



Two Harbors Investment Corp.

May 5, 2011

2011 First Quarter Earnings Call

Safe Harbor Statement

Forward-Looking Statements

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First Quarter 2011 Highlights

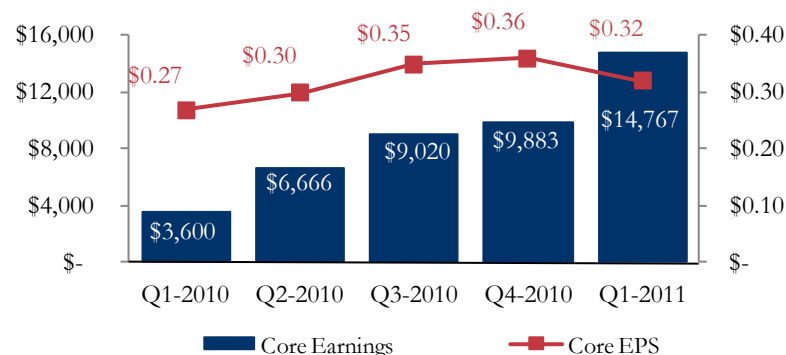
- Achieved total Comprehensive Income of \$31.5 million, or \$0.69 per diluted weighted share, reflecting Agency and non-Agency portfolio appreciation.
- Increased Book Value 4.9% on a sequential quarter basis to \$9.90 per diluted share.
- Declared dividend of \$0.40 per share for the first quarter of 2011, representing 15.3% yield on annualized basis¹.
- Reported Adjusted GAAP Earnings² of \$0.39 per share, representing a 15.9% return on average equity on an annualized basis.
- Transferred listing of common stock to the New York Stock Exchange.
- Successfully completed an accretive secondary stock offering of 28.8 million shares for net proceeds of approximately \$287.8 million.

Financial Summary

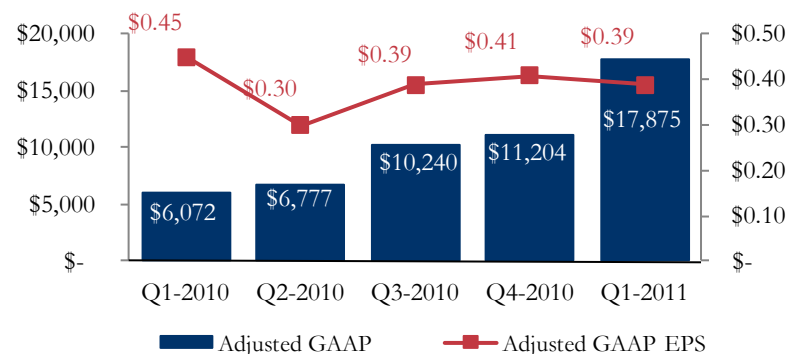
Financial Highlights

- Core Earnings¹ increased \$4.9 million on a sequential basis to \$14.8 million or \$0.32 per weighted average share. Increase primarily attributed to a higher average investment base of approximately \$1.7 billion.
- Achieved Adjusted GAAP Earnings² of \$17.9 million, or \$0.39 per share. Market opportunities to re-align portfolio attributes provided for the contribution of realized gains to earnings.
- Book Value increased 4.9%, reflecting strong performance of both non-Agency and Agency portfolios.

Core Earnings¹



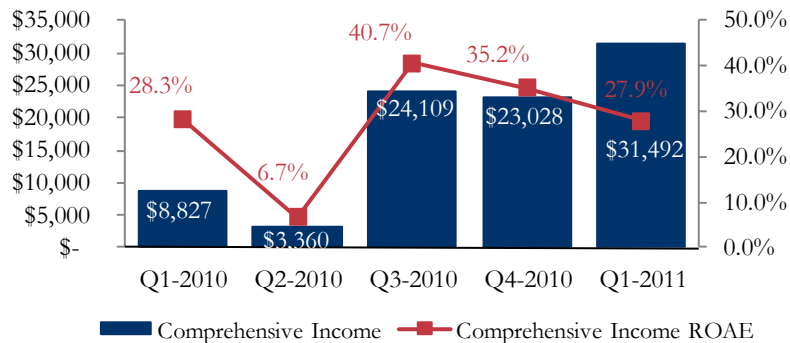
Adjusted GAAP Earnings²



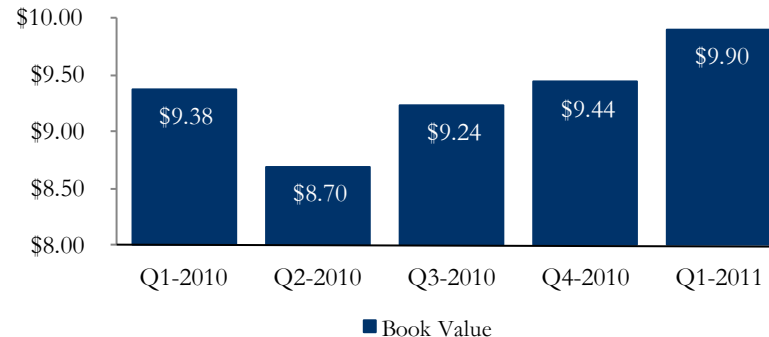
- (1) Core Earnings is a non-GAAP measure that the company defines as GAAP net income, excluding impairment losses, gains or losses on sales of securities and termination of interest rate swaps, unrealized gains or losses on trading securities, interest rate swaps and swaptions, certain gains or losses on derivative instruments and non-recurring business combination expenses. As defined, Core Earnings includes interest income associated with the company's inverse interest-only securities and premium income on credit default swaps.
- (2) Adjusted GAAP Earnings is a non-GAAP measure that the company defines as GAAP net income, excluding the unrealized fair value gains and losses associated with the company's interest rate swaps and swaptions utilized to economically hedge interest rate risk associated with the company's short-term LIBOR-based repurchase agreements and available-for-sale securities.

Operating Performance

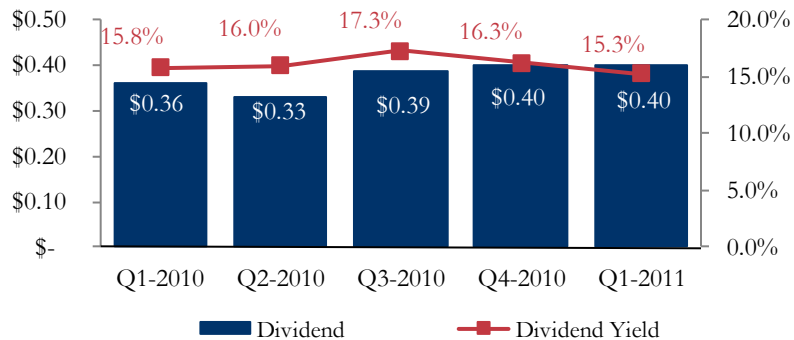
Comprehensive Income



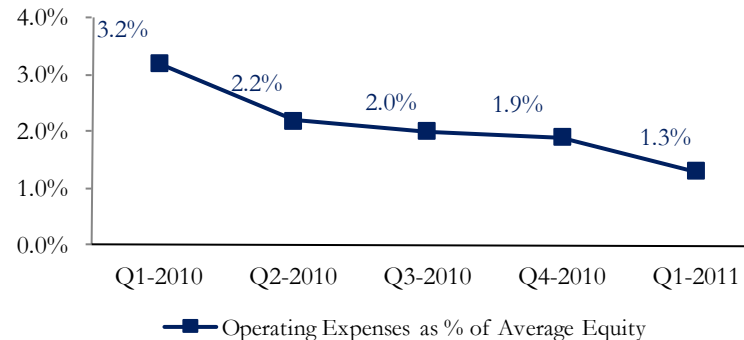
Book Value



Dividends¹



Expense Ratio



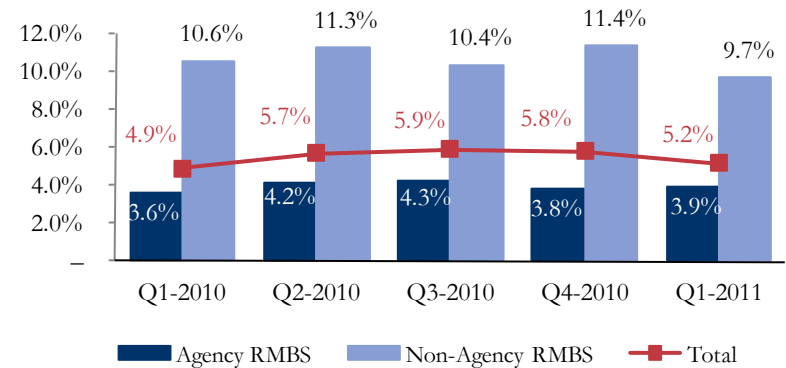
(1) 2011 dividends may not be indicative of future dividend distributions. The company ultimately distributes dividends based on its taxable income per common share, not GAAP earnings. The annualized dividend yield on the company's common stock is calculated based on the closing price of the last trading day of the quarter.

Portfolio Summary

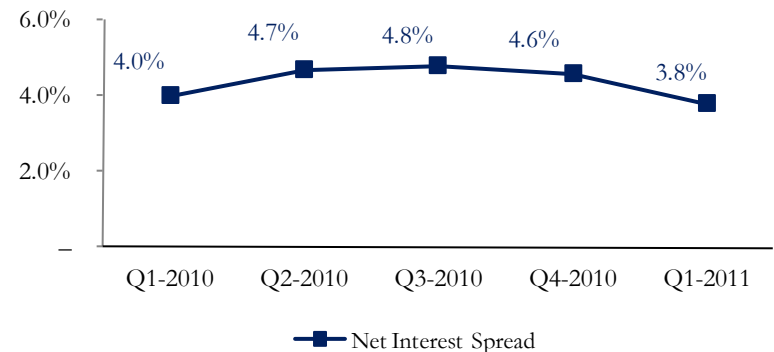
Portfolio Highlights

- Portfolio yields in line with expectations.
- Market opportunities led to higher capital allocation to Agency strategy.
- Yield, net interest margin and leverage will vary over time as asset mix changes.

Annualized Yields by Portfolio¹



Net Interest Spread²



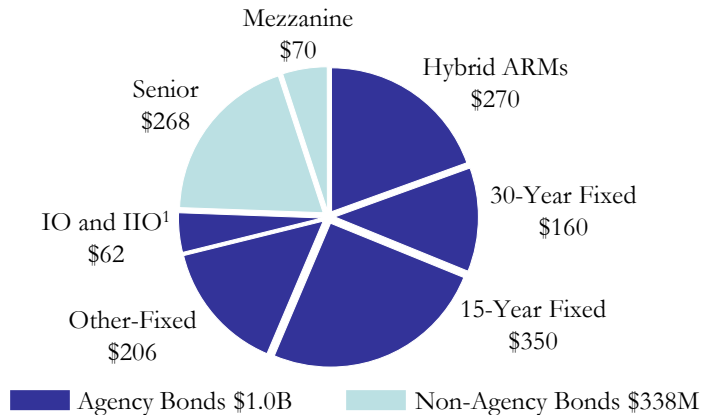
- Respective yields include interest-only securities ("IIOs") accounted for as derivatives.
- Net interest spread includes IIOs accounted for as derivatives, cost of financing RMBS and swap interest rate spread.

RMBS Portfolio Composition

Portfolio Composition

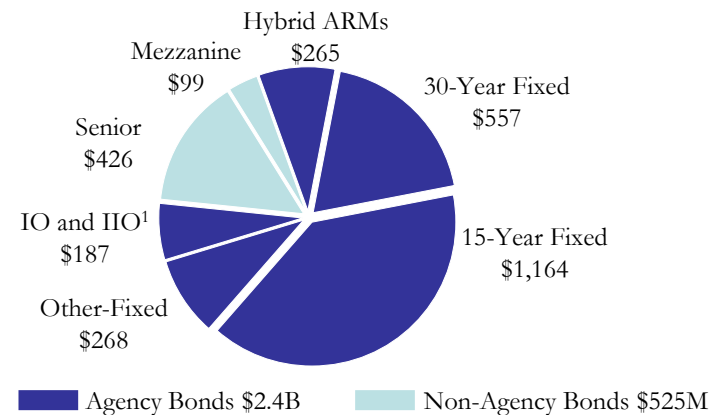
As of December 31, 2010

\$1.4B RMBS Portfolio



As of March 31, 2011

\$3.0B RMBS Portfolio



Agency: Vintage & Prepayment Protection	Q4-2010	Q1-2011
Lower loan balances ²	41%	32%
2006 and subsequent vintages - Discount	0%	26%
Seasoned (2005 and prior vintages)	30%	14%
Prepayment protected	21%	11%
High LTV ³	0%	9%
2006 and subsequent vintages – Premium and IO	8%	8%

Non-Agency: Loan Type	Q4-2010	Q1-2011
Sub-Prime	39%	48%
Option-ARM	38%	33%
Alt-A	19%	16%
Prime	4%	3%

- (1) Interest-only securities ("IOs") and IIOs accounted for as derivatives of \$31 million as of December 31, 2010 and \$83 million as of March 31, 2011.
- (2) Securities collateralized by loans of less than or equal to \$175K.
- (3) Securities collateralized by loans with greater than or equal to 80% loan-to-value.

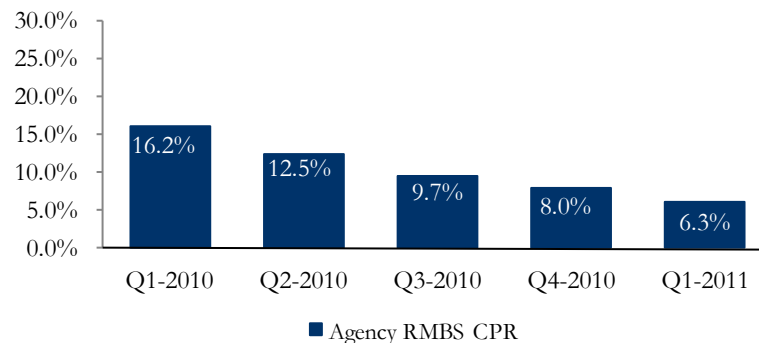
Portfolio Metrics

Portfolio Yields and Metrics

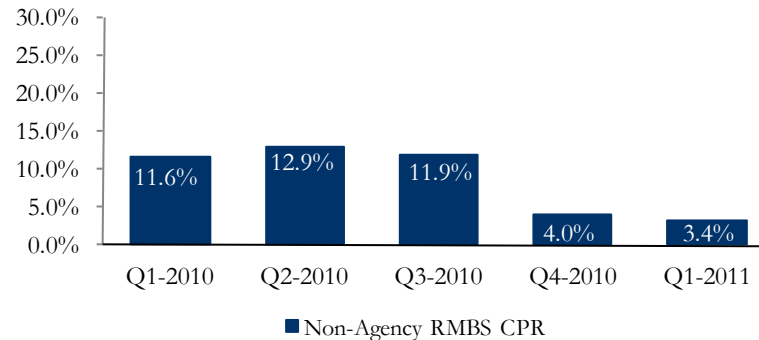
Portfolio Yield	Realized Q4-2010	At Dec. 31, 2010	Realized Q1-2011	At Mar. 31, 2011
Annualized yield ¹	5.8%	5.2%	5.2%	5.2%
Agency	3.8%	-	3.9%	-
Non-Agency	11.4%	-	9.7%	-
Cost of financing ²	1.2%	1.2%	1.4%	1.4%
Net interest spread	4.6%	4.0%	3.8%	3.8%

Portfolio Metrics		Q4-2010	Q1-2011
Agency	Weighted average 3-month CPR	8.0%	6.3%
	Weighted average cost basis	\$104.8	\$102.9
Non-Agency	Weighted average 3-month CPR	4.0%	3.4%
	Weighted average cost basis	\$60.3	\$61.9
Change in equity value for +/- 100bps change in interest rates ³		2.1%	2.1%
Debt-to-Equity ⁴		2.5x	3.4x

Agency RMBS CPR



Non-Agency RMBS CPR



(1) Annualized yield includes impact of HIOs accounted for as derivatives. Interest income on HIOs was \$1.4 million and \$2.9 million for the fourth quarter of 2010 and first quarter of 2011, contributing an additional 0.4% and 0.5% in interest yield, respectively.

(2) Cost of financing RMBS includes interest spread expense associated with the portfolio's interest rate swaps of \$1.0 million for the fourth quarter of 2010 and \$2.9 million for the first quarter of 2011. Interest spread expense increased cost of financing RMBS by 0.5% for the fourth quarter of 2010 and 0.8% for the first quarter of 2011.

(3) Represents range of the percentage change in equity value for +/- 100bps change in interest rates. Change in equity value is portfolio value change adjusted for leverage.

(4) Debt-to-equity is defined as total borrowings, to fund RMBS securities and Agency derivatives divided by total equity. If the open trade positions had settled as of March 31, 2011, the debt-to-equity ratio, as defined, would have increased from 3.4:1.0 to approximately 3.9:1.0.

Hedging Strategy

Hedging Overview

- Hedging positions at March 31, 2011
 - \$2.4 billion notional hedging Agency strategy¹
 - Over 90% hedged maintains low duration exposure²
 - 28% of notional in interest rate swaptions is optional protection
 - Average pay rate on swaps is only 1.412%

- Swaps/swaptions complement IO strategy.

Interest Rate Swaps¹

March 31, 2011

Swaps Maturities	Notional Amounts (\$K)	Average Fixed Pay Rate	Average Receive Rate	Average Maturity (Years)
2012	25,000	0.868%	0.301%	1.73
2013	725,000	1.023%	0.307%	2.02
2014	475,000	1.486%	0.305%	3.21
2015	395,000	1.880%	0.283%	4.21
2016	90,000	2.260%	0.306%	4.91
Total	1,710,000	1.412%	0.301%	3.00

Interest Rate Swaptions

March 31, 2011

Swaption	Cost (\$K)	Notional Amount (\$K)	Average Fixed Pay Rate	Average Receive Rate	Average Term (Years)
Payer	\$11,505	650,000	3.25%	3M Libor	4.692

(1) Notional amounts do not include \$300 million of notional interest rate swap economically hedging our trading securities.

(2) Expected notional of swaps and swaptions will total over 90% of our anticipated borrowings, after accounting for future settlements of Agency bond purchases from the fully deployed capital.

Financing

Financing

Repurchase Agreements: RMBS and Agency Derivatives	March 31, 2011	
	Amount (\$M)	Percent (%)
Within 30 days	\$593	25%
30 to 59 days	323	14%
60 to 89 days	431	19%
90 to 119 days	560	24%
Over 120 days	410	18%
Total	\$2,317	

Financing Highlights:

- Maturities over 90 days represented 42% of total RMBS borrowings.
- Added four new financing counterparties, for a total of 19.
- Increased interest rate swap – Treasury position to \$300 million to hedge funding costs.

Deployment of Proceeds

- Completed deployment of March 2011 capital raise.
- Excellent opportunities in Agency and non-Agency markets with compelling stories in the Agency sector.
- Highlights of anticipated aggregate portfolio:
 - Deployment capital allocation: Approximately 85% Agency and 15% non-Agency
 - Ending capital allocation: Approximately 65% Agency and 35% non-Agency
 - 15-year Agency “Lower Loan Balance” and discount pools presented attractive risk-adjusted returns
 - Targeted leverage to be in the high-4x due to higher Agency strategy allocation
 - Continue to maintain low interest rate exposure

Appendix

Operating Performance

Operating Performance (In millions, except for per share amounts)	Core Earnings	Realized Gains	Unrealized MTM	Q4-2010 Financials	Core Earnings	Realized Gains	Unrealized MTM	Q1-2011 Financials
Interest income	\$ 12.9	\$ -	\$ -	\$ 12.9	\$ 19.9	\$ -	\$ -	\$ 19.9
Interest expense	1.6	-	-	1.6	2.5	-	-	2.5
Net interest income	11.3	-	-	11.3	17.4	-	-	17.4
Gain on sale of investment securities, net	-	2.0	(0.5)	1.5	-	1.1	0.4	1.5
Gain (loss) on interest rate swap agreements ¹	(1.1)	(2.0)	6.8	3.7	(3.2)	1.3	3.8	1.9
Gain on other derivative instruments	1.8	1.4	(0.2)	3.0	3.8	(0.4)	2.0	5.4
Total other income	0.7	1.4	6.1	8.2	0.6	2.0	6.2	8.8
Management fees	0.9	-	-	0.9	1.6	-	-	1.6
Operating expenses	1.2	-	-	1.2	1.5	-	-	1.5
Total expense	2.1	-	-	2.1	3.1	-	-	3.1
Net income (loss) before income taxes	9.9	1.4	6.1	17.4	14.9	2.0	6.2	23.1
Benefit from income taxes	-	(0.1)	(0.8)	(0.9)	(0.1)	(0.1)	(0.5)	(0.7)
Net income (loss)	\$ 9.9	\$ 1.3	\$ 5.3	\$ 16.5	\$ 14.8	\$ 1.9	\$ 5.7	\$ 22.4
Basic and diluted weighted average EPS	\$ 0.36	\$ 0.05	\$ 0.19	\$ 0.60	\$ 0.32	\$ 0.04	\$ 0.13	\$ 0.49
Supplemental data:								
Unrealized gains/(losses) on interest rate swaps and swaptions				\$ 6.3				\$ 4.5
Deferred tax benefit				(1.0)				-
Total				\$ 5.3				\$ 4.5

(1) First Quarter 2011 loss on interest rate swap agreements of \$3.2 million includes \$0.3 million in interest costs for swaps associated with U.S. Treasuries.

Change in Stockholders' Equity

Change in Stockholders' Equity (In millions, except for per share amounts)	Q4-2010 Book Value	Q4-2010 Book Value per Share (diluted basis) ¹	Q1-2011 Book Value	Q1-2011 Book Value per Share (diluted basis) ¹
Beginning stockholders' equity	\$ 241.4	\$ 9.24	\$ 382.4	\$ 9.44
Net proceeds from common stock issuance	128.4	(0.11)	287.8	0.24
GAAP Net Income:				
Core Earnings, net of tax	9.9	0.24	14.8	0.21
Realized gains and losses, net of tax	1.3	0.03	1.9	0.03
Unrealized mark-to-market gains and losses, net of tax	5.3	0.13	5.7	0.08
Other Comprehensive Income, net of tax	6.6	0.17	9.1	0.13
Dividend declaration	(10.5)	(0.26)	(16.2)	(0.23)
Other	-	-	0.1	-
Ending stockholders' equity	\$ 382.4	\$ 9.44	\$ 685.6	\$ 9.90

(1) Diluted shares outstanding at end of period are used as the denominator for the change in book value per share calculation.