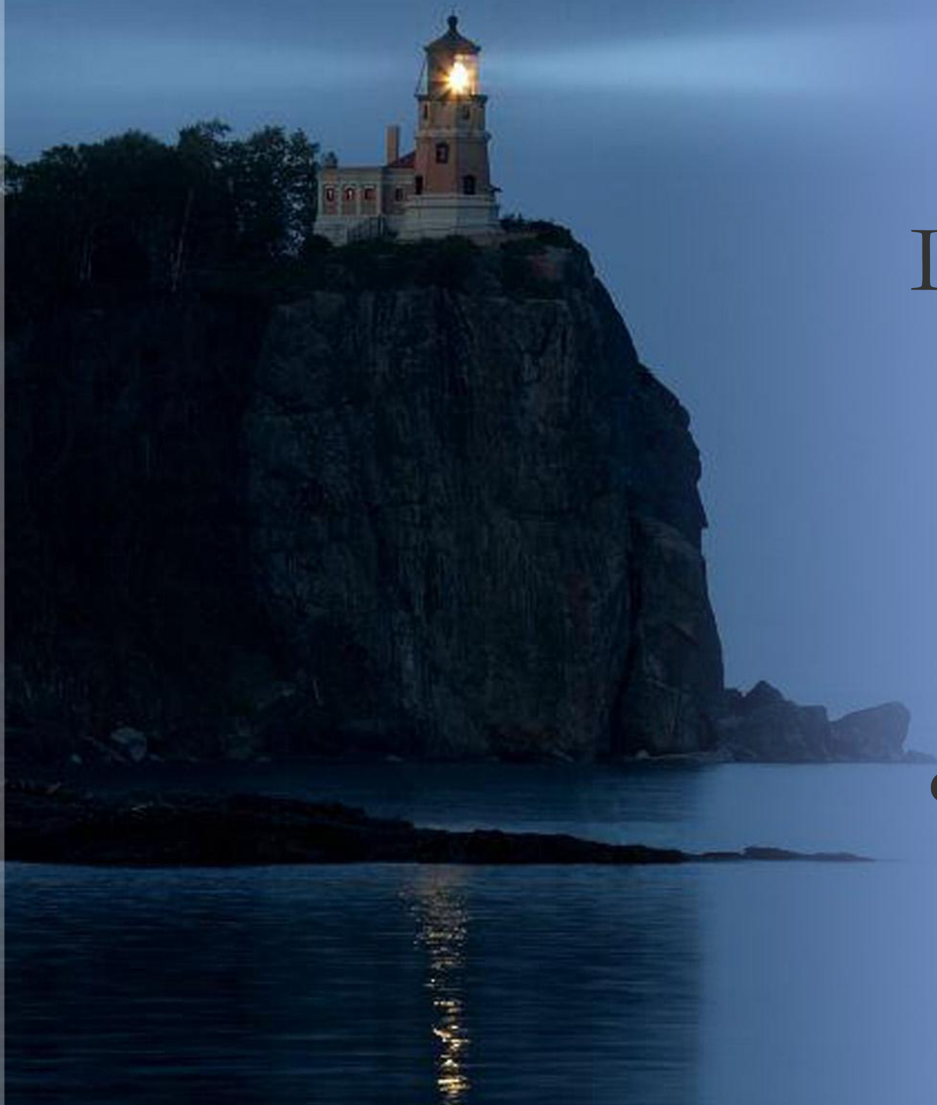


Two Harbors Investment Corp.

Webinar Series
December 2012

Agency Prepayments Part Two:
Concepts in Agency Valuation

Welcoming Remarks

William Roth
Co-Chief Investment Officer

July Hugen
Director of Investor Relations

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.

Two Harbors' Company Overview

- **Our mission is to be recognized as an industry-leading mortgage REIT. We'll accomplish this goal by achieving excellence in four areas:**
  - Superior portfolio construction and fluid capital allocation using rigorous security selection and credit analysis.
  - Unparalleled risk management with a strong focus on hedging and book value stability.
  - Targeted diversification of our business model.
  - Leading governance and disclosure practices.
- **We strive to deliver value to our stockholders:**
  - Delivered a total stockholder return of 88%[1] since commencing operations in late 2009.

(1) Two Harbors' total stockholder return is calculated for the period October 29, 2009 through December 4, 2012. Total stockholder return is defined as capital gains on stock price including dividends. Source: Bloomberg Finance LP.

Definition of TBAs and Specified Pools

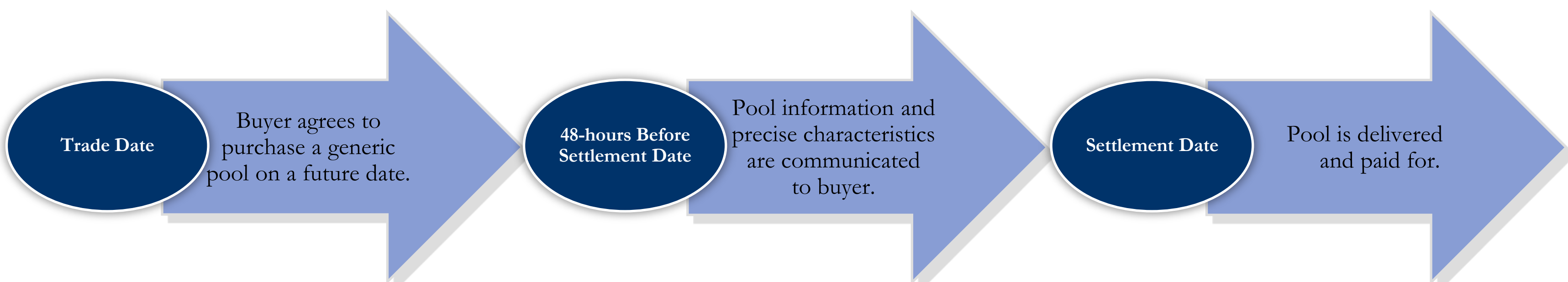
To-Be-Announced Pools (TBAs)

- Pools of mortgage loans deliverable into futures contracts at a predetermined date in the future.
- Pool information and precise loan characteristics disclosed a few days before delivery.

Specified Pools

- Pools of loans with predefined characteristics, or "spec" pools.
- Loan characteristics known at time of purchase. May provide protection against extension and reinvestment risk.
- Usually trades at a premium, or "payup," to TBA prices.

TBA Trade Process



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Examples of Prepayment Protection

Examples of Prepayment Protection	
Low Balance	Fixed costs associated with refinancing low balance loans are large in percentage terms. Borrowers have less incentive to refinance, or need a larger reduction in rate to realize the same incentive, than borrowers with larger loan balances.
Seasoned	Borrowers who have already experienced many opportunities to refinance in the past (and chosen to not refinance) generally are less sensitive to new opportunities. In addition, because these loans are older, they have shorter maturities and provide extension protection.
Low FICO[1]	Borrowers with low FICO scores are charged additional fees by the GSEs, so their effective mortgage rate is higher than for other borrowers. Mortgage rates must drop substantially in order for lower FICO borrowers to be able to take advantage of refinance opportunities.
MHA[2]	Borrowers who have refinanced through the Home Affordable Refinance Program (HARP). Subsequent refinancing will require loan-to-value ratio (LTV) of less than 80%.
Geography	Some states have barriers to refinancing. New York, for example, has a large mortgage recording tax.

Loan Balance Scenario: 50 Basis Points Decrease	**\$50,000 Mortgage Loan**	**\$500,000 Mortgage Loan**
Monthly Mortgage Payment @ 5.0%	\$268	\$2,684
Monthly Mortgage Payment @ 4.5%	\$253	\$2,533
Monthly Savings	\$15	\$151
Refinancing Costs[3]	\$2,252	\$6,669
Breakeven	**12.5 years**	**3.7 years**

Source: Source: This example 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 respective payups.
(1) "FICO" stands for Fair Isaac Corporation.
(2) "MHA" stands for Making Homeownership Affordable Program.
(3) Estimated origination and title costs. Source*:* Bankrate.com.

Originators Optimize Profits With Specified Pools

Examples of Specified Pools

Originator creates pools containing loans with different balances, rates and characteristics

- Loans with Balances < $85,000 (LLB)
- Loans with Balances > $85K and < $125K (MLB)
- Loans with Balances > $125K and < $175K (HLB)
- Loans with LTV > 90% and < 100%
- Loans with FICO < 700
- Loans with LTV > 80% and < 90%
- Loans originated in certain states (e.g. New York)
- Everything else - TBAs

Source: This example 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 respective payups.

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- Loans with FICO < 700
- Loans with LTV > 80% and < 90%
- Loans originated in certain states (e.g. New York)
- Everything else - TBAs

Refinancing Efficiency	Expected Prepayment Variability	Payups
Low	Low	High
High	High	Low

Source: This example 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 respective payups.

Supply of Specified Pools

Supply, Net of Fed Purchases ($B)	**Aug 2012** (Actual)	**Sept 2012** (Actual)	**Oct 2012** (Actual)	**Nov 2012** (Actual)	**Dec 2012** (Actual)	**Jan 2013** (Estimates)	**Feb 2013** (Estimates)
Gross Issuance	$148	$148	$131	$132	$137	$135	$133
Fed Purchases	$29	$57	$70	$67	$68	$66	$65
Remaining Production	**$119**	**$91**	**$61**	**$65**	**$69**	**$69**	**$68**
Specified Pools Supply	**$21**	**$18**	**$9**	**$11**	**$15**	**na**	**na**

Source: J.P. Morgan. Data presents gross issuance and Fed purchase projections for all fixed rate Agency RMB product, in addition to supply of specified pools as of December 2012.

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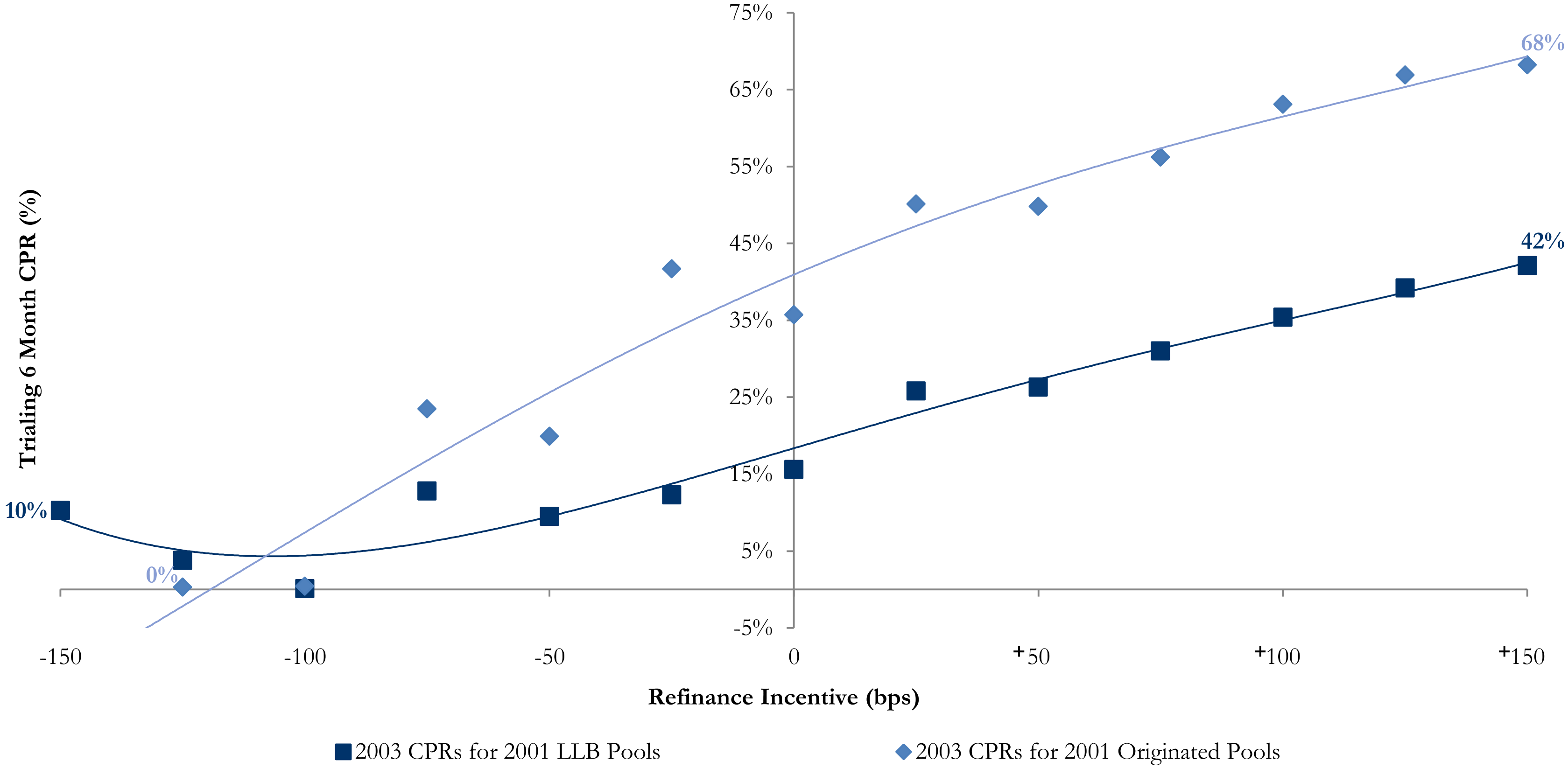
Collateral Summary By Pool

Collateral Summary	FN 30Yr Generic 2011 4.0	FN 30Yr MHA 80 2012 4.0[1]	FN 30Yr LLB 2012 4.0
Average Loan Size ($)	$ 297,352	$ 231,950	$ 57,318
Weighted Average Loan Age (months)	12	6	3
FICO[2]	766	706	752
Geography: Top Three	CA 28.9% NY 6.6% TX 4.5%	CA 18.0% NY 15.2% TX 8.8%	CA 4.4% NY 3.6% TX 7.9%
Loan-to-Value	71%	86%	60%

Source: Barclays. Data presented as of November 2012.
(1) MHA 80 represents borrowers who have refinanced through HARP and whose LTV is great than 80%, but less than 90%.
(2) "FICO" represents a mortgage industry accepted credit score of a borrower, which was developed by Fair Isaac Corporation.

Specified Pools Provided Prepay Protection in 2003

2003 Trailing 6 Month Prepayment Speeds[1]



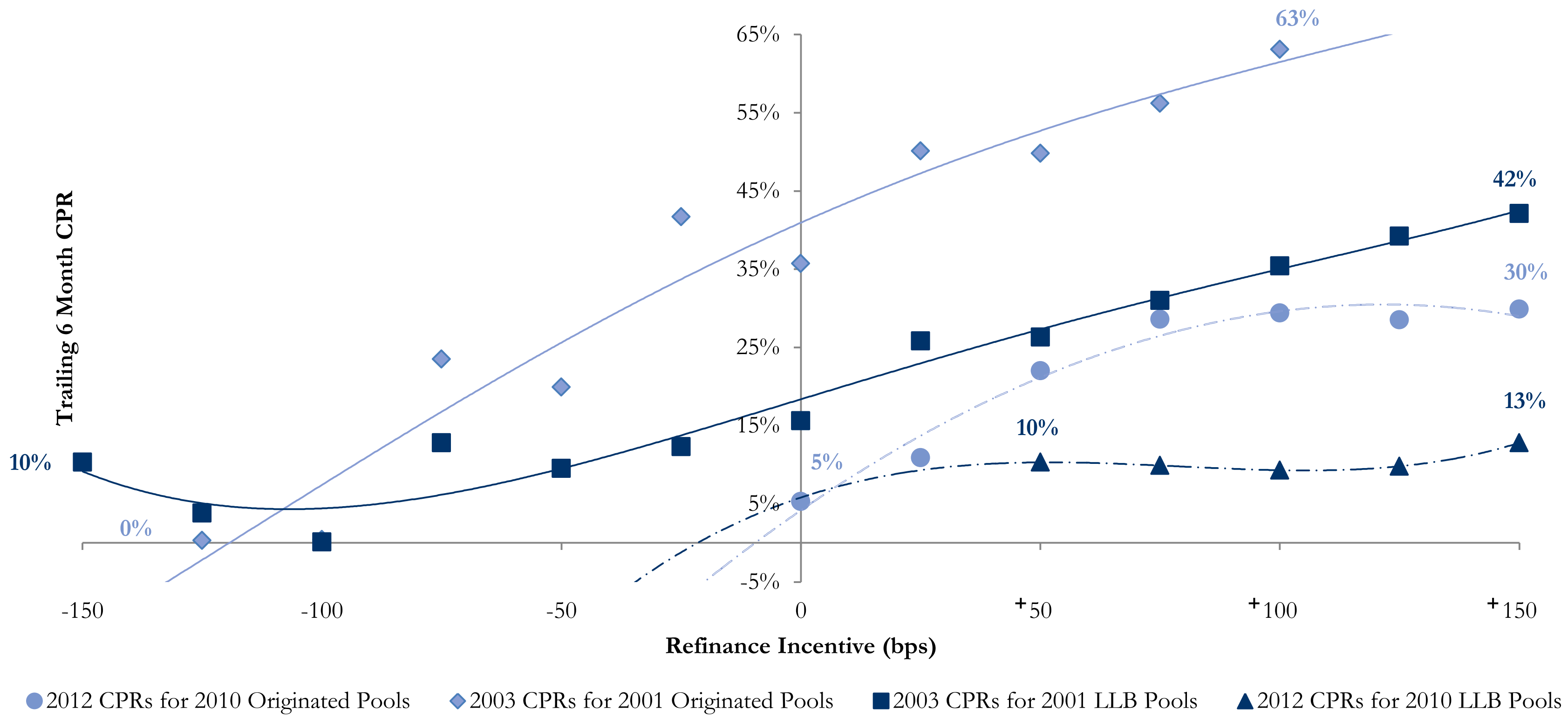
Strong correlation between prepayment speeds and refinancing incentive.

Source: Barclays. Data presented as of November 2012.

1) Presents the 2003 prepay experience for all pools and low loan balance pools originated in 2001 based on the borrower refinancing incentive.

Specified Pools Provide Prepay Protection Today

2003 vs. 2012 Trailing 6 Month Prepayment Speeds[1]



Prepayment protection provides better call protection in different financing environments.

Source: Barclays. Data presented as of November 2012.
1) Presents the 2003 prepay experience for all pools and low loan balance pools originated in 2001 based on the borrower refinancing incentive, in addition to the 2012 prepay experience for all pools and low loan balance pools originated in 2010.

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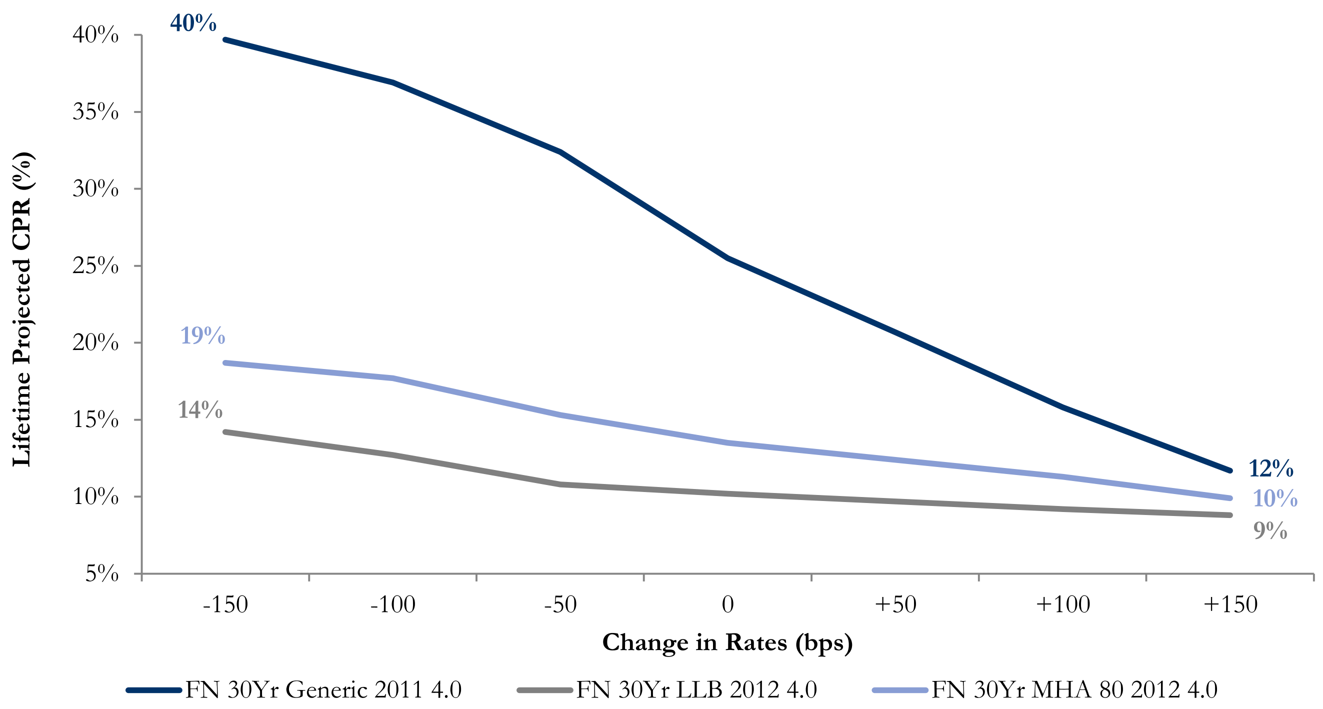
Specified Pools Provide More Stable Speeds

Lifetime Projected Prepayment Speeds

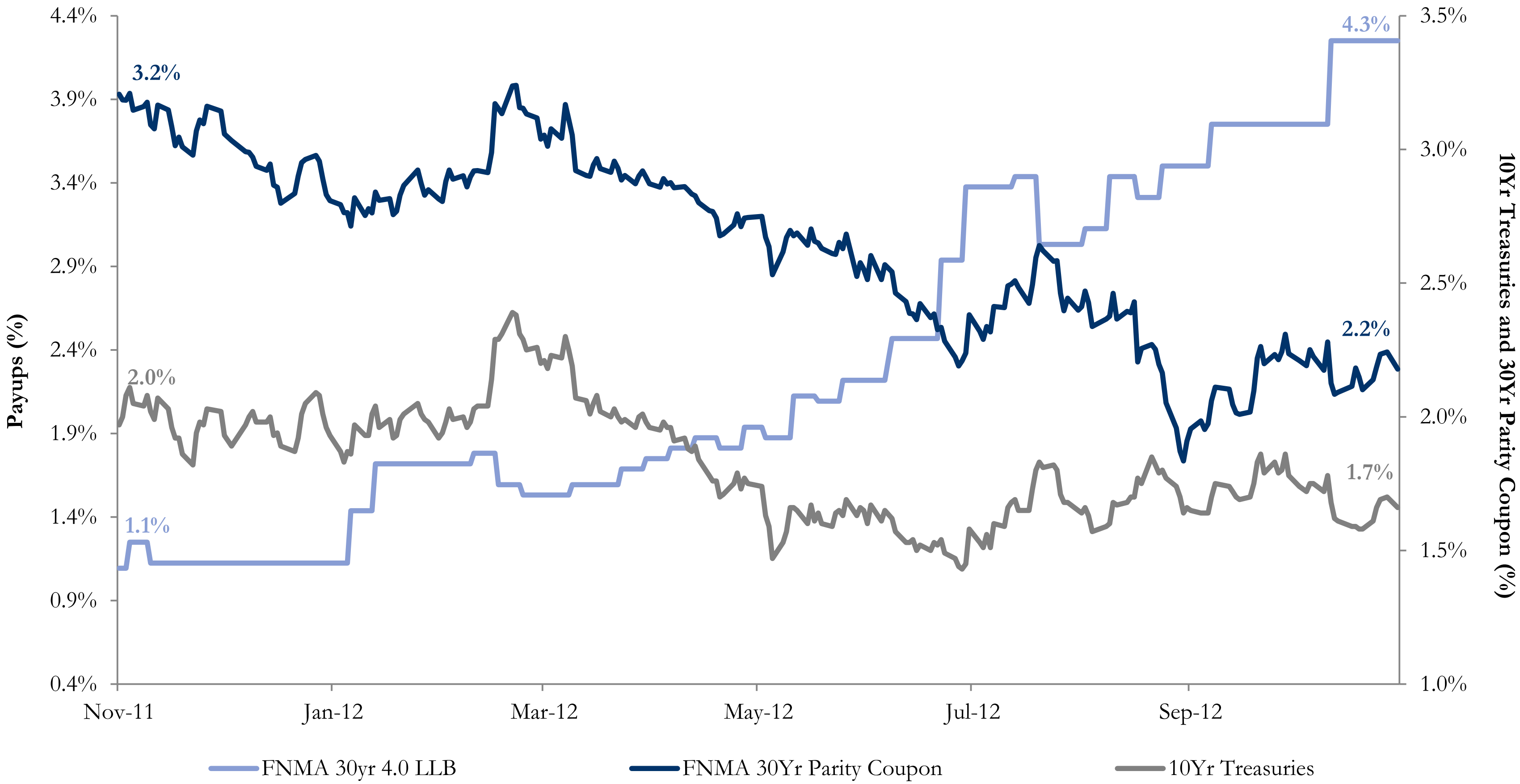


Low prepayment volatility for Low Loan Balance and MHA 80 pools.

Source: Barclays. Data presented as of November 2012.

Rally in Specified Pool Payups

2012 Payup Performance



Payups for prepayment protected pools have increased during the year.

Source: J.P. Morgan.

Basic Concepts in Mortgage Analytics

- Yield-to-Maturity
- Nominal Yield Spread
- Zero-Volatility Spread
- Option-Adjusted Spread (OAS)
- Other Relative Value Measures (e.g. Breakeven Analysis and Scenario Analysis)

Yield-to-Maturity

- Internal rate of return where price equals net present value of security's expected future cash flows.

$$\text{Price} = \frac{\text{Year 1}}{(1+i)} + \frac{\text{Year 2}}{(1+i)^2} + \ldots \frac{\text{Year n}}{(1+i)^n} + \frac{\text{Face value}}{(1+i)^n}$$

- Future cash flows require prepayment rate assumption.

- Doesn't account for reinvestment risk, average life or prepayment variability.

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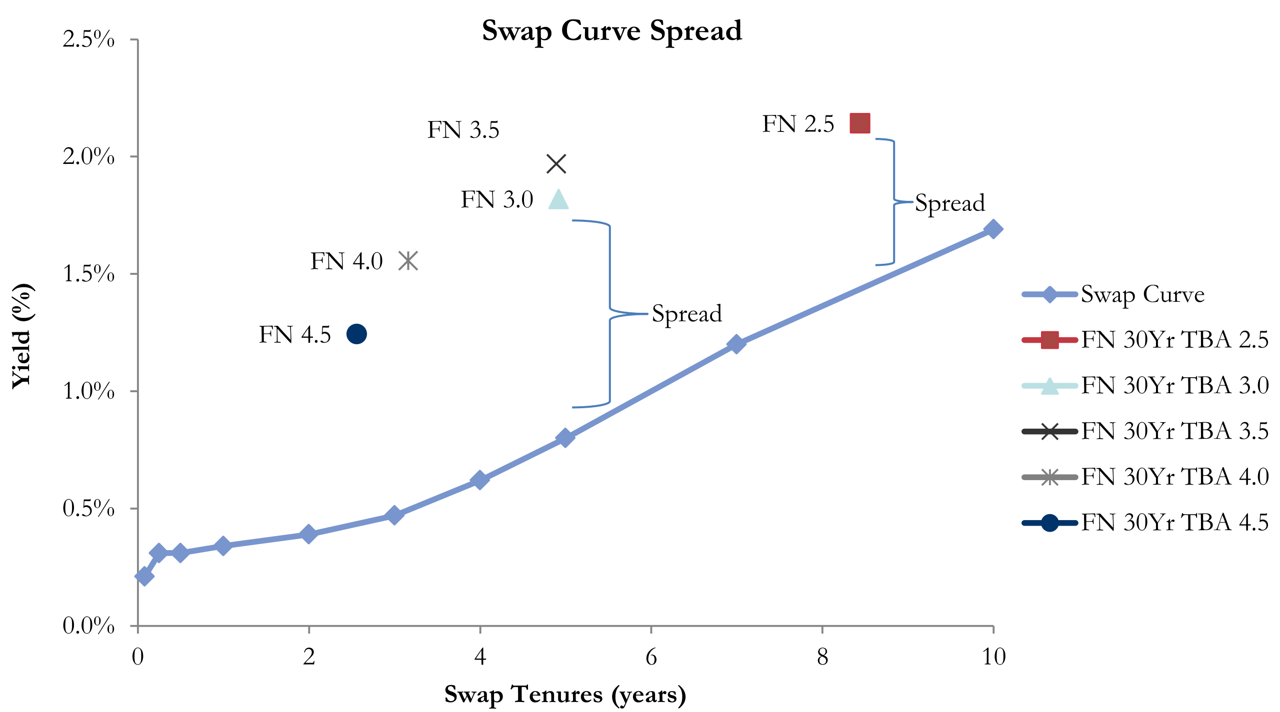
Nominal Yield Spread

- Difference between yield of mortgage-backed security and specified benchmark.
- Usually compared to Treasuries or swaps of similar average life to MBS.
- Accounts for asset's average life and maturity. Doesn't account for reinvestment risk or cash flow variability.



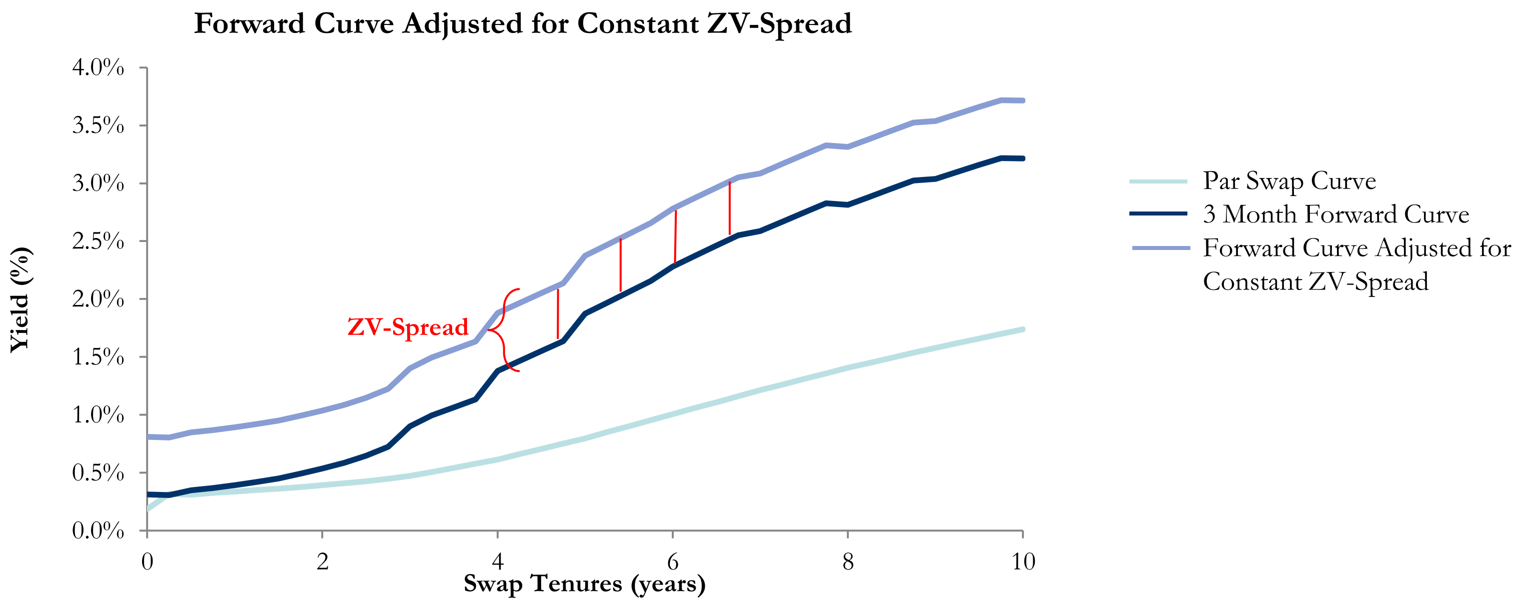
Source: This example represent the views of Two Harbors and its external manager, PRCM Advisers LLC, and are provided for illustration purposes only and may not represent all assumptions used.

Zero-Volatility Spread

- Discounts each cash flow according to its own discount rate.
- Discount rate calculated as adding a constant spread to each forward rate.

$$P = \sum_i \frac{CF_i}{(1 + z_i + s)^i}$$

- Accounts for asset's average life, maturity and reinvestment risk.
- Incorporates only one interest rate path. Doesn't account for prepayment variability.



Source: This example 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.

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Option-Adjusted Spread

- Compensation investor receives for assuming prepayment risk.
- Calculated as difference between z-spread and cost of options held by borrower.
- Model dependent. Based on multiple interest rate paths generated by interest rate model.
- Accounts for interest rate and prepayment variability.

$$P = \sum_i \frac{CF_i}{\prod_{j=1}^{i} \left(1 + f_j + OAS\right)}$$

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Potential Adjustments to Valuation Models

Valuation Model Inputs

- Housing turnover
- Lock-in effect
- Steepness of refinancing curve
- Burnout effect
- Length of seasoning period
- Home price appreciation (HPA) and cashout refinancing opportunity
- State-specific HPA
- Servicer behavior
- HARP eligibility date
- Primary/secondary mortgage spread
- Media effect

Valuation Example: Yield Analysis

Valuation Metrics	Price	Projected Lifetime CPR	Expected Yield
FN 30Yr Generic 2011 4.0	$107.02	25.5%	1.6%
FN 30Yr MHA 80 2012 4.0	$109.08	13.5%	2.2%
FN 30Yr LLB 2012 4.0	$111.56	10.2%	2.2%

Source: Barclays. Data presented as of November 2012.

Valuation Example: Swap Spread Analysis

Valuation Metrics	Price	Projected Lifetime CPR	Expected Yield	Average Life	Nominal Spread to Swaps
FN 30Yr Generic 2011 4.0	$107.02	25.5%	1.6%	3.2 years	113 bps
FN 30Yr MHA 80 2012 4.0	$109.08	13.5%	2.2%	5.9 years	128 bps
FN 30Yr LLB 2012 4.0	$111.56	10.2%	2.2%	7.4 years	95 bps

Source: Barclays. Data presented as of November 2012.

Valuation Example: ZV-Spread Analysis

Valuation Metrics	Price	Projected Lifetime CPR	Expected Yield	Average Life	Nominal Spread to Swaps	ZV-Spread
FN 30Yr Generic 2011 4.0	$107.02	25.5%	1.6%	3.2 years	113 bps	66 bps
FN 30Yr MHA 80 2012 4.0	$109.08	13.5%	2.2%	5.9 years	128 bps	83 bps
FN 30Yr LLB 2012 4.0	$111.56	10.2%	2.2%	7.4 years	95 bps	61 bps

Source: Barclays. Data presented as of November 2012.

Valuation Example: OAS Analysis

Valuation Metrics	Price	Projected Lifetime CPR	Expected Yield	Average Life	Nominal Spread to Swaps	ZV-Spread	Option Cost	Libor OAS
FN 30Yr Generic 2011 4.0	$107.02	25.5%	1.6%	3.2 years	113 bps	66 bps	51 bps	15 bps
FN 30Yr MHA 80 2012 4.0	$109.08	13.5%	2.2%	5.9 years	128 bps	83 bps	34 bps	49 bps
FN 30Yr LLB 2012 4.0	$111.56	10.2%	2.2%	7.4 years	95 bps	61 bps	26 bps	35 bps

Source: Barclays. Data presented as of November 2012.

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“Percentage of Breakeven” Analysis

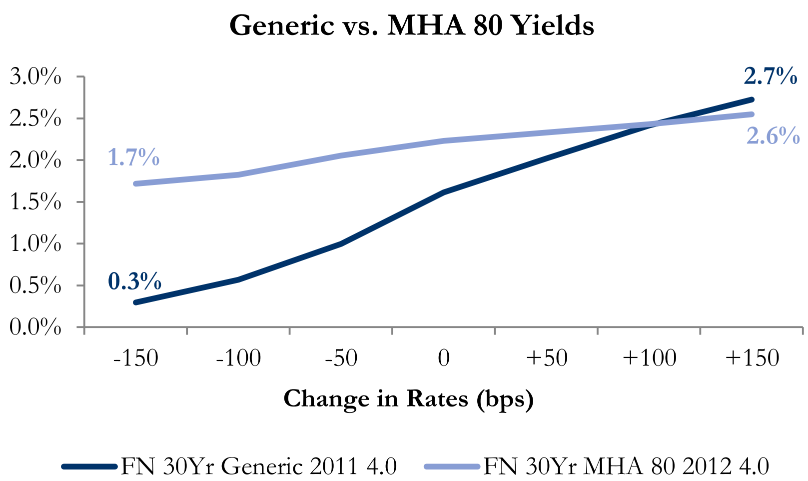
	Price	Payup as % of Theoretical	Price Payup	Expected Yield	Libor OAS	Expected Yield Difference	Libor OAS Difference
TBA	$107.02			1.6%	15 bps		
LLB	$107.02	-%	$ -	2.9%	100 bps	1.2%	85 bps
	$108.53	25%	$1.51	2.6%	77 bps	1.0%	62 bps
	$110.05	50%	$3.03	2.4%	56 bps	0.8%	41 bps
	$111.56	75%	$4.54	2.2%	35 bps	0.5%	20 bps
	$113.06	100%	$6.04	2.0%	15 bps	0.3%	0 bps
	$114.26	120%	$7.24	1.8%	-1 bps	0.2%	-16 bps
	$116.10	150%	$9.08	1.6%	-25 bps	-0.1%	-40 bps
MHA	$107.02	-%	$ -	2.6%	84 bps	1.0%	69 bps
	$108.04	25%	$1.02	2.4%	66 bps	0.8%	51 bps
	$109.06	49%	$2.04	2.2%	49 bps	0.6%	34 bps
	$110.10	75%	$3.08	2.1%	32 bps	0.4%	17 bps
	$111.20	100%	$4.18	1.9%	15 bps	0.2%	0 bps
	$112.05	120%	$5.03	1.7%	1 bps	0.1%	-14 bps
	$113.30	150%	$6.28	1.5%	-18 bps	-0.1%	-33 bps

Source: Barclays. Data presented as of November 2012.

Valuation Example: Scenario Analysis

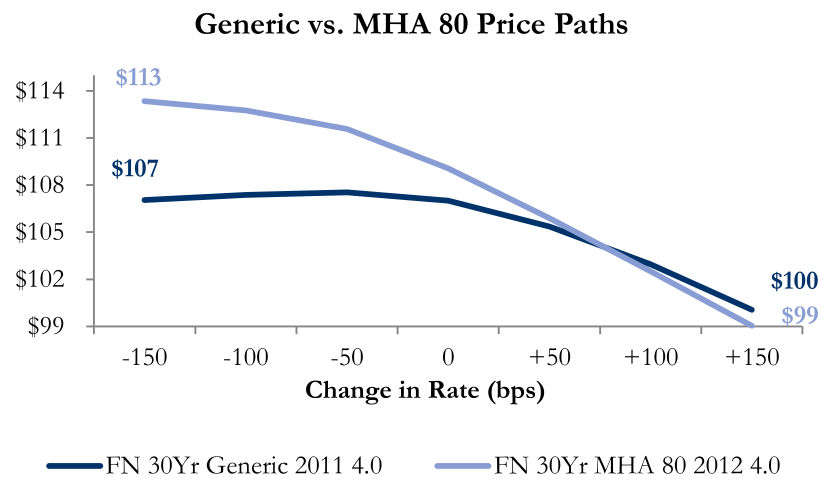
Yield Analysis

- Yields dependent on purchase prices and prepayment rates.
- Prepayment protected pools generate smaller range of realized yields for a given price than generics.



Price Analysis

- MHA 80 price paths are less negatively convex.
- Profile allows for more effective hedging to protect book value.

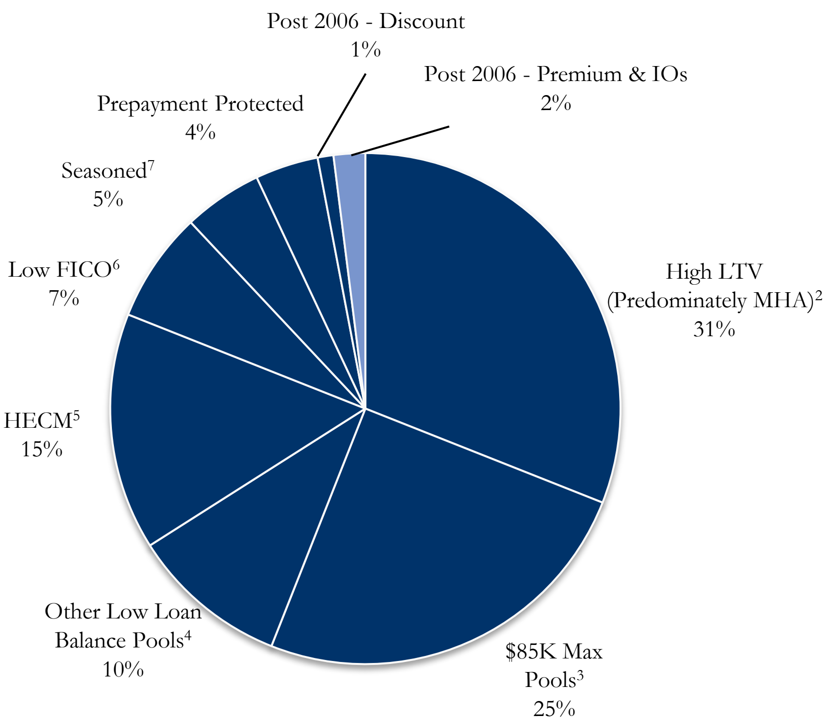


Source: Barclays. Data presented as of November 2012.

Two Harbors' Agency Portfolio

Agency RMBS Portfolio

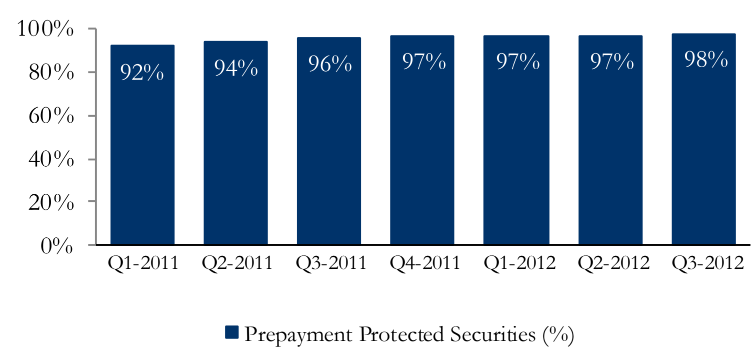
Agency Portfolio: $12.8B[1]
As of September 30, 2012



Agency Strategy

- Attractive returns with moderate leverage in 6.0x - 7.0x range.
- Intense focus on prepayment stability intended to provide sustainable yields.
- Stable cash flows make interest rate hedging more effective.
- Implicit or explicit prepayment protection of 98%.

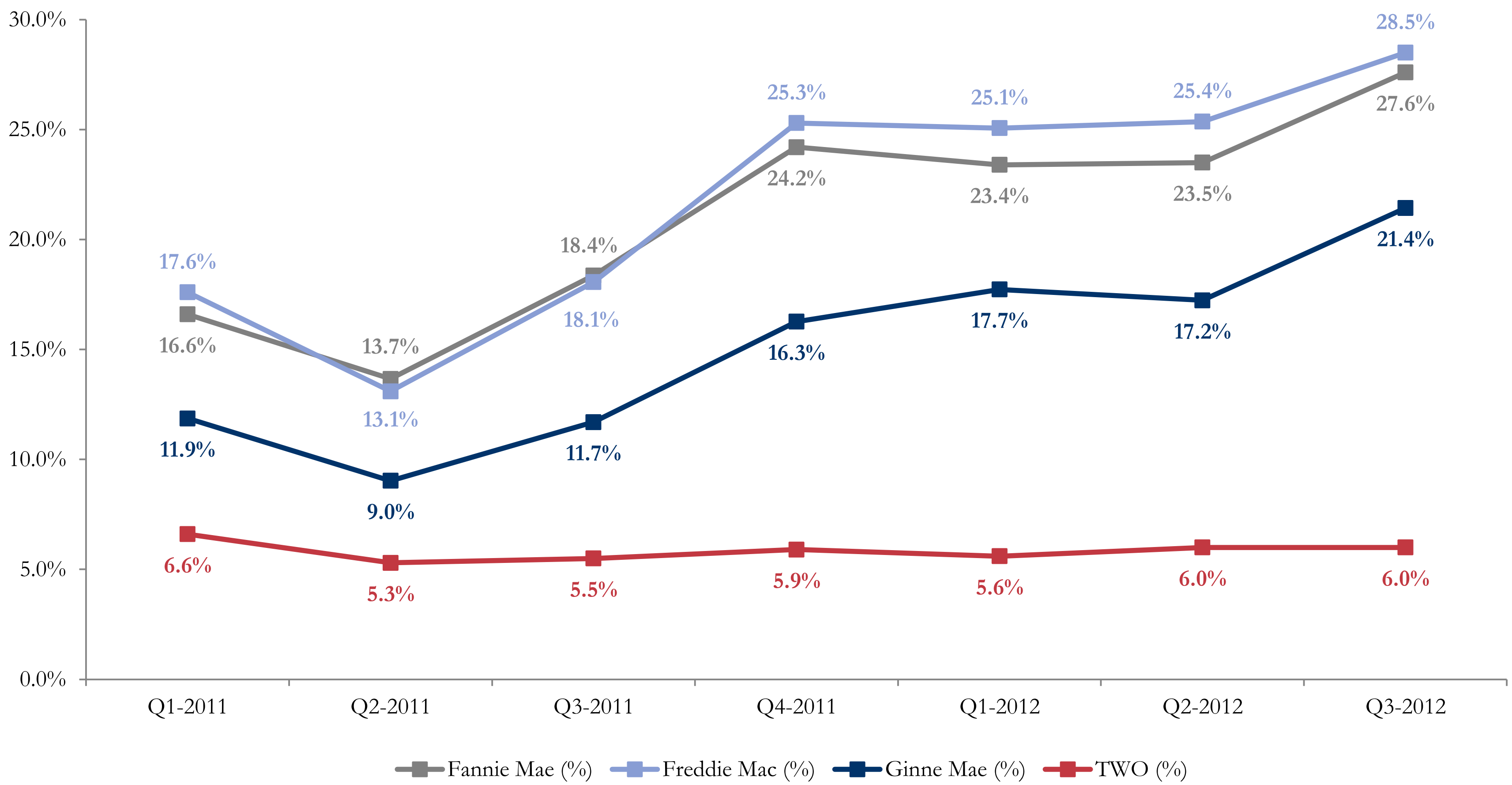
Prepayment Protected Securities



(1) Includes Agency derivatives ("IIOs") of $329 million as of September 30, 2012.
(2) Securities collateralized by loans with greater than or equal to 80% loan-to-value ratio. High LTV pools are predominately Making Homeownership Affordable pools. Making Homeownership Affordable (or "MHA") pools consist of borrowers who have refinanced through the Home Affordable Refinance Program (HARP).
(3) Securities collateralized by loans of less than or equal to $85K.
(4) Securities collateralized by loans of less than or equal to $175K, but more than $85K.
(5) 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.
(6) Securities collateralized by loans held by lower credit borrowers as defined by Fair Isaac Corporation's, or FICO, scoring model.
(7) Securities collateralized by loans reflecting less prepayment risk due to previously experienced high levels of refinancing.

Two Harbors' CPR vs. Cohorts

Two Harbors' CPR vs. Cohorts[1]



(1) Source: eMBS.

Summary

We believe that prepayment protected pools offer the RMBS investor value at the right price.

- Specified pools provide prepayment protection during refinancing cycles in addition to lower scenario volatility.
- It's important not to rely on just one valuation approach; security analysis is based on a combination of factors, including the option-adjusted spread which accounts for interest rate and cash flow variability.
- Price paths for prepayment protected pools tend to be less negatively convex compared to those of generics, which in our view allows for more effective hedging to protect book value.
- Our low and stable prepayment speeds have historically outperformed the cohorts, which has benefitted our stockholders.

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