



# Second Quarter 2015 Earnings Call

August 5, 2015



**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, 2014, 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: the state of credit markets and general economic conditions; changes in interest rates and the market value of our assets; changes in prepayment rates of mortgages underlying our target assets; the rates of default or decreased recovery on the mortgages underlying our target assets; the occurrence, extent and timing of credit losses within our portfolio; the concentration of credit risks we are exposed to; declines in home prices; our ability to establish, adjust and maintain appropriate hedges for the risks in our portfolio; the availability and cost of our target assets; the availability and cost of financing; changes in the competitive landscape within our industry; our ability to successfully implement new strategies and to diversify our business into new asset classes; our ability to manage various operational risks and costs associated with our business; interruptions in or impairments to our communications and information technology systems; our ability to acquire mortgage loans and successfully securitize the mortgage loans we acquire; our ability to acquire mortgage servicing rights (MSR) and successfully operate our seller-servicer subsidiary and oversee our subservicers; the impact of any deficiencies in the servicing or foreclosure practices of third parties and related delays in the foreclosure process; the state of commercial real estate markets and our ability to acquire or originate commercial real estate loans or related assets; our exposure to legal and regulatory claims; legislative and regulatory actions affecting our business; the impact of new or modified government mortgage refinance or principal reduction programs; our ability to maintain our REIT qualification; and limitations imposed on our business due to our REIT status and our exempt status under the Investment Company Act of 1940.

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# Financial Summary and Business Overview

## SOLID FINANCIAL RESULTS<sup>(1)</sup>

- Total return on book value of 2.1% through the first six months of 2015<sup>(2)</sup>
  - Q2-2015 cash dividend of \$0.26 per share
- Comprehensive Income of \$2.7 million
  - Return on average equity of 0.3%, or \$0.01 per share
- Generated Core Earnings of \$80.2 million, or \$0.22 per share<sup>(3)</sup>

## STRATEGIC UPDATE

- Mortgage Loan Conduit and Securitization
  - Completed two securitizations in Q2-2015; total of four securitizations year-to-date
  - Created subordinate and interest-only (IO) assets for portfolio
- Mortgage Servicing Rights
  - Focus on expanding flow sale relationships
  - Closed on \$4.7 billion unpaid principal balance (UPB) bulk purchase of Fannie Mae MSR subsequent to quarter-end
- Commercial Real Estate
  - Expect to accelerate capital deployment in second half of 2015 and early 2016
  - Majority bear interest on a floating-rate basis

(1) Data for the three months ended June 30, 2015, except where noted.

(2) See Appendix slide 14 for calculation of 2015 year-to-date return on book value.

(3) Core Earnings is a non-GAAP measure that we define as GAAP net income, excluding impairment losses, realized and unrealized gains or losses on the aggregate portfolio, amortization of business combination intangible assets, reserve expense for representation and warranty obligations on MSR and certain upfront costs related to securitization transactions. As defined, Core Earnings includes interest income or expense and premium income or loss on derivative instruments 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.



# Market and Policy Update

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## MACROECONOMIC ENVIRONMENT & POLICY CONSIDERATIONS

- Interest rate environment remains volatile
  - Conservatively positioned with respect to interest rates
- Steady improvement in unemployment rates
  - 5.3% in June 2015 versus 6.1% in June 2014
- Home price appreciation continues
  - CoreLogic Home Price Index up 6.5% on rolling 12-month basis<sup>(1)</sup>
- Actively engaged with a variety of parties in Washington D.C.
  - Private label securitization market
  - Servicing standards and capital requirements
  - GSE risk sharing and housing finance reform
  - FHFA proposed rulemaking regarding Federal Home Loan Bank (FHLB) membership

(1) Source: CoreLogic Home Price Index rolling 12-month change in June 2015.



# Book Value

(Dollars in millions, except per share data)	Q2-2015 Book Value (\$M)	Q2-2015 Book Value per share	YTD-2015 Book Value (\$M)	YTD-2015 Book Value per share
<b>Beginning stockholders' equity</b>	<b>\$4,061.5</b>	<b>\$11.08</b>	<b>\$4,068.0</b>	<b>\$11.10</b>
Cumulative effect of adoption of new accounting principle (ASU 2014-13)	n/a		(3.0)	
<b>Beginning stockholders' equity - Adjusted</b>	<b>\$4,061.5</b>	<b>\$11.08</b>	<b>\$4,065.0</b>	<b>\$11.10</b>
GAAP Net Income:				
Core Earnings, net of tax	80.2		174.2	
Realized gains, net of tax	4.0		122.6	
Unrealized mark-to-market gains, net of tax	137.3		19.5	
Other comprehensive loss	(218.8)		(224.8)	
Dividend declaration	(95.5)		(190.8)	
Other	2.9		5.7	
Balance before capital transactions	\$3,971.6		\$3,971.4	
Issuance of common stock, net of offering costs	-		0.2	
<b>Ending stockholders' equity</b>	<b>\$3,971.6</b>	<b>\$10.81</b>	<b>\$3,971.6</b>	<b>\$10.81</b>

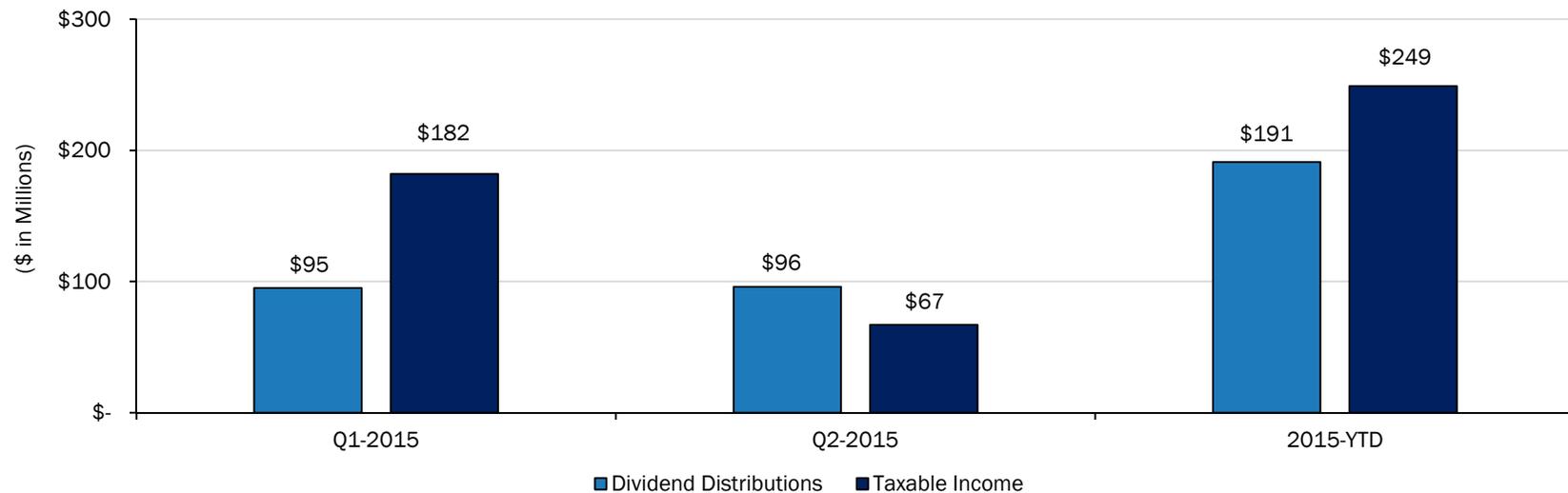
Q2-2015  
Comprehensive  
Income of \$2.7  
million, \$91.5  
million year-to-date



# Taxable Income<sup>(1)</sup>

## DIVIDEND REQUIREMENTS ARE BASED ON REIT TAXABLE INCOME

- Declared Q2-2015 dividends of \$95.5 million, or \$0.26 per share
- Required to distribute 90% of REIT taxable income
- Realized gains support dividend in the near-term
  - Distributed 76% of REIT taxable income year-to-date
  - Realized capital gains of approximately \$65 million on RMBS portfolio in Q2-2015; approximately \$167 million in first half of year



(1) Historical dividends may not be indicative of future dividend distributions. Our company ultimately distributes dividends based on its taxable income per share of common stock.



# Core Earnings<sup>(1)</sup> Summary

## Q2-2015 FINANCIAL HIGHLIGHTS

	Q1-2015	Q2-2015	Variance (\$)	Variance (%)
Interest Income	\$163.0	\$152.5	(\$10.5)	(6.4%)
Interest Expense	\$33.5	\$35.0	(\$1.5)	(4.6%)
Net interest income	\$129.5	\$117.5	(\$12.0)	(9.2%)
Loss on Swaps and Swaptions	(\$27.5)	(\$26.2)	\$1.3	5.0%
Gain on other derivatives	\$7.7	\$6.4	(\$1.3)	(17.0%)
Servicing income, net of amortization on MSR	\$19.1	\$17.2	(\$1.9)	(10.0%)
Other	\$1.0	\$1.0	(\$0.0)	(5.9%)
Total other income	\$0.3	(\$1.6)	(\$1.9)	(614.9%)
Expenses	\$35.4	\$35.3	\$0.1	0.3%
Income taxes	\$0.3	\$0.4	(\$0.1)	59.0%
<b>Core Earnings<sup>(1)</sup></b>	<b>\$94.1</b>	<b>\$80.2</b>	<b>(\$13.9)</b>	<b>(14.8%)</b>

- Core Earnings of \$0.22 per share; annualized return on average equity of 7.9%<sup>(1)</sup>
- Interest income decreased over 6%
  - Sold over \$1.4 billion in Agency securities
  - Decreased leverage on Agency portfolio from 6.0x to 5.5x
- Extended swaps to improve exposure across the curve
  - Protection carries higher net spread
- Servicing income, net of amortization on MSR, decreased 10%; modestly higher prepayments in Q2-2015 and favorable seasonal activity in Q1-2015
- Focused on delivering total returns over the long-term, rather than quarterly core earnings performance

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



# Financing Profile

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## FEDERAL HOME LOAN BANK OF DES MOINES

- Outstanding secured advances of \$3.0 billion
- Average maturity approximately 11.4 years; average borrowing rate 0.35%

## REPURCHASE AGREEMENTS

- Focused on diversification and financial stability across repo counterparties
  - Outstanding borrowings of \$9.4 billion with 23 active counterparties
- Continued to ladder repo maturities; average 69 days to maturity

## MATURITY PROFILE OF APPROXIMATELY 3 YEARS ON AGGREGATE REPO BORROWINGS AND FHLB ADVANCES



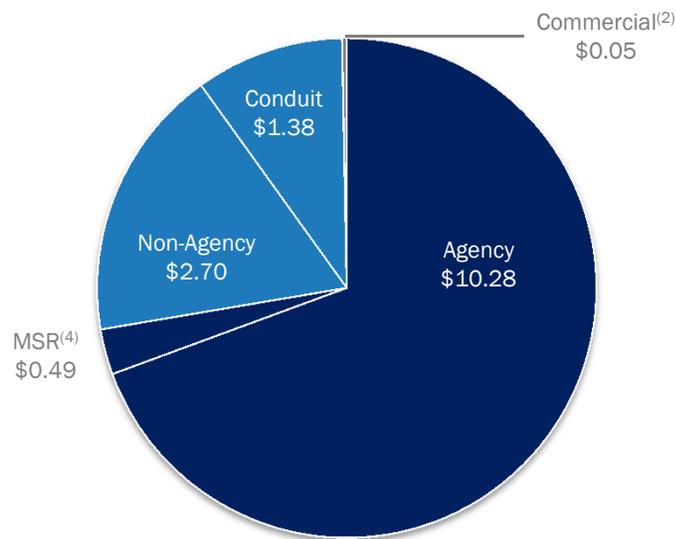
# Portfolio Composition

## CAPITAL ALLOCATION TO MSR, CONDUIT AND COMMERCIAL REAL ESTATE INCREASING

### PORTFOLIO COMPOSITION<sup>(1)</sup>

\$14.9 BILLION PORTFOLIO AS OF JUNE 30, 2015

(\$ billions)



Rates<sup>(3)</sup> \$10.77B
  Credit<sup>(5)</sup> \$4.08B
  Commercial \$0.05B

### HISTORICAL CAPITAL ALLOCATION

	June 30, 2013	June 30, 2014	June 30, 2015	Long-Term Trend <sup>(6)</sup>
<b>Rates<sup>(3)</sup></b>				
Agency	54%	45%	44%	↓
MSR	0%	13%	11%	↑
<b>Credit<sup>(5)</sup></b>				
Non-Agency	43%	36%	33%	↓
Conduit	3%	6%	12%	↑
<b>Commercial</b>	0%	0%	<1%	↑

(1) For additional detail on the portfolio, see appendix slides 18-22.

(2) Commercial consists of senior mezzanine debt.

(3) Assets in "Rates" include Agency RMBS, Agency Derivatives, MSR and Ginnie Mae buyout residential mortgage loans.

(4) MSR includes Ginnie Mae buyout residential mortgage loans.

(5) Assets in "Credit" include non-Agency RMBS, prime jumbo residential mortgage loans, net economic interest in securitization trusts and CSL.

(6) The capital allocation strategies are intended to be illustrative of allocation trends and reflect the company's current expectations based on a variety of market, economic and regulatory factors. Actual portfolio composition and allocation strategies may differ materially.



# Portfolio Performance and Hedging

## Q2-2015 PERFORMANCE HIGHLIGHTS

### RATES

- Specified pool, IO and MSR yields declined; prepayments modestly higher, sold certain higher yielding specified pools

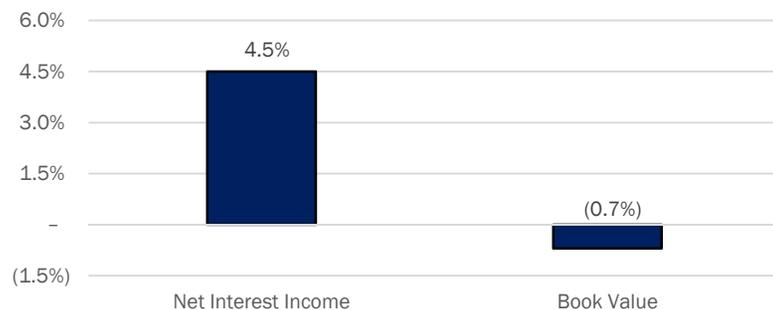
### CREDIT

- Credit assets performed well

### HEDGING

- Positioned for Federal Reserve to move rates higher
  - Book value protected in rising rate environment
  - Net interest income benefits due to high sensitivity to floating rates
- Maintained low exposure to Agency mortgage spread duration

## EXPOSURE TO +100BPS CHANGE IN RATES<sup>(2)</sup>



## Q2-2015 NET INTEREST YIELD

Three Months Ended	Mar. 31, 2015	June 30, 2015
<b>Annualized portfolio yield during the quarter</b>	<b>4.40%</b>	<b>4.16%</b>
<b>Rates</b>		
Agency RMBS, Agency derivatives and MSR	3.8%	3.4%
<b>Credit</b>		
Non-Agency RMBS, legacy <sup>(1)</sup>	8.5%	8.5%
Non-Agency RMBS, new issue <sup>(1)</sup>	3.9%	4.3%
Net economic interest in securitization trusts	4.6%	4.7%
Prime jumbo residential mortgage loans	3.9%	3.8%
<b>Commercial</b>		
Commercial	7.0%	7.5%
<b>Annualized cost of funds on average repurchase and advance balance during the quarter<sup>(3)</sup></b>	<b>1.33%</b>	<b>1.37%</b>
<b>Annualized interest rate spread for aggregate portfolio during the quarter</b>	<b>3.07%</b>	<b>2.79%</b>

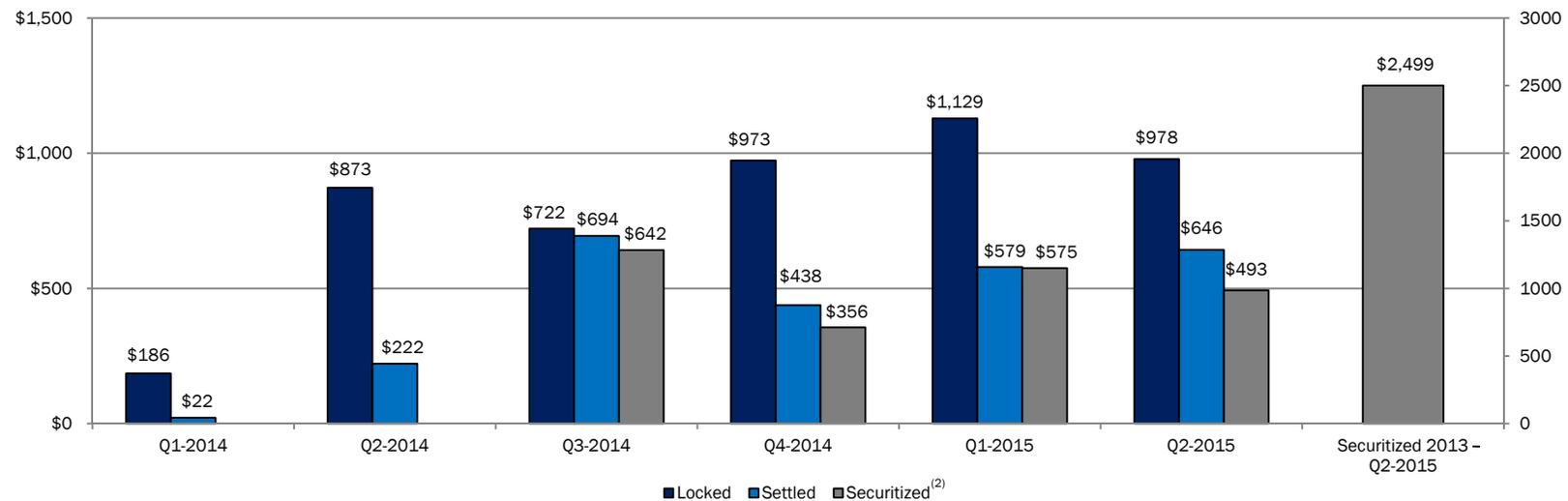
(1) "Legacy" non-Agency RMBS includes non-Agency bonds issued up to and including 2009. "New issue" non-Agency RMBS includes bonds issued after 2009.  
 (2) Represents estimated percentage change in book value and net interest income for a +100 basis point theoretical parallel shift in interest rates at period end.  
 (3) Cost of funds includes interest spread expense associated with the portfolio's interest rate swaps.



# Conduit Update

- Completed two securitizations during the quarter, totaling approximately \$493 million unpaid principal balance (UPB)
  - Retained subordinates and IOs of approximately \$32 million
  - Accounted for roughly 19% of the total private label RMBS issuance year-to-date<sup>(1)</sup>
  - Expect to complete a total of 6-10 securitizations in 2015
- Pipeline (interest rate locks and prime jumbo residential mortgage loan holdings) strong; approximately \$1.3 billion UPB at June 30, 2015
- Expanded Credit targets borrowers with lower FICOs and higher loan-to-value (LTV) ratios than prime jumbo program

## LOCKED, SETTLED AND SECURITIZED LOANS



(1) Source: Credit Suisse Research, as of June 30, 2015.

(2) Includes only securitizations completed using our own depositor, Agate Bay Mortgage Trust.



# MSR and Commercial Real Estate Update

## MORTGAGE SERVICING RIGHTS

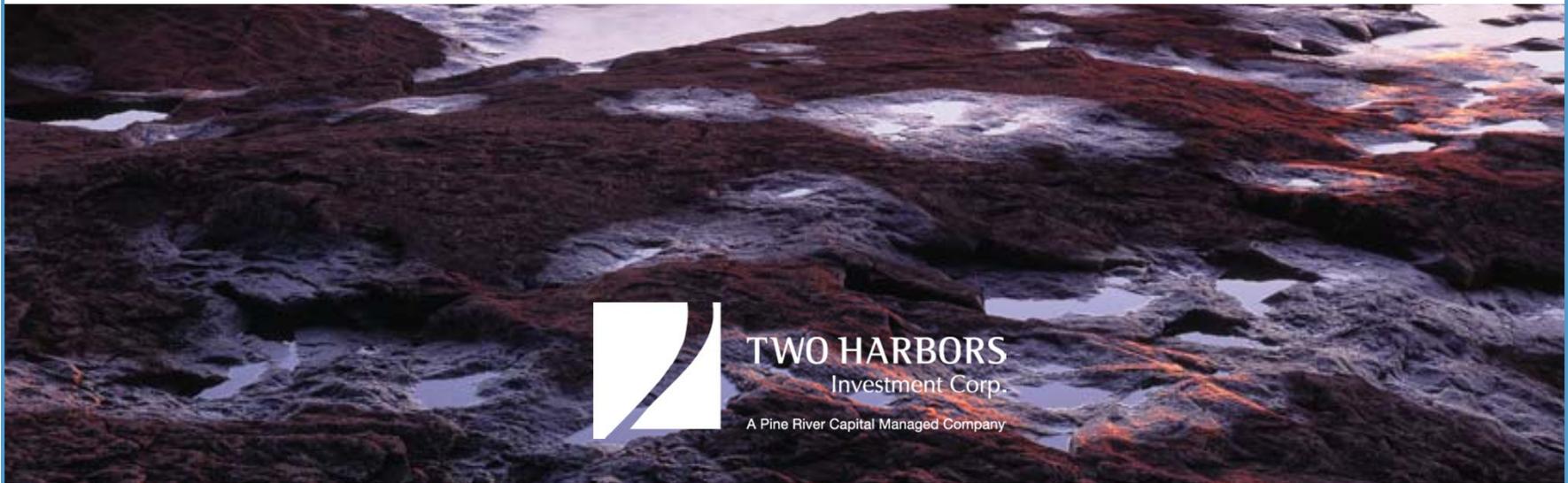
- Subsequent to quarter-end, added MSR through bulk acquisition
- On track to add 5-10 new flow relationships by year-end

## COMMERCIAL REAL ESTATE

- Personnel and infrastructure requirements to support strategy substantially in place
- Healthy pipeline developing
- Significant opportunities in marketplace
  - Returns remain attractive



## Appendix





## Return on Book Value

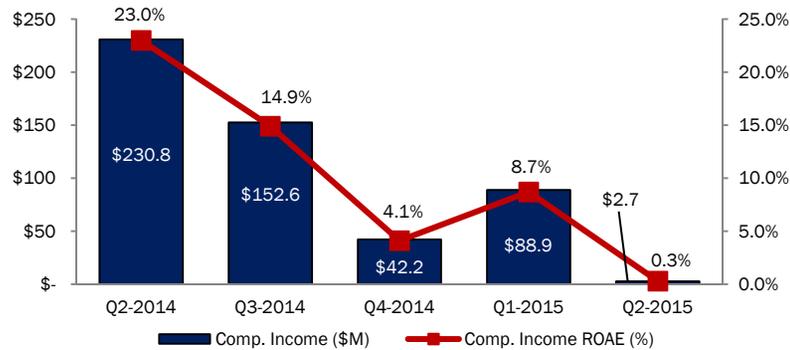
Return on book value YTD-2015 (Per share amounts, except for percentage)	
Book value at December 31, 2014	\$11.10
Book value at June 30, 2015	\$10.81
Decrease in book value	(\$0.29)
Dividends declared in 2015-YTD	\$0.52
Return on book value 2015-YTD	\$0.23
Return on book value 2015-YTD <sup>(1)</sup>	2.1%

(1) Return on book value for six-month period ended June 30, 2015 is defined as the decrease in book value from December 31, 2014 to June 30, 2015 of \$0.29 per share, plus dividends declared of \$0.52 per share, divided by December 31, 2014 book value of \$11.10 per share.

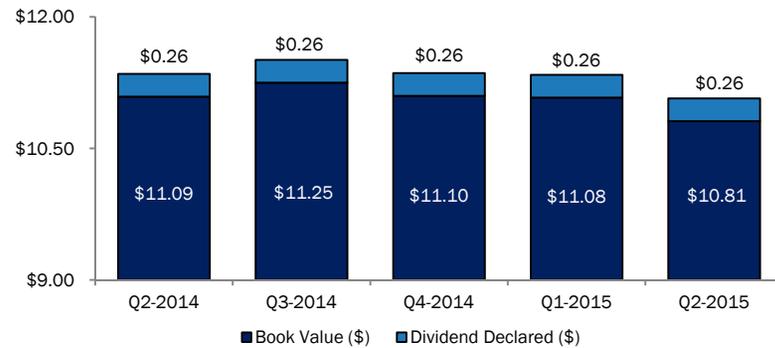


# Financial Performance

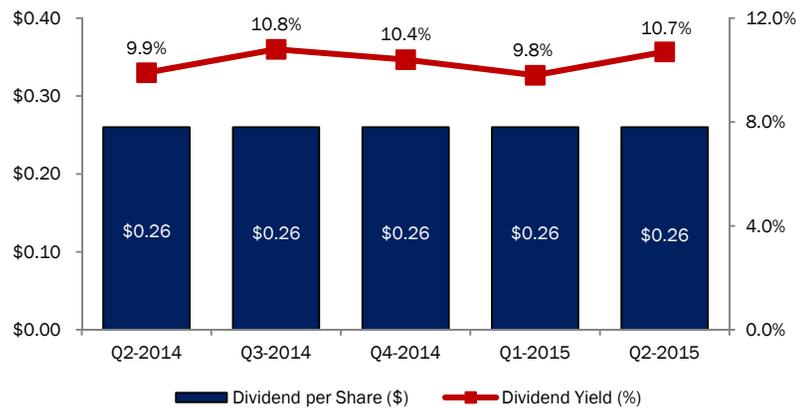
## COMPREHENSIVE INCOME



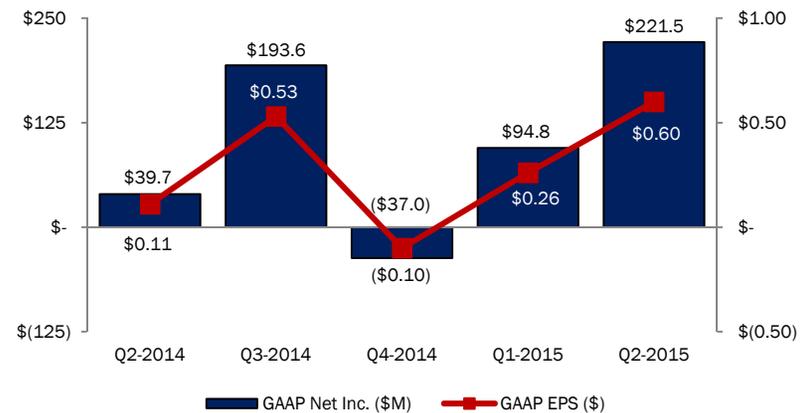
## BOOK VALUE AND DIVIDEND PER SHARE<sup>(1)</sup>



## DIVIDENDS<sup>(1)</sup>



## GAAP NET INCOME (LOSS)



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

# Operating Performance



(In millions, except for per share data)	Core Earnings	Realized Gains	Unrealized MTM	Q1-2015 Financials	Core Earnings	Realized Gains	Unrealized MTM	Q2-2015 Financials
Interest income	\$163.0	\$ -	\$ -	\$163.0	\$152.5	\$ -	\$ -	\$152.5
Interest expense	33.5	-	-	33.5	35.0	-	-	35.0
Net interest income	\$129.5	-	-	\$129.5	\$117.5	-	-	\$117.5
Net other-than-temporary impairment losses	-	-	(0.1)	(0.1)	-	-	(0.2)	(0.2)
Gain (loss) on investment securities	-	117.4	12.0	129.4	-	83.3	(13.3)	70.0
(Loss) gain on interest rate swaps and swaptions	(27.5)	11.8	(110.7)	(126.4)	(26.2)	(74.9)	146.0	44.9
Gain (loss) on other derivative instruments	7.7	(9.1)	4.4	3.0	6.4	(9.1)	(2.8)	(5.5)
Gain (loss) on residential mortgage loans held-for-sale	-	7.8	1.3	9.1	-	7.6	(14.4)	(6.8)
Servicing income	32.1	-	-	32.1	30.5	-	-	30.5
(Loss) gain on servicing asset	(13.0)	-	(39.4)	(52.4)	(13.3)	-	30.9	17.6
Other income (loss)	1.0	(3.6)	0.7	(1.9)	1.0	(3.8)	(13.8)	(16.6)
Total other income (loss)	0.3	124.3	(131.7)	(7.1)	(1.6)	3.1	132.6	134.1
Management fees & other operating expenses	35.4	2.7	-	38.1	35.3	1.6	-	36.9
Net income (loss) before income taxes	94.4	121.6	(131.8)	84.2	80.6	1.5	132.4	214.5
Income tax expense (benefit)	0.3	3.1	(14.0)	(10.6)	0.4	(2.5)	(4.9)	(7.0)
<b>Net income (loss)</b>	<b>\$94.1</b>	<b>\$118.5</b>	<b>\$(117.8)</b>	<b>\$94.8</b>	<b>\$80.2</b>	<b>\$4.0</b>	<b>\$137.3</b>	<b>\$221.5</b>
Weighted average EPS	\$0.26	\$0.32	\$(0.32)	\$0.26	\$0.22	\$0.01	\$0.37	\$0.60



## GAAP to Core Earnings Reconciliation

(In thousands, except for per share data)	Three Months Ended March 31, 2015	Three Months Ended June 30, 2015
<b>Reconciliation of GAAP to non-GAAP Information</b>		
Core Earnings:		
Net income	\$94,793	\$221,501
Adjustments for non-core earnings:		
Gain on sale of securities and residential mortgage loans, net of tax	(122,527)	(85,633)
Unrealized (gain) loss on trading securities and residential mortgage loans held-for-sale, net of tax	(8,644)	18,032
Other-than-temporary impairment loss	127	170
Realized (gain) loss on termination or expiration of swaps and swaptions, net of tax	(7,279)	70,877
Unrealized loss (gain) on interest rate swaps and swaptions economically hedging investment portfolio, repurchase agreements and FHLB advances, net of tax	97,469	(144,223)
(Gain) loss on other derivative instruments, net of tax	(824)	8,396
Realized and unrealized losses on financing securitizations, net of tax	2,902	17,593
Realized and unrealized loss (gain) on mortgage servicing rights, net of tax	36,318	(27,578)
Securitization deal costs, net of tax	1,697	1,614
Change in representation and warranty reserve, net of tax	43	(592)
<b>Core Earnings</b>	<b>\$94,075</b>	<b>\$80,157</b>
Weighted average shares outstanding	366,507,657	367,074,131
Core Earnings per weighted average share outstanding	\$0.26	\$0.22



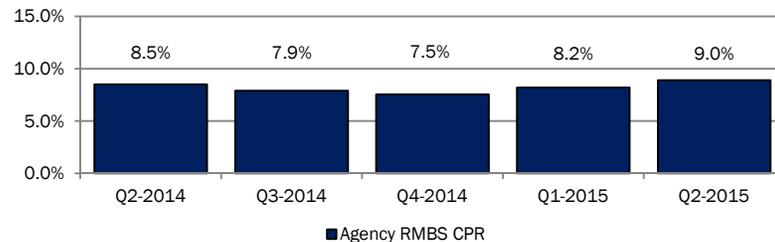
# Rates: Agency RMBS Metrics

## AGENCY PORTFOLIO YIELDS AND METRICS

Portfolio Yield	Realized Q1-2015	At Mar. 31, 2015	Realized Q2-2015	At June 30, 2015
Agency yield	3.5%	3.1%	3.1%	3.2%
Repo and FHLB costs	0.4%	0.4%	0.4%	0.4%
Swap costs	0.9%	1.1%	1.2%	1.0%
Net interest spread	2.2%	1.6%	1.5%	1.8%

Portfolio Metrics	Q1-2015	Q2-2015
Weighted average 3-month CPR <sup>(3)</sup>	8.2%	9.0%
Weighted average cost basis <sup>(4)</sup>	\$107.9	\$108.0

## AGENCY RMBS CPR<sup>(3)</sup>



## AGENCY PORTFOLIO COMPOSITION

Agency: Vintage & Prepayment Protection	Q1-2015	Q2-2015
Other Low Loan Balance Pools <sup>(1)</sup>	41%	37%
\$85K Max Pools <sup>(2)</sup>	16%	17%
HECM	15%	16%
2006 & subsequent vintages – Premium and IOs	12%	10%
Prepayment protected	4%	5%
High LTV (predominately MHA) <sup>(5)</sup>	4%	4%
Seasoned (2005 and prior vintages)	4%	4%
2006 & subsequent vintages – Discount	3%	4%
Low FICO <sup>(6)</sup>	1%	3%

(1) Securities collateralized by loans of less than or equal to \$175K, but more than \$85K.

(2) Securities collateralized by loans of less than or equal to \$85K.

(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.

(5) 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, consisting of borrowers who have refinanced through HARP.

(6) Securities collateralized by loans held by lower credit borrowers as defined by Fair Isaac Corporation (FICO).



## Rates: Agency RMBS

As of June 30, 2015	Par Value (\$M)	Market Value (\$M)	% of Agency Portfolio	Amortized Cost Basis (\$M)	Weighted Average Coupon	Weighted Average Age (Months)
<b>30-Year Fixed</b>						
3.0-3.5%	1,077	1,115	10.9%	1,141	3.5%	6
4.0-4.5%	5,010	5,401	52.5%	5,388	4.2%	22
≥ 5.0%	628	713	6.9%	680	5.5%	77
	6,715	7,229	70.3%	7,209	4.2%	28
<b>15-Year Fixed</b>						
3.0-3.5%	53	55	0.5%	52	3.0%	55
4.0-4.5%	2	2	0.0%	2	4.0%	60
≥ 5.0%	1	1	0.0%	1	6.6%	113
	56	58	0.5%	55	3.1%	56
<b>HECM</b>	1,570	1,691	16.5%	1,638	4.7%	45
<b>Hybrid ARMs</b>	111	120	1.2%	116	3.5%	135
<b>Other-Fixed</b>	711	753	7.3%	727	4.6%	85
<b>IOs and IIOs</b>	4,110	428 <sup>(1)</sup>	4.2%	400	3.8%	72
<b>Total</b>	<b>13,273</b>	<b>10,279</b>	<b>100%</b>	<b>10,145</b>	<b>4.3%</b>	<b>36</b>

(1) Represents the market value of \$251.2 million of IOs and \$176.9 million of Agency Derivatives.



## Rates: Mortgage Servicing Rights

	As of Sept. 30, 2014	As of Dec. 31, 2014	As of Mar. 31, 2015	As of June 30, 2015
<b>Fair Value (\$M)</b>	\$498.5	\$452.0	\$410.2	\$437.6
<b>Unpaid Principal Balance (\$M)</b>	\$45,526.8	\$44,949.1	\$43,974.9	\$42,811.3
<b>Weighted Average Coupon</b>	3.9%	3.9%	3.9%	3.9%
<b>Original FICO Score</b>	730	748	748	749
<b>Original LTV</b>	74%	74%	74%	74%
<b>60+ Day Delinquencies</b>	1.4%	1.5%	1.3%	1.4%
<b>Net Servicing Spread</b>	25 basis points	25 basis points	25 basis points	25 basis points
<b>Vintage:</b>				
Pre-2009	3.6%	3.5%	3.4%	3.4%
2009-2012	63.0%	61.2%	60.4%	59.1%
Post 2012	33.4%	35.3%	36.2%	37.5%
<b>Percent of MSR Portfolio:</b>				
Conventional	72.1%	72.9%	73.6%	74.4%
Government FHA	20.9%	20.3%	19.7%	19.1%
Government VA/USDA	7.0%	6.8%	6.7%	6.5%

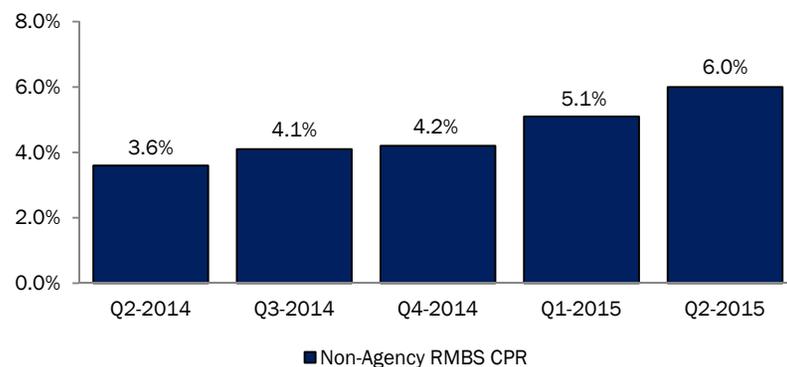


# Credit: Non-Agency RMBS Metrics

## NON-AGENCY PORTFOLIO YIELDS AND METRICS

Portfolio Yield	Realized Q1-2015	At Mar. 31, 2015	Realized Q2-2015	At June 30, 2015
Non-Agency yield	7.9%	7.8%	7.9%	7.8%
Repo and FHLB costs	1.8%	1.9%	1.9%	1.9%
Swap costs	0.1%	0.0%	0.0%	0.0%
Net interest spread	6.0%	5.9%	6.0%	5.9%

## NON-AGENCY RMBS CPR



## NON-AGENCY PORTFOLIO COMPOSITION

Non-Agency: Loan Type	Q1-2015	Q2-2015
Sub-Prime	68%	65%
Prime	15%	12%
Option-ARM	7%	7%
Other	6%	13%
Alt-A	4%	3%
Portfolio Metrics	Q1-2015	Q2-2015
Weighted average 3-month CPR	5.1%	6.0%
Weighted average cost basis <sup>(1)</sup>	\$62.0	\$63.0

(1) 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 \$58.55 at June 30, 2015.



## Credit: Non-Agency RMBS

As of June 30, 2015	Senior Bonds	Mezzanine Bonds	Total P&I
<b>Portfolio Characteristics:</b>			
Carrying Value (\$M)	\$1,904.7	\$795.1	\$2,699.8
% of Non-Agency Portfolio	71%	29%	100%
Average Purchase Price <sup>(1)</sup>	\$57.24	\$76.78	\$62.99
Average Coupon	2.65%	2.70%	2.66%
Weighted Average Market Price <sup>(2)</sup>	\$75.84	\$88.59	\$79.19
<b>Collateral Attributes:</b>			
Average Loan Age (months)	98	78	92
Average Loan Size (\$K)	\$385	\$294	\$361
Average Original Loan-to-Value	71%	73%	72%
Average Original FICO <sup>(3)</sup>	647	692	659
<b>Current Performance:</b>			
60+ Day Delinquencies	26.4%	14.3%	23.1%
Average Credit Enhancement <sup>(4)</sup>	8.9%	14.7%	10.4%
3-Month CPR <sup>(5)</sup>	4.3%	10.5%	6.0%

(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 \$53.12, \$73.75 and \$58.55, 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.



## Repo and FHLB Financing<sup>(1)</sup>

Repo and FHLB Collateral <sup>(2)</sup>	Repo	FHLB	Total (\$M)
Available-for-sale securities, at fair value	\$10,284.5	\$2,268.6	\$12,553.1
Derivative asset, at fair value	\$176.0	-	\$176.0
Residential mortgage loans held-for-sale, at fair value	\$10.5	\$551.3	\$561.8
Commercial real estate	\$45.6	-	\$45.6
Net economic interests in consolidated securitization trusts	\$113.8	\$491.3	\$605.1
	\$10,630.4	\$3,311.2	\$13,941.6
Repo Maturities		Amount (\$M)	Percent (%)
Within 30 days		\$2,454.0	26%
30 to 59 days		\$3,624.0	38%
60 to 89 days		\$715.2	8%
90 to 119 days		\$535.5	6%
120 to 364 days		\$2,094.1	22%
		\$9,422.8	
FHLB Maturities		Amount (\$M)	Percent (%)
> 1 and ≤ 3 years		\$651.3	22%
> 3 and ≤ 5 years		\$815.0	27%
> 10 years		\$1,533.7	51%
		\$3,000.0	

(1) As of June 30, 2015.

(2) Excludes FHLB membership and activity stock totaling \$125.3 million as of June 30, 2015.



## Interest Rate Swaps<sup>(1)</sup>

Maturities	Notional Amounts (\$B)	Average Fixed Pay Rate	Average Receive Rate	Average Maturity (Years)
<b>Payers Hedging Repo and FHLB Advances</b>				
2016	\$4.2	0.583%	0.282%	1.10
2017	\$2.4	0.864%	0.281%	2.09
2018	\$0.8	1.165%	0.280%	2.65
2019	\$0.3	1.730%	0.278%	3.94
2020 and after	\$2.8	1.944%	0.279%	7.62
	\$10.5	1.090%	0.281%	3.26
<b>Other Payers</b>				
2018	\$2.1	1.563%	0.282%	3.44
2020 and after	\$1.2	2.164%	0.281%	5.58
	\$3.3	1.787%	0.282%	4.24
Maturities	Notional Amounts (\$B)	Average Pay Rate	Average Fixed Receive Rate	Average Maturity (Years)
<b>Other Receivers</b>				
2019	\$0.6	0.281%	1.440%	3.39
2020 and after	\$1.9	0.283%	2.588%	8.10
	\$2.5	0.282%	2.320%	7.00

(1) As of June 30, 2015.



## Interest Rate Swaptions<sup>(1)</sup>

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	\$18.0	\$14.5	4.36	\$5,600	2.75%	3M LIBOR	6.3
	≥ 6 Months	\$259.3	\$134.6	50.71	\$9,210	4.01%	3M LIBOR	6.9
Total Payer		\$277.3	\$149.1	46.40	\$14,810	3.53%	3M LIBOR	6.7
Receiver	< 6 Months	\$13.5	\$0.3	1.04	\$2,000	3M LIBOR	1.33%	5.0
Total Receiver		\$13.5	\$0.3	1.04	\$2,000	3M LIBOR	1.33%	5.0
Sale Contracts:								
Payer	≥ 6 Months	(\$81.2)	(\$20.7)	24.02	(\$800)	3.44%	3M LIBOR	10.0
Total Payer		(\$81.2)	(\$20.7)	24.02	(\$800)	3.44%	3M LIBOR	10.0
Receiver	< 6 Months	(\$29.0)	(\$19.9)	4.29	(\$6,600)	3M LIBOR	1.64%	6.1
Total Receiver		(\$29.0)	(\$19.9)	4.29	(\$6,600)	3M LIBOR	1.64%	6.1

(1) As of June 30, 2015.



**TWO HARBORS**  
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