoughtful expense management.
- Future run-rate trend expected to be relatively flat:
 - Many of our expenses are related to portfolio size, such as data services and brokerage fees.
 - Expenses allocated to support new business opportunities in prime jumbo and other initiatives which can ultimately drive shareholder return.

Operating Expenses vs. Average Equity ¹



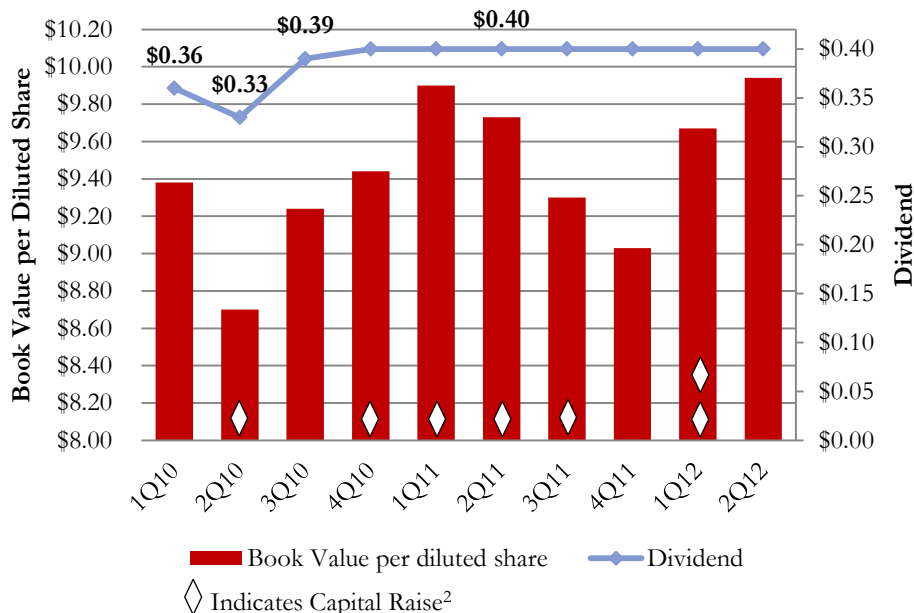
(1) As of June 30, 2012.

Dividend Distribution

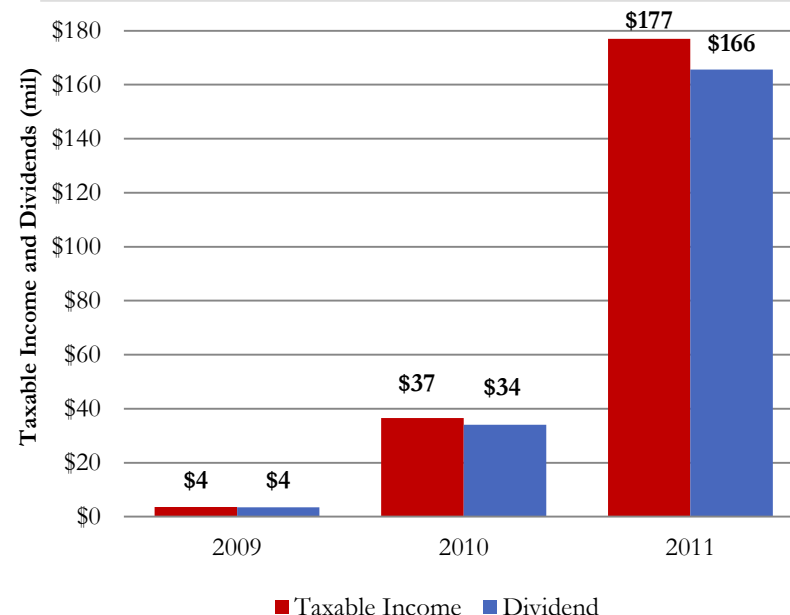
Financial Review

Dividend distribution is a function of several factors including core earnings, taxable income, book value and market conditions.

Dividend vs. Book Value per Diluted Share ¹



Dividend vs. Taxable Earnings



“We are pleased to deliver another strong dividend to our stockholders this quarter. The dividend is based on our evaluation of current market conditions. We continue to believe that the housing and mortgage sectors offer attractive investment opportunities and that we will continue to generate strong total returns for our stockholders.” – Tom Siering, September 12, 2012

- (1) Historical dividends may not be indicative of future dividend distributions. The company ultimately distributes dividends based on its taxable income per common share, not GAAP earnings. The annualized dividend yield on the company's common stock is calculated based on the closing price of the last trading day of the quarter. Data presented as of June 30, 2012.
- (2) Core Earnings were negatively impacted in periods of capital raises.

Question and Answer

Tom Siering, President and Chief Executive Officer

Bill Roth, Co-Chief Investment Officer

Brad Farrell, Chief Financial Officer

Delivering Exceptional Results and Advancing Strategic Initiatives

- Industry leading hybrid mortgage REIT.
- Highly experienced investment team.
- Flexible and opportunistic investment approach.
- Strong foundation in place for future growth – deep and talented bench, best-in-class infrastructure, risk management systems, and hedging strategies.
- Proven ability to leverage expertise and talent to capitalize on new and emerging mortgage market trends.
- Established track record of delivering exceptional results and strong returns.
- Track record of exemplary financial stewardship, corporate governance and transparency.

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