

Analyst & Investor Day Presentation

New York Stock Exchange

February 20, 2014



TWO HARBORS
Investment Corp.

A Pine River Capital Managed Company

Agenda



<u>Time</u>	<u>Schedule</u>
11:00 a.m. ET	Registration
11:30 a.m. ET	Opening Remarks
11:35 a.m. ET	James Grant, Guest Speaker
12:20 p.m. ET	Luncheon
1:00 p.m. ET	Management Presentations and Q&A
3:00 p.m. ET	Closing Remarks

Special Guest Speaker – James Grant



A KIND WORD FOR THE INVISIBLE HAND



James Grant is the founder and editor of Grant's Interest Rate Observer and the author of seven books. His new history of the self-healing depression of 1920-21 will be published next year by Simon & Schuster. Mr. Grant's television appearances include 60 Minutes, NewsHour with Jim Lehrer, CBS Evening News and a 10-year stint on Wall Street Week. His journalism career began at the Baltimore Sun, and he has published in the Financial Times, the Wall Street Journal, and Foreign Affairs, among other periodicals. A former Navy gunner's mate, Mr. Grant is a 2013 inductee into the Fixed Income Analysts Society's Hall of Fame.

Safe Harbor Statement



FORWARD-LOOKING STATEMENTS

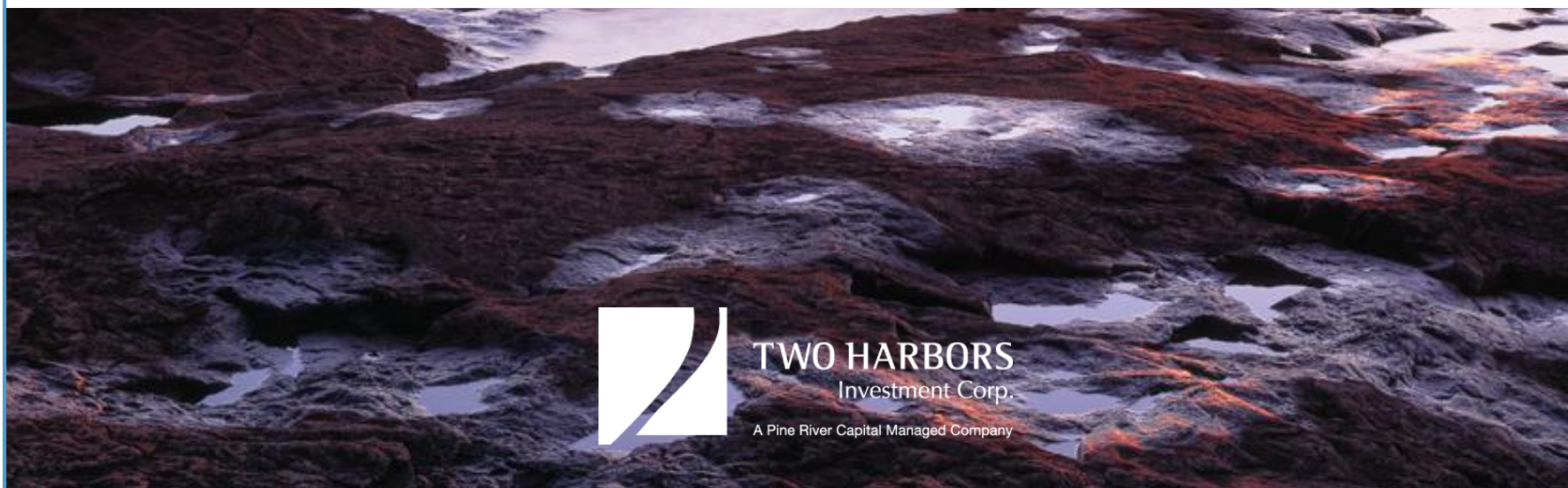
This presentation includes “forward-looking statements” within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Actual results may differ from expectations, estimates and projections and, consequently, readers should not rely on these forward-looking 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, including, among other things, those described in our Annual Report on Form 10-K for the year ended December 31, 2012 and any subsequent Quarterly Reports on Form 10-Q, under the caption “Risk Factors.” 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 residential mortgage-backed securities, the rates of default or decreased recovery on the mortgages underlying our non-Agency securities, failure to recover credit losses in our portfolio, changes in interest rates and the market value of our assets, the availability of financing, the availability of target assets at attractive prices, our ability to manage various operational risks associated with our business, our ability to maintain our REIT qualification, limitations imposed on our business due to our REIT status and our exempt status under the Investment Company Act of 1940, 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, our ability to acquire mortgage loans or securitize the mortgage loans we acquire, our involvement in securitization transactions, the timing and profitability of our securitization transactions, the risks associated with our securitization transactions, our ability to acquire mortgage servicing rights, the impact of new or modified government mortgage refinance or principal reduction programs, unanticipated changes in overall market and economic conditions, and our exposure to claims and litigation, including litigation arising from our involvement in securitization transactions.

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 (SEC). 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.

Readers are advised that the financial information in this presentation is based on company data available at the time of this presentation, and unless otherwise noted, has not been audited by the company’s independent auditors. This presentation may include industry and market data obtained through research, surveys, and studies conducted by third parties and industry publications. We have not independently verified any such market and industry data from third-party sources.



Executive Overview – Tom Siering





Two Harbors Today

OVERVIEW

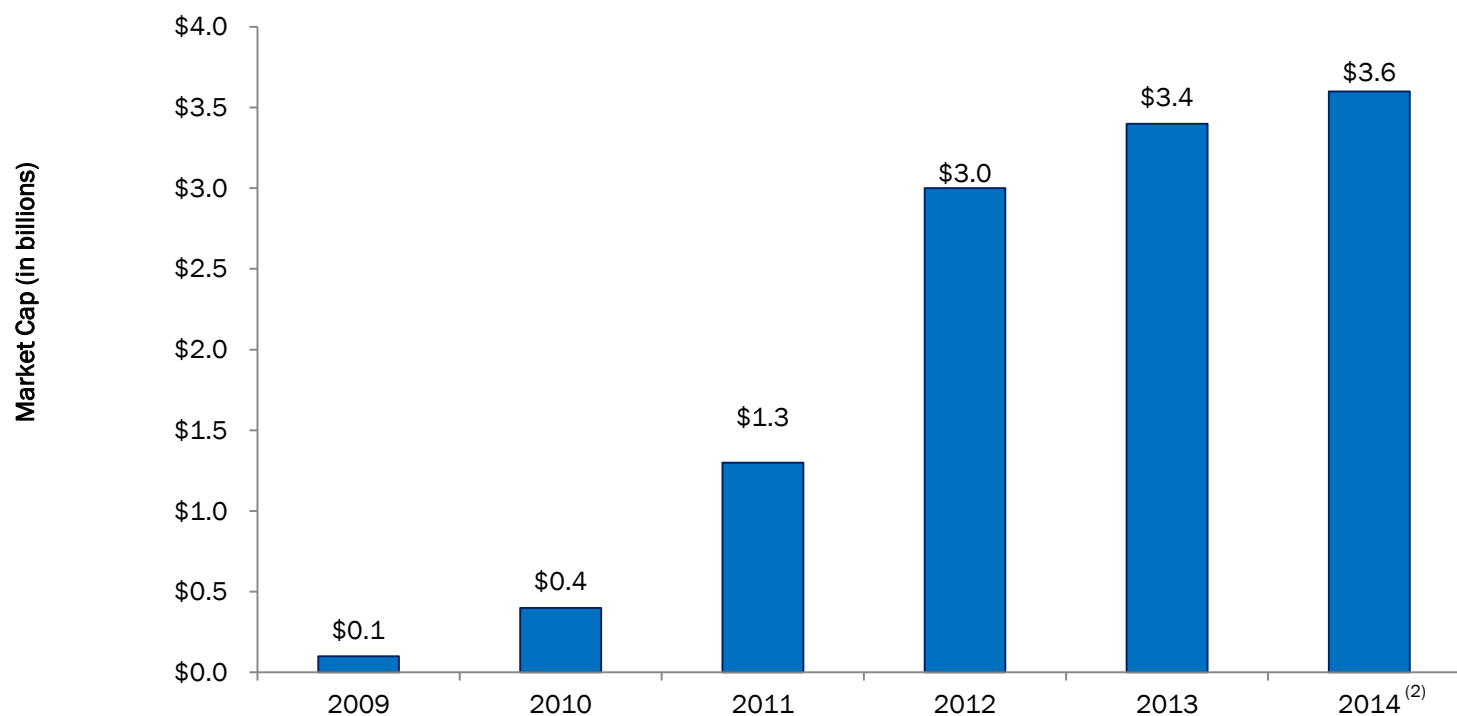
- Two Harbors started with \$124 million in October 2009; we are celebrating our fifth year since inception
- Today we are the largest hybrid mortgage REIT with a market cap of approximately \$3.6 billion⁽¹⁾
- Delivered total return of 88% to stockholders since inception
- Performance driven by:
 - Rigorous security selection
 - Sophisticated risk mitigation strategies
- Portfolio was over \$13 billion as of December 31, 2013
- Achieved total return on book value of 10.4% in 2013
- Distributed shares of Silver Bay common stock to our stockholders
- Externally managed by a subsidiary of Pine River Capital Management, a global asset management firm

(1) Source: Bloomberg, as of February 14, 2014

Two Harbors Market Capitalization



HISTORICAL MARKET CAPITALIZATION SINCE INCEPTION



Source: Bloomberg

(1) 2012 market value calculated as 298.8 million shares outstanding as of December 31, 2012 multiplied by December 31, 2012 stock price of \$11.08 per share, less \$345.8 million, which represents the tax value of the distribution of Silver Bay common stock.

(2) As of February 14, 2014



Talented and Deep Bench

SOLID FOUNDATION FOR MANAGING BUSINESS OPERATIONS AND RISK

- Investment team with significant RMBS experience
 - Strong RMBS team focused on trading, investment analysis and research
 - Rigorous security selection; goal is to drive alpha
 - Leverage proprietary analytical systems
 - Specialized repo funding group
- Independent risk oversight committee
- Accounting and tax teams focus on accurate financial reporting and disclosure
- Operations team with deep servicing and mortgage experience
- Legal team navigates changing regulatory landscape and ensures strong corporate governance and disclosure practices
- Investor relations team provides transparency, disclosure and investor reporting



Introducing our Team

REBECCA B. SANDBERG – GENERAL COUNSEL & SECRETARY



Rebecca B. Sandberg has served as General Counsel and Secretary at Two Harbors since March 2013. Ms. Sandberg previously served as Deputy General Counsel and Secretary of Two Harbors from May 2012 until March of 2013, and from 2010 to May 2012, served as Senior Counsel to Two Harbors. Prior to joining Two Harbors, Ms. Sandberg was in private practice where she advised clients primarily in the areas of securities laws, mergers and acquisitions, private capital markets transaction, corporate governance and general corporate law. From 2007 to 2010, Ms. Sandberg was a Senior Associate at Stoel Rives LLP and from 2006 to 2007 she was a Senior Associate at Fulbright & Jaworski LLP. Prior to that, Ms. Sandberg was an Associate at Lindquist & Vennum PLLP. She received a B.A. from the University of Minnesota and a Juris Doctorate from William Mitchell College of Law.



Introducing our Team

MATTHEW KOEPPEN – MANAGING DIRECTOR



Matthew Koeppen joined Two Harbors in 2010, and has served as a Managing Director since 2012. Prior to joining Two Harbors in 2010, Mr. Koeppen held a variety of positions with Black River Asset Management, which is a division of Cargill, Incorporated. Most recently, Mr. Koeppen served as a Managing Director of Business Development, where he was responsible for a variety of initiatives to diversify and grow assets under management. From 2003 to 2007, Mr. Koeppen was a Managing Director and Portfolio Manager for Black River Asset Management. In this role, he was responsible for managing a securitized products portfolio, including Agency RMBS, specified pools, TBAs, non-Agency RMBS, interest only securities, and other derivatives. From 1996 to 2003, Mr. Koeppen was a Vice President in the Financial Markets Group for Cargill where he traded Agency and non-Agency RMBS and municipal bonds. Mr. Koeppen received a B.A. degree in Financial Management from the University of St. Thomas.



Introducing our Team

WILLIAM GREENBERG – MANAGING DIRECTOR



William Greenberg has served as a Managing Director at Two Harbors since 2012. Prior to joining Two Harbors, Mr. Greenberg was a Managing Director and the Head of Investment Bank Risk Control Strategy at UBS AG, where he was responsible for issues of strategic importance to the investment bank. Previously, he was Head of Mortgage Strategy & Solutions Group, where he was responsible for managing the risk associated with mortgage repurchase liability related to over \$100 billion of RMBS and whole loans issued and/or sold by UBS. Before that, he was Senior Portfolio Manager and Co-head of U.S. trading within the SNB StabFund, the business unit created in 2008 to manage \$40 billion of legacy RMBS, ABS, and CMBS securities and loans. Prior to joining UBS, Mr. Greenberg was a Managing Director and Senior Portfolio Manager at Natixis NA, where he co-managed both client and proprietary portfolios of Agency and Non-Agency RMBS. Mr. Greenberg holds a B.S. in physics from the Massachusetts Institute of Technology, and M.S. and Ph.D. degrees in theoretical nuclear physics from the University of Washington.



Introducing our Team

VICTOR BAEV – MANAGING DIRECTOR



Prior to joining the residential mortgage-backed securities team at Pine River in 2009, Mr. Baev was a Vice President in the Residential Mortgage Backed Securities Group at Credit Suisse from 2004 to 2009, where he held positions as a trader in Non-Agency Mortgage Trading and Agency Collateralized Mortgage Obligation Trading. Prior to joining Credit Suisse, he was a Vice President in Interest Rate Derivatives at Dresdner Kleinwort and an Associate in Credit Derivatives and Interest Rate Derivatives at Barclays Capital. Mr. Baev received a Bachelor of Business Administration from Baruch College and a Masters of Business Administration from Columbia Business School.



Introducing our Team

NICHOLAS SMITH – MANAGING DIRECTOR



Nicholas Smith has served as a Managing Director at Two Harbors since 2012. Prior to joining Two Harbors, Mr. Smith was the Chief Investment Officer of Capital Markets at Green Tree Investment Management where he was responsible for the residential mortgage investment platform, including investments in whole loans and mortgage servicing rights. Before his time at Green Tree, Mr. Smith was as a Senior Trading Analyst and a Senior Financial Analyst at GMAC ResCap (formerly known as GMAC-RFC). Mr. Smith studied economics as an undergraduate at the University of Minnesota. Mr. Smith is also a member of the CFA Institute and CFA Society of Minnesota.



Introducing our Team

DAN KOCH – MANAGING DIRECTOR



Dan Koch has served as a Managing Director at Two Harbors since 2012. Prior to joining Two Harbors, Mr. Koch was a Managing Director at Redwood Trust where he was responsible for sourcing jumbo prime loan acquisitions and the development of new loan origination business initiatives. Before his time at Redwood Trust, Mr. Koch was a Director at Morgan Stanley Credit Corporation where he was responsible for executing the Agency and non-Agency loan sales and securitizations. Prior to that, he was a Vice President of Asset Acquisition and Risk Management at Charter One Bank (then St. Paul Federal Bank for Savings) and a Credit Analyst at US Bancorp. Mr. Koch holds a Bachelor of Arts degree from University of Minnesota with a degree in International Relations.



Introducing our Team

DIANE WOLD – MANAGING DIRECTOR



Diane Wold has served as a Managing Director at Two Harbors since 2011. Prior to joining Two Harbors, Ms. Wold was at GMAC Residential Capital Corporation where she served in a variety of roles advancing to Senior Vice President and Managing Director – Head of Investment Banking from 1991 to 2007. There, Ms. Wold managed the company's U.S. investor relations, structured finance, investment banking, master servicing functions and the corporate budgeting and business planning processes. From 1987 to 1991, Ms. Wold was a Senior Tax Consultant at Deloitte & Touche LLP. Ms. Wold received a Master of Business Taxation from the University of Minnesota and a Bachelor of Business Administration degree in Accounting from University of Iowa. Ms. Wold is also a Certified Public Accountant.



Introducing our Team

ROBERT RUSH – MANAGING DIRECTOR



Robert Rush has served as a Managing Director at Two Harbors since 2013. Prior to joining Two Harbors, Mr. Rush held a variety of positions at UBS AG in New York. During 2013, Mr. Rush was a Managing Director and Director of Risk Strategy for the Non-Core and Legacy Group, the unit established to oversee UBS' exit from capital-inefficient businesses. From 2009 to 2012, he served as Head of Risk Analytics for the StabFund Investment Management Group, focusing on fundamental/technical analytics and interest rate risk management for a multi-billion portfolio of residential and commercial loans, RMBS, CMBS and ABS. From 2007 to 2008 Mr. Rush served as the Head CDO and Esoteric Asset Trader for the UBS Workout Group, and from 2006 to 2007 he co-managed the ABS/CMBS Derivatives Structuring Team within the Global CDO Group. From 1999 to 2006, he worked for John Hancock Financial Services, serving from 2004 to 2006 as Vice President and Director of Quantitative Research for Declaration Management & Research, and from 1999 to 2004 in various asset-liability management and investment strategy roles. From 1998 to 1999 Mr. Rush was employed with Queues Enforth Development in Cambridge, MA as a Senior Operations Researcher. Mr. Rush holds a B.S. in Mathematics from Fordham University, an M.S. in Operations Research & Statistics from Rensselaer Polytechnic Institute, and a Ph.D. in Decision Sciences & Engineering Systems from Rensselaer Polytechnic Institute.



Introducing our Team

MARCIN URBASZEK – MANAGING DIRECTOR



Marcin Urbaszek has served as a Managing Director at Two Harbors since 2013. Prior to joining Two Harbors, Mr. Urbaszek was a Director in the Financial Institutions Group at Credit Suisse, where he was responsible for sourcing and executing strategic and financing transactions for the firm's corporate clients. Before his time at Credit Suisse, Mr. Urbaszek worked in Equity Research at Citigroup, where he was responsible for covering U.S. regional banks. Prior to that, Mr. Urbaszek worked in Investment Banking at JPMorgan and Bank of America where he focused on structuring and underwriting Equity-linked securities. Mr. Urbaszek received a Bachelor of Business Administration degree in Finance from Baruch College, City University of New York. Mr. Urbaszek has also earned the Chartered Financial Analyst designation and is a member of the CFA Institute and the New York Society of Security Analysts.



Introducing our Team

JULY HUGEN – DIRECTOR



July Hugen has served as Director of Investor Relations at Two Harbors since 2012. In this role, she is responsible for both investor and media relations. Prior to joining Two Harbors, Ms. Hugen served in marketing and investor relations at Pine River Capital Management from 2009 to 2012 where she was responsible for building and maintaining relationships with hedge fund investors who managed diverse asset portfolios including pensions, foundations, family offices and hedge fund of funds. From 2006 to 2009, Ms. Hugen was a member of the Equity Research team at Piper Jaffray in Minneapolis. As an equity research analyst, she covered several sectors, including building products and distribution companies. Ms. Hugen holds a Bachelor of Arts degree from the Labovitz School of Business and Economics, University of Minnesota Duluth with majors in Finance and Organizational Management Studies and a minor in Psychology.

2013 In Review



ADVANCING STRATEGIC INITIATIVES

- Added staff and built infrastructure to support strategic initiatives
- Increased total market capitalization by approximately \$400 million in 2013 after giving effect to the Silver Bay common stock dividend amounting to \$345.8 million⁽¹⁾

First Quarter 2013	Second Quarter 2013	Third Quarter 2013	Fourth Quarter 2013
Completed accretive public offering of common stock for net proceeds of approximately \$769.2 million	Acquired Matrix Financial Services Corporation, which has seller-servicer approvals Repurchased 1 million shares of our common stock at average price of \$10.50 per share (accretive)	Acquired two small bulk MSR portfolios Completed first securitization using our own depositor Repurchased 1.45 million shares of our common stock at average price of \$9.23 per share (accretive)	Finalized a two-year flow sale agreement to acquire MSR from PHH Mortgage Corporation Acquired substantial bulk MSR portfolio from Flagstar Bank Wholly-owned subsidiary granted membership in the Federal Home Loan Bank of Des Moines (FHLB)

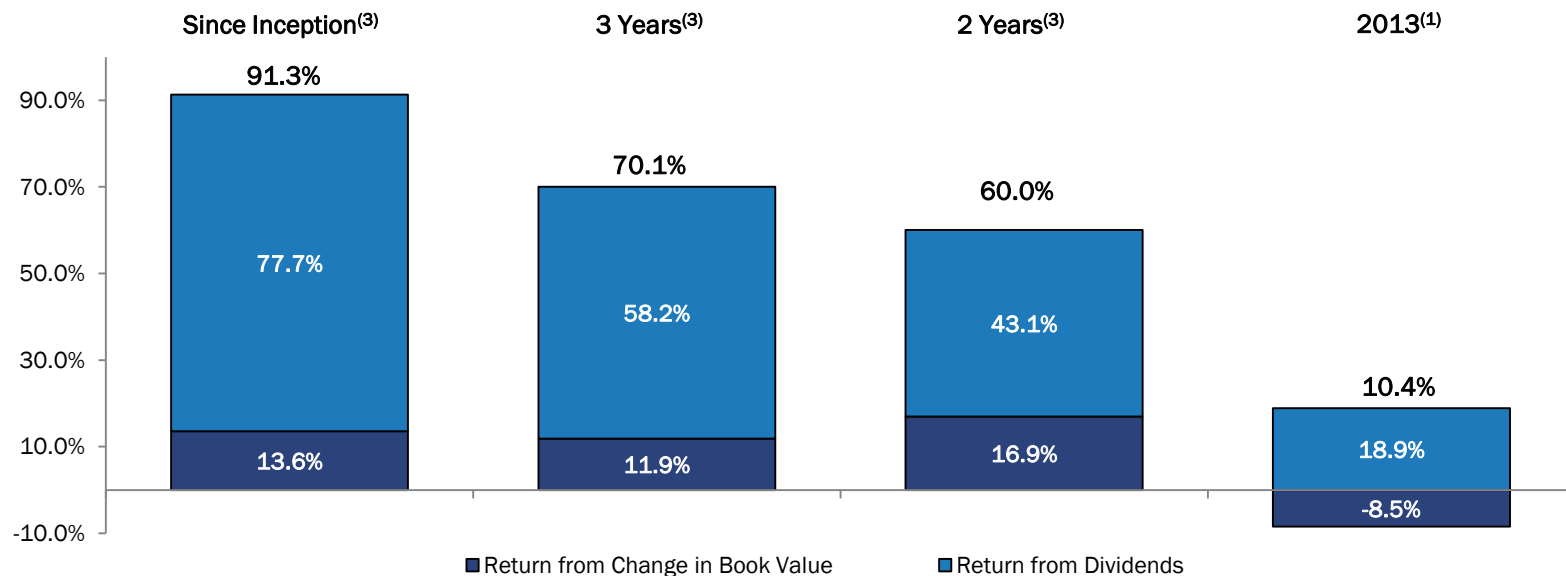
(1) \$345.8 million represents the tax value of the distribution of Silver Bay common stock.



Historic Alpha Generation

STRONG RETURN ON BOOK VALUE

- In 2013, delivered total return on book value of 10.4%⁽¹⁾ versus the Pine River Mortgage REIT Index performance estimated at negative 5.9%⁽²⁾
- Protected book value to preserve dividend generation for the long term
- Focused on opportunistic capital allocation, security selection and hedging to drive long term performance



(1) Total return on book value is calculated from book value and dividends from the period of January 1, 2013 to December 31, 2013. Includes first quarter 2013 special dividend of Silver Bay stock amounting to \$1.01 per share.

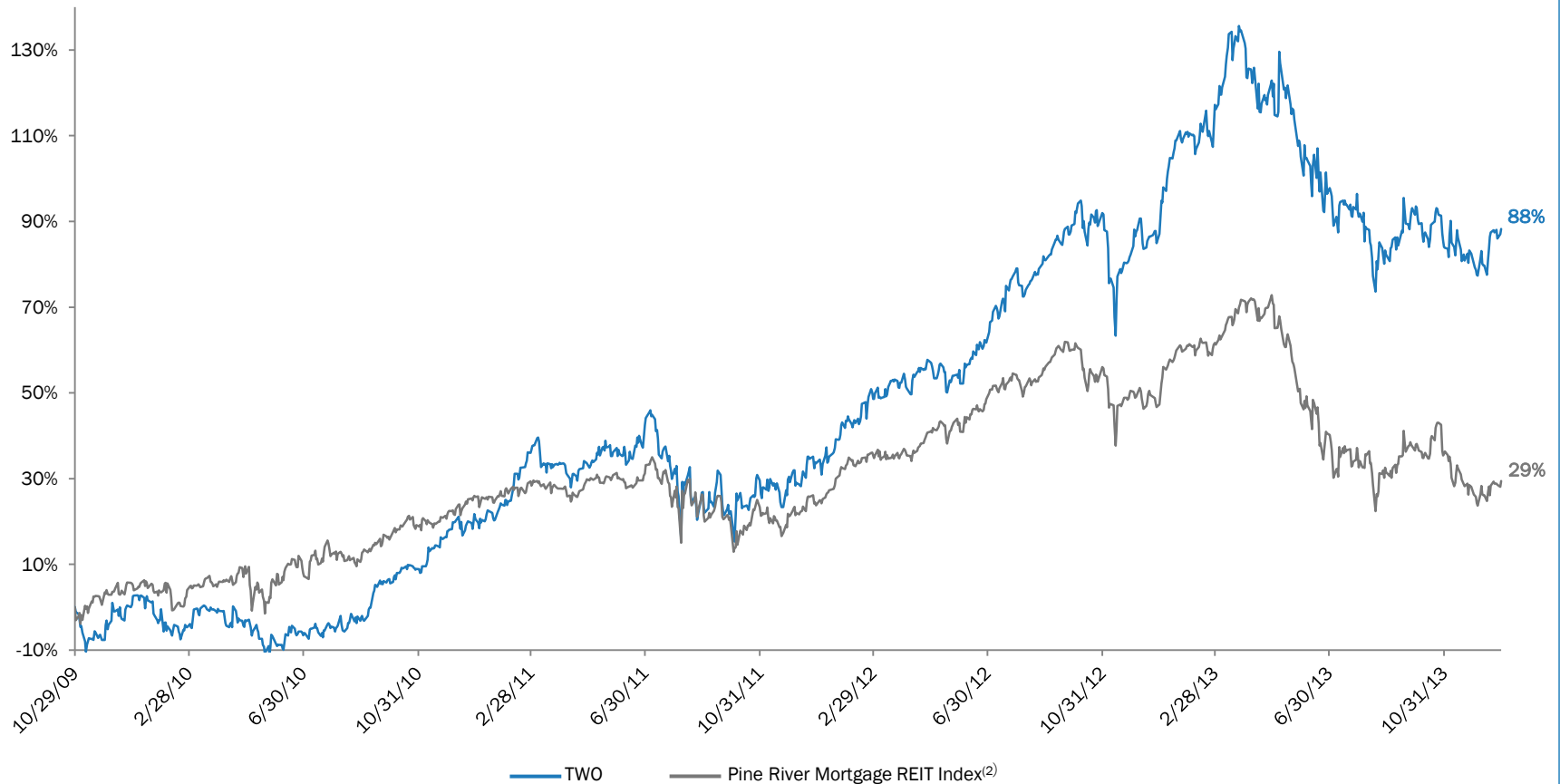
(2) Median total return on book value is calculated from book value and dividends from the period of January 1 to December 31, 2013. Pine River Mortgage REIT Index (PRMRI) calculation has been estimated after removing Two Harbors' total return. PRMRI constituents include: NLY, AGNC, HTS, CYS, ARR, CMO, MFA, IVR, ANH, MTGE, CIM, RWT, PMT, AMTG, MITT, DX, NYMT, WMC, NRZ. Fourth quarter consensus book value estimates used for: NLY, ARR, IVR, CIM, RWT, AMTG, MITT, DX, NYMT, WMC, NRZ.

(3) Total return on book value is calculated from book value and dividends for the indicated time period as measured from December 31, 2013. Includes first quarter 2013 special dividend of Silver Bay stock amounting to \$1.01 per share.



Delivering Attractive Total Return

- Generated total stockholder return of 88%⁽¹⁾ since inception; outperformed the Pine River Mortgage REIT Index
- Produced positive stockholder return every year since our inception in 2009



(1) Two Harbors' total stockholder return is calculated for the period October 29, 2009 through December 31, 2013. Total stockholder return is defined as capital gains on stock price including dividends. Source: Bloomberg.

(2) PRMRI total stockholder return for the period October 29, 2009 through December 31, 2013. Pine River Mortgage REIT index includes: AGNC, NLY, ANH, ARR, CMO, CIM, CYS, HTS, IVR, MFA, PMT, RWT, TWO, MITT, MTGE, AMTG, DX, NYMT, WMC and NRZ. Source: Bloomberg.



10-Year Treasury Total Return

THE 10-YEAR TREASURY HAD A NEGATIVE 7.7% TOTAL RETURN IN 2013⁽¹⁾

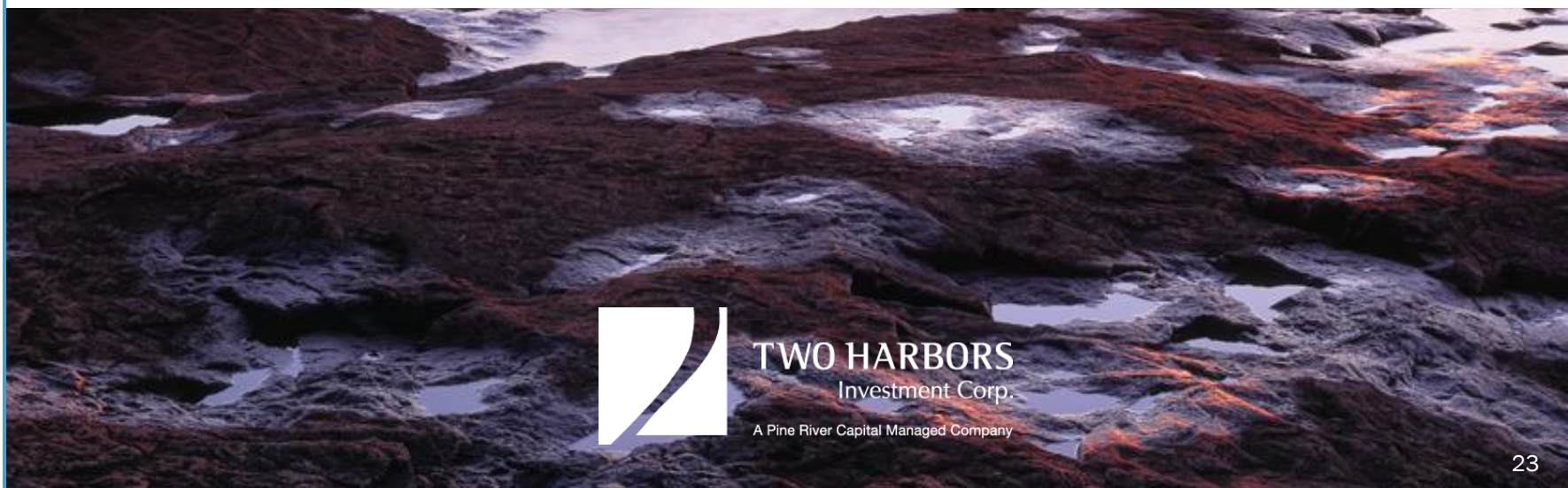


Source: Bloomberg

(1) The F08210YR (FMC Curve # 82 Zero Coupon Yields 10 Par Return) index is the par return on the zero coupon yields of the 10-Year Treasury.



Financial Update – Brad Farrell



TWO HARBORS
Investment Corp.

A Pine River Capital Managed Company



Financial Stewardship

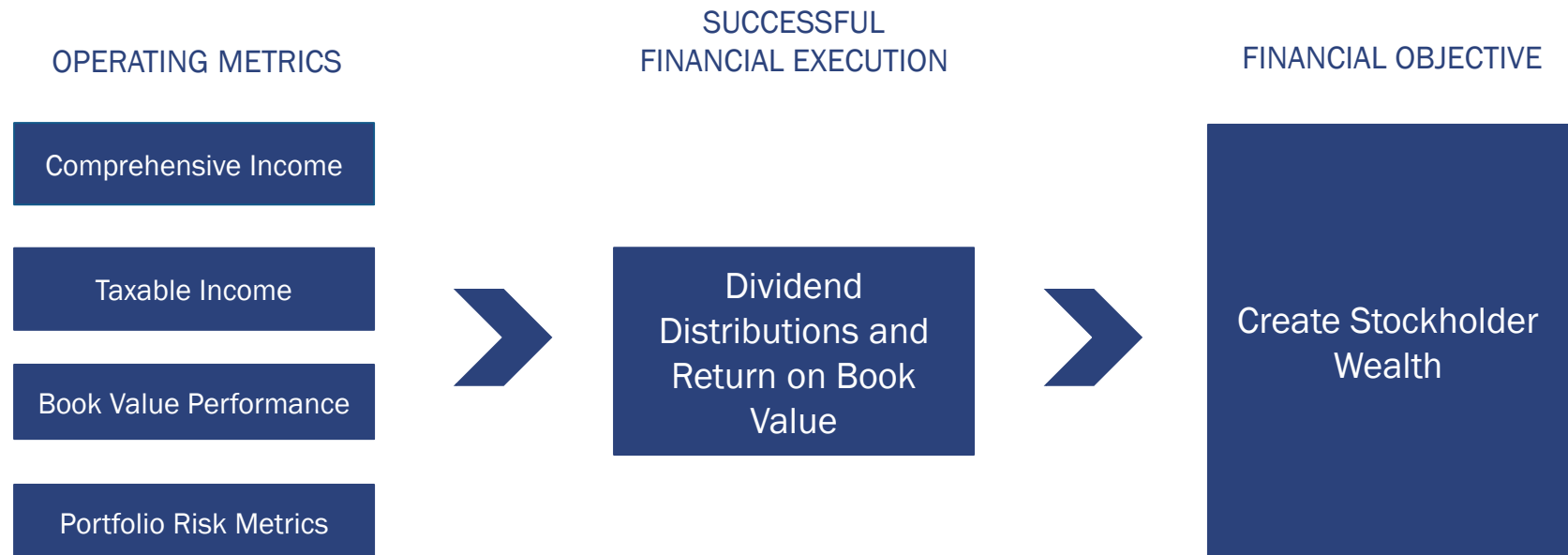
- Deliver considerations for dividend declaration
- Oversee financial planning and expense management
- Mitigate financial and counterparty risks
- Maintain compliant accounting standards and controls
- Achieve reporting transparency through comprehensive disclosure
- Maintain REIT status and comply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



Financial Performance

- Our primary objective is to provide attractive risk-adjusted total returns over the long term, principally through dividends and secondarily through capital appreciation
- We have elected to account for all our assets, as permitted under GAAP, at fair value because we believe it is the truest reflection of the economics of our business and our ability to distribute dividends
- Dividend distributions are a function of our ability to generate cash return and taxable income

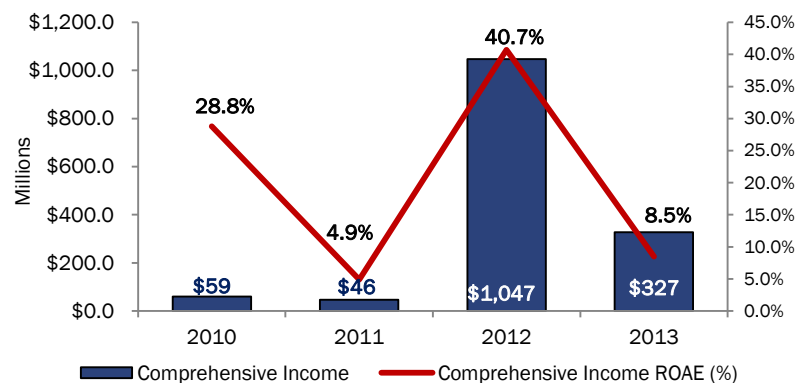
DELIVERING TOTAL RETURN



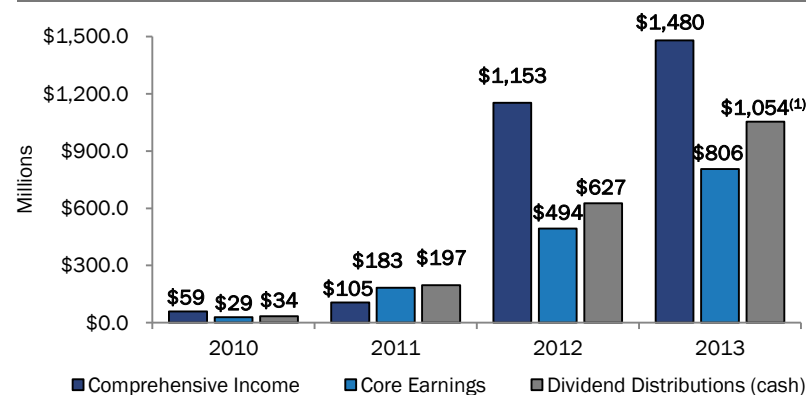


Financial Performance Summary

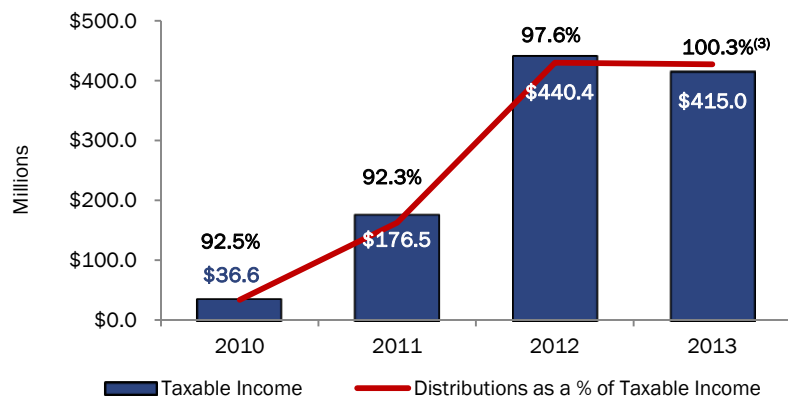
COMPREHENSIVE INCOME



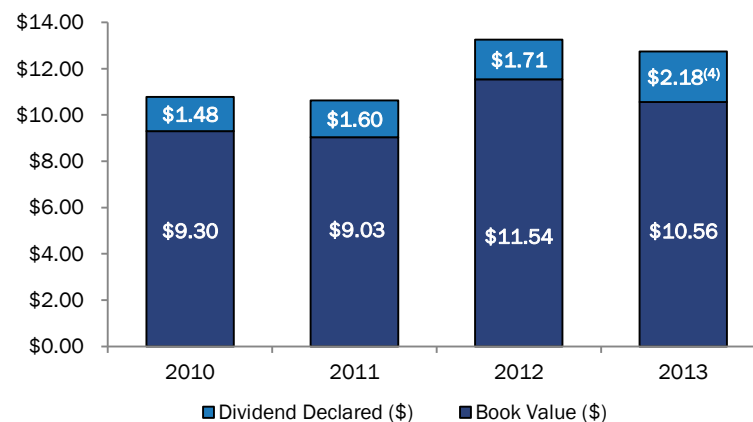
CUMULATIVE PERFORMANCE V. DISTRIBUTIONS



TAXABLE INCOME VS. DISTRIBUTIONS



BOOK VALUE AND DIVIDEND PER SHARE ⁽²⁾



(1) Does not include Silver Bay common stock distribution.

(2) 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 relevant quarter. Diluted shares outstanding at end of period, which includes the effect of dilutive outstanding warrants determined using the treasury stock method, are used as the denominator for book value per share calculation.

(3) 100.3% includes \$10.7 million carried over from 2012.

(4) Includes cash dividend of \$0.32 per share and the Silver Bay common stock distribution amounting to \$1.01 per share, as measured in accordance with GAAP.



REIT Taxable Income to Core Earnings

- Differences arise from discount accretion on non-Agency RMBS, capital gains from our RMBS portfolio and our use of our taxable REIT subsidiaries to conduct meaningful business activities

(In thousands, except for per share data)	Year Ended December 31, 2012	Year Ended December 31, 2013
Reconciliation of REIT taxable income to Core Earnings		
Core Earnings ⁽¹⁾	\$ 311,085	\$ 311,829
Adjustments :		
Tax short-term and long-term capital gains/losses	123,004	0
Dividends from taxable REIT subsidiaries (TRSs)	0	50,000
Swap fair value income/loss derived in REIT	(7,084)	13,588
GAAP-to-tax RMBS accretion/amortization	16,286	24,733
Other	(2,885)	14,820
REIT Taxable Income	\$ 440,406	\$ 414,970

(1) Core Earnings is a non-GAAP measure that the company defines as GAAP net income, excluding impairment losses, gains or losses on sales of securities and termination of interest rate swaps, unrealized gains or losses on the aggregate portfolio, certain non-recurring gains and losses related to discontinued operations and amortization of business combination intangible assets, and certain non-recurring upfront costs related to securitization transactions. As defined, Core Earnings includes interest income associated with the company's inverse interest-only securities (Agency Derivatives), premium income or loss on credit default swaps, and servicing income, net of estimated amortization.



2013 Taxable Income and Distributions⁽¹⁾

Distributions, Year Ended December 31, 2013 (in millions, except per share data)	Q1	Q2	Q3	Q4	Total	
REIT 2013 taxable income plus prior year undistributed taxable income of \$10.7 million					\$425.6	Includes 2013 taxable income of \$415.0 million and \$10.7 million rolled over from 2012
Cash distributions	\$116.8	\$113.4	\$102.0	\$94.9	\$427.1	\$427.1 million is 2013 total cash distribution
Silver Bay stock distribution	\$345.8	-	-	-	\$345.8	\$345.8 million was fair market value of Silver Bay common stock on the distribution date
Total distributions	\$462.6	\$113.4	\$102.0	\$94.9	\$772.9	
Distributions per share						
Cash distributions	\$0.3200	\$0.3100	\$0.2800	\$0.2600	\$1.1700	
Silver Bay stock distributions	\$0.9472	-	-	-	\$0.9472	The return of capital distribution of \$0.9513 is roughly equivalent to the distribution of Silver Bay common stock of \$0.9472
Total distributions per share	\$1.2672	\$0.3100	\$0.2800	\$0.2600	\$2.1172	
Form 1099 tax characterization per share						
Dividend income	\$0.6978	\$0.1707	\$0.1542	\$0.1432	\$1.1659	
Return of capital (nondividend distribution)	\$0.5694	\$0.1393	\$0.1258	\$0.1168	\$0.9513	55.1% = Taxable income divided by total distributions, or \$425.6 million / \$772.9 million
Total dividend income and return of capital per share	\$1.2672	\$0.3100	\$0.2800	\$0.2600	\$2.1172	
Percent allocation of total distributions to dividend income	55.1%	55.1%	55.1%	55.1%	55.1%	
Percent allocation of total distributions to return of capital	44.9%	44.9%	44.9%	44.9%	44.9%	All remaining distributions (\$345.8 million for Silver Bay + \$1.5 million in cash dividends, or 44.9% of total distributions) are treated as return on capital
Total percent allocation of total distributions	100.0%	100.0%	100.0%	100.0%	100.0%	

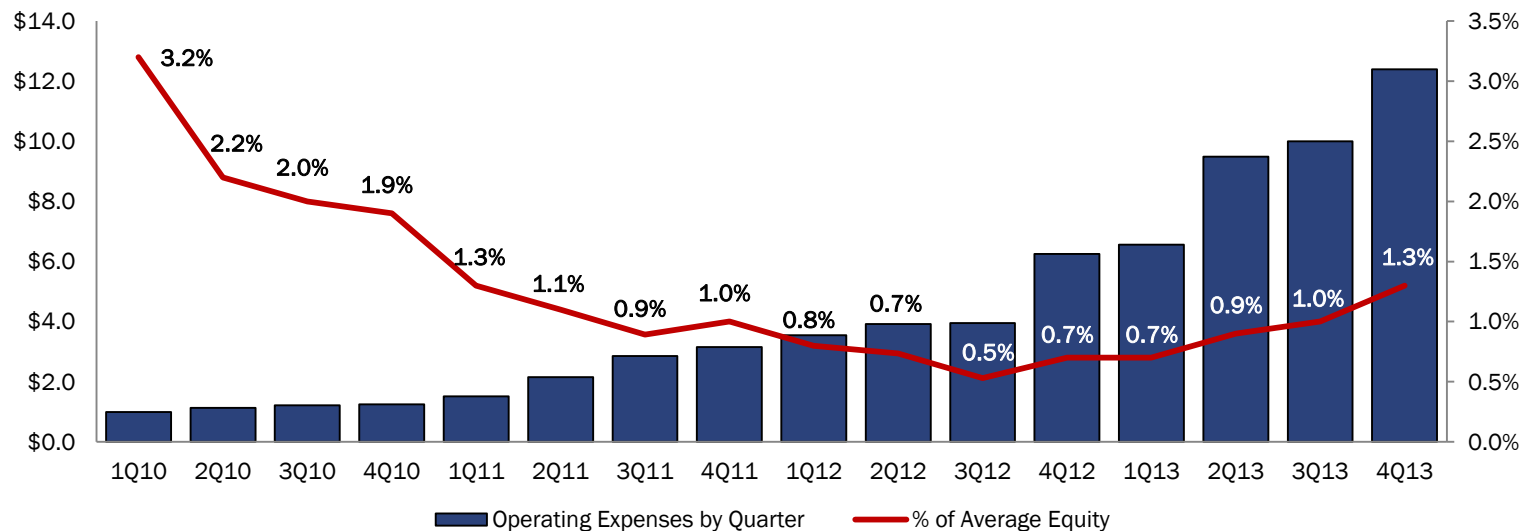
(1) The U.S. federal income tax treatment of holding Two Harbors common stock for any particular stockholder will depend on the stockholder's particular tax circumstances. Stockholders are urged to consult their tax advisor regarding the U.S. federal, state, local and foreign income and other tax consequences to such stockholder, in light of their particular investment or tax circumstances, of acquiring, holding and disposing of Two Harbors common stock.



Operating Expense Management

- Upward trend in expense ratio (as a percentage of average equity) over the past 6 quarters has been driven by new business opportunities related to MSR acquisitions, our Conduit program and other initiatives, which we expect to drive stockholder returns over time
- Many of our expenses are directly related to our portfolio size, such as data services and brokerage fees
- Going forward, our operating expense ratio will fluctuate based on certain variables, including volume of assets and transaction expenses

OPERATING EXPENSES VS. AVERAGE EQUITY





Capitalization and Financing

TARGET CAPITAL ALLOCATION

Rate Strategy

- Consists of Agency RMBS and MSR
- 57%, or \$2.2 billion, of capital allocation

Credit Strategy

- Consists of Non-Agency RMBS and Residential Mortgage Loans (Prime Jumbo and Credit Sensitive)
- 43%, or \$1.6 billion, of capital allocation

INVESTMENT PROFILE

Agency RMBS

- \$9.7 billion market value
- Highly liquid secondary market

MSR

- \$0.5 billion market value
- Active market participants; however, lengthy settlement process, which includes GSE approval

Non-Agency RMBS

- \$2.8 billion market value
- Majority of holdings in gain position
- Active trading market

Mortgage Loans

- \$0.7 billion market value
- Active whole loan sale market; however, lengthy settlement process

SOURCES OF FINANCING

Agency RMBS

- \$9.3 billion outstanding repo; laddered maturity profile out to 2 years
- 18 repo counterparties
- FHLB eligible

MSR

- Cash funding by excess capacity

Non-Agency RMBS

- \$1.8 billion outstanding repo; laddered maturity profile out to 2 years
- 11 repo counterparties
- FHLB eligible ("A" rated and above)

Mortgage Loans

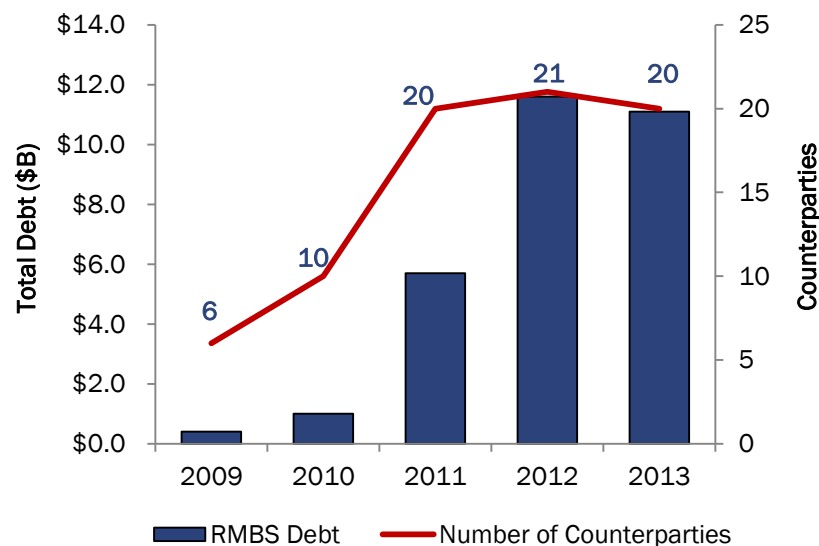
- \$300 million in uncommitted warehouse facilities
- Term financing in securitization market
- FHLB eligible



RMBS Financing Profile

- As of Dec. 31, 2013, we had 20 repo counterparties providing \$11.1 billion of financing
- We continue to ladder repo maturities, and average 71 days to maturity at year-end
- Daily margin and excess liquidity management

RMBS COUNTERPARTIES VS. TOTAL DEBT



FINANCING

Repurchase Agreements: RMBS and Agency Derivatives ⁽¹⁾	Amount (\$M)	Percent (%)
Within 30 days	\$3,832	35%
30 to 59 days	2,014	18%
60 to 89 days	2,226	20%
90 to 119 days	1,386	12%
120 to 364 days	1,448	13%
One year and over	200	2%
	\$11,106	

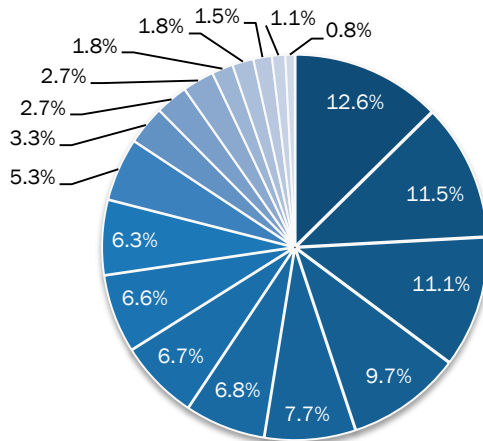
(1) Does not include repurchase agreements collateralized by U.S. Treasuries of \$1.0 billion and mortgage loans held-for-sale of \$147.3 million.



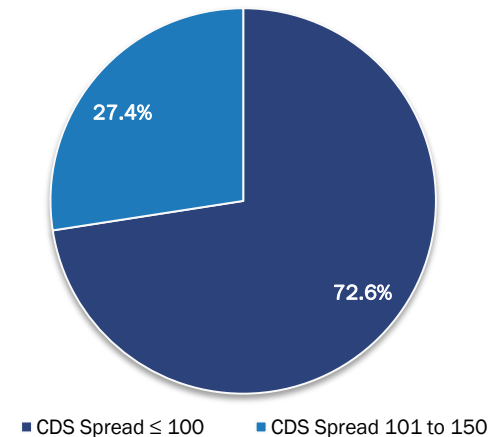
RMBS Counterparty Risk Management⁽¹⁾

- All non-Agency repo is with counterparties having credit default swap (CDS) spreads lower than 150 bps, implying low overall counterparty risk
- Approximately 54% of our Agency repo is with counterparties based in North America; 61% of our non-Agency repo is with counterparties based in North America
- Expansion of financing counterparties to support company growth; focused on diversification and credit quality of counterparty
- Stress tests for shifts in market value and advance rates

DIVERSE AGENCY COUNTERPARTIES⁽²⁾



HIGH-QUALITY NON-AGENCY COUNTERPARTIES⁽³⁾



(1) As of December 31, 2013.
(2) Reflects the counterparty percentage of our outstanding repurchase agreements for our Agency portfolio.
(3) Reflects the CDS Spread for our non-Agency portfolio repo counterparties.



RMBS Counterparty Risk Management

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 across key metrics evaluate the health and solvency of our counterparties (as illustrated below)
- Thorough credit quality review of potential counterparties
- Extensive legal review and negotiation of contractual arrangements

Credit Tier ⁽¹⁾	Traffic Light ⁽²⁾	Systemically Important ⁽³⁾	Tier 1 Ratio	5-Year CDs 11/30/13	5-Year CDs 12/31/13	Credit Rating			
						Moody's	Outlook	S&P	Outlook
1		Yes	13.80%	97	92	A3	Neg	A-	Stable
2		Yes	13.80%	119	113	Baa1	Neg	BBB+	Neg
3		Yes	n/a	600 ⁽⁴⁾	639 ⁽⁴⁾	-	-	BBB-	Stable

Data presented as of December 31, 2013

(1) Represents credit risk view of the counterparty: Scale of 1 (top tier) to 3 (lowest tier)

(2) Represents risk appetite to trade with the counterparty

(3) Per the Financial Stability Board's (FSB) initial list of 29 global SIFI's

(4) OAS of reference bond (no CDS available)



Federal Home Loan Bank of Des Moines

TH INSURANCE HOLDINGS COMPANY LLC, OUR WHOLLY OWNED SUBSIDIARY, WAS GRANTED MEMBERSHIP IN THE FHLB

CAPACITY AND ELIGIBLE COLLATERAL

- Facility provides current funding capacity up to \$ 1 billion; may increase or decrease at the FHLB's sole discretion because it is uncommitted
- Collateral posted at an asset level versus blanket lien (i.e., each advance will require approval by the FHLB)
- Eligible Collateral Includes:
 - Conventional 1-4 family residential loans
 - Agency MBS
 - Non-Agency MBS with an A rating or above

BORROWING RATES AND COLLATERAL HAIRCUTS

- Lending rates generally range from LIBOR to LIBOR +30 with advance rates comparable to, or a little lower than, market terms
- FHLB offers fixed and floating rates, which provides us flexibility from a hedging perspective
- Financing maturities up to 5 years for eligible collateral and longer in certain cases

BENEFITS AND OPPORTUNITIES

- Diversification beyond the repo market is prudent so we can respond to market events as well as optimize our daily funding mix relative to advance rates and borrowing rates
- Allows for greater flexibility to pledge collateral over time because a security or loan may support future advances

Federal Home Loan Bank⁽¹⁾



	REPO TERMS		FHLB TERMS	
	ADVANCE RATES	COST: 1M LIBOR+	ADVANCE RATES ⁽²⁾	COST: 1M LIBOR+ ⁽³⁾
Agency Pools (generic)				
30-60 Days	95% - 97%	17 - 19 bps	89%	12 - 15 bps
1 Year			89%	15 bps
3-5 Year	n/a	n/a	89%	22 - 34 bps
Other Agencies				
30-60 Days	90% - 95%	20 - 25 bps	86%-91%	12 - 15 bps
1 Year			86%-91%	15 bps
3-5 Year	n/a	n/a	86%-91%	22 - 34 bps
Non-Agencies				
30-180 Days	55% - 80%	135 - 215 bps	56%-86%	12 - 15 bps
1 Year			56%-86%	15 bps
3-5 Year	n/a	n/a	56%-86%	22 - 34 bps
Whole Loans				
30-180 Days	45% - 90%	237 - 325 bps	56%-86%	12 - 15 bps
1 Year	35% - 84%	237 - 370 bps	56%-86%	15 bps
3-5 Year	n/a	n/a	56%-86%	22 - 34 bps

(1) The above rates are for illustrative purposes only and may not be indicative of actual terms under our agreements

(2) Includes FHLB 4% Activity Stock

(3) Source: FHLB of Des Moines website (www.fhlbdm.com)



Accounting for Mortgage Servicing Rights

- Separate recognition of MSR using the guidelines of ASC 860 (Transfers and Servicing)
- Two valuation methods:
 - Amortization Method
 - Amortize each MSR over period of income
 - Record valuation allowance and impairment
 - Fair Value Method
 - Measure at each reporting date, taking into consideration roll-off
- We account for MSR using the fair value method; at December 31, 2013, the market value of our MSR portfolio was \$514.4 million, or approximately 1.2% of the \$42.3 billion unpaid principal amount of the associated mortgage loans (see chart to the right)
- Calculation of fair value is driven by coupon rate, delinquencies, prepayment speeds and discount rate, among other variables
- During the fourth quarter 2013, we recognized \$10.8 million of servicing income, \$2.2 million of sub-servicing expense and \$13.1 million increase in fair value of MSR, net of \$5.4 million which represents implied amortization (i.e. prepayments)
- MSR are unlevered at December 31, 2013

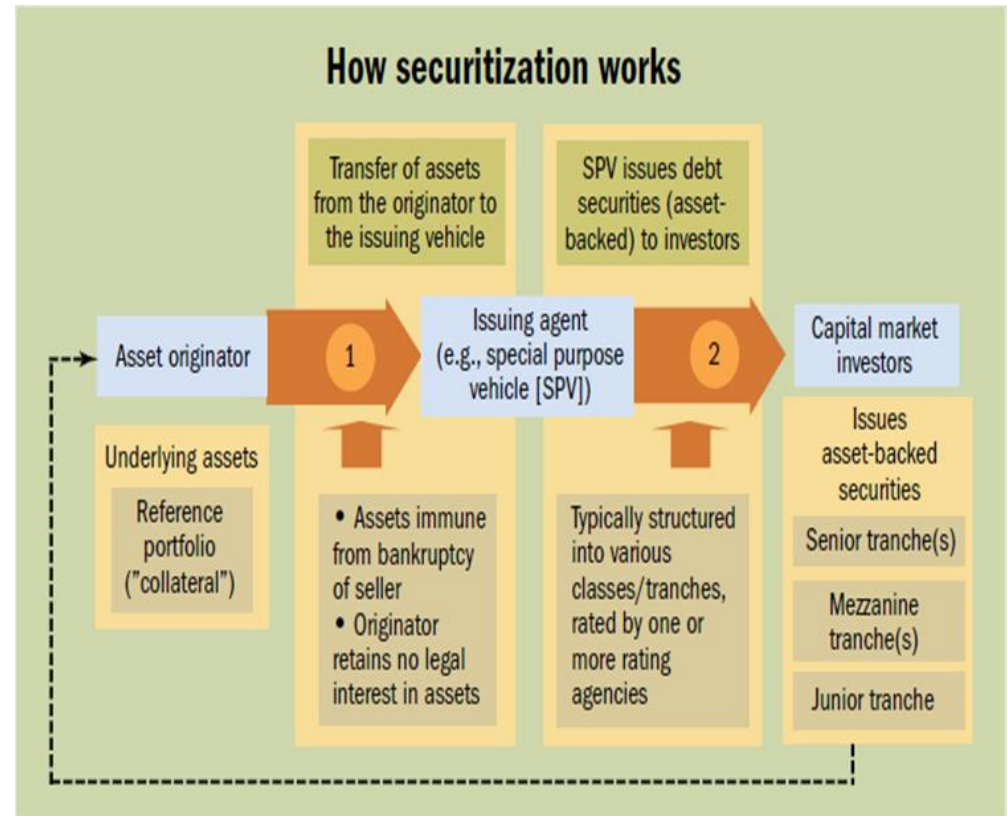
MSR FAIR VALUE ASSUMPTIONS AT DECEMBER 31, 2013

Unpaid Principal Balance (\$B)	\$42.3	
MSR Fair Value (\$M)	\$514.4	
As a Multiple of Servicing Fee	5.0x	
Servicing Spread (less subservicing)	25 basis points	
FAIR VALUE ASSUMPTIONS	RANGE	WEIGHTED AVG.
Coupon	2.75% - 5.875%	3.93%
60+ Day Delinquencies	1% - 7%	4%
Prepayment Speed	8% - 11%	9.5%
Discount Rate	7% - 12%	9%



On-Balance Sheet Securitizations

- Accounted for using the guidelines of ASC 860 (Transfers and Servicing)
- Primary accounting paths:
 - Sale
 - Financing (consolidation)
- We account for mortgage loans held-for-investment in securitization trusts at fair value
 - Prices are obtained from third-party pricing providers and other applicable market data, or cash flow models based on observable and unobservable market inputs (i.e. prepayment speeds, delinquency rates and credit losses, etc.)
 - As the majority holder of the subordinated bonds, we are the controlling holder and retain all loss mitigation rights
 - Our subsidiary acts as the master servicer and maintains the right to guide all servicing direction, whether termination, transfer or otherwise



Source: International Monetary Fund



Strategy Update – Bill Roth



TWO HARBORS
Investment Corp.

A Pine River Capital Managed Company



Strategy – Overall Philosophy

OBJECTIVE TO DELIVER ATTRACTIVE RISK-ADJUSTED TOTAL RETURN

- Opportunistic capital allocation aims to take advantage of evolving residential finance landscape
- Comprehensive rates and credit strategies allow for fluid capital allocation and drive stockholder performance
- Diversification of risks delivers high quality returns with lower volatility

ECONOMIC RETURNS AND STOCK PRICE VOLATILITY

	Total Return on Book Value ⁽¹⁾	Quarterly Volatility of Book Value ⁽³⁾	Stock Price Volatility ⁽⁵⁾
Two Harbors	91.3%	5.8%	17.9%
Pine River Mortgage REIT Index	51.6%	- (4)	17.3%
Peer Median ⁽²⁾	48.8%	6.2%	21.6%

(1) Total return on book value calculated from change in book value and dividends from period October 29, 2009 through December 31, 2013. Two Harbors return on book value includes Silver Bay common stock dividend amounting to \$1.01 per share. Fourth quarter consensus book value estimates used for IVR, CIM, RWT, AMTG, MITT, DX, NYMT, WMC, NLY.

(2) Median data for peer group. Peer group includes: NLY, AGNC, HTS, ARR, CYS, CMO, ANH, WMC, CIM, MFA, IVR, MTGE, MITT, AMTG, DX, NYMT, RWT, PMT.

(3) Quarterly book value volatility calculated from the standard deviation of the change in book value and dividends from period September 30, 2013 through December 31, 2013. Fourth quarter Consensus book value estimates used for: NLY, ARR, IVR, CIM, RWT, AMTG, MITT, DX, NYMT, WMC, NRZ.

(4) Quarterly book value volatility not calculated for Pine River Mortgage REIT Index due to incomplete data set.

(5) Source: Bloomberg, daily 5-year, 100-day stock price volatility as of February 14, 2014



Strategy – Driving Stockholder Value

RATES STRATEGY

- Extract value from the Agency RMBS market, focusing on all asset types and sectors
- Apply sophisticated security selection and hedging techniques
- Utilize MSR platform to enhance returns and reduce risk
- Protect book value exposure, especially as it relates to “tail events”
- Generate alpha through select use of tactical trading

CREDIT STRATEGY

- Apply substantial credit expertise to add value in the non-Agency securities market
- Utilize our Conduit to create new issue credit & IO bonds for the portfolio
- Continuously investigate new opportunities in the Credit space where excess returns might be available
- Thoughtfully hedge interest rate and credit risk exposures when appropriate

TWO HARBORS – LOOKING FORWARD

- Develop new avenues to drive stockholder value, focusing on our core competencies of understanding and managing prepayment, interest rate and credit risk in residential finance



Strategy Update

RATES

- Portfolio & Market Summary
- Agency RMBS
- Mortgage Servicing Rights

CREDIT

- Portfolio & Market Summary
- Non-Agency RMBS
- Conduit Platform: creating attractive investments for the portfolio

TWO HARBORS – LOOKING FORWARD

- Illustrative Future Capital Allocation
- Potential Future ROEs

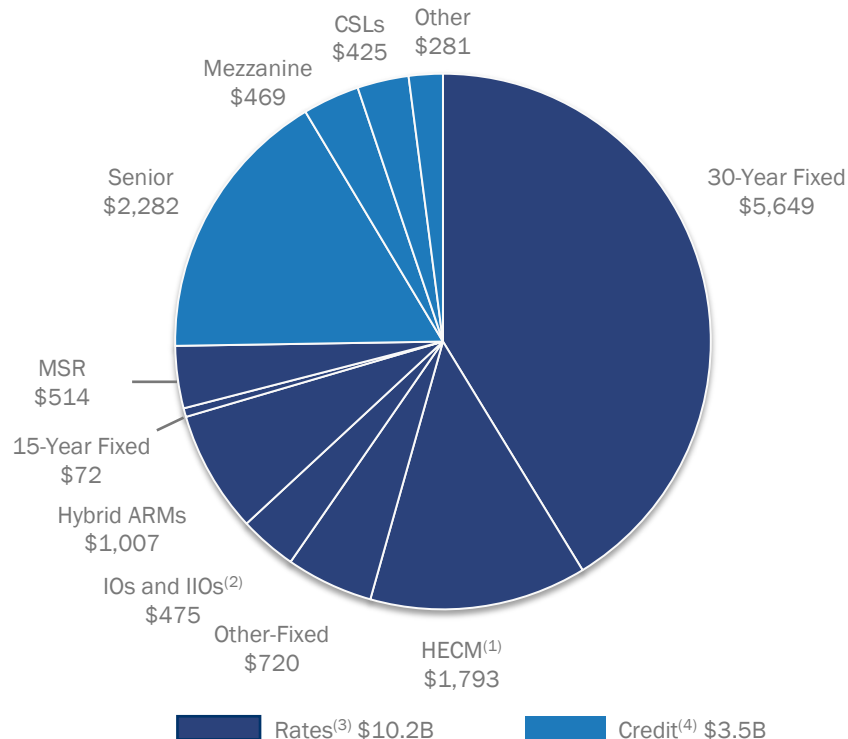


Portfolio Composition

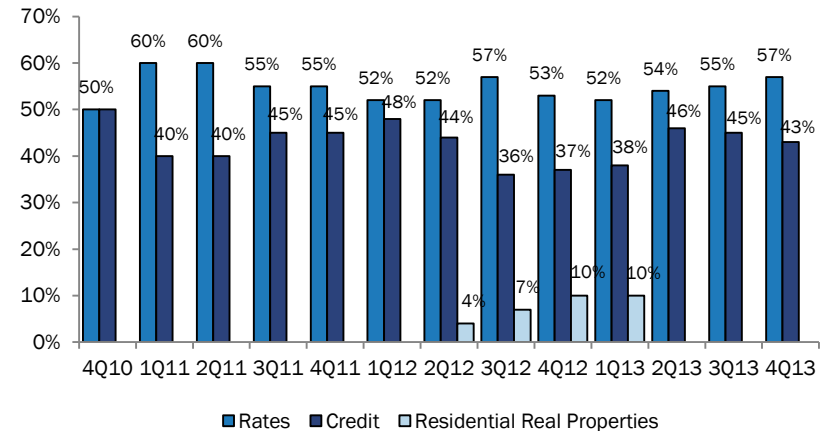
PORTFOLIO COMPOSITION

AS OF DECEMBER 31, 2013

\$13.7B Portfolio
\$ Millions



TARGETED CAPITAL ALLOCATION



HIGHLIGHTS

- Capital allocation at December 31, 2013 was 57% Rates⁽³⁾ and 43% Credit⁽⁴⁾
- Agencies declined to 44% of capital allocation while MSR increased to 13% at December 31st
- Going forward, we expect our allocation to MSR to increase as we continue to build our operational platform
- Credit allocation substantially focused on assets that benefit from HPA, servicer actions and better borrower performance

(1) Home Equity Conversion Mortgage loans (HECMs) are loans that allow the homeowner to convert home equity into cash collateralized by the value of their home.

(2) Includes Agency Derivatives (IIOs) of \$218.5 million.

(3) Assets in the "Rates" category include Agency securities and MSR.

(4) Assets in the "Credit" category include non-Agency securities, prime jumbo loans, net economic interest in securitization trusts and CSL.



Portfolio Update

RATES

- Portfolio & Market Summary
- Agency RMBS
- Mortgage Servicing Rights

CREDIT

- Portfolio & Market Summary
- Non-Agency RMBS
- Conduit Platform: Sourcing a Variety of Products

TWO HARBORS – LOOKING FORWARD

- Illustrative Future Capital Allocation
- Potential Future ROEs



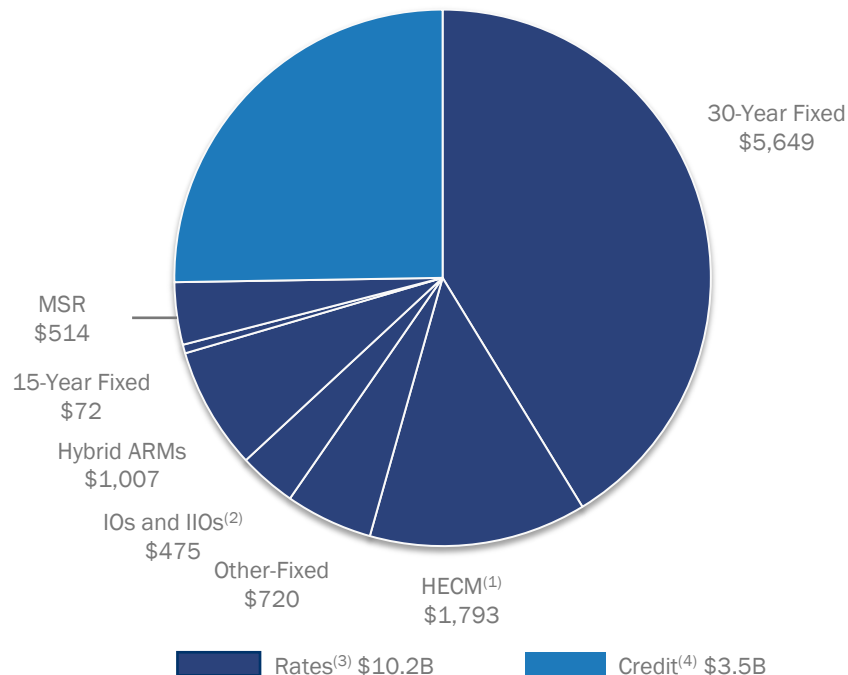
Rates: Summary and Outlook

PORTFOLIO COMPOSITION

AS OF DECEMBER 31, 2013

\$13.7B Portfolio

\$ Millions



SUMMARY

- \$10.2 billion Rates portfolio comprised of Agency securities and MSR
- Sophisticated hedging strategy drives low interest rate and basis risk exposure
- Leverage of 3.6x as of December 31, 2013

OUTLOOK

- Trends in Rates
 - Federal Reserve
 - Prepayments
 - Fate of GSEs
- Spreads remain tight
- Expectations that basis will widen in 2014

(1) Home Equity Conversion Mortgage loans (HECMs) are loans that allow the homeowner to convert home equity into cash collateralized by the value of their home.

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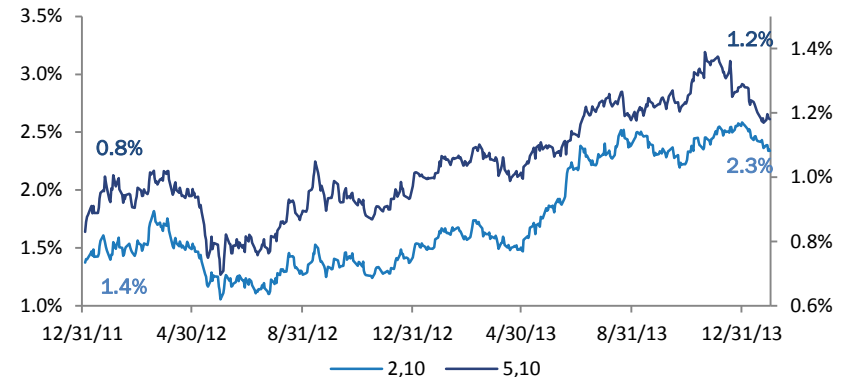


Rates: Agency Market Update

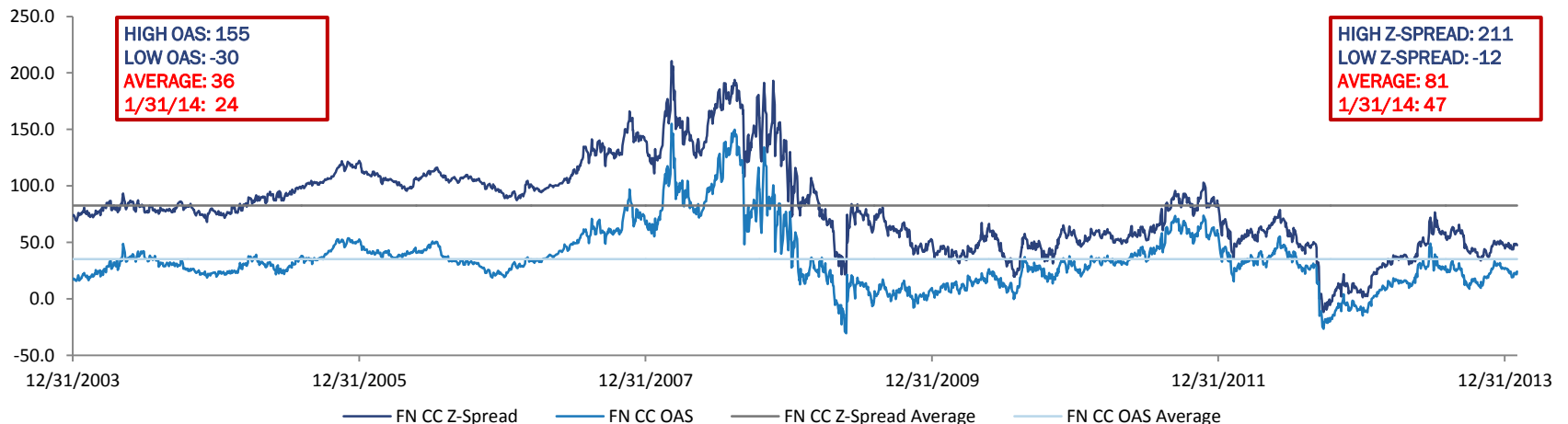
10-YEAR RATES HAVE RISEN BUT STABILIZED ⁽¹⁾



CURVE STEEPER ⁽²⁾



CURRENT COUPON OAS & Z-SPREAD ⁽³⁾



(1) Source: J.P. Morgan Data Query, from December 31, 2011 through January 31, 2014
(2) Source: J.P. Morgan Data Query, from December 31, 2011 through January 31, 2014
(3) Source: Barclays Live, from December 31, 2003 through January 31, 2014

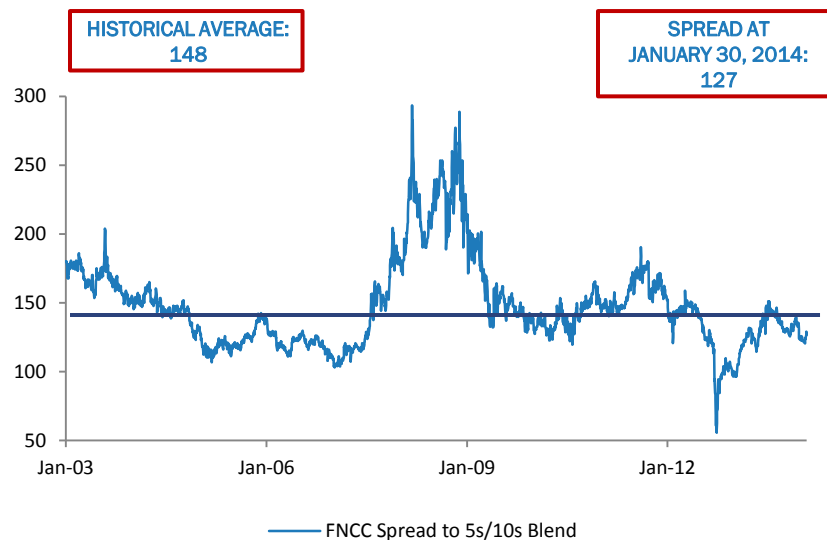


Rates: Agency RMBS Update

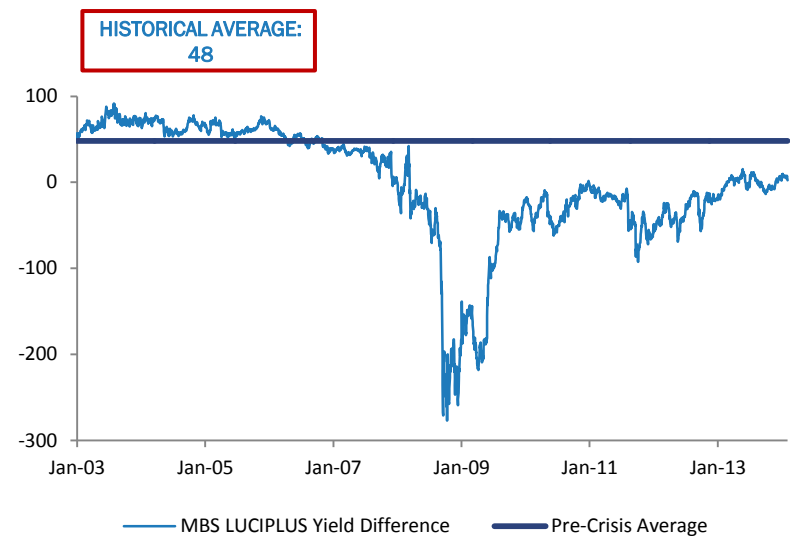
CURRENT COUPON SPREADS COULD WIDEN IN 2014

- Current coupon spread to 5s/10s blend is 21 basis points lower than average
- Anticipate Agency RMBS opportunities to arise later in 2014 as the Fed continues to taper and spreads normalize
- Current profile of low leverage and high liquidity puts us in a good position to increase Agency exposure when spreads become more attractive

CURRENT COUPON SPREAD TO 5S/10S⁽¹⁾



MBS ARE RICH VS. CORPORATE BONDS⁽²⁾



(1) Source: Bank of America Merrill Lynch Global research from January 1, 2003 through January 31, 2014
(2) Credit Suisse Research from January 1, 2003 through January 31, 2014



Rates: Historical Agency Return on Equity

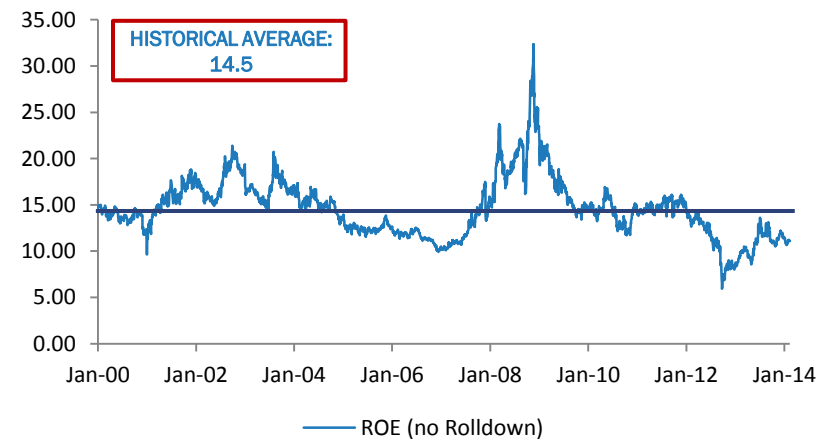
WIDER SPREADS DRIVE HIGHER ROEs

- Currently available ROEs on most Agency MBS are unattractive
- Higher coupons offer value
- Hedging volatility is important

LEVERAGED AGENCY ROEs ⁽¹⁾

	No Volatility Hedge
	Expected ROE
FNCL 3	-4.5
FNCL 3.5	4.2
FNCL 4	13.2
FNCI 2.5	2.6
FNCI 3	7.5
FNCI 3.5	12.4

HISTORICAL AGENCY ROEs – NO VOLATILITY HEDGE⁽²⁾



(1) Assumes 7x debt-to-equity, L+10bp funding, hedging duration with 10s and convexity. Source: Bank of America research as of February, 7 2014

(2) Assumes 7x debt-to-equity, no volatility hedge, hedges at four points along the curve, applied to a current coupon mortgage. Source: Two Harbors research from January 1, 2000 through January 31, 2014



Rates: Mortgage Servicing Rights

MSR EXHIBIT POSITIVE YIELD, NEGATIVE DURATION AND HEDGE MORTGAGE BASIS RISK

- There are two types of MSR: Legacy MSR and New Issue MSR
- Understanding and managing prepayment risk is one of our core competencies

LEGACY MSR

CHARACTERISTICS:

- Originated pre-crisis
- HARP recapture component
- Sensitive primarily to credit performance of portfolio

KEY CONSIDERATIONS:

- Servicing platform that handles credit sensitive loans
- Originator to capture HARP component
- Board large volumes efficiently
- Cost advantage versus selling banks

NEW ISSUE MSR

CHARACTERISTICS:

- Originated post-crisis
- High-quality loans
- Sensitive primarily to prepays

KEY CONSIDERATIONS:

- Ability to understand and manage interest rate and prepayment risk
- Capable of overseeing high-quality servicers

Rates: MSR



HISTORY OF TWO HARBORS' MSR INVESTMENTS

First Quarter 2013	Second Quarter 2013	Third Quarter 2013	Fourth Quarter 2013
Approved by Freddie Mac to invest in MSR	Acquired Matrix Financial Services Corporation, adding \$2 million in MSR to portfolio	Acquired two small MSR portfolios In negotiations with potential MSR sellers Held \$16 million in MSR, at fair value	Finalized a two-year flow sale agreement with PHH Mortgage Corporation to acquire MSR on newly originated residential mortgage loans Acquired substantial MSR portfolio from Flagstar Bank Held MSR of \$42 billion UPB, representing \$514 million at fair market value at December 31, 2013



Rates: MSR in a Portfolio Context

A MORTGAGE REIT PORTFOLIO WITH MSR COULD HAVE A HIGHER ROE, LOWER LEVERAGE AND REDUCED BASIS RISK

PORTFOLIO WITHOUT MSR

- Begin with \$100 initial capital investment, 100% allocated to Agency MBS
- Assumes 7x debt-to-equity on Agency MBS

	Amount (\$)	Yield (%) ⁽¹⁾	10bps Rate Increase (%)	10bps Basis Increase (%)
Agency MBS	\$800	3.40%	(6.00%)	(6.00%)
Agency Repo	\$700	(0.40%)		
5-year Swap Cost	\$1,200	(1.45%)	6.00%	--%
MSR	\$--	--%	--%	--%
Total		7.00%	--%	(6.00%)

ROE: 7.00%

Debt-to-equity: 7.0x

**Impact to Book Value of 10bps
MBS spread widening: (6.00%)**

PORTFOLIO WITH MSR

- Begin with \$100 initial capital investment, 25% allocated to Agency MBS and 75% to MSR; still meeting whole pool test
- Assumes 7x debt-to-equity on Agency MBS and no leverage on MSR

	Amount (\$)	Yield (%) ⁽¹⁾	10bps Rate Increase (%)	10bps Basis Increase (%)
Agency MBS	\$200	3.40%	(1.50%)	(1.50%)
Agency Repo	\$175	(0.40%)		
5-year Swap Cost	\$0	(1.45%)	--%	--%
MSR	\$75	8.00%	1.50%	1.90%
Total		12.10%	--%	0.40%

ROE: 12.10%

Debt-to-equity: 1.75x

**Impact to Book Value of 10bps
MBS spread widening: 0.40%**

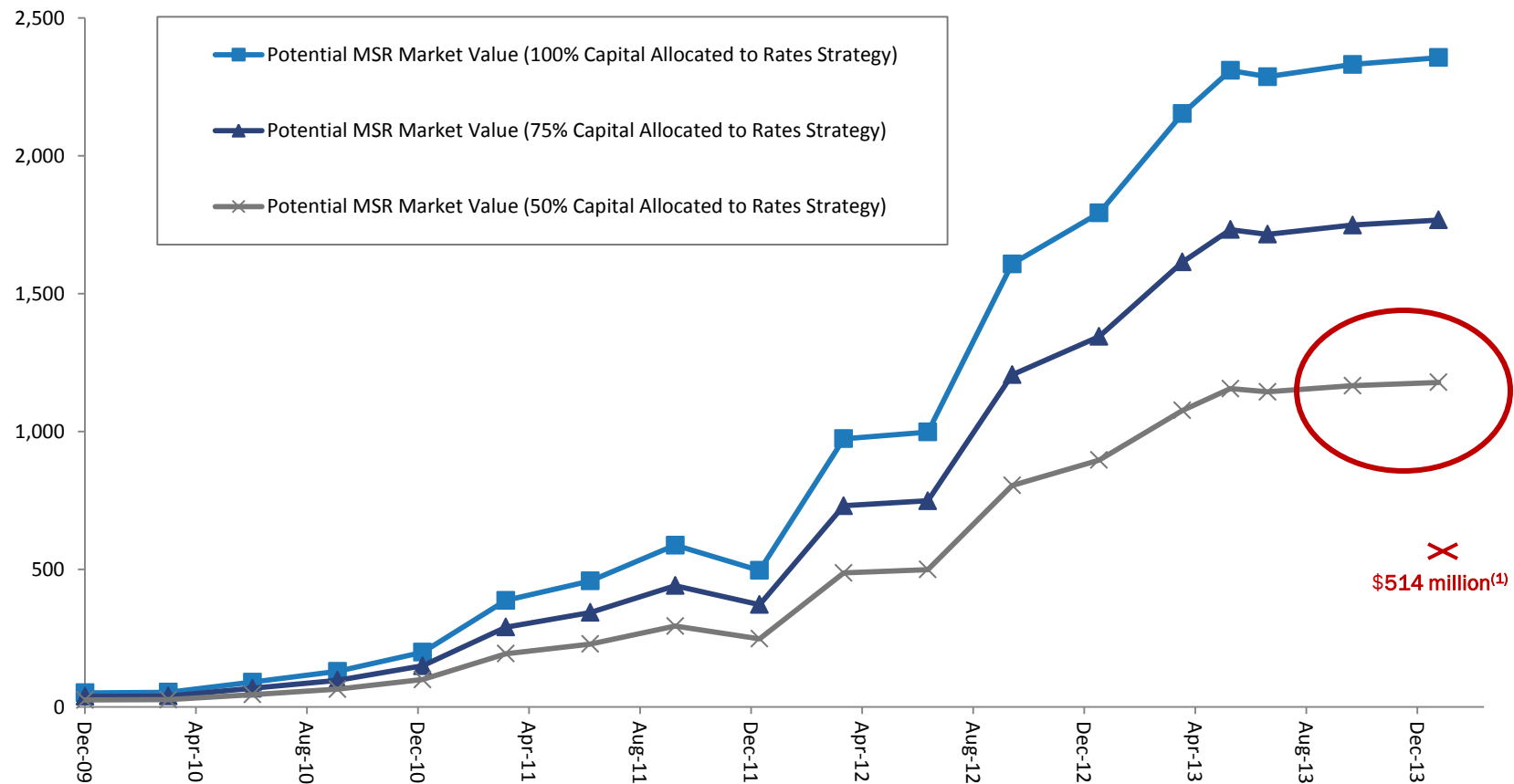
1) Illustrative market yields as of January 31, 2014

Note: The above scenarios are intended to illustrate the potential benefits to a mortgage REIT portfolio that holds MSR. The numbers used in the scenarios above are hypothetical amounts and are not based on our financial results, nor are they projections of our results. The above scenarios are provided for illustration purposes only and may not represent all assumptions used. Actual results of a portfolio may differ materially.



Rates: Future for MSR

MSR HAS THE POTENTIAL TO BECOME A MEANINGFUL PART OF TWO HARBORS' PORTFOLIO



Note: The above scenario is intended to be illustrative. The numbers used in the scenarios are not projections of Two Harbors' results. The above scenarios are provided for illustration purposes only and may not represent all assumptions used. Actual results of a portfolio may differ materially.

(1) Two Harbors positioning in MSR as of December 31, 2013.



Rates: Two Harbors Positioning

PRIMARILY POSITIONED IN HIGHER COUPON, SHORTER DURATION BONDS AND MSR TO MINIMIZE BASIS AND SPREAD EXPOSURE

ILLUSTRATIVE RATE AND BASIS EXPOSURE – JANUARY 2014

	Market Value ⁽¹⁾ (\$B)	Dv01 ⁽²⁾	Expected book value change to 10bps rate change ⁽³⁾
RATES			
30-year Fixed			
3.0-3.5%	(0.7)	(427,000)	
4.0-4.5%	4.7	2,514,000	
≥ 5.0%	0.8	138,000	
MSR	0.5	(613,000)	
Hybrid ARMs	1.0	417,000	
HECM	1.8	523,000	
Other ⁽⁴⁾	1.3	588,000	
Swaps	-	(2,267,000)	
Swaptions	-	(1,063,000)	
Total	9.53	(190,000)	(0.05%)
BASIS EXPOSURE			
≥ 5 years	4,584	1,474,000	
CMM/CMS Exposure (current coupon MBS)	-	(1,000,000)	
Subtotal	4,584	474,000	
< 5 years	4,946	1,666,000	
Total	9,530	2,140,000	(0.6%)

Source: Based on our estimates and those of our external manager, PRCM Advisers LLC. Approximate market value and rate exposure as of January 28, 2014

(1) Market value includes TBA positions

(2) Dv01 is the market value change in dollars for a 1 basis point decline in rates

(3) Change in book value to a 10 basis point decrease in rates or basis

(4) "Other" category includes 15-year fixed RMBS, DUS pools and derivatives



Strategy Update

RATES

- Portfolio & Market Summary
- Agency RMBS
- Mortgage Servicing Rights

CREDIT

- Portfolio & Market Summary
- Non-Agency RMBS
- Conduit Platform: Sourcing a Variety of Products

TWO HARBORS – LOOKING FORWARD

- Illustrative Future Capital Allocation
- Potential Future ROEs

Credit: Summary and Outlook

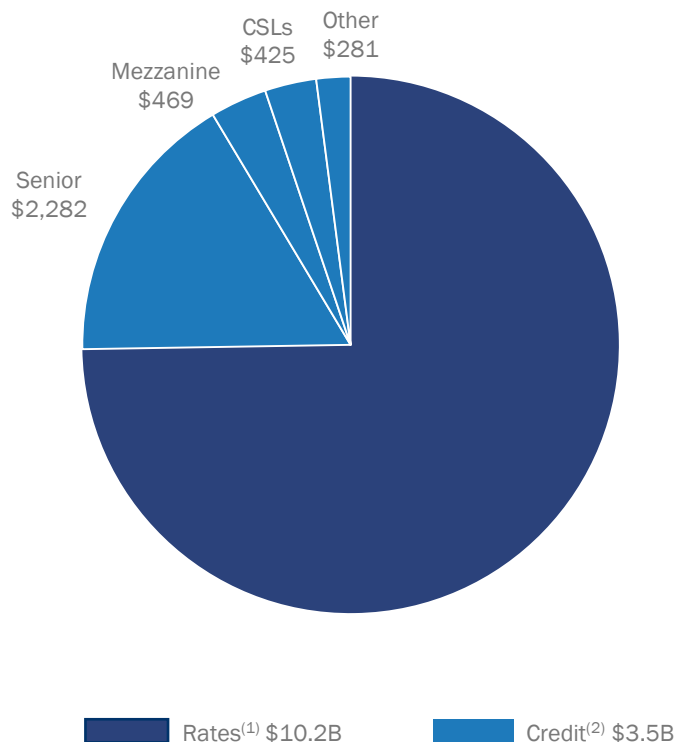


PORTFOLIO COMPOSITION

AS OF DECEMBER 31, 2013

\$13.7B Portfolio

\$ Millions



SUMMARY

- \$3.5 billion Credit portfolio includes non-Agency RMBS, net economic interest in securitization trusts, prime jumbo residential mortgage loans and credit sensitive loans (CSL)
- Strong returns in Credit strategy drove aggregate portfolio performance in 2013
- Substantial progress expanding the foundation for our mortgage loan conduit platform
- Leverage of 1.1x as of December 31, 2013

OUTLOOK

- Continued improvement in housing metrics and job growth
 - Analysts project 5% HPA in 2014⁽³⁾
 - Better borrower performance
- Prepays are expected to increase over time
 - Access to refinancing
 - Increased turnover

(1) Assets in the "Rates" category include Agency securities and MSR.

(2) Assets in the "Credit" category include non-Agency securities, prime jumbo loans, net economic interest in securitization trusts and CSL.

(3) Credit Suisse research, November 22, 2013.

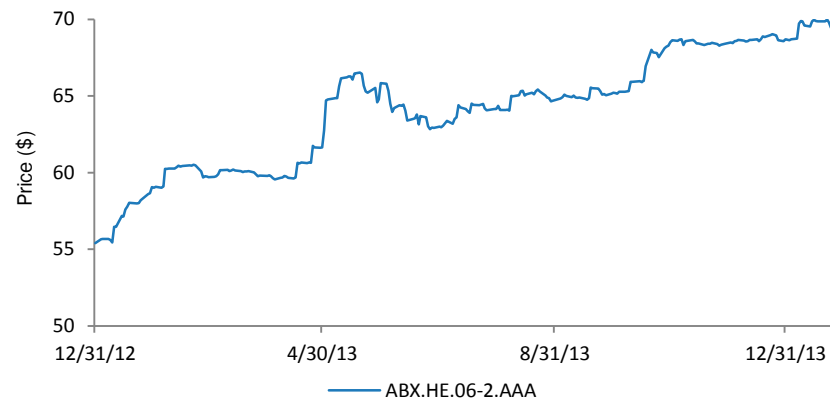
Credit: Market Overview



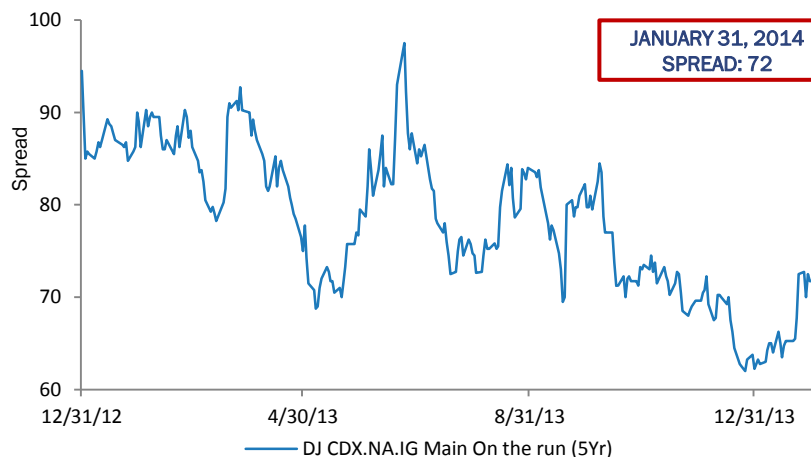
MARKET SUMMARY

- Federal Reserve's QE program has investors searching for yield
- Credit performance generally strong across sectors in 2013
- IG, HY and ABX indices are near post-crisis high/tights
- Non-Agencies are still relatively cheap, despite substantial returns over the past 3 years

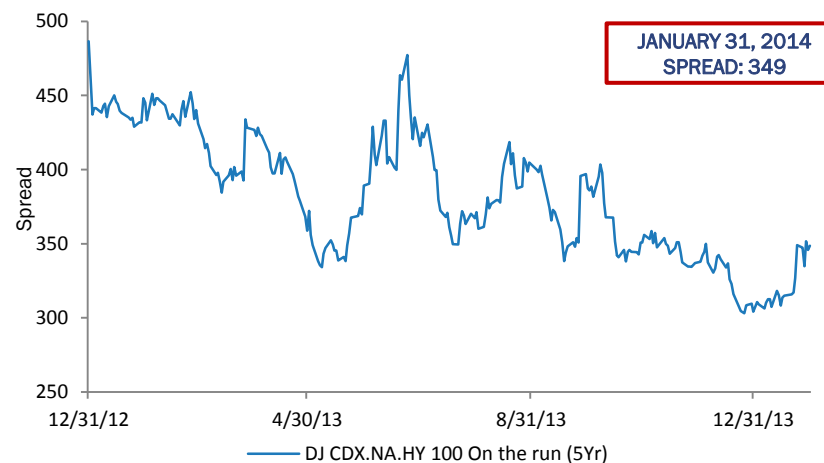
ABX INDEX⁽¹⁾



INVESTMENT GRADE (IG) INDEX⁽¹⁾



HIGH-YIELD (HY) INDEX⁽¹⁾



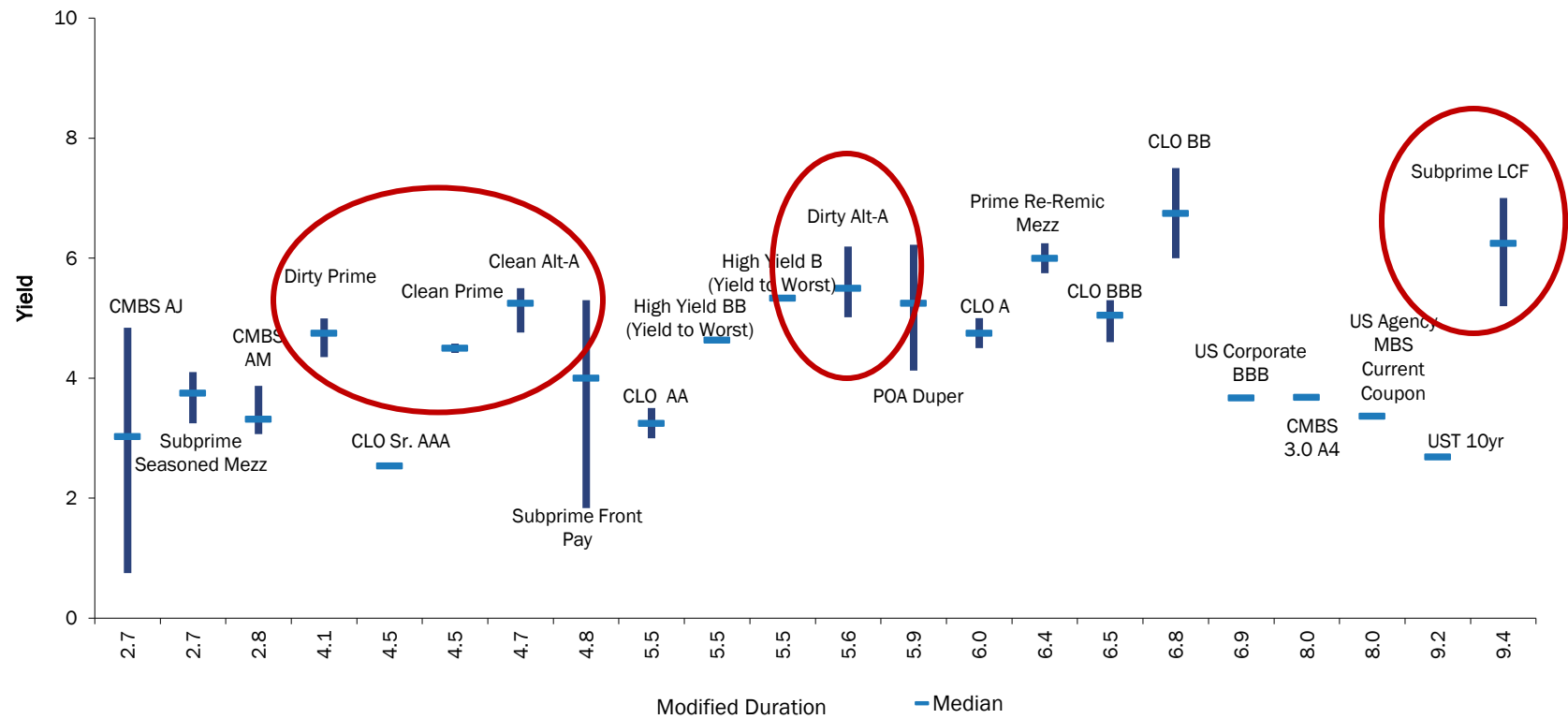
(1) Source: J.P. Morgan data query from December 31, 2012 through January 31, 2014



Credit: U.S. Non-Agency MBS Still Attractive

YIELDS IN THE NON-AGENCY SPACE CONTINUE TO BE ATTRACTIVE, DESPITE A VOLATILE MARKET

MARKET YIELDS⁽¹⁾





Credit: Non-Agency Performance

THE MAJORITY OF OUR NON-AGENCY LOANS ARE HELD IN AREAS WITH STRONG HOUSING RECOVERY METRICS

- In 2013, the national average housing price appreciate (HPA) was +11.0%⁽¹⁾
 - In predominantly “subprime” areas, HPA exceeded the national average by several hundred basis points
 - There is still room for appreciation: National HPA is 22% higher than the bottom of the housing market, but still 18% lower than the peak⁽²⁾
- Affordability remains high: mortgage payment-to-income ratio is well below historical average
- <http://tinyurl.com/k25jnj> ⁽³⁾
- Drivers of Non-Agency performance:
 - Return of borrowers’ equity
 - Prepayments: turnover & refinancings
 - Lower delinquencies and defaults
 - Possible government sponsored refinancing program

(1) CoreLogic Home Price Index as of December 31, 2013

(2) CoreLogic Housing Trend Report, December 2013 HPI History

(3) Video utilizes data from CoreLogic Housing Trend Report, December 2013, and Two Harbors’ non-Agency portfolio distribution as of December 31, 2013. The video is provided for illustration purposes only and may not represent all assumptions used. Actual results of a portfolio may differ materially.



Credit: 2011 Discount Bond Example

DISCOUNT SUB-PRIME SENIOR BOND – HEAT 2006-3 2A4

Represents actual bonds held in our portfolio as of September 30, 2011. Collateral summary and yield analysis scenarios represent our views and those of our external manager, PRCM Advisers LLC, and are provided for illustration purposes only and may not represent all assumptions used. Actual results may differ materially.

Senior Bonds	A1 & A2 - Paid off -	
	A3 37.6%-100% \$35M Current Face 1.2 Yr WAL ⁽¹⁾	A4 37.6%-100% \$71M Current Face 6 Yr WAL ⁽¹⁾
Sub Bonds	SUBORDINATED BONDS Absorbs the first 37.6% of losses, after depletion of ongoing excess spread (4.1%).	

SECURITY INFO

- Pays sequentially after the A3 is fully paid, expected to be in early 2014
- Receives protection from credit losses from the subordinate bonds and ongoing excess interest
- Pays a coupon of LIBOR + 0.31%
- Wells Fargo & SPS as servicers

COLLATERAL SUMMARY

- Vintages: 2005 - 2006
- 60+ days delinquent: 33%
- “Clean” & “Almost Clean”⁽²⁾: 29%
- Loans modified: 50%, majority are current
- Severities running in the high 60s
- MTM LTVs⁽³⁾: “Clean” = 1.4%
Delinquent = 119%

YIELD ANALYSIS⁽⁴⁾

Market price at 9/30/11: \$54.0

	Strong Recovery	Flat	Severe Downturn
Loss-adjusted yields	11.3%	10.0%	7.5%
Total defaults	72%	74%	78%
Average severity	75%	79%	82%
Prospective deal losses	54%	58%	63%
Bond recovery	90%	82%	67%

(1) “WAL” is defined as weighted average life.

(2) “Clean” is defined as a borrower who has never missed a payment. “Almost Clean” is defined as a borrower who is current and has never been delinquent more than three times for a period greater than 30 days or delinquent one time for a period greater than 60 days.

(3) “MTM LTV” is defined as mark-to-market loan-to-value.

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



Credit: 2013 Discount Bond Example

DISCOUNT SUB-PRIME SENIOR BOND – HEAT 2006-3 2A4

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

Senior Bonds	A1 & A2 - Paid off -	
	A3	A4
	39.9%-100%	39.9%-100%
	\$2.3M Current Face	\$71M Current Face
	0.6 Yr WAL ⁽¹⁾	3.4 Yr WAL ⁽¹⁾
Sub Bonds	SUBORDINATED BONDS	
	Absorbs the first 42.1% of losses, after depletion of ongoing excess spread (currently 4.31%).	

SECURITY INFO

- Pays sequentially after the A3 is fully paid, expected to be in early 2014
- Receives protection from credit losses from the subordinate bonds and ongoing excess interest
- Pays a coupon of LIBOR + 0.31%
- Wells Fargo & SPS as servicers

COLLATERAL SUMMARY

- Vintages: 2005 - 68%; 2006 - 32%
- 60+ days delinquent: 27%
- “Clean” & “Almost Clean”⁽²⁾: 28%
- Severities running in the low 60s
- MTM LTVs⁽³⁾: “Clean” = 84%
Delinquent = 96%
“12mo LIQ”⁽⁴⁾ = 89%

YIELD ANALYSIS⁽⁵⁾

Market price at 12/31/13: \$87.0

	Strong Recovery	Flat	Severe Downturn
Loss-adjusted yields	7.1%	6.3%	5.9%
Total defaults	44%	48%	51%
Average severity	63%	64%	67%
Prospective deal losses	28%	31%	34%
Bond recovery	100%	100%	100%

(1) “WAL” is defined as weighted average life.

(2) “Clean” is defined as a borrower who has never missed a payment. “Almost Clean” is defined as a borrower who is current and has never been delinquent more than three times for a period greater than 30 days or delinquent one time for a period greater than 60 days.

(3) “MTM LTV” is defined as mark-to-market loan-to-value.

(4) 12mo LIQ represents mark-to-market loan-to-value of loans liquidated in the last twelve months.

(5) Strong recovery, flat and severe downturn models assume a 25% increase, 10% increase and a 5% decrease in housing prices over two years.



Non-Agency Opportunity Today ⁽¹⁾

SIGNIFICANT UPSIDE REMAINS

- Prepay and default assumptions remain very conservative
- Additional upside optionality remains to higher prepaes, better borrower performance and servicer actions that help borrowers

YIELD ANALYSIS- CARR 2006-NC4 A3

- Market price at 2/13/14: \$58.0

	Strong Recovery	Flat	Severe Downturn
Loss-adjusted yields	9.9%	5.9%	4.8%
Expected Prepaes	4.0%	2.0%	1.0%
Total defaults	41%	63%	73%
Average severity	59%	64%	67%
Prospective deal losses	24%	40%	49%
Bond recovery	100%	71%	62%

(1) Values as of February 13, 2014

Non-Agency Securities as of December 31, 2013



MAINTAIN A SUBSTANTIAL HOLDING OF LOWER DOLLAR PRICED NON-AGENCY BONDS

	Senior Bonds	Mezzanine Bonds	Total P&I Bonds
Portfolio Characteristics			
Carrying Value (\$M)	\$2,282	\$469	\$2,751
% of Non-Agency Portfolio	83.0%	17.0%	100.0%
Average Purchase Price ⁽¹⁾	\$52.58	\$59.09	\$53.69
Average Coupon	2.5%	1.6%	2.3%
Weighted Average Market Price ⁽²⁾	\$65.27	\$72.70	\$66.43
Collateral Attributes			
Average Loan Age (months)	86	99	88
Average Loan Size (\$K)	\$263	\$196	\$252
Average Original Loan-to-Value	73.1%	72.6%	73.0%
Average Original FICO ⁽³⁾	614	647	620
Current Performance			
60+ Day Delinquencies	32.7%	26.6%	31.7%
Average Credit Enhancement ⁽⁴⁾	9.0%	20.8%	11.0%
3-Month CPR ⁽⁵⁾	3.5%	5.6%	3.8%

(1) Average purchase price utilized carrying value for weighting purposes. If current face were utilized for weighting purposes, the average purchase price for senior, mezzanine and total non-Agency RMBS, excluding our non-Agency interest-only portfolio, would have been \$47.97, \$56.37 and \$49.28, respectively.

(2) Weighted average market price utilized current face for weighting purposes.

(3) FICO represents a mortgage industry accepted credit score of a borrower, which was developed by Fair Isaac Corporation.

(4) Average credit enhancement remaining on our non-Agency RMBS portfolio, which is the average amount of protection available to absorb future credit losses due to defaults on the underlying collateral.

(5) 3-Month CPR is reflective of the prepayment speed on the underlying securitization; however, it does not necessarily indicate the proceeds received on our investment tranche. Proceeds received for each security are dependent on the position of the individual security within the structure of each deal.



Credit: Two Harbors Positioning

MAINTAIN EXPOSURE TO LOWER PRICED BONDS WITH UPSIDE OPTIONALITY

- Sold higher dollar priced bonds that had realized upside potential
- Added interest rate hedges

Interest Rate Profile	Market Value (\$B)	Dv01 ⁽¹⁾
Non-Agency Securities	2.9	1,151,343
Prime Jumbo/Loans	0.3	122,000
CSL	0.4	170,403
Swaps (\$1 billion notional in 3-years)	-	(370,000)
Swaptions (\$1 billion notional in 3-years)	-	(430,000)
Total	3.5	643,747

Credit Profile	Market Value (\$B)	Dv01 ⁽¹⁾
Non-Agency Securities	2.8	1,606,104
Prime Jumbo/Loans	0.3	122,000
CSL	0.4	237,710
Total	3.5	1,965,814

Source: Based on our estimates and those of our external manager, PRCM Advisers LLC. Approximate market value and rate exposure as of January 28, 2014.

(1) Dv01 is the market value change in dollars for a 1 basis point decline in rates



Driving Credit Going Forward

EXPANDING TWO HARBORS' CONDUIT PROGRAM IS A KEY A FOCUS IN 2014

- Diversifying our business model by building an operational business structure
- Our goal is to generate attractive credit investments for our portfolio while providing capital to the U.S. mortgage market
- Thorough mortgage acquisition process and significant infrastructure will allow us to control and manage loans we purchase and securitize, including credit and servicing oversight
- Ongoing progress building our mortgage loan conduit
 - Approximately 30 originators in various stages of approval
 - Target of 40 originators by year-end 2014
 - Ability to source a variety of products, creating mutually beneficial relationships with originator partners
- Opportunities include:
 - Prime loans
 - MSR
 - Non-QM Loans: both prime and non-prime loans

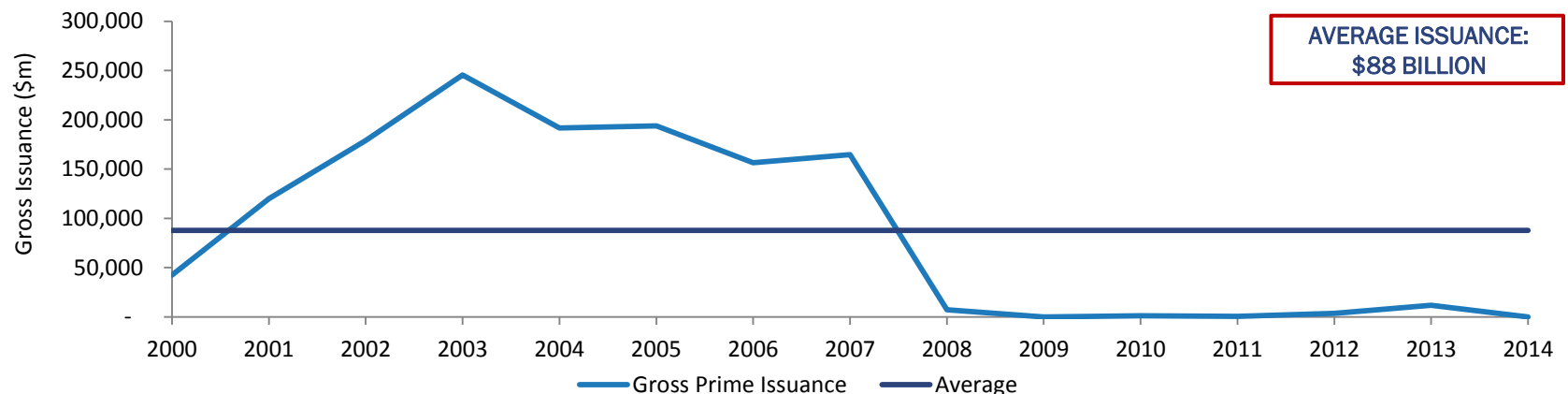


Credit: Prime Jumbo Securitization

TWO HARBORS' GOAL IS TO CAPITALIZE ON A REDUCED GOVERNMENT FOOTPRINT IN HOUSING FINANCE

- Completed two securitizations in 2013, including the first using our own depositor
 - Both deals enabled us to invest in attractive credit and IO bonds
- Expect that securitizations in 2014 will be between \$10 and \$20 billion, but current impediments include:
 - High GSE loan limits
 - Banks aggressive in putting loans in portfolio
 - Triple A spreads still fairly wide
 - Unresolved representation and warranty issues
- Even a small market share of the historical average issuance can be meaningful to our portfolio

HISTORICAL PRIME ISSUANCE⁽¹⁾



(1) Source: J.P. Morgan research as of February 13, 2014



Credit: Non-QM

NON-QM LOANS REPRESENT A LARGE PORTION OF THE MORTGAGE MARKET

POTENTIAL MARKET

- Prime and nonprime non-QM loans
- Of the \$6.3 trillion Agency & non-Agency mortgage market, the GSEs and Ginnie Mae service almost \$5.5 trillion
- This leaves over \$800 billion that needs to be funded by private capital

CONSIDERATIONS & CONCERNS

- Consumer Finance Protection Bureau (CFPB) QM rules introduce bifurcated mortgage market – QM and non-QM
- Potential obstacles to participate in non-QM market:
 - Increased regulatory scrutiny
 - Increased compliance and litigation risk
 - Competition from banks

FICO Score	Amount of Mortgage Market (\$ in Trillions)	% of Mortgage Market	Amount Serviced by Government-Backed (\$ in Trillions)	Amount Serviced by Private Capital (\$ in Trillions)
720+	\$3.95	63%	\$3.69	\$0.26
650-720	\$1.79	29%	\$1.49	\$0.30
<650	\$0.54	8%	\$0.30	\$0.24
Total	\$6.28	100%	\$5.48	\$0.80



Two Harbors' Infrastructure

SUBSTANTIAL PROGRESS BUILDING AN EFFICIENT AND SCALABLE CORE PLATFORM THAT ALLOWS TWO HARBORS TO RESPOND QUICKLY TO A BROAD ARRAY OF MARKET OPPORTUNITIES

- Our external manager hired over 30 full-time employees who are dedicated to Two Harbors and serve in key leadership and staff roles in MSR operations, technology, compliance and risk management that serve the MSR and Conduit platforms
- Key transaction management processes and teams are in place
 - Due diligence
 - Contract management
 - Seller-servicer onboarding and implementation
- Core technology infrastructure and oversight teams in place to provide active surveillance and performance management of our sub-servicing and originator partners
- Efficiencies between strategies due to infrastructure overlap



Strategy Update

RATES

- Portfolio & Market Summary
- Agency RMBS
- Mortgage Servicing Rights

CREDIT

- Portfolio & Market Summary
- Non-Agency RMBS
- Conduit Platform: Sourcing a Variety of Products

TWO HARBORS – LOOKING FORWARD

- Illustrative Future Capital Allocation
- Potential Future ROEs



Two Harbors: Looking Forward

OPPORTUNISTICALLY ALLOCATE CAPITAL IN THE RESIDENTIAL FINANCE SPACE

ILLUSTRATIVE FUTURE CAPITAL ALLOCATION

Assets	Capital Allocation 2012	Capital Allocation 2013	Capital Allocation 2014	Capital Allocation 2015
Rates	53%	57%		45-65%
Agency RMBS	53%	44%	↓	25-35%
MSR	-	13%	↑	20-30%
Credit	47%	43%		35-55%
Legacy Credit ⁽¹⁾	37%	43%	↓	25-35%
New Issue Credit	-	-	↑	10-20%
Residential Real Properties	10%	-	-	-

Note: The above scenario is intended to be illustrative, as of February 14, 2014. The numbers used in the scenarios are not projections of Two Harbors' results. The above scenarios are provided for illustration purposes only and may not represent all assumptions used. Actual results of a portfolio may differ materially.

(1) Assets in the "Legacy Credit" category include non-Agency securities, prime jumbo loans, net economic interest in securitization trusts and CSL



Two Harbors: Looking Forward

DEMONSTRATED BENEFIT OF DIVERSIFIED PORTFOLIO RESULTING IN STRONG RETURNS

- Allocate capital to best market opportunities
- Overall goal to deliver attractive risk-adjusted returns

POTENTIAL FUTURE ROEs

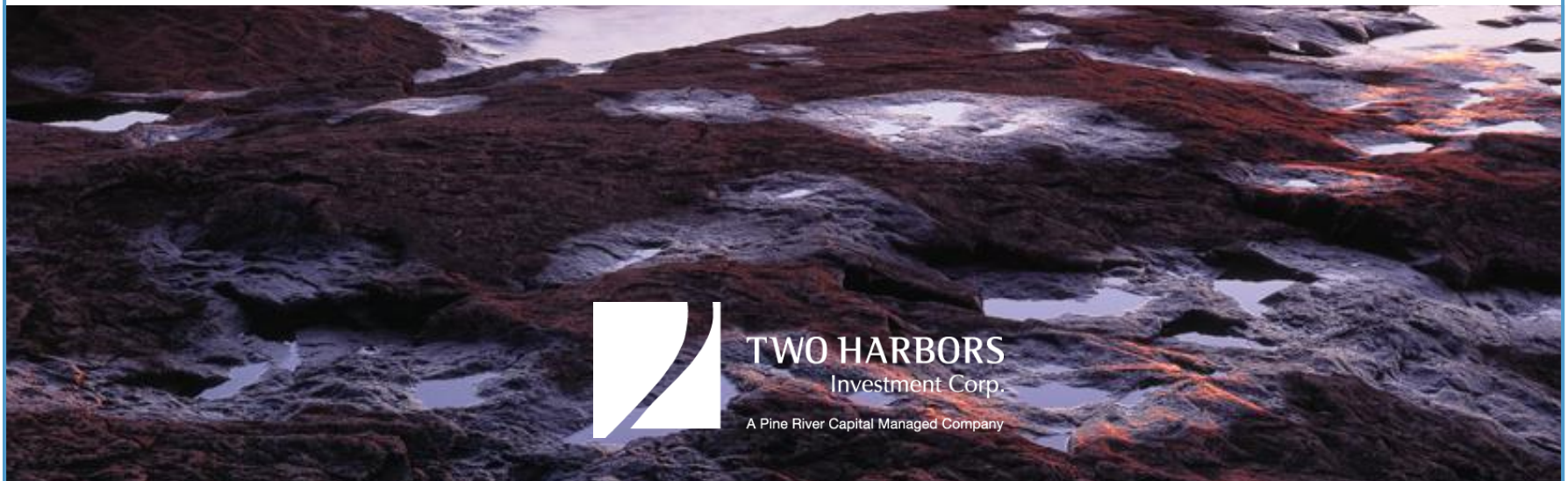
Assets	Capital Allocation 2015 (%)	Capital Allocation 2015 (\$b)	Leverage	Amount of Assets (\$b)	Percent of Assets	Potential Expected ROE
Rates	45-65%	\$2.1				10-15%
Agency RMBS	25-35%	\$1.1	6.5x	\$8.4	64%	
MSR	20-30%	\$1.0	0x	\$1.0	8%	
Credit	35-55%	\$1.7				10-15%
Legacy Credit ⁽¹⁾	25-35%	\$1.1	1.0x	\$2.1	16%	
New Issue Credit	10-20%	\$0.6	1.0x	\$1.6	12%	
Total		\$3.8	2.4x	\$13.1		10-15%

Note: The above scenario is intended to be illustrative, as of February 14, 2014. The numbers used in the scenarios are not projections of Two Harbors' results. The above scenarios are provided for illustration purposes only and may not represent all assumptions used. Actual results of a portfolio may differ materially.

(1) Assets in the "Legacy Credit" category include non-Agency securities, prime jumbo loans, net economic interest in securitization trusts and CSL



2014 & Beyond – Tom Siering



TWO HARBORS
Investment Corp.

A Pine River Capital Managed Company



Key Policy Considerations

POLICY CONSIDERATIONS ARE INCREASINGLY IMPORTANT TO THE PERFORMANCE OF THE MARKET

- New Federal Reserve Chair Janet Yellen
- New Federal Housing Finance Agency Director Mel Watt
- Future of Federal Reserve's Quantitative Easing plan
- Government Sponsored Entity Reform
- Final Qualified Mortgage and proposed Qualified Residential Mortgage rules
- Basel Committee's capital and leverage ratios



2014 and Beyond

FAVORABLE MARKET DYNAMICS

- The Federal Reserve remains the largest buyer in the mortgage market today; although it has started to taper its purchases of MBS
 - Treasury and mortgage rates rose at the end of the year but have recently retraced
- The U.S. government has indicated its intent to reduce its involvement in the mortgage market
- Private capital is essential to fill the void; opens a variety of opportunities for us to participate as a provider of permanent capital

OPPORTUNITY TO BE A PROVIDER OF PERMANENT CAPITAL TO THE U.S. MORTGAGE MARKET

- Strong track record of delivering industry-leading total return
- Operational platform creates the foundation for continued performance in a variety of housing and interest rate environments
 - Substantial resource commitment to support originator-facing business strategies
 - Staffed with seasoned operators drawn from origination and servicing roles at large mortgage companies
- Demonstrated commitment to exemplary financial stewardship, corporate governance and transparency



Mission Based Strategy

OUR MISSION IS TO BE RECOGNIZED AS THE INDUSTRY-LEADING MORTGAGE REIT:

- We are the largest hybrid mortgage REIT investing in residential mortgage assets, with a market capitalization of approximately \$3.6 billion⁽¹⁾
- We have the opportunity to provide capital to the U.S. mortgage market over the long-term

BENEFITS OF OUR HYBRID MORTGAGE REIT MODEL:

- As a hybrid mortgage REIT, we have the flexibility to take advantage of opportunities across the Agency and non-Agency RMBS sectors and unsecuritized mortgage assets; including:
 - RMBS
 - Residential mortgage loans
 - MSR
 - Other financial assets

IMPERATIVES:

- Rigorous risk management system
- Strong administrative infrastructure
- Best practice disclosure and corporate governance

(1) Source: Bloomberg as of February 14, 2014



Advancing Key Strategic Initiatives

MORTGAGE SERVICING RIGHTS

- MSR is a nice complement to our existing RMBS portfolio providing positive yield and negative duration
- Leverages core competencies in prepayment and credit risk analytics
- Establish long-lasting flow relationships with high quality originator partners

EXPANDING OUR CONDUIT PLATFORM TO SOURCE A VARIETY OF PRODUCTS

- Goal is to generate attractive investments for our portfolio while providing capital to the U.S. mortgage market
- We have made a substantial resource commitment to support the operational elements of business
- Robust mortgage acquisition and infrastructure allows us to control and manage loans we purchase and securitize, including credit and servicing oversight

FEDERAL HOME LOAN BANK OF DES MOINES MEMBERSHIP

- Provides access to a variety of products and services
- Diversifies our funding sources and increases financing flexibility



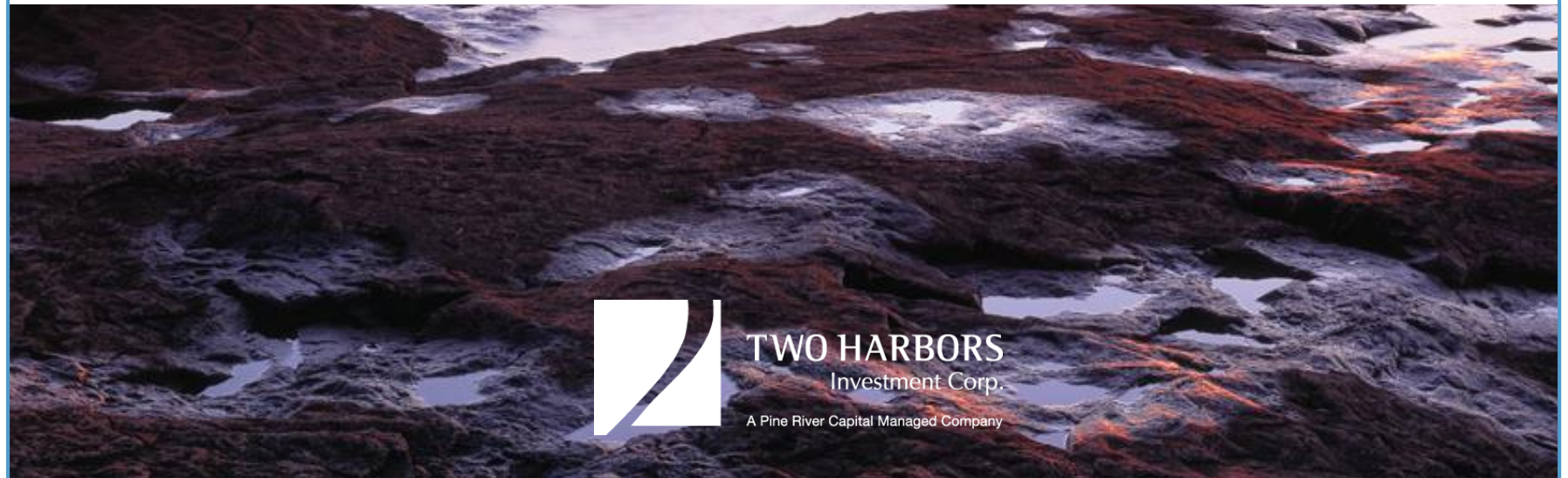
Benefits of our Diversified Business Model

ENHANCING FRANCHISE VALUE

- Ability to capitalize on compelling investment opportunities
- Allows dynamic capital allocation based on shifts in the market
- Maximizes the risk/return profile of our total portfolio
- Dampens overall portfolio volatility
- Operating companies within the REIT sector tend to trade at a substantial premium to book value
- Drives the optimization of stockholder value over the long-term



Question & Answer





TWO HARBORS
Investment Corp.

A Pine River Capital Managed Company