



Two Harbors Investment Corp.

Goldman Sachs
Housing Finance Conference
March 7, 2013

Investor Presentation

Safe Harbor Statement

Forward-Looking Statements

This presentation includes “forward-looking statements” within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Actual results may differ from expectations, estimates and projections and, consequently, readers should not rely on these forward-looking statements as predictions of future events. Words such as “expect,” “target,” “assume,” “estimate,” “project,” “budget,” “forecast,” “anticipate,” “intend,” “plan,” “may,” “will,” “could,” “should,” “believe,” “predicts,” “potential,” “continue,” and similar expressions are intended to identify such forward-looking statements. These forward-looking statements involve significant risks and uncertainties that could cause actual results to differ materially from expected results. Factors that could cause actual results to differ include, but are not limited to, higher than expected operating costs, changes in prepayment speeds of mortgages underlying our RMBS, the rates of default or decreased recovery on the mortgages underlying our non-Agency securities, failure to recover certain losses that are expected to be temporary, changes in interest rates or the availability of financing, the impact of new legislation or regulatory changes on our operations, the impact of any deficiencies in the servicing or foreclosure practices of third parties and related delays in the foreclosure process, the inability to acquire mortgage loans or securitize the mortgage loans we acquire, the impact of new or modified government mortgage refinance or principal reduction programs, and unanticipated changes in overall market and economic conditions.

Readers are cautioned not to place undue reliance upon any forward-looking statements, which speak only as of the date made. Two Harbors does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statement to reflect any change in its expectations or any change in events, conditions or circumstances on which any such statement is based. Additional information concerning these and other risk factors is contained in Two Harbors’ most recent filings with the Securities and Exchange Commission. All subsequent written and oral forward looking statements concerning Two Harbors or matters attributable to Two Harbors or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above.



Executive Summary

2012 and Fourth Quarter Results

- In 2012 we generated a return on book value of 47%¹ with dividends of \$1.71 per share, which was driven by an exceptional economic return of \$1.05 billion.
- We delivered a total annual shareholder return of 40%², which compares to a return of 19% for the sector³.
- In 2012 we made key hires on our investment and administrative teams.
- We contributed our portfolio of single-family residential homes to Silver Bay Realty Trust Corp. (“Silver Bay”) in conjunction with its initial public offering in December 2012. In exchange, Two Harbors received approximately 17.8 million shares of Silver Bay common stock.
- Our Book Value increased to \$11.54⁴ per diluted common share at December 31, 2012, representing a total quarterly return of 6% when combined with our fourth quarter dividend of \$0.55.

(1) See Appendix, page 17 for calculation of 2012 return on book value.

(2) Source: Bloomberg.

(3) As measured by the Pine River Mortgage REIT Index Total Return.

(4) 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.



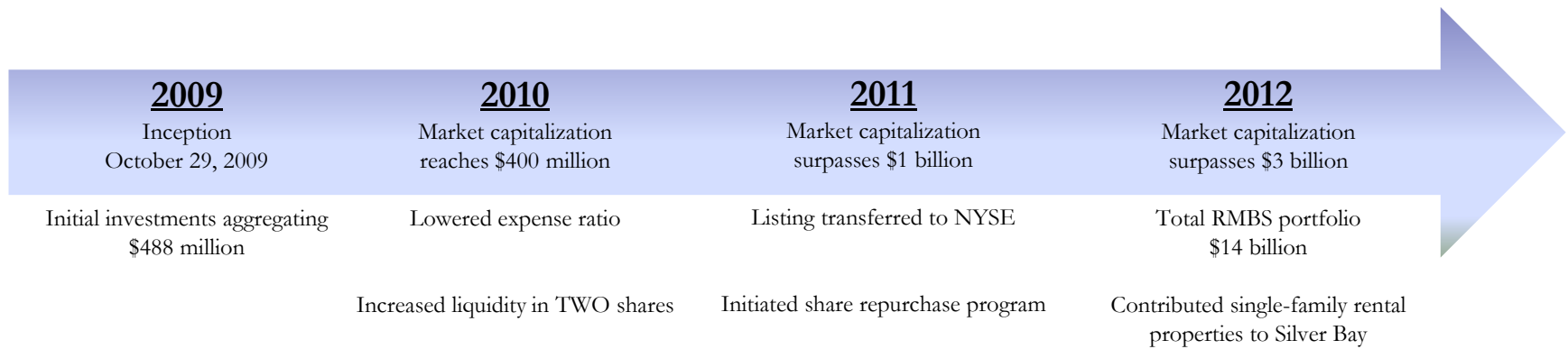
Hybrid Model Allows for Multi-Faceted Approach

Expansion of Core Competency Set

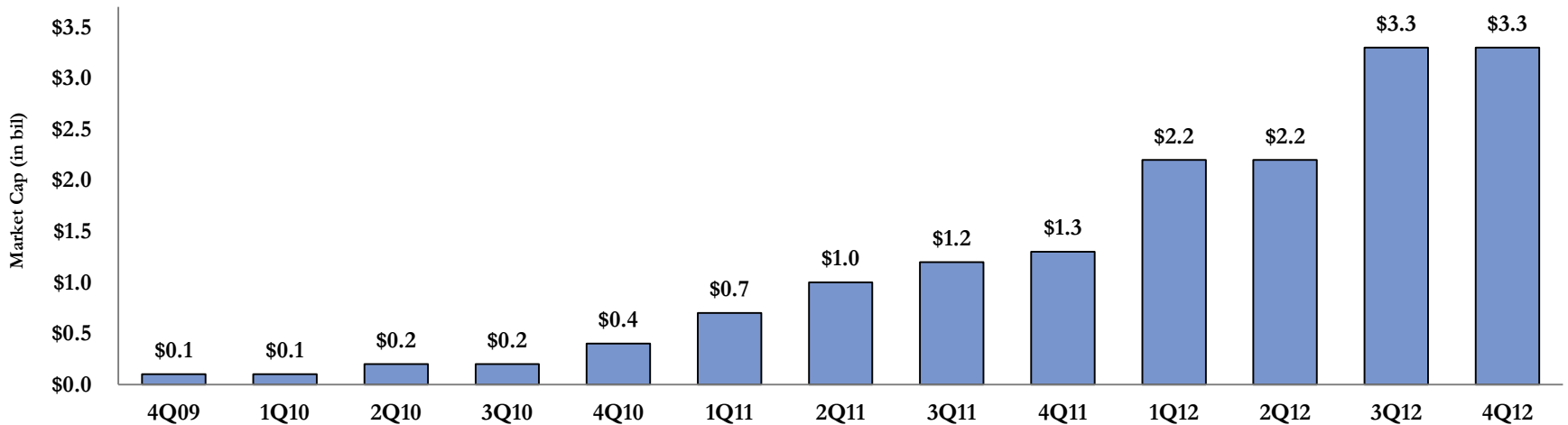
- We continue to pursue opportunities in the Agency and non-Agency markets.
- Our criteria for considering new investments include the following:
 - Based on core competencies, such as understanding and managing prepayments and credit risk
 - Attractive return profiles
 - Improve the risk-reward profile of our aggregate portfolio
 - Expand expertise in existing strategies
- Silver Bay is a great example of how we can leverage our core competencies to identify opportunities for shareholders:
 - Provided attractive return profile for our shareholders
 - Helped inform our non-Agency strategy



Building a Strong Franchise



Two Market Cap Since Inception¹



(1) Source: Bloomberg.

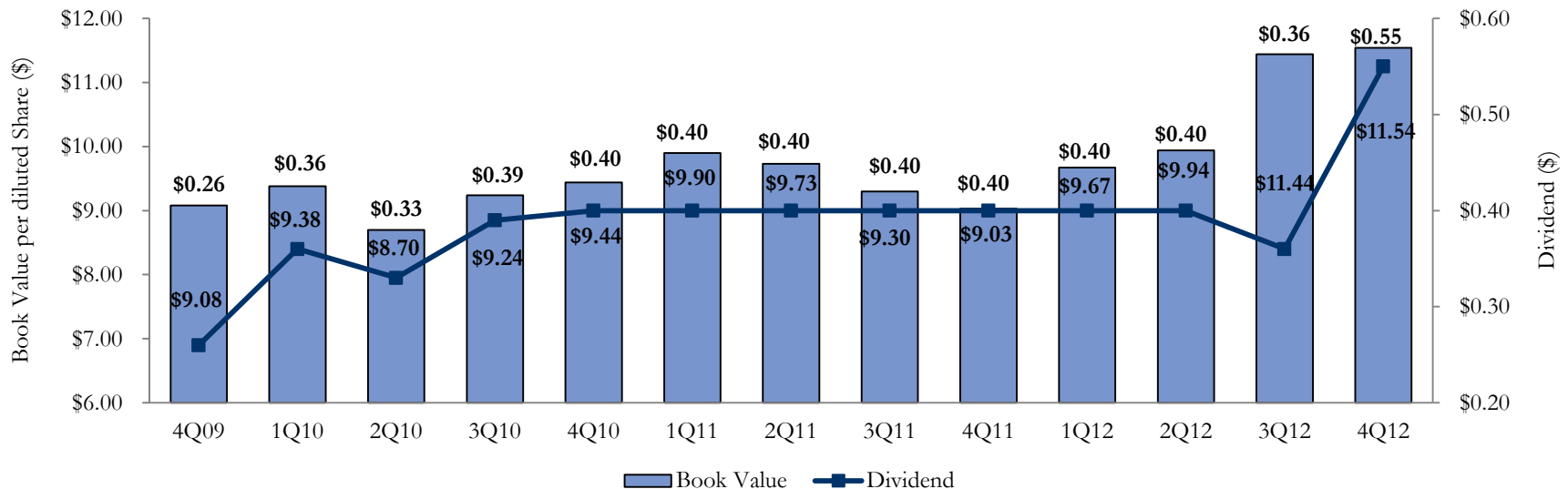


Book Value & Dividend History

Strong Total Return Metrics in 2012

- We delivered a total annual 2012 return on book value of 47%¹.
- During the fourth quarter 2012, our book value per share increased to \$11.54, after paying a \$0.55 dividend.
- Our focus is on book value, which is critical to dividends over time.
- Opportunistic capital allocation and security selection drives long-term alpha generation.

Dividends and Book Value per diluted common share²



(1) See Appendix, page 17 for calculation of 2012 return on book value.

(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 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.



Delivering Total Return



(1) Two Harbors' total stockholder return is calculated for the period October 29, 2009 through January 30, 2013. Total stockholder return is defined as capital gains on stock price including dividends. Source: Bloomberg.
 (2) Two Harbors' total annual stockholder return is calculated for the period December 31, 2011 through December 31, 2012. Source: Bloomberg.
 (3) Pine River Mortgage REIT index includes: AGNC, NLY, ANH, ARR, CMO, CIM, CYS, HTS, IVR, MFA, PMT, RWT and TWO.
 (4) "SPXT" represents S&P 500 Total Return Index (SPXT: IND) for the period October 29, 2009 through January 30, 2013. Source: Bloomberg.

Market Update

Macroeconomic & Policy Considerations

- Home prices improving, CoreLogic Home Price Index +7.5%¹ in 2012
- Low rate environment expected to persist; continue to hedge against an increase in rates
- Unemployment trends improving, but still high
- Policy considerations include:
 - Boxer-Menendez legislation
 - Qualified Mortgage provision of Dodd-Frank
 - GSE reform
 - Qualified Residential Mortgage (QRM)
 - Merkley bill
 - QE3's impact on interest rates, curve and asset prices

Agency RMBS

- Agency spreads have tightened
- Home Affordable Refinance Program (“HARP”) is working
- Prepayment speeds on generic paper are expected to remain fast
- Guarantee fees (g-fees) have increased
- Hedging costs remain low

Non-Agency RMBS

- Credit-sensitive assets have rallied
- Loan performance of underlying collateral continues to improve
- Loss-adjusted yields still offer relative value
- Strong technical factor in place

(1) Source: CoreLogic Home Price Index rolling 12-month change as of January 1, 2013.



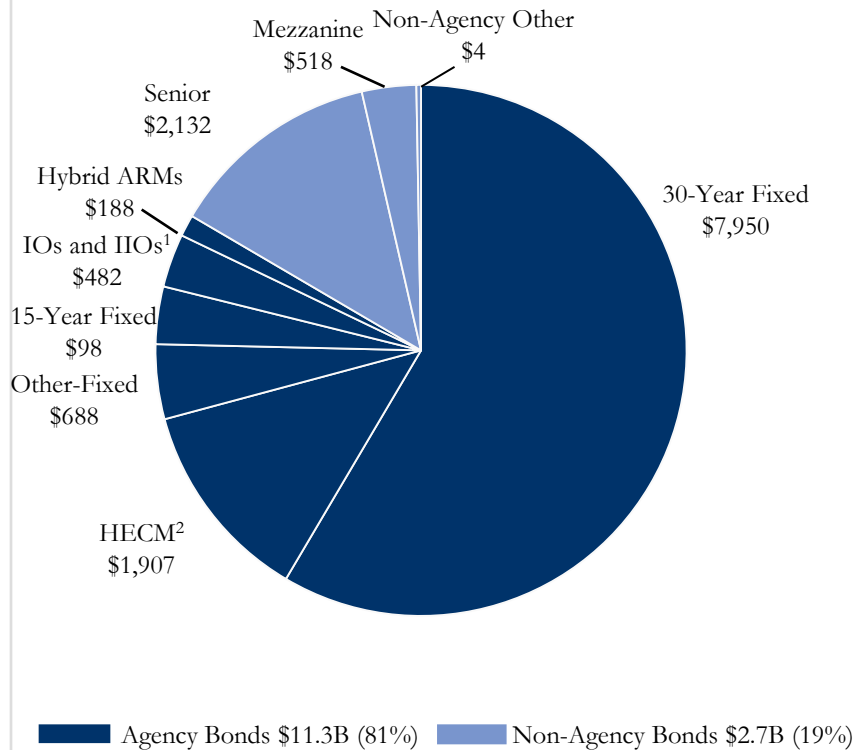
Portfolio Composition

Portfolio Composition

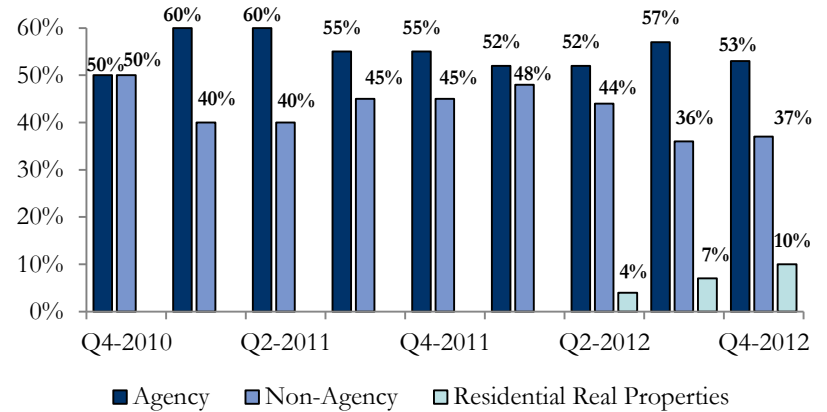
As of December 31, 2012

\$14.0B RMBS Portfolio

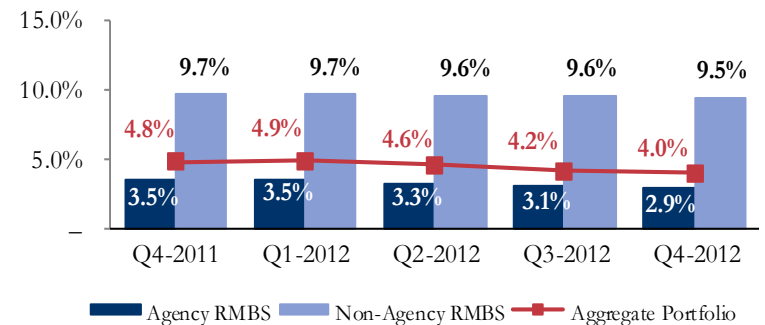
\$ Millions



Targeted Capital Allocation



Annualized Yields by Portfolio³



(1) "IO" is defined as Interest Only securities; includes Agency Derivatives ("IIOs") of \$301 million as of December 31, 2012.

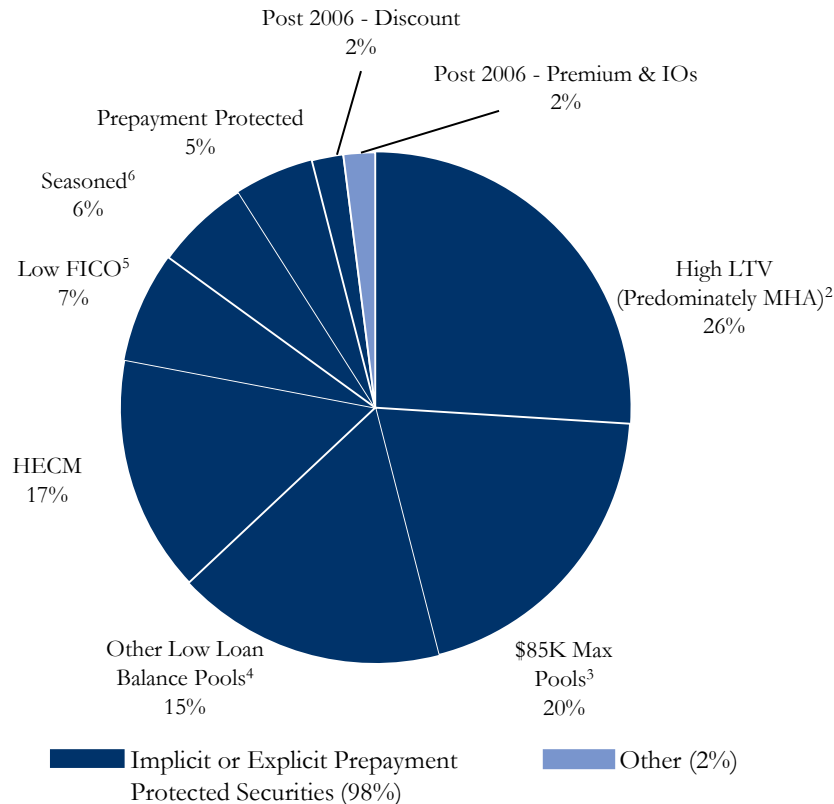
(2) Home Equity Conversion Mortgage loans ("HECM") are loans that allow the homeowner to convert home equity into cash collateralized by the value of their home.

(3) Agency yield includes impact of Agency Derivatives. Interest income on Agency Derivatives was \$7.7 million and \$4.0 million for the third and fourth quarter of 2012, respectively, contributing an additional 0.2% and 0.1% to aggregate annualized yields in the third and fourth quarter of 2012.

Agency Portfolio with Prepayment Protection

Agency RMBS Portfolio

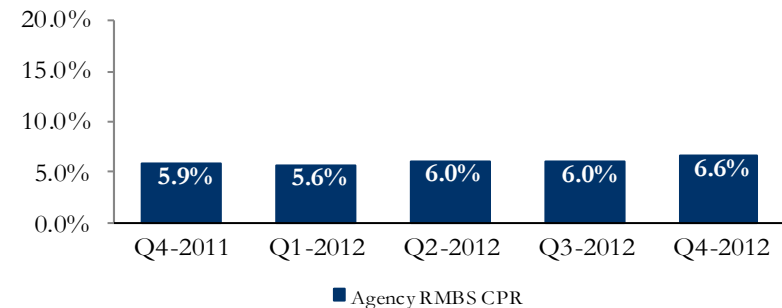
Agency Portfolio: \$11.3B¹
As of December 31, 2012



Agency Strategy

- Reduced leverage on Agency securities to 5.7x
- Implicit or explicit prepayment protection of 98%
- Stable cash flows make interest rate hedging more effective
- Repositioned Agency portfolio reducing prepayment and pay-up risk

Agency CPR⁷



(1) Includes IIOs of \$301 million as of December 31, 2012.

(2) Securities collateralized by loans with greater than or equal to 80% loan-to-value ratio. High LTV pools are predominately Making Homeownership Affordable ("MHA") pools. MHA pools consist of borrowers who have refinanced through HARP.

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

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

(5) Securities collateralized by loans held by lower credit borrowers as defined by Fair Isaac Corporation's scoring model.

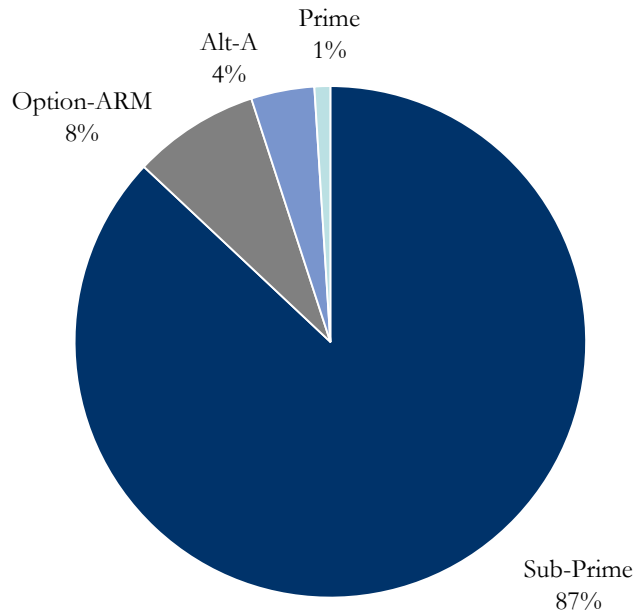
(6) Securities collateralized by loans reflecting less prepayment risk due to previously experienced high levels of refinancing.

(7) Represents the three month average constant prepayment rate ("CPR") for Agency RMBS securities and Agency derivatives.

Non-Agency Portfolio with Sub-Prime Focus

Non-Agency Portfolio

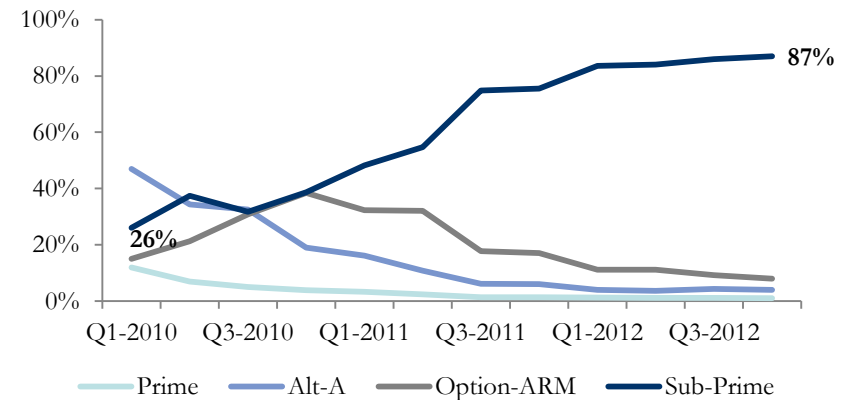
Non-Agency Portfolio: \$2.7B
As of December 31, 2012



Non-Agency Strategy

- Non-Agency underlying performance continues to improve; still potential upside
- Deeply discounted weighted average cost basis of \$52.17
- Improving underlying loan performance: Declining delinquencies, improving housing prices and servicers' actions helping borrowers perform better
- Potential benefit from policy actions and housing recovery over time

Sub-Prime Exposure

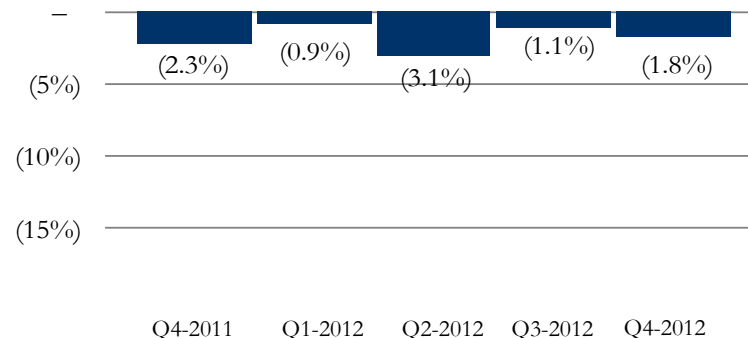


Hedging Strategy

Hedging

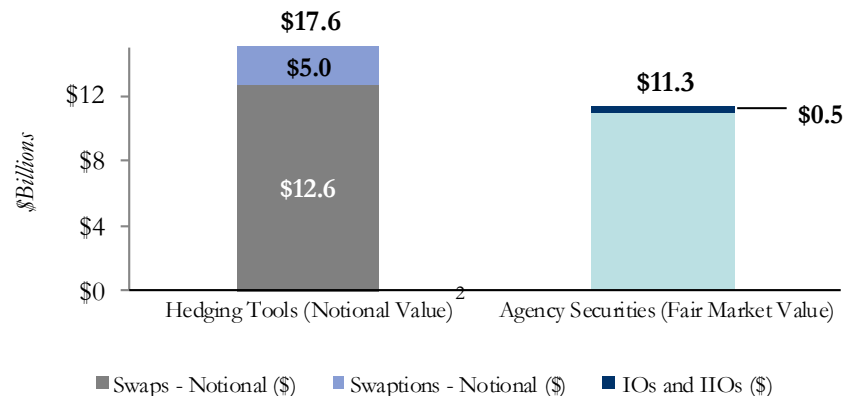
- Hedging Strategy:
 - Objective of protecting book value in a rising interest rate environment
 - Multifaceted hedging approach, including swaps, swaptions and interest-only bonds
 - Daily monitoring of interest rate exposures
- We realigned our hedges in January 2013.
- At January 31 we had \$19.5 billion in swaps and swaptions to maintain low duration exposure.
- Our average pay rate on \$13.7 billion notional swaps at January 31 was 0.66%.

BV Exposure to +100 bps Change in Rates¹



Swaps, Swaptions and IOs

Positions as of 12/31/2012



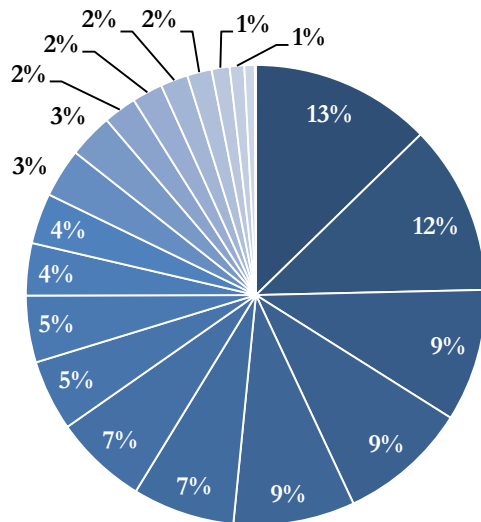
(1) Represents estimated percentage change in equity value for +100bps change in interest rates. Change in equity value is total net asset change.
 (2) Notional amounts as of December 31, 2012 do not include \$1.0 billion of notional interest rate swaps economically hedging our trading securities and \$0.5 billion of notional to economically hedge mortgage basis widening.



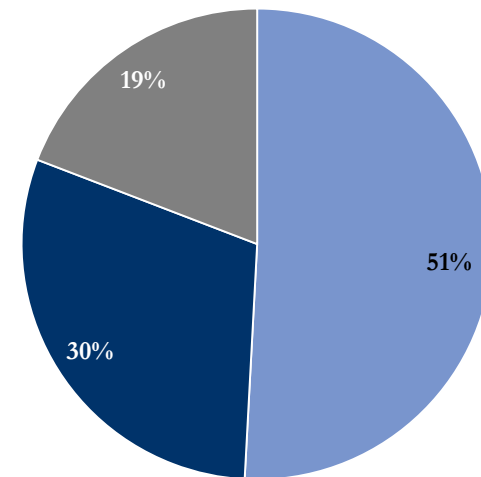
Financing Profile

- We continue to ladder repo maturities, and averaged 85 days to maturity as of December 31, 2012.
- We have relationships with many different counterparties with an emphasis on North America.
- The vast majority of our repo is held with counterparties that have a low CDS spread. This indicates a high quality counterparty with a low risk profile.

Diverse Counterparties¹



High-Quality Counterparties²



■ CDS Spread <100 ■ CDS Spread 101-150 ■ CDS Spread 151-200



(1) Reflects the counterparty percentage of our outstanding repurchase agreements for our portfolio as of December 31, 2012.
 (2) Reflects the CDS Spread for our portfolio repo counterparties as of December 31, 2012.

Hybrid Model Opportunity Set

Agency

- Opportunistically deploy capital

Non-Agency

- Continued focus on assets with attractive yield and potential upside

Securitization

- Math around creating subordinate bonds and IOs is more attractive
- Opportunity to create attractive mortgage credit investment is beneficial to shareholders

Credit Sensitive Loans (CSLs)

- Very similar to loans in sub-prime/Alt-A deals
- We will control servicing rights on the loans
- Potential to securitize and create attractive credit investments

Mortgage Servicing Rights (MSRs)

- Leverages strength in prepayment analysis
- High barriers to entry

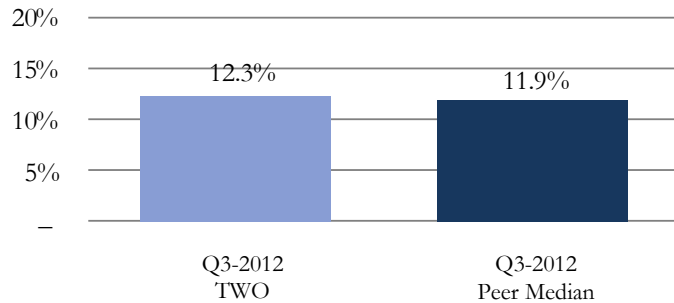
GSE Credit Investments – “when and if” the GSEs move to distribute credit risk



Attractive Returns With Lower Risk: Q3-2012

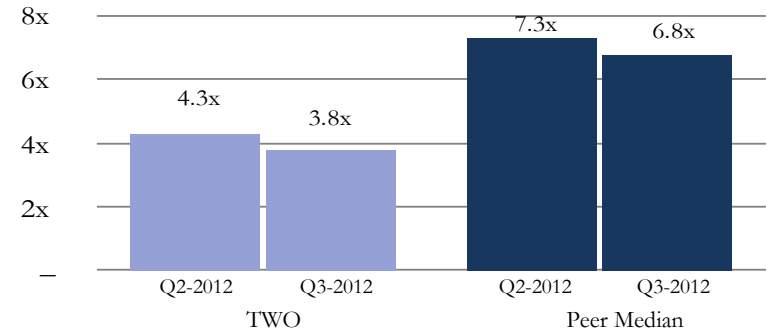
Superior asset selection and risk management drive returns while taking on less risk.

Attractive & Comparable Dividend Yield¹...



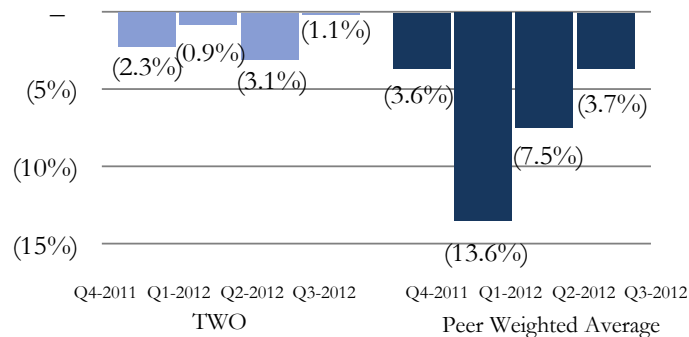
TWO Q4-2012 = \$0.55

... With Lower Leverage²...



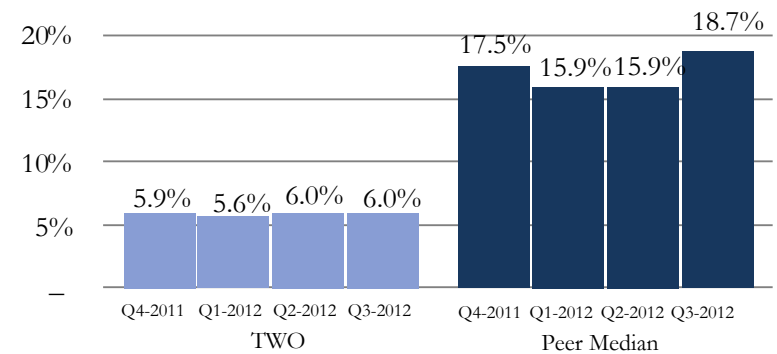
TWO Q4-2012 = 3.4x

... Less Interest Rate Exposure³ ...



TWO Q4-2012 = (1.8%)

... And Less Prepayment Risk⁴



TWO Q4-2012 = 6.6%



Note: All peer financial data on this slide based on available September 30, 2012 financial information as filed with the SEC. Peers include AGNC, ANH, ARR, CIM, CMO, CYS, HTS, IVR, MFA and NLY.

(1) Reported fourth quarter 2012 dividend annualized, divided by closing share price as of December 31, 2012. Dividend data based on peer company press releases.

(2) Debt-to-equity defined as total borrowings to fund RMBS securities and Agency derivatives divided by total equity. Q3-2012, Q2-2012, Q1-2012 and Q4-2011 data not available for CIM; utilizes Q3-2011 data for comparative purposes.

(3) Represents estimated percentage change in equity value for +100bps change in interest rates. Change in equity value is asset change adjusted for leverage. Data not available for CYS and CMO. Q3-2012, Q2-2012, Q1-2012 and Q4-2011 data not available for CIM; utilizes Q3-2011 data for comparative purposes.

(4) Represents the CPR on the Agency RMBS portfolios, including Agency derivatives. Q3-2012, Q2-2012, Q1-2012 and Q4-2011 data not available for CIM; utilizes Q3-2011 data for comparative purposes.

Appendix



2012 Return on Book Value of 47%

Return on book value¹

(Per diluted share amounts, except for percentage)

Book value at December 31, 2012	\$	11.54
Book value at December 31, 2011		9.03
Increase in book value		2.51
Dividends declared in 2012		1.71
Return on book value (\$)	\$	4.22
Return on book value (%)		47%



(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.

Portfolio Composition as of December 31, 2012

Agency: Vintage & Prepayment Protection	Q3-2012	Q4-2012	
High LTV (predominately MHA)	31%	26%	} Implicit or Explicit Pre-payment Protection
\$85K Max Pools	25%	20%	
HECM	15%	17%	
Other Low Loan Balance Pools	9%	15%	
Low FICO	6%	7%	
Seasoned (2005 and prior vintages)	6%	6%	
Prepayment protected	4%	5%	
2006 & subsequent vintages - Discount	2%	2%	
2006 & subsequent vintages – Premium and IOs	2%	2%	
Non-Agency: Loan Type	Q3-2012	Q4-2012	
Sub-Prime	86%	87%	
Option-ARM	9%	8%	
Alt-A	4%	4%	
Prime	1%	1%	



Agency Securities as of December 31, 2012

	Par Value (\$M)	Market Value (\$M)	% of Agency Portfolio	Amortized Cost Basis (\$M)	Weighted Average Coupon	Weighted Average Age (Months)
30-Year Fixed						
3.0-3.5%	\$ 2,747	\$ 2,919	25.8%	\$ 2,910	3.2%	4
4.0-4.5%	3,502	3,868	34.1%	3,801	4.2%	10
≥ 5.0%	1,040	1,163	10.2%	1,132	5.6%	49
	\$ 7,289	\$ 7,950	70.1%	\$ 7,843	4.0%	14
15-Year Fixed						
3.0-3.5%	\$ 85	\$ 90	0.8%	\$ 83	3.0%	25
4.0-4.5%	2	3	0.1%	2	4.0%	30
≥ 5.0%	5	5	0.1%	5	5.8%	109
	\$ 92	\$ 98	1.0%	\$ 90	3.2%	29
HECM	\$ 1,670	\$ 1,907	16.8%	\$ 1,804	4.7%	14
Hybrid ARMs	174	188	1.7%	183	4.0%	103
Other-Fixed	604	688	6.1%	655	4.7%	51
IOs and IIOs	4,015	482 ¹	4.3%	466	5.0%	74
Total¹	\$ 13,844	\$ 11,313	100.0%	\$ 11,041	4.2%	20

(1) Market value of IOs of \$181 million and IIOs of \$301 million as of December 31, 2012.



Portfolio Repositioning

Reduced Prepayment Risk

	Q4-2012 Market Value (\$M)	Q4-2012 % of Agency Portfolio	Q3-2012 Market Value (\$M)	Q3-2012 % of Agency Portfolio	Change in Agency Portfolio ³
30-Year Fixed					
3.0-3.5%	\$ 2,919	25.8%	\$ 1,224	9.6%	16.2%
4.0-4.5%	3,868	34.1%	6,518	50.9%	(16.8%)
≥ 5.0%	1,163	10.2%	1,230	9.6%	0.6%
	\$ 7,950	70.1%	\$ 8,972	70.1%	-
15-Year Fixed					
3.0-3.5%	\$ 90	0.8%	\$ 486	3.8%	(3.0%)
4.0-4.5%	3	0.1%	50	0.4%	(0.3%)
≥ 5.0%	5	0.1%	1	-	0.1%
	\$ 98	1.0%	\$ 537	4.2%	(3.2%)
HECM	\$ 1,907	16.8%	\$ 1,891	14.8%	2.0%
Hybrid ARMs	188	1.7%	201	1.6%	0.1%
Other-Fixed	688	6.1%	698	5.4%	0.7%
IOs and IIOs	482 ¹	4.3%	499 ²	3.9%	0.4%
Total¹	\$ 11,313	100.0%	\$ 12,798	100.0%	-

(1) Market value of IOs of \$181 million and IIOs of \$301 million as of December 31, 2012.

(2) Market value of IOs of \$170 million and IIOs of \$329 million as of September 30, 2012.

(3) Change in Agency portfolio is defined as the change in the fourth quarter percent of Agency portfolio less the third quarter percent of Agency portfolio.



Non-Agency Securities as of December 31, 2012

	Senior Bonds	Mezzanine Bonds	Total P&I Bonds
Portfolio Characteristics			
Carrying Value (\$M)	\$2,132	\$518	\$2,650
% of Non-Agency Portfolio	80.4%	19.6%	100.0%
Average Purchase Price ¹	\$50.83	\$57.68	\$52.17
Average Coupon	1.8%	1.1%	1.7%
Collateral Attributes			
Average Loan Age (months)	76	95	80
Average Loan Size (\$K)	\$245	\$173	\$231
Average Original Loan-to-Value	77.9%	76.7%	77.6%
Average Original FICO	638	633	637
Current Performance			
60+ Day Delinquencies	38.3%	32.7%	37.2%
Average Credit Enhancement ²	15.1%	33.4%	18.6%
3-Month CPR ³	3.1%	3.6%	3.2%



- (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 be \$46.43, \$54.97, and \$47.88, respectively at December 31, 2012.
- (2) 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.
- (3) 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.

Non-Agency Discount Bond Example

Discount Sub-Prime Senior Bond – HEAT 2006-3 2A4

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

Senior Bonds	A1 & A2 <i>- Paid off -</i>	Security Info		Collateral Summary		
	A3 <i>39.9%-100%</i> <i>\$15M Current Face</i> <i>0.6 Yr WAL¹</i>	A4 <i>39.9%-100%</i> <i>\$71M Current Face</i> <i>7 Yr WAL¹</i>	Yield Analysis ⁵		<ul style="list-style-type: none"> ▪ 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. 	
SUBORDINATED BONDS Absorbs the first 39.9% of losses, after depletion of ongoing excess spread (currently 3.5%).		Market price at 12/31/12: \$80.0.				
Sub Bonds			Yield Analysis ⁵			
			Strong Recovery	Flat	Severe Downturn	
Loss-adjusted yields			6.7%	6.3%	5.6%	
Total defaults			58%	61%	65%	
Average severity			75%	79%	83%	
Prospective deal losses			43%	48%	54%	
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 stands for 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 15% increase, no change and a 15% decrease in housing prices over two years.

Financing and Hedging Strategy

Interest Rate Swaps¹

December 31, 2012

Swaps Maturities	Notional Amounts (\$M)	Average Fixed Pay Rate	Average Receive Rate	Average Maturity (Years)
2013	\$ 2,275	0.713%	0.458%	0.56
2014	1,675	0.644%	0.467%	1.57
2015	2,770	0.908%	0.435%	2.43
2016	1,940	0.874%	0.418%	3.46
2017 and after	3,910	0.960%	0.387%	4.72
	<u>\$ 12,570</u>	<u>0.850%</u>	<u>0.426%</u>	<u>2.85</u>

Financing

Repurchase Agreements: RMBS and Agency Derivatives ²	December 31, 2012 Amount (\$M)	Percent (%)
Within 30 days	\$3,038	26%
30 to 59 days	3,528	31%
60 to 89 days	1,732	15%
90 to 119 days	850	7%
120 to 364 days	2,229	19%
One year and over	200	2%
	<u>\$11,577</u>	

Interest Rate Swaptions

December 31, 2012

Swaption	Expiration	Option			Underlying Swap			
		Cost (\$M)	Fair Value (\$M)	Average Months to Expiration	Notional Amount (\$M)	Average Fixed Pay Rate	Average Receive Rate	Average Term (Years)
Payer	< 6 Months	\$ 4.0	\$ 0.0	5.37	\$ 300	4.00%	3M Libor	10.0
Payer	≥ 6 Months	130.0	102.0	53.38	4,650	3.74%	3M Libor	9.7
Total Payer		\$ 134.0	\$ 102.0	53.38	\$ 4,950	3.75%	3M Libor	9.8

- (1) Notional amounts do not include \$1.0 billion of notional interest rate swaps economically hedging our trading securities and \$0.5 billion of notional to economically hedge mortgage basis widening.
- (2) Does not include repurchase agreements collateralized by U.S. Treasuries of \$1.0 billion and mortgage loans held for sale of \$49.7 million as of December 31, 2012.

Overview of Two Harbors Team

Executive Officers

Chief Investment Officer

William Roth

- Partner of Pine River Capital Management
- 32 years in mortgage securities market, including at Salomon Brothers and Citi; Managing Director in proprietary trading group managing MBS and ABS portfolios

Chief Executive Officer

Thomas Siering

- Partner of Pine River Capital Management
- Previously head of Value Investment Group at EBF & Associates; Partner since 1997
- 32 years of investing and management experience; commenced career at Cargill where he was a founding member of the Financial Markets Department

Chief Financial Officer

Brad Farrell

- Most recently served as Two Harbors' Controller from 2009 to 2011
- Previously Vice President and Executive Director of Financial Reporting at GMAC ResCap from 2007 to 2009 and held financial roles at XL Capital Ltd from 2002 to 2007. Began his career with KPMG

Investment Team

Significant RMBS Expertise

- Substantial RMBS team consisting of traders, investment analysts and a robust internal research team
- Leverages proprietary analytical systems
- Specialized repo funding group



Overview of Pine River Capital Management

Global multi-strategy asset management firm providing comprehensive portfolio management, transparency and liquidity to institutional and high net worth investors

- Founded 2002 with offices in New York, London, Beijing, Hong Kong, San Francisco and Minnesota.
- Over \$12.3 billion assets under management, of which approximately \$9.5 billion dedicated to mortgage strategies¹.
 - Experienced manager of non-Agency, Agency and other mortgage related assets.
 - Demonstrated success in achieving growth and managing scale.

Experienced, Cohesive Team²

- Fourteen partners with average of 20 years experience.
- 334 employees, 112 investment professionals.
- No senior management turnover.
- Historically low attrition.

Established Infrastructure

- Strong corporate governance.
- Registrations: SEC/NFA (U.S.), FSA (U.K.), SFC (Hong Kong) and SEBI (India).
- Proprietary technology.
- Global footprint.

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(1) Defined as estimated assets under management as of February 1, 2013, inclusive of Two Harbors.
(2) Employee data as of January 30, 2013.

