First Quarter 2014 Earnings Call

May 8, 2014

TWO HARBORS Investment Corp.

A Pine River Capital Managed Company

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, 2013, 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 (RMBS), 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 and investments in mortgage servicing rights.

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Executive Summary

FIRST QUARTER 2014 RESULTS – STRONG RETURN ON BOOK VALUE

- Reported book value of $10.71 per share; total return on book value 3.9%[1]
  - Q1-2014 cash dividend of $0.26 per share
- Delivered Comprehensive Income of $152.6 million
  - Return on average equity of 15.7%, or $0.42 per share
- Generated Core Earnings[2] of $88.2 million, or $0.24 per share

ADVANCING STRATEGIC INITIATIVES

- Mortgage Servicing Rights (MSR)
  - Working with a variety of servicer partners to grow initiative
  - MSR remain attractive
- Mortgage loan conduit and securitization
  - Expanding originator network
  - Fund mortgage loan purchases with FHLB financing in future periods

(1) See Appendix page 14 for calculation of first quarter return on book value.

(2) Core Earnings is a non-GAAP measure that we define 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 our inverse interest-only securities (IIOs or Agency Derivatives), premium income or loss on credit default swaps, and servicing income, net of estimated amortization on MSR. Core Earnings is provided for purposes of comparability to other peer issuers. For a reconciliation of GAAP to non-GAAP financials, please refer to the GAAP to non-GAAP reconciliation table in the Appendix on slide 17.

Macroeconomic & Policy Considerations

MACROECONOMIC CONSIDERATIONS

- Unemployment recovery
- Home price appreciation continues

POLICY CONSIDERATIONS:

- Federal Reserve's Quantitative Easing (QE) plan
- GSE Reform:
  - Johnson-Crapo Bill
  - HOME Forward Act
  - PATH Act
  - Corker-Warner Bill
- Final Qualified Mortgage (QM) and proposed Qualified Residential Mortgage (QRM) rules

Book Value

	Q4-2013 Book Value ($M)	Q4-2013 Book Value per share	Q1-2014 Book Value ($M)	Q1-2014 Book Value per share
Beginning Stockholders' equity – basic	$3,773.1	$10.36	$3,855.0	$10.56
GAAP Net Income:				
Core Earnings, net of tax	76.4		88.2	
Realized gains and (losses), net of tax	86.3		(38.6)	
Unrealized mark-to-market gains and (losses), net of tax	76.0		(78.7)	
Discontinued operations	0.7		-	
Other comprehensive (loss) income	(68.0)		181.7	
Dividend declaration	(94.9)		(95.2)	
Other	0.0		6.5	
Balance before capital transactions	3,849.6		3,918.9	
Issuance of common stock, net of offering costs	0.2		0.1	
Issuance of common stock through warrant exercise	5.2		-	
Ending Stockholders' equity – basic and diluted	$3,855.0	$10.56	$3,919.0	$10.71

First quarter Comprehensive Income of $152.6 million

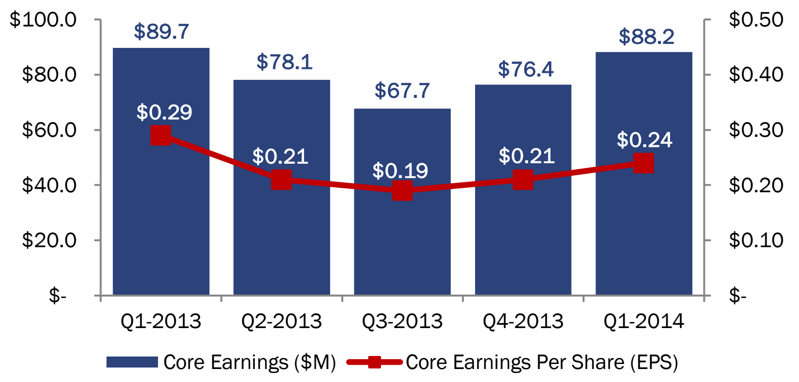
Cash dividend of $0.26 per common share

Financial Summary

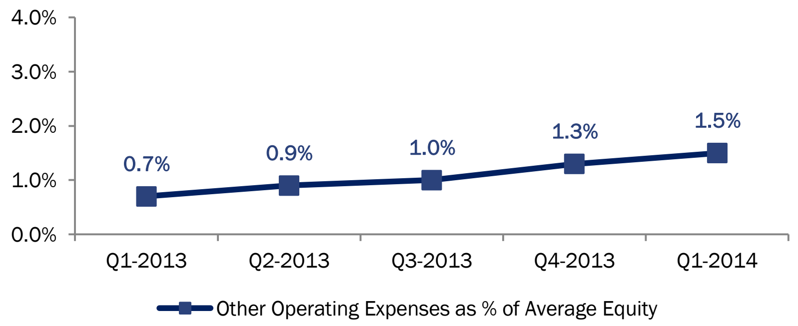
Q1-2014 FINANCIAL HIGHLIGHTS

- Core Earnings(1) of $0.24 per weighted share; annualized return on average equity of 9.1%
- Expense ratio increased to 1.5% versus 1.3% in fourth quarter 2013
- GAAP loss of $0.08 per share; driven by unrealized losses on derivatives used for hedging RMBS

CORE EARNINGS(1)



EXPENSE RATIO



Q1-2014 ACCOUNTING MATTERS

- Released $22.6 million of credit reserves
- Mortgage loan interest rate lock commitments accounted for as derivatives; reported at fair value on balance sheet
- Fair value of MSR decreased to $476.7 million ($514.4 million at December 31, 2013)

(1) See footnote 2 on slide 3 for the Core Earnings definition. For a reconciliation of GAAP to non-GAAP financials, please refer to the GAAP to non-GAAP reconciliation table in the Appendix on slide 17.

Financing Profile[1]

FEDERAL HOME LOAN BANK OF DES MOINES

- Outstanding secured advances of $464.5 million
  - Pledged collateral primarily Agency securities
  - Over time expect to utilize FHLB financing for mortgage loans
  - Average maturity of approximately 2.8 years and borrowing rate of 0.4%
- Total funding capacity up to $1 billion; may increase or decrease at the FHLB's sole discretion
- Diversification beyond repo market is prudent; allows optimization of funding mix

REPURCHASE AGREEMENTS

- Repo markets functioning in normal manner; no meaningful shifts in financing haircuts or repo rates
- Continue to ladder repo maturities; average 84 days to maturity with 22 counterparties
- Focus on diversification and financial stability across repo counterparties

(1) Data as of March 31, 2014.

Portfolio Performance Summary

Q1-2014 PERFORMANCE HIGHLIGHTS

TOTAL RETURN ON BOOK VALUE OF 3.9%(1)

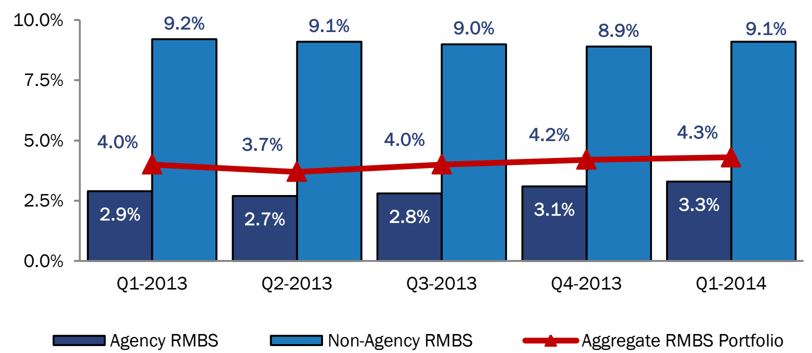
RATES PERFORMANCE

- Solid rates results; 50 bps increase in yield quarter-over-quarter
- Driven by higher realized yields on Agency assets, primarily due to slower prepays on interest-only securities (IOs), inverse interest-only securities (IIOs), MSR and Home Equity Conversion Mortgages (HECM)

CREDIT PERFORMANCE

- Realized non-Agency yields moved higher
- Non-Agency prices appreciated

ANNUALIZED YIELDS BY RMBS PORTFOLIO(4)



Q1-2014 NET INTEREST YIELD

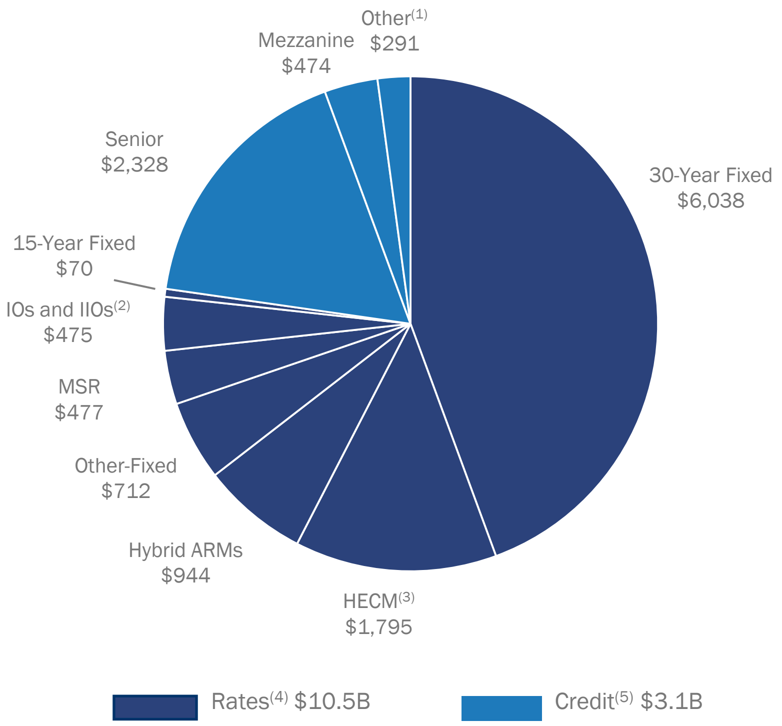
Portfolio Metrics	Three Months Ended December 31, 2013	Three Months Ended March 31, 2014
Annualized portfolio yield during the quarter	**4.3%**	**4.6%**
Rates(2)		
Agency RMBS, Agency Derivatives and MSR	3.2%	3.7%
Credit(3)		
Non-Agency RMBS, including net economic interest in securitization trusts	8.8%	9.0%
Prime jumbo residential mortgage loans	4.0%	4.0%
Credit Sensitive Loans (CSL)	5.2%	3.8%
Annualized cost of funds on average repurchase and advance balance during the quarter(5)	**1.1%**	**1.1%**
Annualized interest rate spread for aggregate portfolio during the quarter	**3.2%**	**3.5%**

(1) See Appendix page 14 for calculation of first quarter return on book value.
(2) Assets in “Rates” include Agency RMBS, Agency Derivatives and MSR.
(3) Assets in “Credit” include non-Agency RMBS, prime jumbo residential mortgage loans, net economic interest in securitization trusts and CSL.
(4) Agency yield includes impact of Agency Derivatives. Interest income on Agency Derivatives was $7.0 million and $5.8 million for the first quarter of 2014 and fourth quarter of 2013, respectively.
(5) Cost of funds includes interest spread expense associated with the portfolio's interest rate swaps.

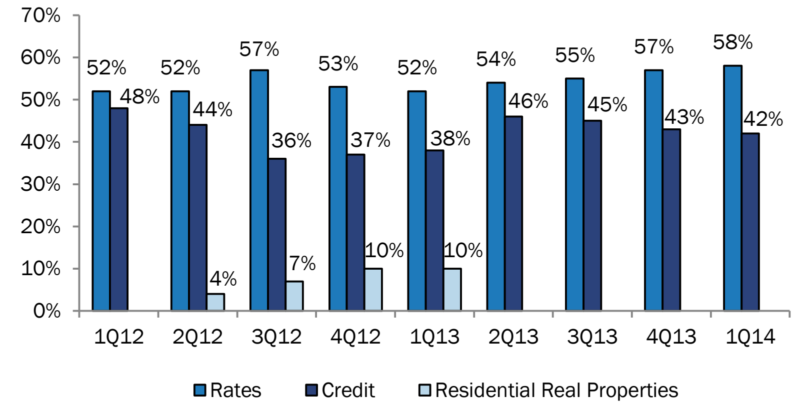
Portfolio Composition

PORTFOLIO COMPOSITION

AS OF MARCH 31, 2014
$13.6B Portfolio
$ Millions



TARGETED CAPITAL ALLOCATION



Q1-2014 HIGHLIGHTS

- 58% capital allocation to Rates[4]
  - MSR capital allocation of 13%; expect allocation to increase over time
  - Focused on higher coupon, shorter duration assets
- 42% capital allocation to Credit[5]
  - Continued emphasis on deep discount subprime non-Agencies
  - Sold substantially all of CSL portfolio

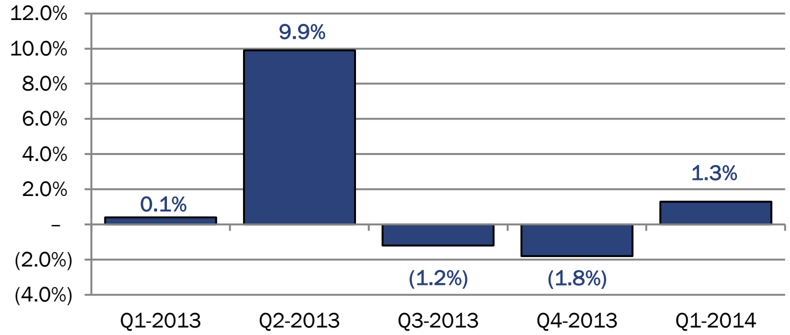
(1) Assets in "Other" include prime jumbo residential mortgage loans, CSL, net economic interest in securitization trusts and non-Agency IOs.
(2) Includes IIOs (or Agency Derivatives) of $210.3 million.
(3) HECM are loans that allow the homeowner to convert home equity into cash collateralized by the value of their home.
(4) Assets in "Rates" include Agency RMBS, Agency Derivatives and MSR.
(5) Assets in "Credit" include non-Agency RMBS, prime jumbo residential mortgage loans, net economic interest in securitization trusts and CSL.

Key Portfolio Metrics

Q1-2014 PORTFOLIO METRICS

- Low implied debt-to-equity[1] ratio of 2.7x versus 3.1x at December 31, 2013
- Prepays lower; seasonally slow period

BV EXPOSURE TO +100BPS CHANGE IN RATES[2]



Portfolio Metrics		Q4-2013	Q1-2014
Agency	Weighted average 3-month CPR[3]	7.9%	6.4%
	Weighted average cost basis[4]	$108.2	$108.3
Non-Agency	Weighted average 3-month CPR	3.8%	3.4%
	Weighted average cost basis[4]	$53.7	$53.3
Change in equity value for +100bps change in interest rates[2]		(1.8%)	1.3%
Implied Debt-to-equity[1]		3.1x	2.7x

Q1-2014 HEDGING STRATEGY

- Low rate exposure
- Limited basis risk
- Increased swaption position
  - Net notional of $9.5 billion at March 31, 2014, versus $5.1 billion at December 31, 2013

(1) Implied debt-to-equity is calculated after including net long or short TBA position. As of March 31, 2014 and December 31, 2013, the net TBA position was short $1.0 billion and long $603 million notional, respectively.
(2) Represents estimated percentage change in equity value for theoretical +100 bps parallel shift in interest rates. Change in equity value is total net asset change.
(3) Agency weighted average 3-month Constant Prepayment Rate (CPR) includes IIOs (or Agency Derivatives).
(4) Weighted average cost basis includes RMBS principal and interest securities only. Average purchase price utilized carrying value for weighting purposes. If current face were utilized for weighting purposes, total non-Agency RMBS excluding the company's non-Agency IO portfolio would have been $49.11 at March 31, 2014.

Mortgage Servicing Rights

Q1-2014 REVIEW

- Added $121 million in UPB from PHH pursuant to flow purchase arrangement
  - Production from late 2013
- Completed $5.0 billion UPB bulk purchase in April 2014
  - Underlying pool of mortgages are Fannie Mae loans; primarily new production
  - Purchase price of approximately $50 million
  - Economics transferred April 1, 2014

BUSINESS UPDATE

- Pipeline remains robust
  - Evaluated over $400 billion MSR over the last 12 months
- Expect to see opportunities to add new issue MSR via bulk sales, flow agreements, and originator network

Mortgage Loan Conduit and Securitization

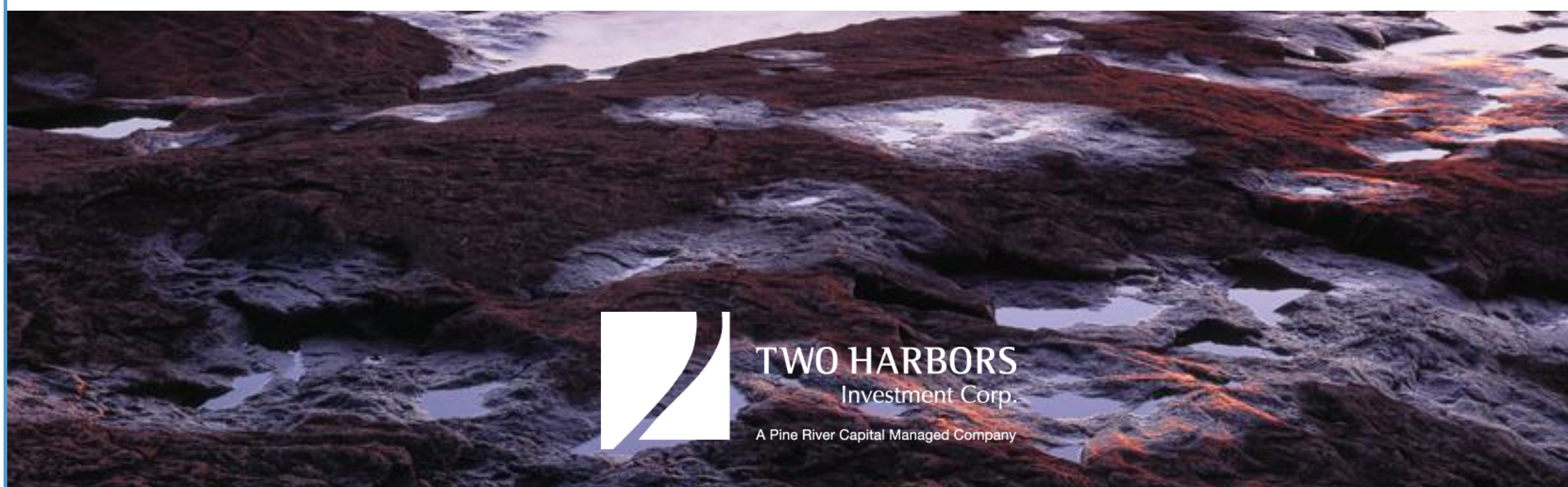
PRIME JUMBO INITIATIVE EXPANDING

- Prime Jumbo holdings of $141 million at March 31, 2014
  - Pipeline (i.e. interest rate locks) of approximately $154 million; was $12 million at December 31, 2013
- Potential to securitize if market conditions warrant
- Focus on building originator relationships

EVALUATING OPPORTUNITY IN NON-QM MARKET

- Utilize existing originator relationships; potentially attractive investments for portfolio
- Large, under-served market
- Serves goal to be a provider of capital to U.S. mortgage market

Appendix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Return on Book Value

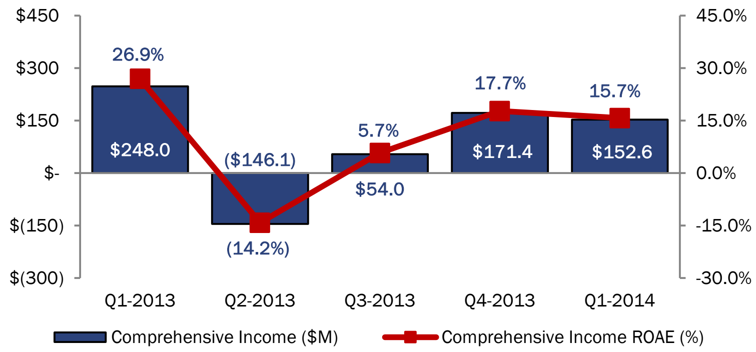
Return on book value Q1-2014 (Per diluted share amounts, except for percentage)	
Book value at March 31, 2014	$10.71
Book value at December 31, 2013	10.56
Increase in book value	0.15
Dividend declared in Q1-2014	0.26
Return on book value Q1-2014	$0.41
Return on book value Q1-2014[1]	3.9%

Note: Diluted shares outstanding at end of period are used as the denominator for book value per share calculation.

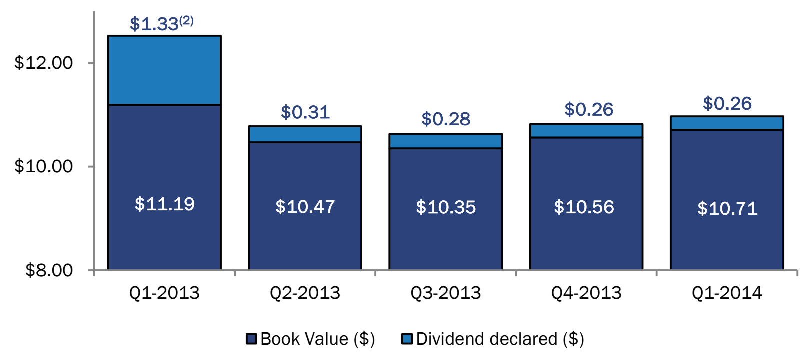
(1) Return on book value for quarter ended March 31, 2014 is defined as the increase in book value per diluted share, from December 31, 2013 to March 31, 2014 of $0.15, plus dividend declared of $0.26 per share, divided by December 31, 2013 diluted book value of $10.56 per share.

Financial Performance

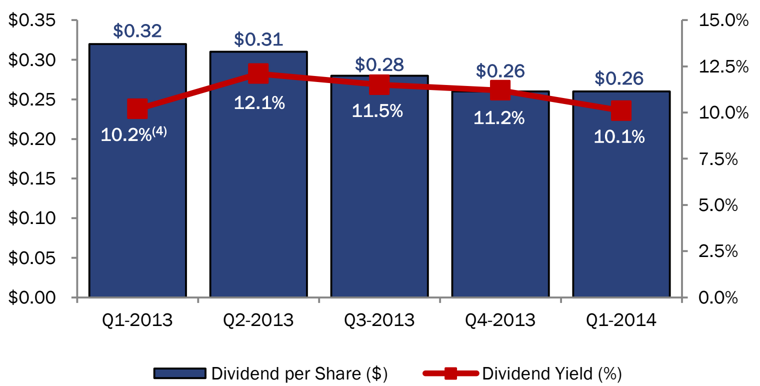
COMPREHENSIVE INCOME (LOSS)



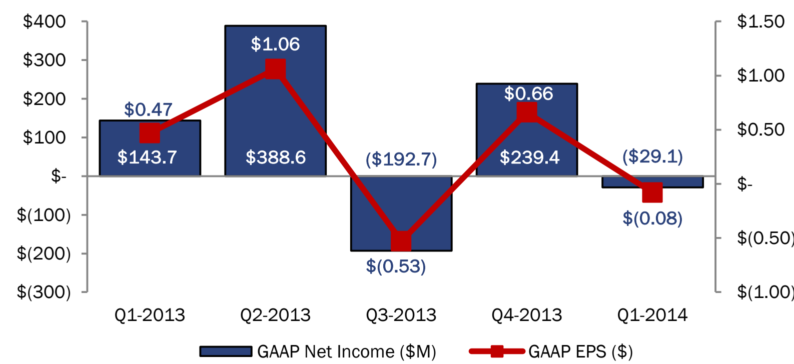
BOOK VALUE AND DIVIDEND PER SHARE(1)



DIVIDENDS(3)



GAAP NET INCOME (LOSS)



(1) 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.
(2) 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.
(3) 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.
(4) Dividend yield based on cash dividend of $0.32 per share only. Does not include Silver Bay common stock distribution.

Operating Performance

(In millions, except for per share data)	Core Earnings	Realized Gains	Unrealized MTM	Q4-2013 Financials	Core Earnings	Realized Gains	Unrealized MTM	Q1-2014 Financials
Interest income	$137.4	$ -	$ -	$137.4	$138.5	$ -	$ -	$138.5
Interest expense	26.9	-	-	26.9	26.0	-	-	26.0
Net interest income	110.5	-	-	110.5	112.5	-	-	112.5
Net other-than-temporary impairment losses	-	-	-	-	-	-	(0.2)	(0.2)
Gain (loss) on investment securities	-	98.7	(0.8)	97.9	-	(38.5)	(0.2)	(38.7)
(Loss) gain on interest rate swaps and swaptions	(10.1)[1]	34.2	(2.3)	21.8	(13.8)[1]	(1.2)	(90.5)	(105.5)
(Loss) gain on other derivative instruments[2]	(2.4)	(47.9)[3]	79.6	29.3	4.7	2.2[3]	(1.1)	5.8
(Loss) gain on mortgage loans held-for-sale	-	(0.1)	(8.5)	(8.6)	-	0.1	(3.3)	(3.2)
Servicing income	10.6	-	-	10.6	30.4	-	-	30.4
(Loss) gain on servicing asset	(5.4)	-	18.5	13.1	(12.5)	-	(20.3)	(32.8)
Other income (loss)	0.4	(1.1)	(1.3)	(2.0)	0.2	0.6	(0.2)	0.6
Total other (loss) income	(6.9)	83.8	85.2	162.1	9.0	(36.8)	(115.6)	(143.4)
Management fees & other operating expenses	26.2	1.1	-	27.3	31.5	0.4	-	31.9
Net income (loss) from continuing operations before income taxes	77.4	82.7	85.2	245.3	90.0	(37.2)	(115.8)	(63.0)
Income tax expense (benefit)	1.0	(3.6)	9.2	6.6	1.8	1.4	(37.1)	(33.9)
Net income (loss) from continuing operations	**76.4**	**86.3**	**76.0**	**238.7**	**88.2**	**(38.6)**	**(78.7)**	**(29.1)**
Discontinued operations	-	0.7	-	0.7	-	-	-	-
Net income (loss)	**$76.4**	**$87.0**	**$76.0**	**$239.4**	**$88.2**	**$(38.6)**	**$(78.7)**	**$(29.1)**
Basic and diluted weighted average EPS	$0.21	$0.24	$0.21	$0.66	$0.24	$(0.10)	$(0.22)	$(0.08)

(1) Q1-2014 and Q4-2013 (loss) gain on interest rate swaps and swaptions includes $10.1 million and $13.8 million, respectively, in interest costs, of which $1.7 million for both periods relates to swaps associated with U.S. Treasuries.
(2) Core Earnings includes $2.3 million and $8.2 million of net premium amortization on credit default swaps and total return swaps for the first quarter of 2014 and the fourth quarter of 2013, respectively.
(3) Q4-2013 includes $9.3 million, net of taxes, of realized loss from to-be-announced securities (TBAs) and TBA options. Q1-2014 includes $7.7 million, net of taxes, of realized gains from TBAs and TBA options.

GAAP to Core Earnings Reconciliation

(In thousands, except for per share data)	Three Months Ended December 31, 2013	Three Months Ended March 31, 2014
Reconciliation of GAAP to non-GAAP Information		
Core Earnings:		
Net income (loss) attributable to common stockholders	$239,414	$(29,145)
Adjustments for non-core earnings:		
(Gain) loss on sale of securities and mortgage loans, net of tax	(98,624)	38,476
Unrealized loss on trading securities and mortgage loans held-for-sale, net of tax	6,164	2,293
Other-than-temporary impairment loss, net of tax	-	212
Realized (gain) loss on termination or expiration of swaps and swaptions, net of tax	(21,075)	1,981
Unrealized (gain) loss on interest rate swaps and swaptions, net of tax	(8,277)	59,687
Gain on other derivative instruments, net of tax	(25,713)	(4,654)
Realized and unrealized loss (gain) on financing securitizations	2,417	(313)
Unrealized (gain) loss, net of tax, on mortgage servicing rights	(17,885)	19,406
Securitization deal costs, net of tax	-	-
Income from discontinued operations	(735)	-
Amortization of business combination intangible assets, net of tax	704	260
Core Earnings	**$76,390**	**$88,203**
Weighted average shares outstanding - Diluted	364,700,903	365,611,890
Core Earnings per weighted average share outstanding - Diluted	0.21	0.24

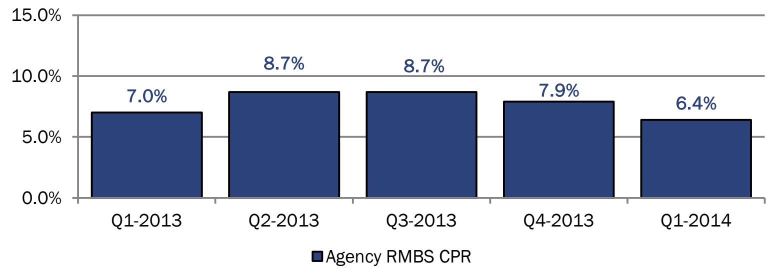
Rates: Agency RMBS Metrics

AGENCY PORTFOLIO YIELDS AND METRICS

Portfolio Yield	Realized Q4-2013	At December 31, 2013	Realized Q1-2014	At March 31, 2014
Agency yield(1)	3.1%	3.0%	3.3%	3.2%
Cost of financing(2)	0.8%	0.8%	0.9%	0.9%
Net interest spread	2.3%	2.2%	2.4%	2.3%

Portfolio Metrics		Q4-2013	Q1-2014
Agency	Weighted average 3-month CPR(5)	7.9%	6.4%
	Weighted average cost basis(6)	$108.2	$108.3

AGENCY RMBS CPR(5)



AGENCY PORTFOLIO COMPOSITION

Agency: Vintage & Prepayment Protection	Q4-2013	Q1-2014
HECM	19%	18%
$85K Max Pools(3)	14%	17%
High LTV (predominately MHA)(4)	24%	16%
2006 & subsequent vintages – Premium and IOs	14%	14%
Other Low Loan Balance Pools(7)	5%	12%
Low FICO(8)	7%	7%
2006 & subsequent vintages – Discount	7%	6%
Seasoned (2005 and prior vintages)	5%	5%
Prepayment Protected	5%	5%

(1) Agency yield includes impact of Agency Derivatives. Interest income on Agency Derivatives was $7.0 million and $5.8 million for the first quarter of 2014 and fourth quarter of 2013, respectively.
(2) Cost of financing Agency RMBS includes interest spread expense associated with the portfolio's interest rate swaps of $12.1 million and $7.3 million for the first quarter of 2014 and fourth quarter of 2013, respectively. Interest spread expense increased cost of financing Agency RMBS by 0.5% and 0.3% in the first quarter of 2014 and fourth quarter of 2013, respectively.
(3) Securities collateralized by loans of less than or equal to $85K.
(4) Securities collateralized by loans with greater than or equal to 80% loan-to-value ratio (LTV). High LTV pools are predominately Making Homeownership Affordable (MHA) pools. MHA pools consist of borrowers who have refinanced through the HARP.
(5) Agency weighted average 3-month Constant Prepayment Rate (CPR) includes IIOs (or Agency Derivatives).
(6) Weighted average cost basis includes RMBS principal and interest securities only. Average purchase price utilized carrying value for weighting purposes.
(7) Securities collateralized by loans of less than or equal to $175K, but more than $85K.
(8) Securities collateralized by loans held by lower credit borrowers as defined by Fair Isaac Corporation (FICO).

Rates: Agency RMBS

As of March 31, 2014	Par Value (M)	Market Value (M)	% of Agency Portfolio	Amortized Cost Basis (M)	Weighted Average Coupon	Weighted Average Age (Months)
30-Year Fixed						
4.0-4.5%	4,877	5,149	51.3%	5,286	4.2%	18
≥ 5.0%	801	889	8.9%	869	5.5%	63
	$5,678	$6,038	60.2%	$6,155	4.4%	24
15-Year Fixed						
3.0-3.5%	$65	$67	0.7%	$64	3.0%	40
4.0-4.5%	2	2	0.0%	2	4.0%	45
≥ 5.0%	1	1	0.0%	1	6.7%	107
	$68	$70	0.7%	$67	3.1%	98
HECM	$1,639	$1,795	17.9%	$1,740	4.7%	29
Hybrid ARMs	928	944	9.4%	935	2.5%	25
Other-Fixed	646	712	7.1%	700	4.9%	75
IOs and IIOs	4,552	475(1)	4.7%	462	4.1%	66
Total	$13,511	$10,034	100.0%	$10,059	4.3%	31

(1) Represents the market value of $264.5 million of IOs and $210.3 million of Agency Derivatives.

Rates: Mortgage Servicing Rights

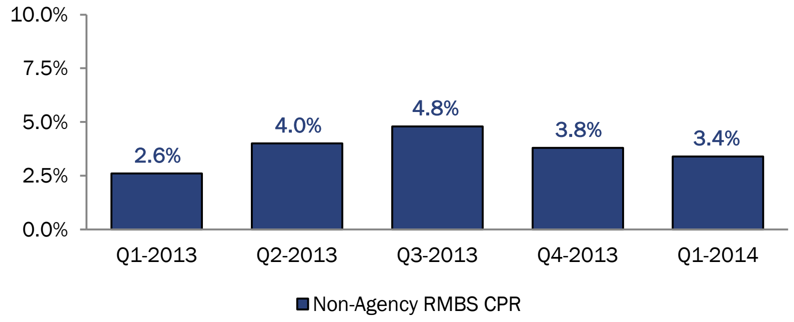
	As of Dec. 31, 2013	As of Mar. 31, 2014
Fair Value ($M)	$514.4	$476.7
Unpaid Principal Balance ($M)	$42,324.3	$41,596.3
Weighted Average Coupon	3.9%	3.9%
Original FICO Score	734	738
Original LTV	76%	75%
60+ Day Delinquencies	0.9%	1.0%
Net Servicing Spread	25 basis points	25 basis points
Vintage:		
Pre-2009	4%	4%
2009-2012	64%	63%
Post 2012	32%	33%
Percent of MSR Portfolio:		
Ginnie Mae	34%	33%
Fannie Mae	66%	67%

Credit: Non-Agency RMBS Metrics

NON-AGENCY PORTFOLIO YIELDS AND METRICS

Portfolio Yield	Realized Q4-2013	At December 31, 2013	Realized Q1-2014	At March 31, 2014
Non-Agency yield	8.9%	9.0%	9.1%	9.0%
Cost of financing[1]	2.5%	2.5%	2.3%	2.3%
Net interest spread	6.4%	6.5%	6.8%	6.7%

NON-AGENCY RMBS CPR



NON-AGENCY PORTFOLIO COMPOSITION

Non-Agency: Loan Type	Q4-2013	Q1-2014
Sub-Prime	83%	83%
Option-ARM	8%	8%
Prime	5%	5%
Alt-A	4%	4%

Portfolio Metrics		Q4-2013	Q1-2014
Non-Agency	Weighted average 3-month CPR	3.8%	3.4%
	Weighted average cost basis[2]	$53.7	$53.3

(1) Cost of financing non-Agency RMBS includes interest spread expense associated with the portfolio's interest rate swaps of $2.0 million and $1.9 million for the first quarter of 2014 and fourth quarter of 2013, respectively. Interest spread expense increased cost of financing non-Agency RMBS by 0.4% in both periods.

(2) Weighted average cost basis includes RMBS principal and interest securities only. Average purchase price utilized carrying value for weighting purposes. If current face were utilized for weighting purposes, total non-Agency RMBS excluding the company's non-Agency interest-only portfolio would have been $49.11 at March 31, 2014.

Credit: Non-Agency RMBS

As of March 31, 2014	Senior Bonds	Mezzanine Bonds	Total P&I
Portfolio Characteristics			
Carrying Value ($M)	$2,328	$474	$2,802
% of Credit Portfolio	83.1%	16.9%	100.0%
Average Purchase Price(1)	$52.06	$59.20	$53.27
Average Coupon	2.3%	1.7%	2.2%
Weighted Average Market Price(2)	$67.09	$74.87	$68.29
Collateral Attributes			
Average Loan Age (months)	88	102	90
Average Loan Size ($K)	$258	$202	$249
Average Original Loan-to-Value	72.2%	71.7%	72.1%
Average Original FICO(3)	616	648	621
Current Performance			
60+ Day Delinquencies	31.8%	26.1%	30.8%
Average Credit Enhancement(4)	8.6%	20.3%	10.6%
3-Month CPR(5)	3.0%	5.2%	3.4%

(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 $47.75, $56.56 and $49.11, respectively.
(2) Weighted average market price utilized current face for weighting purposes.
(3) FICO represents a mortgage industry accepted credit score of a borrower.
(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.

Financing[1]

REPO MATURITIES[2]

Repurchase Agreements: RMBS and Agency Derivatives[3]	Amount ($M)	Percent (%)
Within 30 days	$2,748	25%
30 to 59 days	2,859	26%
60 to 89 days	857	8%
90 to 119 days	2,363	22%
120 to 364 days	1,902	17%
One year and over	200	2%
	$10,929	

FHLB PLEDGED COLLATERAL AND MATURITIES[3]

Collateral	Amount ($M)
Available–for-sale securities, at fair value	$421.4
Net economic interests in consolidated securitization trusts	79.3
Mortgage loans held-for-sale, at fair value	14.4
Restricted cash	0.2
	$515.3

Maturities	Amount ($M)	Percent (%)
≤ 3 months	$-	-%
> 3 and ≤ 6 months	3	1%
> 6 and ≤ 12 months	34	7%
> 12 and ≤ 24 months	-	-%
> 24 months	428	92%
	$465	

(1) As of March 31, 2014.
(2) Does not include repurchase agreements collateralized by U.S. Treasuries of $1.0 billion and mortgage loans held-for-sale of $96.2 million.
(3) Excludes purchase of FHLB membership and activity stock totaling $18.6 million as of March 31, 2014

Hedging Strategy[1]

INTEREST RATE SWAPS[2]				
Swaps Maturities	Notional Amounts ($M)	Average Fixed Pay Rate	Average Receive Rate	Average Maturity (Years)
2014	$3,000	0.295%	0.234%	0.73
2015	1,000	0.383%	0.237%	0.79
2016	2,950	0.626%	0.238%	2.17
2017	6,300	0.936%	0.236%	3.20
2018 and after	1,375	1.424%	0.235%	4.80
	$14,625	0.750%	0.236%	2.47

(1) As of March 31, 2014.
(2) Notional amounts do not include $1.0 billion of notional interest rate swaps economically hedging our trading securities, $3.4 billion of notional interest rate swaps hedging our available-for-sale securities, and $2.6 billion of notional interest rate swaps economically hedging our TBA contracts and MSR.

Hedging Strategy[1]

INTEREST RATE SWAPTIONS

Option					Underlying Swap			
Swaption	Expiration	Cost ($M)	Fair Value ($M)	Average Months to Expiration	Notional Amount ($M)	Average Pay Rate	Average Receive Rate	Average Term (Years)
Purchase Contracts:								
Payer	< 6 Months	$9.1	$1.3	2.29	$800	3.56%	3M LIBOR	10.0
Payer	≥ 6 Months	223.5	219.9	36.49	6,000	4.27%	3M LIBOR	9.0
Total Payer		$232.6	$221.2	36.19	$6,800	4.19%	3M LIBOR	9.1
Receiver	< 6 Months	$6.0	$4.0	3.23	$2,000	3M LIBOR	1.68%	5.0
Receiver	≥ 6 Months	0.9	0.5	9.30	2,000	3M LIBOR	1.08%	5.0
Total Receiver		$6.9	$4.5	4.51	$4,000	3M LIBOR	1.38%	5.0
Sale Contracts:								
Payer	≥ 6 Months	$(81.2)	$(58.6)	39.02	$(800)	3.44%	3M LIBOR	10.0
Total Payer		$(81.2)	$(58.6)	39.02	$(800)	3.44%	3M LIBOR	10.0
Receiver	< 6 Months	$(2.6)	$(2.8)	2.30	$(500)	3M LIBOR	3.20%	10.0
Total Receiver		$(2.6)	$(2.8)	2.30	$(500)	3M LIBOR	3.20%	10.0

(1) As of March 31, 2014.


TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company