UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

Current Report

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 6, 2013 (February 6, 2013)

Two Harbors Investment Corp.
(Exact name of registrant as specified in its charter)

Maryland	**001-34506**	**27-0312904**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

601 Carlson Parkway, Suite 1400
Minnetonka, MN 55305
(Address of principal executive offices)
(Zip Code)

Registrant's telephone number, including area code: **(612) 629-2500**

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On February 6, 2013, Two Harbors Investment Corp. issued a press release announcing its financial results for the fiscal quarter ended December 31, 2012. A copy of the press release and the 2012 Fourth Quarter Earnings Call Presentation are attached hereto as Exhibits 99.1 and 99.2, respectively, and are incorporated herein by reference.

The information in this Current Report, including Exhibits 99.1 and 99.2 attached hereto, is furnished pursuant to Item 2.02 of Form 8-K and shall not be deemed to be "filed" for any other purpose, including for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in Item 2.02 of this Current Report, including Exhibits 99.1 and 99.2, shall not be deemed incorporated by reference into any filing of the registrant under the Securities Act of 1933 or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filings (unless the registrant specifically states that the information or exhibit in this particular Current Report is incorporated by reference).

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Press Release, dated February 6, 2013, issued by Two Harbors Investment Corp. announcing Fourth Quarter 2012 results.
99.2	2012 Fourth Quarter Earnings Call Presentation

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TWO HARBORS INVESTMENT CORP.

By: /s/ REBECCA B. SANDBERG
Rebecca B. Sandberg
Secretary and Deputy General Counsel

Date: February 6, 2013

TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

Two Harbors Investment Corp. Reports Fourth Quarter 2012 Financial Results

Delivered Comprehensive Income of $185.4 Million

NEW YORK, February 6, 2013 - Two Harbors Investment Corp. (NYSE: TWO; NYSE MKT: TWO.WS), a real estate investment trust that invests in residential mortgage-backed securities (RMBS), residential mortgage loans and other financial assets, today announced its financial results for the quarter ended December 31, 2012.

Highlights

- Delivered Comprehensive Income of $185.4 million, or $0.63 per diluted weighted average common share.
- Increased Book Value to $11.54 per diluted common share at December 31, 2012.
- Contributed 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.
- Declared a dividend of $0.55 per common share. The quarterly dividend reflects the performance of Two Harbors' residential mortgage-backed securities (RMBS) portfolio, realized gains and taxable income derived from the company's contribution of its single-family residential portfolio to Silver Bay.
- Generated an aggregate yield of 4.0% in the RMBS portfolio, which was driven by non-Agency portfolio performance of 9.5% as well as a three-month average Constant Prepayment Rate (CPR) of 6.6% in the Agency portfolio.

“We are pleased to have achieved a strong finish to a remarkable year for our investment portfolio. For the year, Two Harbors delivered a return on book value of 47% as measured by dividends declared and book value appreciation,” said Thomas Siering, Two Harbors' President and Chief Executive Officer.

Operating Performance

The following table summarizes the company's GAAP and non-GAAP earnings measurements and key metrics for the respective periods in 2012:

Two Harbors Operating Performance						
(dollars in thousands, except per share data)	Q4-2012			Full Year 2012		
Earnings	Earnings	Per diluted weighted share	Annualized return on average equity	Earnings	Per diluted weighted share	Annualized return on average equity
Core Earnings[1]	$ 83,974	$ 0.28	9.8%	$ 311,085	$ 1.28	12.1%
GAAP Net Income	$ 189,300	$ 0.64	22.1%	$ 291,906	$ 1.20	11.3%
Comprehensive Income	$ 185,362	$ 0.63	21.6%	$ 1,047,080	$ 4.32	40.7%
Operating Metrics	Q4-2012					
Dividend per common share	$ 0.55					
Book value per diluted share at period end	$ 11.54					
Other operating expenses as a percentage of average equity	0.7%					

(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 certain non-recurring gains and losses related to discontinued operations. As defined, Core Earnings includes interest income associated with the company's inverse interest-only securities ("Agency Derivatives") and premium income or loss on credit default swaps.

Earnings Summary

Two Harbors reported Core Earnings for the quarter ended December 31, 2012 of $84.0 million, or $0.28 per diluted weighted average common share outstanding, as compared to Core Earnings for the quarter ended September 30, 2012 of $87.1 million, or $0.32 per diluted weighted average common share outstanding.

During the quarter, the company sold residential mortgage-backed securities for $3.2 billion with an amortized cost of $3.1 billion, for a net realized gain of $103.1 million, net of tax; recognized a change in unrealized fair value losses on U.S. Treasury trading securities of $0.5 million, net of tax; and recognized other-than-temporary credit impairment losses on its RMBS securities of $1.6 million, net of tax. The company also recognized a change in unrealized fair value gains on Silver Bay equity securities of $5.9 million, net of tax. The fair value of the Silver Bay common stock at December 31, 2012 was $335.6 million, which included these unrealized fair value gains. The single-family real estate operations of the company are reflected as discontinued operations in the company's financial statements. Included in the income for discontinued operations were realized gains of $10.6 million resulting from the contribution of the company's portfolio to Silver Bay. The realized gain amount is subject to additional installment gains, fee reductions and working capital adjustments, which are currently estimated to increase the net income by $8.3 million and will be recognized in the company's 2013 financial statements.

During the quarter, the company had a net loss of $2.3 million, net of tax, related to the termination and expiration of swaps and swaptions. In addition, the company recognized in earnings an unrealized gain, net of tax, of $12.2 million associated with its interest rate swaps and swaptions economically hedging its repurchase agreements and available-for-sale securities; an unrealized gain, net of tax, of $0.6 million associated with its interest rate swaps economically hedging its trading securities; and net losses on other derivative instruments of approximately $20.4 million, net of tax.

The company reported GAAP Net Income of $189.3 million, or $0.64 per diluted weighted average common share outstanding, for the quarter ended December 31, 2012, as compared to $26.8 million, or $0.10 per diluted weighted average common share outstanding, for the quarter ended September 30, 2012. On a GAAP basis, the company earned an annualized return on average equity of 22.1% and 3.6% for the quarters ended December 31, 2012 and September 30, 2012, respectively.

The company reported Comprehensive Income of $185.4 million, or $0.63 per diluted weighted average common share outstanding, for the quarter ended December 31, 2012, as compared to $524.4 million, or $1.94 per diluted weighted average common share outstanding, for the quarter ended September 30, 2012. The company records unrealized fair value gains and losses for RMBS securities, classified as available-for-sale, as Other Comprehensive Income in the Statement of Stockholders' Equity. On a Comprehensive Income basis, the company recognized an annualized return on average equity of 21.6% and 70.2% for the quarters ended December 31, 2012 and September 30, 2012, respectively.

Other Key Metrics

Two Harbors declared a quarterly dividend of $0.55 per common share for the quarter ended December 31, 2012. The dividend was intended to distribute the remaining REIT taxable income earned during 2012, which included taxable income derived from Two Harbors' contribution of its single-family residential portfolio to Silver Bay and realized gains on the company's RMBS portfolio. The total dividends declared for the year ended December 31, 2012 were $1.71 per common share.

The company's book value per diluted share, after taking into account the fourth quarter 2012 dividend of $0.55, was $11.54 as of December 31, 2012, compared to $11.44 as of September 30, 2012.

Other operating expenses for the fourth quarter 2012 were approximately $6.3 million, or 0.7% of average equity, compared to approximately $4.0 million, or 0.5% of average equity, for the third quarter 2012. Other operating expenses exclude real estate related expenses associated with the company's portfolio of single-family residential properties. The single-family real estate operations of the company are reflected as discontinued operations in the company's financial statements.

Portfolio Summary

For the quarter ended December 31, 2012, the annualized yield on average RMBS securities and Agency Derivatives was 4.0% and the annualized cost of funds on the average borrowings, which includes net interest rate spread expense on interest rate swaps, was 1.1%. This resulted in a net interest rate spread of 2.9%, which compares to 3.1% in the prior quarter.

The company reported debt-to-equity, defined as total borrowings to fund RMBS securities, residential mortgage loans and Agency Derivatives divided by total equity, of 3.4:1.0 and 3.8:1.0 at December 31, 2012 and September 30, 2012, respectively.

The company's portfolio is principally comprised of RMBS available-for-sale securities and Agency Derivatives. As of December 31, 2012, the total value of the portfolio was $14.0 billion, of which approximately $11.3 billion was Agency RMBS and Agency Derivatives and $2.7 billion was non-Agency RMBS. As of December 31, 2012, fixed-rate securities composed 79.8% of the company's portfolio and adjustable-rate securities composed 20.2% of the company's portfolio. In addition, the company held $1.0 billion of U.S. Treasuries classified on its balance sheet as trading securities as of December 31, 2012.

Two Harbors was a party to interest rate swaps and swaptions as of December 31, 2012 with an aggregate notional amount of $19.0 billion, of which $17.5 billion was utilized to economically hedge interest rate risk associated with the company's short-term LIBOR-based repurchase agreements.

The following table summarizes the company's investment portfolio:

Two Harbors Portfolio			
(dollars in thousands, except per share data)			
RMBS and Agency Derivatives Portfolio Composition	As of December 31, 2012		
Agency Bonds			
Fixed Rate Bonds	$	10,823,674	77.5%
Hybrid ARMs		188,429	1.3%
Total Agency		11,012,103	78.8%
Agency Derivatives		301,264	2.2%
Non-Agency Bonds			
Senior Bonds		2,132,272	15.3%
Mezzanine Bonds		518,466	3.7%
Non-Agency Other		4,113	—%
Total Non-Agency		2,654,851	19.0%
Aggregate Portfolio	$	13,968,218	
Fixed-rate investment securities as a percentage of aggregate portfolio		79.8%	
Adjustable-rate investment securities as a percentage of aggregate portfolio		20.2%	

Portfolio Metrics	For the Quarter Ended December 31, 2012	
Annualized yield on average RMBS and Agency Derivatives during the quarter		
Agency		2.9%
Non-Agency		9.5%
Aggregate Portfolio		4.0%
Annualized cost of funds on average repurchase balance during the quarter[1]		1.1%
Annualized interest rate spread for aggregate portfolio during the quarter		2.9%
Weighted average cost basis of principal and interest securities		
Agency	$	108.18
Non-Agency[2]	$	52.17
Weighted average three month CPR for its RMBS and Agency Derivative portfolio		
Agency		6.6%
Non-Agency		3.2%
Debt-to-equity ratio at period-end[3]		3.4 to 1.0

(1) Cost of funds includes interest spread expense associated with the portfolio's interest rate swaps.

(2) 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 be $47.88 at December 31, 3012.

(3) Defined as total borrowings to fund RMBS, residential mortgage loans and Agency Derivatives divided by total equity.

“The flexibility of Two Harbors' hybrid approach greatly benefited our stockholders in 2012,” said Bill Roth, Two Harbors' Chief Investment Officer. “The shifting investment landscape during the year provided us the opportunity to raise and deploy capital into non-Agency securities early in 2012, as well as to take advantage of an attractive opportunity in Agencies in the summer. We believe that our strong fourth quarter and full year performance is attributed to our nimble stance and opportunistic approach.”

The company experienced a three-month average CPR of 6.6% for Agency RMBS securities and Agency Derivatives held as of December 31, 2012, as compared to 6.0% for securities held as of September 30, 2012. The weighted average cost basis of the Agency portfolio was 108.2% of par as of December 31, 2012, comparable to the prior quarter. The net premium amortization was $43.9 million and $39.7 million for the quarters ended December 31, 2012 and September 30, 2012, respectively.

The company experienced a three-month average CPR of 3.2% for non-Agency RMBS securities held as of December 31, 2012, as compared to 3.0% for securities held as of September 30, 2012. The weighted average cost basis of the non-Agency portfolio was 52.2% of par as of December 31, 2012 and 52.4% of par as of September 30, 2012. The discount accretion was $37.3 million and $36.2 million for the quarters ended December 31, 2012 and September 30, 2012, respectively. The total net discount remaining was $2.3 billion as of December 31, 2012 and September 30, 2012, with $1.3 billion designated as credit reserve as of December 31, 2012.

Business Diversification

Single-Family Residential Properties

On December 19, 2012, the company completed its contribution of single-family homes to Silver Bay in exchange for approximately 17.8 million shares of Silver Bay common stock. The company had previously announced its intention, subject to the discretion and approval of its Board of Directors and in compliance with applicable securities laws, to distribute these Silver Bay shares to Two Harbors' stockholders by means of a special dividend following the expiration of a 90-day lockup period. As of the date of this release, the company has not issued an announcement nor has the Board of Directors made a final determination concerning any such distribution.

Securitization

As of December 31, 2012, the company had acquired mortgage loans held-for-sale with a carrying value of $58.6 million and had outstanding purchase commitments to acquire an additional $56.9 million. It is the company's intention in the future to securitize these loans and/or exit through a whole loan sale.

Warrants

During the fourth quarter 2012, warrant holders exercised warrants to purchase approximately 3.5 million shares of the company's common stock at an exercise price of $11.00 per share. This resulted in proceeds to the company totaling approximately $38 million. As of December 31, 2012, approximately 13.5 million warrants remained outstanding. The warrants expire on November 7, 2013.

Dividends and Taxable Earnings

The company declared dividends to stockholders totaling $443.4 million, or $1.71 per share, for the 2012 taxable year. As a REIT, the company is required to distribute at least 90% of its taxable income to stockholders, subject to certain distribution requirements. The company distributed approximately 98% of its 2012 taxable earnings to stockholders.

Conference Call

Two Harbors Investment Corp. will host a conference call on February 7, 2013 at 9:00 am EST to discuss fourth quarter 2012 financial results and related information. To participate in the teleconference, please call toll-free (877) 868-1835, Conference Code 85675161, (or (914) 495-8581 for international callers) approximately 10 minutes prior to the above start time. You may also listen to the teleconference live via the Internet on the company's website at www.twoharborsinvestment.com in the Investor Relations section under the Events and Presentations link. For those unable to attend, a telephone playback will be available beginning at 12 p.m. EST on February 7, 2013 through 9 p.m. EST on February 25, 2013. The playback can be accessed by calling (855) 859-2056 (or (404) 537-3406 for international callers) and providing Confirmation Code 85675161. The call will also be archived on the company's website in the Investor Relations section under the Events and Presentations link.

Two Harbors Investment Corp.

Two Harbors Investment Corp., a Maryland corporation, is a real estate investment trust that invests in residential mortgage-backed securities, residential mortgage loans and other financial assets. Two Harbors is headquartered in Minnetonka, Minnesota, and is externally managed and advised by PRCM Advisers LLC, a wholly-owned subsidiary of Pine River Capital Management L.P. Additional information is available at www.twoharborsinvestment.com.

Forward-Looking Statements

This press release 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.

Non-GAAP Financial Measures

In addition to disclosing financial results calculated in accordance with United States generally accepted accounting principles (GAAP), this press release and the accompanying investor presentation present non-GAAP financial measures that exclude certain items. Two Harbors' management believes that these non-GAAP measures enable it to perform meaningful comparisons of past, present and future results of the company's core business operations, and uses these measures to gain a comparative understanding of the company's operating performance and business trends. The non-GAAP financial measures presented by the company represent supplemental information to assist investors in analyzing the results of Two Harbors' operations; however, as these measures are not in accordance with GAAP, they should not be considered a substitute for, or superior to, the financial measures calculated in accordance with GAAP. Our GAAP financial results and the reconciliations from these results should be carefully evaluated. See the GAAP to Non-GAAP reconciliation table on page 10 of this release.

Additional Information

Stockholders and warrant holders of Two Harbors, and other interested persons, may find additional information regarding the company at the SEC's Internet site at www.sec.gov or by directing requests to: Two Harbors Investment Corp., Attn: Investor Relations, 601 Carlson Parkway, Suite 1400, Minnetonka, MN 55305, telephone 612-629-2500.

Contact

July Hugen, Investor Relations, Two Harbors Investment Corp., 612-629-2514, July.Hugen@twoharborsinvestment.com.

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TWO HARBORS INVESTMENT CORP.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

	December 31, 2012	December 31, 2011
	(unaudited)	
ASSETS		
Available-for-sale securities, at fair value	$ 13,666,954	$ 6,249,252
Trading securities, at fair value	1,002,062	1,003,301
Equity securities, at fair value	335,638	—
Mortgage loans held-for-sale, at fair value	58,607	5,782
Cash and cash equivalents	821,108	360,016
Restricted cash	302,322	166,587
Accrued interest receivable	42,613	23,437
Due from counterparties	39,974	32,587
Derivative assets, at fair value	462,080	251,856
Other assets	82,586	7,566
Total Assets	$ 16,813,944	$ 8,100,384
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Repurchase agreements	$ 12,624,510	$ 6,660,148
Derivative liabilities, at fair value	129,294	49,080
Accrued interest payable	19,060	6,456
Due to counterparties	412,861	45,565
Accrued expenses	13,295	8,912
Dividends payable	164,347	56,239
Income taxes payable	—	3,898
Total liabilities	$ 13,363,367	$ 6,830,298
Stockholders' Equity		
Preferred stock, par value $0.01 per share; 50,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value $0.01 per share; 900,000,000 shares authorized and 298,813,258 and 140,596,708 shares issued and outstanding, respectively	2,988	1,406
Additional paid-in capital	2,948,345	1,373,099
Accumulated other comprehensive income (loss)	696,458	(58,716)
Cumulative earnings	449,358	157,452
Cumulative distributions to stockholders	(646,572)	(203,155)
Total stockholders' equity	3,450,577	1,270,086
Total Liabilities and Stockholders' Equity	$ 16,813,944	$ 8,100,384

TWO HARBORS INVESTMENT CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands, except per share data)
Certain prior period amounts have been reclassified to conform to the current period presentation

	Three Months Ended December 31,		Year Ended December 31,	
	2012	2011	2012	2011
	(unaudited)		(unaudited)	
Interest income:				
Available-for-sale securities	$ 135,466	$ 71,713	$ 448,620	$ 197,126
Trading securities	1,295	1,376	4,873	4,159
Mortgage loans held-for-sale	247	2	609	2
Cash and cash equivalents	324	106	944	347
Total interest income	137,332	73,197	455,046	201,634
Interest expense	24,369	9,129	72,106	22,709
Net interest income	112,963	64,068	382,940	178,925
Other-than-temporary impairment losses	(1,642)	(1,437)	(10,952)	(5,102)
Other income:				
Gain on investment securities, net	108,219	360	122,466	36,520
(Loss) gain on interest rate swap and swaption agreements	(6,096)	1,411	(159,775)	(86,769)
(Loss) gain on other derivative instruments	(27,276)	(10,719)	(40,906)	26,755
Gain on mortgage loans	1,679	—	2,270	—
Total other income (loss)	76,526	(8,948)	(75,945)	(23,494)
Expenses:				
Management fees	9,886	5,178	33,168	14,241
Other operating expenses	6,255	3,156	17,678	9,673
Total expenses	16,141	8,334	50,846	23,914
Income from continuing operations before income taxes	171,706	45,349	245,197	126,415
Benefit from income taxes	(10,203)	(6,170)	(42,219)	(1,106)
Net income from continuing operations	$ 181,909	$ 51,519	$ 287,416	$ 127,521
Income (loss) from discontinued operations	$ 7,391	$ (89)	$ 4,490	$ (89)
Net income attributable to common stockholders	$ 189,300	$ 51,430	$ 291,906	$ 127,432
Basic earnings (loss) per weighted average common share				
Continuing operations	$ 0.62	$ 0.37	$ 1.19	$ 1.29
Discontinued operations	0.02	—	0.02	—
Net income	$ 0.64	$ 0.37	$ 1.21	$ 1.29
Diluted earnings (loss) per weighted average common share				
Continuing operations	$ 0.61	$ 0.37	$ 1.18	$ 1.29
Discontinued operations	0.03	—	0.02	—
Net income	$ 0.64	$ 0.37	$ 1.20	$ 1.29
Dividends declared per common share	$ 0.55	$ 0.40	$ 1.71	$ 1.60
Weighted average shares outstanding - Basic	295,492,372	140,592,941	242,014,751	98,826,868
Weighted average shares outstanding - Diluted	296,229,245	140,592,941	242,432,156	98,826,868
Comprehensive income:				
Net income	$ 189,300	$ 51,430	$ 291,906	$ 127,432
Other comprehensive (loss) income:				
Unrealized (loss) gain on available-for-sale securities, net	(3,938)	(32,391)	755,174	(81,335)
Other comprehensive (loss) income	(3,938)	(32,391)	755,174	(81,335)
Comprehensive income	$ 185,362	$ 19,039	$ 1,047,080	$ 46,097

TWO HARBORS INVESTMENT CORP.

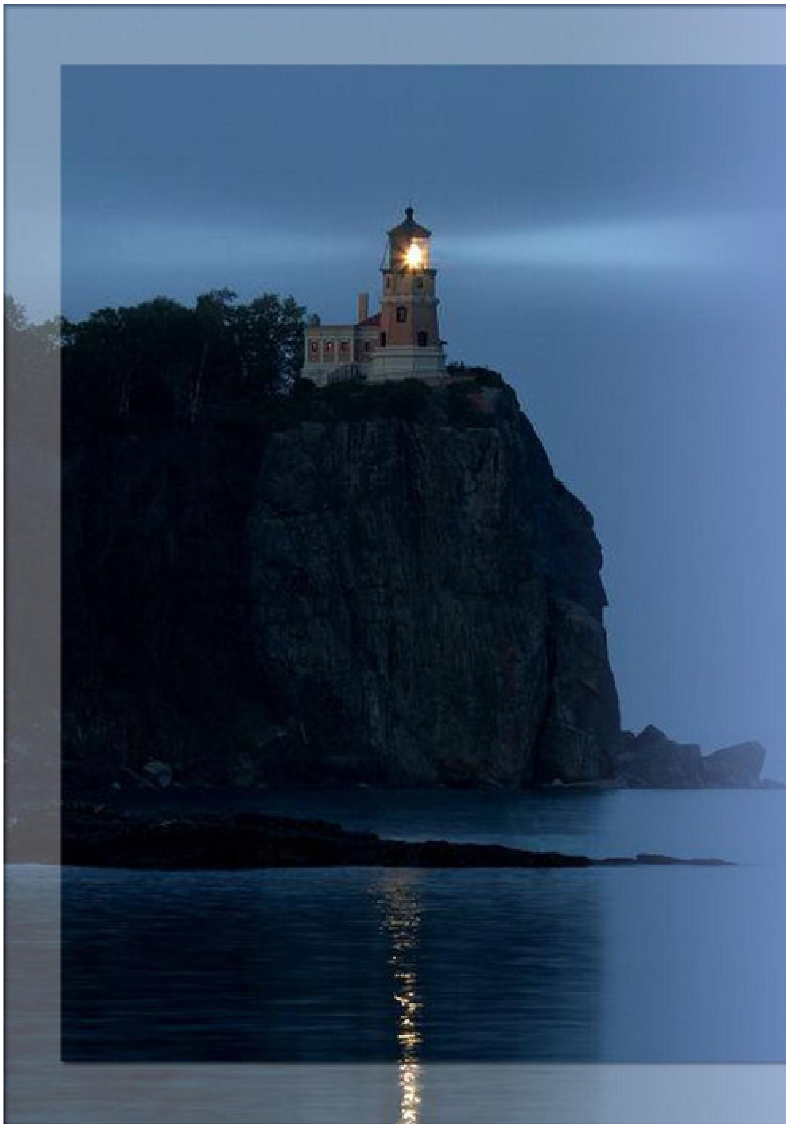
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION

(UNAUDITED)

(dollars in thousands, except per share data)

Certain prior period amounts have been reclassified to conform to the current period presentation

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Year Ended December 31, 2012	Year Ended December 31, 2011
Reconciliation of net income attributable to common stockholders to Core Earnings:				
Net income attributable to common stockholders	$ 189,300	$ 51,430	$ 291,906	$ 127,432
Adjustments for non-core earnings:				
(Gain) loss on sale of securities and mortgage loans, net of tax	(104,452)	(2,035)	(115,338)	(31,619)
Other-than-temporary impairment loss (gain), net of tax	1,642	1,437	10,952	5,102
Unrealized (gain) loss on trading securities, equity securities and mortgage loans, net of tax	(5,128)	1,624	(7,372)	(2,329)
Unrealized (loss) gain, net of tax, on interest rate swap and swaptions economically hedging repurchase agreements and available-for-sale securities	(12,180)	(6,046)	73,830	43,141
Unrealized (gain) loss, net of tax, on interest rate swap economically hedging trading securities	(552)	(669)	9,959	(4,099)
Realized loss (gain) on termination or expiration of swaps and swaptions, net of tax	2,307	(728)	21,931	19,255
Loss (gain) on other derivative instruments, net of tax	20,428	10,546	29,707	(3,345)
(Income) loss from discontinued operations	(7,391)	89	(4,490)	89
Core Earnings	$ 83,974	$ 55,648	$ 311,085	$ 153,627
Weighted average shares outstanding - Basic	295,492,372	140,592,941	242,014,751	98,826,868
Weighted average shares outstanding - Diluted	296,229,245	140,592,941	242,432,156	98,826,868
Core Earnings per weighted average share outstanding - diluted	$ 0.28	$ 0.40	$ 1.28	$ 1.55



Two Harbors Investment Corp.

Fourth Quarter 2012 Earnings Call

February 7, 2013

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

- Generated total 2012 return on book value of 47%[1] with dividends of $1.71 per share.
- Delivered total annual shareholder return of 40%[2], which compares to a return of 19% for the sector[3].
- Generated exceptional economic return in 2012 with $1.05 billion in total comprehensive income.
- Key hires on investment and administrative teams.
- Contributed portfolio of single-family residential homes to Silver Bay Realty Trusty 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.
- Increased Book Value to $11.54[4] 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 15 for calculation of 2012 return on book value.
(2) Source: Bloomberg
(3) As measured by the Pine River Mortgage REIT Index.
(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.

Macroeconomic Update

Key Macroeconomic Factors that Impact our Business

Home Prices

- The U.S. housing market has been a bright spot recently
- CoreLogic Home Price Index +7.5%[1] on a rolling 12-month basis

Interest Rates

- Low rate environment expected to persist
- Continue to hedge against an increase in rates

Employment

- Trends are improving, but unemployment is still high
- Meaningful determinant of probability of default on a mortgage loan

Policy Considerations

- Boxer-Menendez legislation
- Qualified Mortgage provision of Dodd-Frank bill
- GSE reform
- Qualified Residential Mortgage (QRM)
- Merkley bill

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

Investment Opportunities

Investment Opportunity Set

- We continue to pursue opportunities in the Agency and non-Agency markets.
- Criteria for considering new investment opportunities 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 total portfolio.
  - Expand expertise in existing strategies.
- Silver Bay is a great example:
  - Our analysis of the distressed non-Agency market helped us identify the opportunity.
  - Attractive return profile for our shareholders.

Financial Summary

Financial Highlights

- Core Earnings[1] of $0.28 per weighted average share.
- GAAP Earnings of $0.64 per weighted average share.
- Leverage declined to 3.4x from 3.8x at September 30, 2012.
- Earnings diluted by average capital of $295 million invested in single-family homes and Silver Bay stock.
- Expense ratio of 0.7%. Modest increase from prior quarter driven by business diversification initiatives.

Core Earnings[1]

Expense Ratio

Accounting Matters

- OTTI of $1.6 million remains immaterial to non-Agency RMBS portfolio.
- Reclassified $65 million of credit reserves to accretable discount.
- Realized gains from contribution of single-family properties to Silver Bay of approximately $10.6 million. A further increase to net income in 2013 by an estimated $8.3 million driven by installment gains, fee reductions and working capital adjustments.

(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 certain non-recurring gains and losses related to discontinued operations. As defined, Core Earnings includes interest income associated with the company's inverse interest-only securities ("Agency Derivatives") and premium income or loss on credit default swaps.

Book Value

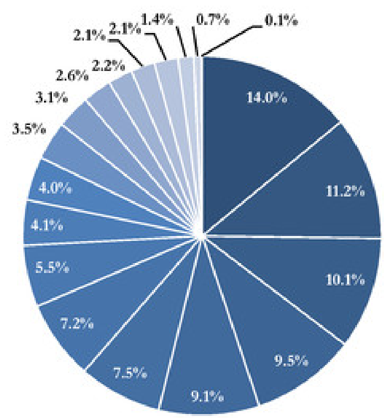
Book Value	Q4-2012 Book Value ($M)		Q4-2012 Book Value Per Common Share (Diluted basis)		Annual 2012 Book Value ($M)		Annual 2012 Book Value Per Common Share (Diluted basis)
Beginning stockholders' equity	$	3,391.5	$ 11.48	$	1,270.1	$	9.03
GAAP Net Income:							
Core Earnings, net of tax		84.0			311.1		
Realized gains, net of tax		88.3			58.7		
Unrealized mark-to-market gains and (losses), net of tax		9.6			(82.4)		
Discontinued operations		7.4			4.5		
Other Comprehensive (Loss) Income		(3.9)			755.2		
Dividend declaration		(164.3)			(443.4)		
Other		-			0.5		
Balance before Capital Transactions	$	3,412.6	$ 11.55	$	1,874.3		
Issuance of Common Stock, Net of Offering Costs		0.2	11.65		1,362.7		
Proceeds from Issuance of Common Stock through Warrant Exercise		37.8	11.00		213.6		
Ending stockholders' equity – basic	**$**	**3,450.6**	**$ 11.55**	**$**	**3,450.6**	**$**	**11.55**
Warrants oustanding[1]		-	(0.01)		-		(0.01)
Ending stockholders' equity – diluted	**$**	**3,450.6**	**$ 11.54**	**$**	**3,450.6**	**$**	**11.54**

(1) Using the treasury stock method, 0.1 million shares would be considered outstanding and dilutive to book value per share at December 31, 2012.

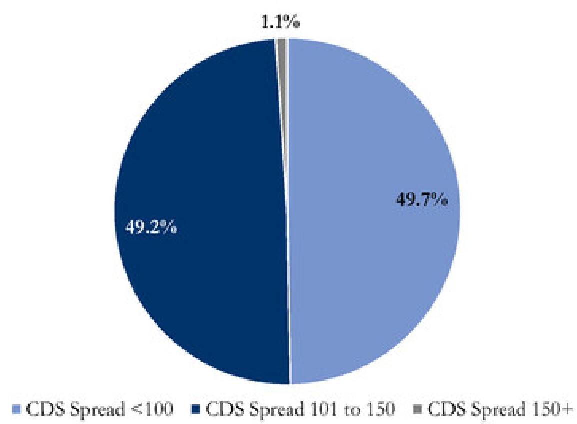
Financing Profile

- We continue to ladder repo maturities, and currently average 85 days to maturity.
- The vast majority of repo is held with counterparties having a CDS spread of <150 indicating an overall low counterparty risk profile.
- Approximately 56% of our Agency repo is with counterparties based in North America and 62% of our non-Agency repo is with counterparties based in North America.

Diverse Agency Counterparties[1]



High-Quality non-Agency Counterparties[2]



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

2012 Taxable Earnings Distribution

Distribution of 98% of Taxable Income[1]

GAAP to Taxable Income, Year Ended December 31, 2012

(in millions)		TRS		REIT		Consolidated
GAAP net (loss) income, pre-tax	$	(124.5)	$	374.2	$	249.7
Permanent differences						
Non-deductible expenses		-		-		-
Temporary differences						
Net accretion of OID and market discount		-		19.4		19.4
Unrealized net loss on trading securities and derivatives		16.3		46.8		63.1
Taxable (loss) income – 2012		(108.2)		440.4		332.2
Plus: Prior year undistributed taxable income		-		13.7		13.7
Less: 2012 dividend declaration deduction		-		(443.4)		(443.4)
Taxable income post-dividend deduction	$	(108.2)	$	10.7[2]	$	(97.5)

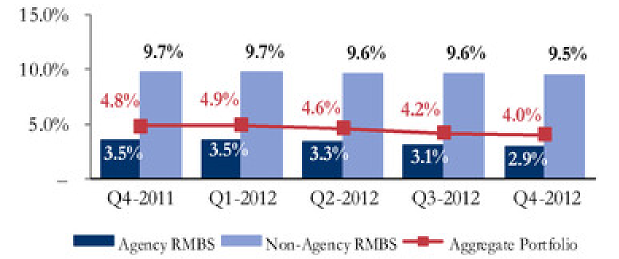
(1) The distribution of 98% of taxable earnings in 2012 was based upon the 2012 dividend declaration deduction, adjusted for the prior year undistributed taxable income, divided by 2012 taxable income.
(2) The REIT will not be subject to U.S. federal income taxes on its taxable income to the extent it distributes its net taxable income to stockholders.

Portfolio Performance Summary

Portfolio Highlights

- Achieved total return on book value of 47%[1] for the 2012 fiscal year.
- Overall performance driven primarily by non-Agency strategy.
- Prepay-protected Agency pools drive strong Agency performance.

Annualized Yields by Portfolio[2]



Benchmark Indices[3]

Sector	FY2012
Agency Strategy: Barclays US MBS Fixed Rate Index vs. duration-matched swap at 6:1 leverage	10.6%
Credit: ABX 06-2 AAA	48.6%
Proxy for 50% Agency and 50% Non-Agency Strategy	29.6%
Two Harbors' Return on Book Value[1]	**47%**

Net Interest Spread

	At September 30, 2012	Three Months Ended December 31, 2012		
	Aggregate Portfolio	Agency	Non-Agency	Aggregate Portfolio
Annualized Yield[2]	3.8%	2.9%	9.5%	4.0%
Cost of repurchase agreements	(0.7%)	(0.6%)	(2.6%)	(0.7%)
Cost of interest rate swaps & swaptions	(0.4%)	(0.5%)	-	(0.4%)
Cost of financing	(1.1%)	(1.1%)	(2.6%)	(1.1%)
Net interest spread	**2.7%**	1.8%	6.9%	**2.9%**

(1) See Appendix page 15 for calculation of 2012 return on book value.
(2) 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.
(3) Source for benchmark indices: Bloomberg.

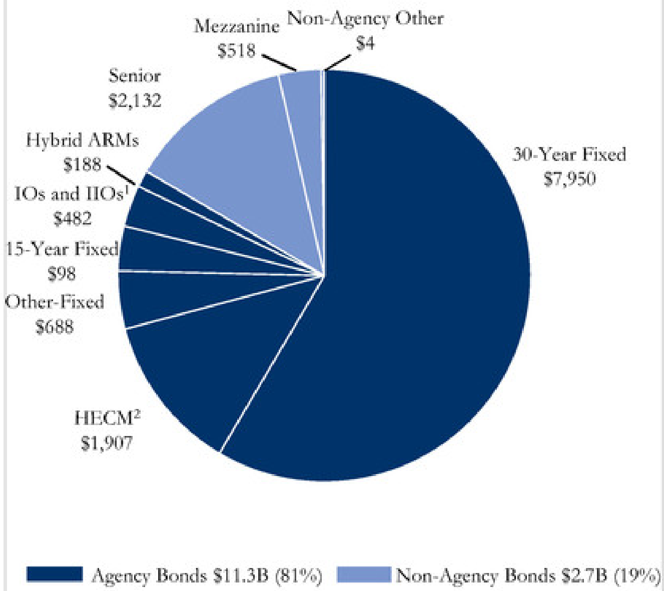
Portfolio Composition

Portfolio Composition

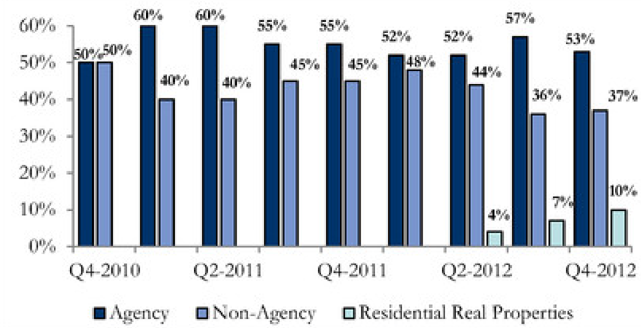
As of December 31, 2012

$14.0B RMBS Portfolio

$ Millions



Targeted Capital Allocation



Highlights

- Repositioned Agency portfolio, reducing prepayment and pay-up risk.
- Reduced leverage on Agency securities to 5.7x.
- Non-Agency underlying performance continues to improve. Still potential for upside.

(1) 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.

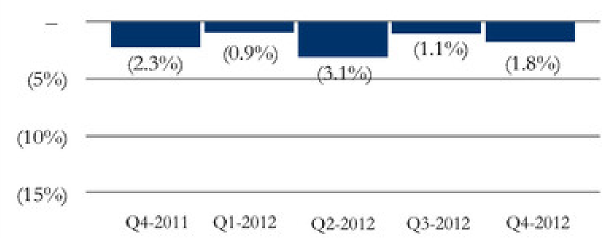
Key Portfolio Metrics

Portfolio Metrics

- Continued to realize low and stable CPRs.
- 98% of Agency securities with implicit or explicit prepayment protection.
- Targeted debt-to-equity ratios:
  - Agency: 6.0-7.0x
  - Non-Agency: 1.0-1.5x

Portfolio Metrics		Q3-2012	Q4-2012
Agency	Weighted average 3-month CPR[1]	6.0%	6.6%
	Weighted average cost basis[2]	$108.2	$108.2
Non-Agency	Weighted average 3-month CPR	3.0%	3.2%
	Weighted average cost basis[2]	$52.4	$52.2
Change in equity value for +100bps change in interest rates[3]		1.1%	1.8%
Debt-to-Equity[4]		3.8x	3.4x

BV Exposure to +100 bps Change in Rates[3]



Hedging Strategy

- Realigned hedges in January 2013
- $19.5 billion in swaps and swaptions as of January 31 to maintain low duration exposure.
- Average pay rate on $13.7 billion notional swaps at January 31 of 0.66%.

(1) Agency weighted average 3-month CPR includes derivatives.
(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 be $47.88 at December 31, 2012.
(3) Represents estimated percentage change in equity value for +100bps change in interest rates. Change in equity value is total net asset change.
(4) Debt-to-equity is defined as total borrowings to fund RMBS securities, residential mortgage loans and Agency Derivatives divided by total equity.

Hybrid Model Provides Flexibility

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 subprime/Alt-A deals
- We will control servicing on the loans
- Commitment to purchase two loan packages, which we expect to close in February
- 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

Appendix

2012 Return on Book Value of 47%

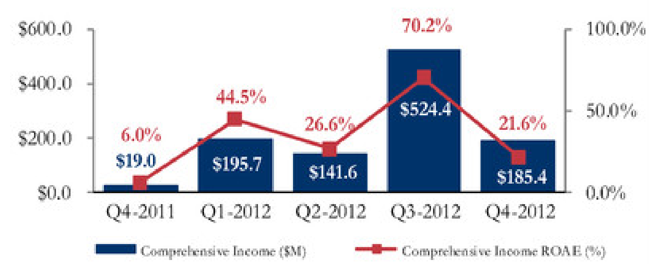
Return on book value[1]
(Per diluted share amounts, except for percentage)

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.

Operating Performance

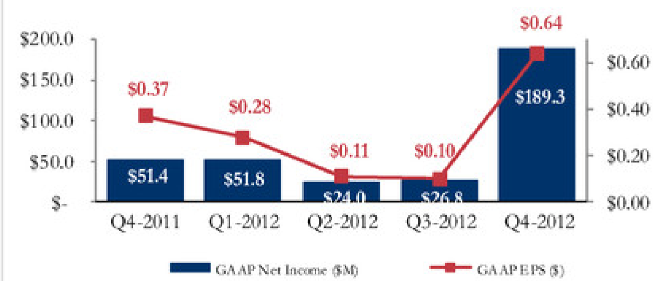
Comprehensive Income



Book Value[2]

Dividends[1]

GAAP Net Income



(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 quarter.

(2) 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. If basic shares outstanding were used as the denominator in the calculation, book value per share would be $11.55 at December 31, 2012.

Operating Performance

Operating Performance (In millions, except for per share amounts)	Core Earnings	Realized Gains	Unrealized MTM	Q3-2012 Financials	Core Earnings	Realized Gains	Unrealized MTM	Q4-2012 Financials
Interest income	$ 126.3	$ -	$ -	$ 126.3	$ 137.3	$ -	$ -	$ 137.3
Interest expense	20.7	-	-	20.7	24.4	-	-	24.4
Net interest income	105.6	-	-	105.6	112.9	-	-	112.9
Net other-than-temporary impairment losses	-	-	(0.6)	(0.6)	-	-	(1.6)	(1.6)
Gain (loss) on investment securities, net	-	(0.2)	2.7	2.5	-	103.1	5.1	108.2
Loss on interest rate swap and swaptions[1]	(10.7)	(7.5)	(58.2)	(76.4)	(15.4)	(3.5)	12.8	(6.1)
Gain (loss) on other derivative instruments[2]	4.3	(2.6)	1.2	2.9	0.3	(21.1)	(6.5)	(27.3)
Gain (loss) on mortgage loans	-	-	0.6	0.6	-	2.1	(0.4)	1.7
Total other (loss) income	(6.4)	(10.3)	(53.7)	(70.4)	(15.1)	80.6	11.0	76.5
Management fees & other operating expenses	12.9	-	-	12.9	16.1	-	-	16.1
Net income (loss) from continuing operations before income taxes	86.3	(10.3)	(54.3)	21.7	81.7	80.6	9.4	171.7
Income tax benefit	0.8	3.3	3.7	7.8	2.3	7.7	0.2	10.2
Net income (loss) from continuing operations	**87.1**	**(7.0)**	**(50.6)**	**29.5**	**84.0**	**88.3**	**9.6**	**181.9**
Discontinued operations	-	(2.7)	-	(2.7)	-	7.4	-	7.4
Net income (loss)	**$ 87.1**	**$ (9.7)**	**$ (50.6)**	**$ 26.8**	**$ 84.0**	**$ 95.7**	**$ 9.6**	**$ 189.3**
Basic and diluted weighted average EPS	$ 0.32	$ (0.03)	$ (0.19)	$ 0.10	$ 0.28	$ 0.33	$ 0.03	$ 0.64

Supplemental data:

	Q3-2012	Q4-2012
Unrealized gains/(losses) on interest rate swaps and swaptions economically hedging repurchase agreements and available-for-sale securities	$ (53.6)	$ 11.9
Income tax benefit (expense)	(0.4)	0.3
Total	$ (54.0)	$ 12.2

(1) Fourth quarter 2012 loss on interest rate swap includes $15.4 million in interest costs, of which $1.1 million relates to swaps associated with U.S. Treasuries.
(2) Core Earnings includes $3.4 million and $3.8 million of net premium amortization on credit default swaps for the third and fourth quarter of 2012, respectively.

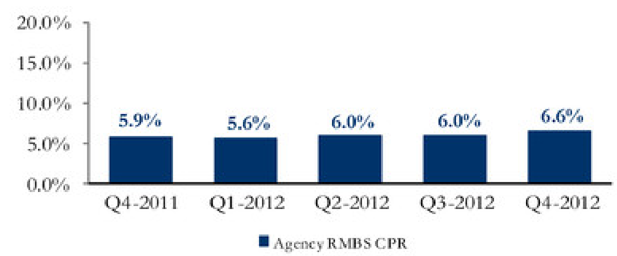
Portfolio Metrics

Portfolio Yields and Metrics

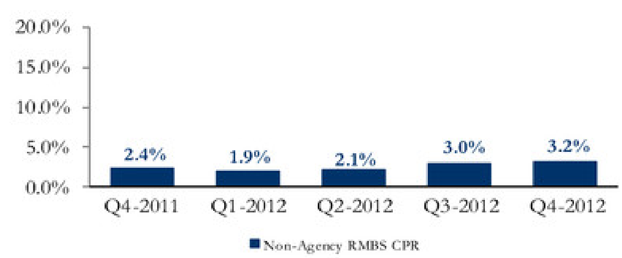
Portfolio Yield	Realized Q3-2012	At Sept. 30, 2012	Realized Q4-2012	At Dec 31, 2012
Annualized yield[1]	4.2%	3.8%	4.0%	4.0%
Agency[1]	3.1%	2.8%	2.9%	2.9%
Non-Agency	9.6%	9.6%	9.5%	9.4%
Cost of financing[2]	1.1%	1.1%	1.1%	1.2%
Net interest spread	3.1%	2.7%	2.9%	2.8%

Portfolio Metrics		Q3-2012	Q4-2012
Agency	Weighted average 3-month CPR	6.0%	6.6%
	Weighted average cost basis[3]	$108.2	$108.2
Non-Agency	Weighted average 3-month CPR	3.0%	3.2%
	Weighted average cost basis[3]	$52.4	$52.2
Change in equity value for +100bps change in interest rates[4]		1.1%	1.8%
Debt-to-Equity[5]		3.8x	3.4x

Agency RMBS CPR



Non-Agency RMBS CPR



(1) 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 .
(2) Cost of financing RMBS includes interest spread expense associated with the portfolio's interest rate swaps of $9.9 million and $14.2 million for the third and fourth quarter of 2012, respectively. Interest spread expense increased cost of financing RMBS by 0.4% in both periods.
(3) 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 be $47.88 at December 31, 2012.
(4) 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.
(5) Debt-to-equity is defined as total borrowings to fund RMBS securities, residential mortgage loans and Agency Derivatives divided by total equity.

Financing and Hedging Strategy

Interest Rate Swaps[1]

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
	$ 12,570	0.850%	0.426%	2.85

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%
	$11,577	

Interest Rate Swaptions

December 31, 2012

		Option			Underlying Swap			
Swaption	Expiration	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.

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
Total[1]	$ 13,844	$ 11,313	100.0%	$ 11,041	4.2%	20

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

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[2]	638	633	637
Current Performance			
60+ Day Delinquencies	38.3%	32.7%	37.2%
Average Credit Enhancement[3]	15.1%	33.4%	18.6%
3-Month CPR[4]	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) FICO represents a mortgage industry accepted credit score of a borrower, which was developed by Fair Isaac Corporation.
(3) 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.
(4) 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.

Portfolio Composition as of December 31, 2012

Agency: Vintage & Prepayment Protection	Q3-2012	Q4-2012
High LTV (predominately MHA)[1]	31%	27%
$85K Max Pools[2]	25%	20%
HECM[3]	15%	17%
Other Low Loan Balance Pools[4]	10%	16%
Low FICO[5]	7%	7%
Prepayment protected	4%	5%
Seasoned (2005 and prior vintages)	5%	4%
2006 & subsequent vintages - Discount	1%	2%
2006 & subsequent vintages – Premium and IOs	2%	2%

Implicit or Explicit Pre-payment Protection

Non-Agency: Loan Type	Q3-2012	Q4-2012
Sub-Prime	86%	87%
Option-ARM	9%	8%
Alt-A	4%	4%
Prime	1%	1%

(1) Securities collateralized by loans with greater than or equal to 80% loan-to-value. High LTV pools are predominately Making Homeownership Affordable ("MHA") pools. MHA pools consist of borrowers who have refinanced through the Home Affordable Refinance Program (HARP).
(2) Securities collateralized by loans of less than or equal to $175K, but more than $85K.
(3) Home Equity Conversion Mortgage loans (or "HECM") are loans that allow the homeowner to convert home equity into cash collateralized by the value of their home.
(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 FICO.