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: May 7, 2014

## 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.) |

**590 Madison Avenue, 36th Floor**
**New York, NY 10022**
(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 May 7, 2014, Two Harbors Investment Corp. issued a press release announcing its financial results for the fiscal quarter ended March 31, 2014. A copy of the press release and the 2014 First 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 May 7, 2014, issued by Two Harbors Investment Corp. announcing First Quarter 2014 results |
| 99.2 | 2014 First 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**
**General Counsel and Secretary**

Date: May 7, 2014

TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

# Two Harbors Investment Corp. Reports First Quarter 2014 Financial Results

*Strong Return on Book Value of 3.9% in the First Quarter[(1)]*

**NEW YORK, May 7, 2014** - Two Harbors Investment Corp. (NYSE: TWO), a real estate investment trust that invests in residential mortgage-backed securities (RMBS), residential mortgage loans, mortgage servicing rights (MSR) and other financial assets, today announced its financial results for the quarter ended March 31, 2014.

***Highlights***

- Book value was $10.71 per diluted common share, representing a 3.9%[(1)] return on book value, after accounting for a dividend of $0.26 per share.
- Delivered Comprehensive Income of $152.6 million, a return on average equity of 15.7%, or $0.42 per diluted weighted average common share.
- Reported Core Earnings of $88.2 million, or $0.24 per diluted weighted average common share.
- Generated an aggregate portfolio yield of 4.6% for the quarter ended March 31, 2014, compared to an aggregate yield of 4.3% for the quarter ended December 31, 2013.

"We delivered strong first quarter results, demonstrating our ability to generate alpha in a variety of interest rate environments," stated Thomas Siering, Two Harbors' President and Chief Executive Officer. "Two Harbors generated comprehensive income of $152.6 million for the period, representing a 15.7% return on average equity."

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

### *Operating Performance*

The following table summarizes the company's GAAP and non-GAAP earnings measurements and key metrics for the first quarter of 2014:

| **Two Harbors Operating Performance** | | | |
|---|---|---|---|
| (dollars in thousands, except per share data) | **Q1-2014** | | |
| **Earnings** | Earnings | Per diluted weighted share | Annualized return on average equity |
| Core Earnings[(1)] | $ 88,203 | $ 0.24 | 9.1 % |
| GAAP Net Loss | $ (29,145) | $ (0.08) | (3.0)% |
| Comprehensive Income | $ 152,590 | $ 0.42 | 15.7 % |
| | | | |
| **Operating Metrics** | | | |
| Dividend per common share | $0.26 | | |
| Book value per diluted share at period end | $10.71 | | |
| Other operating expenses as a percentage of average equity | 1.5% | | |

(1) Core Earnings is a non-GAAP measure that the company defines as net income, excluding impairment losses, gains or losses on sales of securities and termination of interest rate swaps, unrealized gains or losses on the aggregate portfolio, certain non-recurring gains and losses related to discontinued operations and amortization of business combination intangible assets, and certain non-recurring upfront costs related to securitization transactions. As defined, Core Earnings includes interest income associated with the company's inverse interest-only securities (Agency Derivatives), premium income or loss on credit default swaps, and servicing income, net of estimated amortization on mortgage servicing rights. Core Earnings is provided for purposes of comparability to other peer issuers. Please see page 12 of this press release for a reconciliation of GAAP to non-GAAP financial information.

Earnings Summary

Two Harbors reported Core Earnings for the quarter ended March 31, 2014 of $88.2 million, or $0.24 per diluted weighted average common share outstanding, as compared to Core Earnings for the quarter ended December 31, 2013 of $76.4 million, or $0.21 per diluted weighted average common share outstanding.

For the first quarter of 2014, the company recognized:

- a net realized loss on RMBS, trading securities and mortgage loans held-for-sale of $38.5 million, net of tax;
- unrealized losses on trading securities, mortgage loan forward purchase commitments and mortgage loans held-for-sale of $2.3 million, net of tax;
- other-than-temporary credit impairment losses on its non-Agency RMBS of $0.2 million, net of tax;
- a net loss of $2.0 million, net of tax, related to swap and swaption terminations and expirations;
- an unrealized loss, net of tax, of $59.7 million associated with its interest rate swaps and swaptions economically hedging its repurchase agreements, available-for-sale securities, trading securities, to-be-announced securities (TBA) and MSR;
- net realized and unrealized gains on other derivative instruments of approximately $4.7 million, net of tax;
- a net realized and unrealized gain on consolidated financing securitizations of $0.3 million, net of tax;
- a net decrease in fair value of $31.5 million[(2)] on MSR, net of tax; and
- amortization of intangible assets of $0.3 million, net of tax.

(2) Decrease in fair value on MSR, net of tax, of $31.5 million is comprised of a decrease in fair value of $19.4 million, net of tax, excluded from Core Earnings and $12.1 million, net of tax, of estimated amortization included in Core Earnings.

The company reported a GAAP Net Loss of $29.1 million, or $0.08 per diluted weighted average common share outstanding, for the quarter ended March 31, 2014, as compared to GAAP Net Income of $239.4 million, or $0.66 per diluted weighted average common share outstanding, for the quarter ended December 31, 2013. On a GAAP basis, the company recognized an annualized return on average equity of (3.0)% and 24.8% for the quarters ended March 31, 2014 and December 31, 2013, respectively.

The company reported Comprehensive Income of $152.6 million, or $0.42 per diluted weighted average common share outstanding, for the quarter ended March 31, 2014, as compared to Comprehensive Income of $171.4 million, or $0.47 per diluted weighted average common share outstanding, for the quarter ended December 31, 2013. The company records unrealized fair value gains and losses for RMBS securities, classified as available-for-sale, as Other Comprehensive Income. On a Comprehensive Income basis, the company recognized an annualized return on average equity of 15.7% and 17.7% for the quarters ended March 31, 2014 and December 31, 2013, respectively.

Other Key Metrics

Two Harbors declared a quarterly cash dividend of $0.26 per common share for the quarter ended March 31, 2014. The annualized dividend yield on the company's common stock for the first quarter of 2014, based on the March 31, 2014 closing price of $10.25, was 10.1%.

The company's book value per diluted share, after taking into account the first quarter 2014 dividend of $0.26 per share, was $10.71 as of March 31, 2014, compared to $10.56 as of December 31, 2013, which represented a total return on book value for the first quarter of 2014 of 3.9%.(1)

Other operating expenses for the first quarter of 2014 were approximately $14.5 million, or 1.5% of average equity, compared to approximately $12.4 million, or 1.3% of average equity, for the fourth quarter of 2013.

***Portfolio Summary***

The company's aggregate portfolio is principally comprised of RMBS available-for-sale securities, Agency Derivatives, MSR, residential mortgage loans held-for-sale and net economic interests in consolidated securitization trusts. As of March 31, 2014, the total value of the company's portfolio was $13.6 billion.

The portfolio includes the rates strategy, which consists of $10.5 billion of Agency RMBS, Agency Derivatives and MSR as well as associated notional hedges as of March 31, 2014. The remaining portfolio was invested in the credit strategy, which consists of $3.1 billion of non-Agency RMBS, net economic interests in consolidated securitization trusts, prime jumbo residential mortgage loans and credit sensitive loans (CSL), and their associated notional hedges as of March 31, 2014.

For the quarter ended March 31, 2014, the annualized yield on the company's average aggregate portfolio was 4.6% and the annualized cost of funds on the associated 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 3.5%.

RMBS and Agency Derivatives

For the quarter ended March 31, 2014, the annualized yield on average RMBS securities and Agency Derivatives was 4.3%, consisting of an annualized yield of 3.3% in Agency RMBS and Agency Derivatives and 9.1% in non-Agency RMBS.

The company experienced a three-month average constant prepayment rate (CPR) of 6.4% for Agency RMBS securities and Agency Derivatives held during the quarter ended March 31, 2014, as compared to 7.9% for those securities held during the quarter ended December 31, 2013. The weighted average cost basis of the principal and interest Agency portfolio was 108.3% of par for the quarter ended March 31, 2014, compared to 108.2% of par for the quarter ended December 31, 2013. The net premium amortization was $31.8 million and $35.0 million for the quarters ended March 31, 2014 and December 31, 2013, respectively.

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

The company experienced a three-month average CPR of 3.4% for non-Agency principal and interest RMBS securities held during the quarter ended March 31, 2014, as compared to 3.8% for those securities held during the quarter ended December 31, 2013. The weighted average cost basis of the non-Agency portfolio was 53.3% of par for the quarter ended March 31, 2014, compared to 53.7% of par for the quarter ended December 31, 2013. The discount accretion was $31.8 million and $33.5 million for the quarters ended March 31, 2014 and December 31, 2013, respectively. The total net discount remaining was $2.3 billion as of both March 31, 2014 and December 31, 2013, with $1.2 billion designated as credit reserve as of March 31, 2014.

As of March 31, 2014, fixed-rate investments composed 71.9% and adjustable-rate investments composed 28.1% of the company's RMBS and Agency Derivatives portfolio.

As of March 31, 2014, the company had mortgage loans held-for-investment with a carrying value of $781.1 million and the company's collateralized borrowings had a carrying value of $659.0 million, resulting in net economic interests in consolidated securitization trusts of $122.1 million.

Mortgage Servicing Rights

The company held MSR on mortgage loans having $41.6 billion in unpaid principal balance, which had a fair market value of $476.7 million as of March 31, 2014.

The company does not directly service mortgage loans, but instead contracts with fully licensed subservicers to handle all servicing functions for the loans underlying the company's MSR assets. The company recognized $30.4 million of servicing income, $5.0 million of sub-servicing expense and $32.8 million decrease in fair value of MSR, during the three months ended March 31, 2014.

Mortgage Loans Held for Sale

As of March 31, 2014, the company held prime jumbo residential mortgage loans with a fair market value of $140.9 million and had forward purchase commitments to acquire mortgage loans having $153.6 million in unpaid principal balance with a fair value of negative $0.4 million. For the quarter ended March 31, 2014, the annualized yield on the prime jumbo residential mortgage loan portfolio was 4.0%. The company's intention in the future is to securitize the loans should market conditions warrant.

During the quarter the company sold substantially all of its CSL portfolio, with the remaining loans having a fair market value of $20.1 million as of March 31, 2014.

Other Investments and Risk Management Derivatives

The company held $1.0 billion of U.S. Treasuries classified on its balance sheet as trading securities as of March 31, 2014. The company also held $1.0 billion notional of net short TBAs as of March 31, 2014, which are accounted for as derivative instruments in accordance with GAAP.

As of March 31, 2014, the company was a party to interest rate swaps and swaptions with a net aggregate notional amount of $31.2 billion, of which $24.1 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 Investment Portfolio** | | | |
|---|---|---|---|
| (dollars in thousands) | | | |
| | | | |
| Portfolio Composition | As of March 31, 2014 | | |
| | (unaudited) | | |
| Rates Strategy | | | |
| Agency Bonds | | | |
| Fixed Rate Bonds | $ | 8,879,422 | 65.3% |
| Hybrid ARMs | | 944,503 | 6.9% |
| Total Agency | | 9,823,925 | 72.2% |
| Agency Derivatives | | 210,331 | 1.5% |
| Mortgage Servicing Rights | | 476,663 | 3.5% |
| | | | |
| Credit Strategy | | | |
| Non-Agency Bonds | | | |
| Senior Bonds | | 2,328,073 | 17.1% |
| Mezzanine Bonds | | 473,824 | 3.5% |
| Non-Agency Other | | 8,234 | 0.1% |
| Total Non-Agency | | 2,810,131 | 20.7% |
| Net Economic Interest in Securitization(1) | | 122,132 | 0.9% |
| Mortgage Loans Held-For-Sale | | 161,021 | 1.2% |
| Aggregate Portfolio | $ | 13,604,203 | |
| | | | |
| Portfolio Metrics | Three Months Ended March 31, 2014 | | |
| | (unaudited) | | |
| Annualized portfolio yield during the quarter | | | 4.6% |
| Rates Strategy | | | |
| Agency RMBS, Agency Derivatives and Mortgage servicing rights | | | 3.7% |
| Credit Strategy | | | |
| Non-Agency RMBS, including net economic interest in consolidated securitizations | | | 9.0% |
| Mortgage loans held-for-sale | | | |
| Prime nonconforming residential mortgage loans | | | 4.0% |
| Credit sensitive residential mortgage loans | | | 3.8% |
| | | | |
| Annualized cost of funds on average borrowing balance during the quarter(2) | | | 1.1% |
| Annualized interest rate spread for aggregate portfolio during the quarter | | | 3.5% |
| Debt-to-equity ratio at period-end(3) | | | 2.9 to 1.0 |
| | | | |
| Portfolio Metrics Specific to RMBS and Agency Derivatives During the Quarter | | | |
| Weighted average cost basis of principal and interest securities | | | |
| Agency | | $ | 108.29 |
| Non-Agency(4) | | $ | 53.27 |
| Weighted average three month CPR | | | |
| Agency | | | 6.4% |
| Non-Agency | | | 3.4% |
| Fixed-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio | | | 71.9% |
| Adjustable-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio | | | 28.1% |

(1) Net economic interest in securitization is mortgage loans held-for-investment net of collateralized borrowings in consolidated securitization trusts.

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

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

(4) 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 $49.11 at March 31, 3014.

“We are pleased with the solid performance this quarter in both our rates and credit strategies,” stated Bill Roth, Two Harbors’ Chief Investment Officer. “By continuing to develop our MSR and conduit initiatives, we believe we can create sustainable franchise value for our stockholders.”

***Financing Summary***

The company reported a debt-to-equity ratio, defined as total borrowings, including both repurchase agreements and FHLB advances, to fund RMBS securities, mortgage loans held-for-sale and Agency Derivatives divided by total equity, of 2.9 to 1.0 as of both March 31, 2014 and December 31, 2013.

As of March 31, 2014, the company had borrowings of $10.9 billion with 22 repurchase agreement counterparties to fund RMBS securities and Agency derivatives with an average of 84 days to maturity. Additionally, as of March 31, 2014, the company had $96.2 million outstanding under short-term financing arrangements to fund the prime jumbo residential mortgage loans and CSL collateral.

In December 2013, the company’s wholly owned subsidiary, TH Insurance Holdings Company LLC (TH Insurance), was granted membership in the Federal Home Loan Bank of Des Moines (FHLB). As a member of the FHLB, TH Insurance has access to a variety of products and services offered by the FHLB, including secured advances. As of March 31, 2014, TH Insurance had $464.5 million in outstanding secured advances with a weighted average borrowing rate of 0.4% and a weighted average of 2.8 years to maturity, and had an additional $535.5 million of available uncommitted credit for borrowings, which amount may be adjusted at the sole discretion of the FHLB.

The following table summarizes the company’s borrowings by collateral type under repurchase agreements and FHLB advances, excluding borrowings on U.S. Treasuries, and related cost of funds:

| (in thousands) | As of March 31, 2014 (unaudited) |
|---|---|
| Collateral type: | |
| Agency RMBS and Agency Derivatives | $ 9,502,445 |
| Mortgage servicing rights | — |
| Non-Agency RMBS | 1,890,730 |
| Mortgage loans held-for-sale | |
| Prime nonconforming residential mortgage loans | 93,496 |
| Credit sensitive residential mortgage loans | 2,732 |
| | $ 11,489,403 |

| Cost of Funds Metrics | Three Months Ended March 31, 2014 |
|---|---|
| | (unaudited) |
| Annualized cost of funds on average borrowing & FHLB advance balance during the quarter: | 0.7% |
| Agency RMBS and Agency Derivatives | 0.4% |
| Mortgage servicing rights | — |
| Non-Agency RMBS | 1.9% |
| Mortgage loans held-for-sale | |
| Prime nonconforming residential mortgage loans | 2.5% |
| Credit sensitive residential mortgage loans | 3.4% |

## Conference Call

Two Harbors Investment Corp. will host a conference call on May 8, 2014 at 9:00 a.m. EDT to discuss first quarter 2014 financial results and related information. To participate in the teleconference, please call toll-free (877) 868-1835 (or (914) 495-8581 for international callers), Conference Code 19438786 , 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 12:00 p.m. EDT on May 8, 2014, through 12:00 a.m. EDT on May 15, 2014. The playback can be accessed by calling (855) 859-2056 (or (404) 537-3406 for international callers), Conference Code 19438786 . 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, mortgage servicing rights and other financial assets. Two Harbors is headquartered in New York, New York, 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 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 the company's Annual Report on Form 10-K for the year ended December 31, 2013, and any subsequent Quarterly Reports on Form 10-Q, under the caption "Risk Factors." Factors that could cause actual results to differ include, but are not limited to, higher than expected operating costs, changes in prepayment speeds of mortgages underlying the company's residential mortgage-backed securities, the rates of default or decreased recovery on the mortgages underlying our non-Agency securities, failure to recover credit losses in our portfolio, changes in interest rates and the market value of our assets, the availability of financing, the availability of target assets at attractive prices, the company's ability to manage various operational risks associated with the business, the company's ability to maintain our REIT qualification, limitations imposed on the business due to our REIT status and the company's exempt status under the Investment Company Act of 1940, the impact of new legislation or regulatory changes on the company's operations, the impact of any deficiencies in the servicing or foreclosure practices of third parties and related delays in the foreclosure process, the company's ability to acquire mortgage loans or securitize the mortgage loans the company acquires, the company's involvement in securitization transactions, the timing and profitability of the company's securitization transactions, the risks associated with the company's securitization transactions, the company's ability to acquire MSR, the impact of new or modified government mortgage refinance or principal reduction programs, unanticipated changes in overall market and economic conditions, and the company's exposure to claims and litigation, including litigation arising from its involvement in securitization transactions and its investments in MSR.

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 (SEC). 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, such as Core Earnings and Core Earnings per common share, 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 its operations. However, because these measures are not calculated in accordance with GAAP, they should not be considered a substitute for, or superior to, the financial measures calculated in accordance with GAAP. The company's GAAP financial results and the reconciliations from these results should be carefully evaluated. See the GAAP to Non-GAAP reconciliation table on page 12 of this release.

**Additional Information**

Stockholders 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, 590 Madison Avenue, 36th Floor, New York, NY 10022, telephone (612) 629-2500.

**Contact**

July Hugen, Director of Media and Investor Relations, Two Harbors Investment Corp., (612) 629-2514 or
July.Hugen@twoharborsinvestment.com

# # #

**TWO HARBORS INVESTMENT CORP.**

**CONSOLIDATED BALANCE SHEETS**

(dollars in thousands, except share data)

| | March 31, 2014 | December 31, 2013 |
|---|---|---|
| | (unaudited) | (audited) |
| **ASSETS** | | |
| Available-for-sale securities, at fair value | $ 12,634,056 | $ 12,256,727 |
| Trading securities, at fair value | 1,000,312 | 1,000,180 |
| Mortgage loans held-for-sale, at fair value | 161,021 | 544,581 |
| Mortgage loans held-for-investment in securitization trusts, at fair value | 781,085 | 792,390 |
| Mortgage servicing rights, at fair value | 476,663 | 514,402 |
| Cash and cash equivalents | 1,540,431 | 1,025,487 |
| Restricted cash | 220,202 | 401,647 |
| Accrued interest receivable | 46,724 | 50,303 |
| Due from counterparties | 74,997 | 25,087 |
| Derivative assets, at fair value | 429,419 | 549,859 |
| Other assets | 60,888 | 13,199 |
| **Total Assets** | $ 17,425,798 | $ 17,173,862 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Liabilities** | | |
| Repurchase agreements | $ 12,021,177 | $ 12,250,450 |
| Collateralized borrowings in securitization trusts, at fair value | 658,953 | 639,731 |
| Federal Home Loan Bank advances | 464,476 | — |
| Derivative liabilities, at fair value | 8,395 | 22,081 |
| Accrued interest payable | 16,069 | 20,277 |
| Due to counterparties | 195,928 | 318,848 |
| Dividends payable | 95,172 | — |
| Other liabilities | 46,624 | 67,480 |
| **Total Liabilities** | 13,506,794 | 13,318,867 |
| **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 366,046,045 and 364,935,168 shares issued and outstanding, respectively | 3,660 | 3,649 |
| Additional paid-in capital | 3,801,952 | 3,795,372 |
| Accumulated other comprehensive income | 626,470 | 444,735 |
| Cumulative earnings | 999,252 | 1,028,397 |
| Cumulative distributions to stockholders | (1,512,330) | (1,417,158) |
| **Total stockholders' equity** | 3,919,004 | 3,854,995 |
| **Total Liabilities and Stockholders' Equity** | $ 17,425,798 | $ 17,173,862 |

**TWO HARBORS INVESTMENT CORP.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(dollars in thousands)

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

| | Three Months Ended March 31 | |
|---|---|---|
| | 2014 | 2013 |
| | (unaudited) | |
| **Interest income:** | | |
| Available-for-sale securities | $ 123,913 | $ 130,292 |
| Trading securities | 1,926 | 1,264 |
| Mortgage loans held-for-sale | 4,586 | 1,318 |
| Mortgage loans held-for-investment in securitization trusts | 7,893 | 1,654 |
| Cash and cash equivalents | 217 | 307 |
| Total interest income | 138,535 | 134,835 |
| **Interest expense:** | | |
| Repurchase agreements | 20,572 | 23,018 |
| Collateralized borrowings in securitization trusts | 5,353 | 818 |
| Federal Home Loan Bank advances | 153 | — |
| Total interest expense | 26,078 | 23,836 |
| Net interest income | 112,457 | 110,999 |
| Other-than-temporary impairments: | | |
| Total other-than-temporary impairment losses | (212) | (236) |
| Non-credit portion of loss recognized in other comprehensive income | — | — |
| Net other-than-temporary credit impairment losses | (212) | (236) |
| **Other income:** | | |
| (Loss) gain on investment securities | (38,655) | 26,968 |
| (Loss) gain on interest rate swap and swaption agreements | (105,528) | 18,972 |
| Gain (loss) on other derivative instruments | 5,801 | (16,662) |
| (Loss) gain on mortgage loans held-for-sale | (3,181) | 14,323 |
| Servicing income | 30,441 | — |
| Loss on servicing asset | (32,760) | — |
| Other income | 460 | 6,289 |
| Total other (loss) income | (143,422) | 49,890 |
| **Expenses:** | | |
| Management fees | 12,111 | 4,761 |
| Securitization deal costs | — | 2,028 |
| Servicing expenses | 5,225 | 31 |
| Other operating expenses | 14,534 | 6,530 |
| Total expenses | 31,870 | 13,350 |
| **(Loss) income from continuing operations before income taxes** | (63,047) | 147,303 |
| (Benefit from) provision for income taxes | (33,902) | 4,964 |
| **Net (loss) income from continuing operations** | (29,145) | 142,339 |
| Income from discontinued operations | — | 1,377 |
| **Net (loss) income attributable to common stockholders** | $ (29,145) | $ 143,716 |

**TWO HARBORS INVESTMENT CORP.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(dollars in thousands)

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

| | Three Months Ended March 31 | |
|---|---|---|
| | 2014 | 2013 |
| | (unaudited) | |
| **Basic (loss) earnings per weighted average common share:** | | |
| Continuing operations | $ (0.08) | $ 0.47 |
| Discontinued operations | — | — |
| Net (loss) income | $ (0.08) | $ 0.47 |
| **Diluted (loss) earnings per weighted average common share:** | | |
| Continuing operations | $ (0.08) | $ 0.47 |
| Discontinued operations | — | — |
| Net (loss) income | $ (0.08) | $ 0.47 |
| **Dividends declared per common share** | $ 0.26 | $ 0.32 |
| **Weighted average number of shares of common stock:** | | |
| Basic | 365,611,890 | 305,284,922 |
| Diluted | 365,611,890 | 306,963,711 |
| **Comprehensive income:** | | |
| **Net (loss) income** | $ (29,145) | $ 143,716 |
| **Other comprehensive income:** | | |
| Unrealized gain on available-for-sale securities, net | 181,735 | 104,252 |
| Other comprehensive income | 181,735 | 104,252 |
| **Comprehensive income** | $ 152,590 | $ 247,968 |

**TWO HARBORS INVESTMENT CORP.**

**RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION**

(dollars in thousands, except share data)

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (unaudited) | |
| Reconciliation of net income attributable to common stockholders to Core Earnings: | | |
| Net (loss) income attributable to common stockholders | $ (29,145) | $ 143,716 |
| Adjustments for non-core earnings: | | |
| Loss (gain) on sale of securities and mortgage loans, net of tax | 38,476 | (19,161) |
| Unrealized loss (gain) on trading securities, equity securities and mortgage loans held-for-sale, net of tax | 2,293 | (17,077) |
| Other-than-temporary impairment loss, net of tax | 212 | 236 |
| Realized loss on termination or expiration of swaps and swaptions, net of tax | 1,981 | 58,554 |
| Unrealized loss (gain), net of tax, on interest rate swap and swaptions economically hedging repurchase agreements, TBAs, MSRs and available-for-sale securities | 59,687 | (84,984) |
| (Gain) loss on other derivative instruments, net of tax | (4,654) | 14,011 |
| Gain (loss) on financing securitizations | (313) | (6,289) |
| Unrealized loss, net of tax, on mortgage servicing rights | 19,406 | — |
| Securitization deal costs | — | 2,028 |
| (Income) loss from discontinued operations | — | (1,377) |
| Amortization of business combination intangible assets, net of tax | $ 260 | $ — |
| Core Earnings | $ 88,203 | $ 89,657 |
| Weighted average shares outstanding - Basic | 365,611,890 | 305,284,922 |
| Weighted average shares outstanding - Diluted | 365,611,890 | 306,963,711 |
| Core Earnings per weighted average share outstanding - diluted | $ 0.24 | $ 0.29 |

**TWO HARBORS INVESTMENT CORP.**

**SUMMARY OF QUARTERLY CORE EARNINGS**

(dollars in millions, except per share data)

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

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2014 | December 31, 2013 | September 30, 2013 | June 30, 2013 | March 31, 2013 |
| | (unaudited) | | | | |
| Net Interest Income: | | | | | |
| Interest income | $ 138.5 | $ 137.4 | $ 138.0 | $ 145.3 | $ 134.8 |
| Interest expense | 26.0 | 26.9 | 24.9 | 24.7 | 23.8 |
| Net interest income | 112.5 | 110.5 | 113.1 | 120.6 | 111.0 |
| Other income: | | | | | |
| Interest spread on interest rate swaps | (13.8) | (10.1) | (15.1) | (19.4) | (14.0) |
| Interest spread on other derivative instruments | 4.7 | (2.4) | (7.5) | (1.5) | 2.9 |
| Servicing income, net of amortization(1) | 17.9 | 5.2 | 1.2 | 0.3 | — |
| Other income | 0.2 | 0.4 | — | — | 0.2 |
| Total other (loss) income | 9.0 | (6.9) | (21.4) | (20.6) | (10.9) |
| Expenses | 31.5 | 26.2 | 22.1 | 22.1 | 11.3 |
| Core Earnings before income taxes | 90.0 | 77.4 | 69.6 | 77.9 | 88.8 |
| Income tax expense (benefit) | 1.8 | 1.0 | 1.9 | (0.2) | (0.9) |
| **Core Earnings** | $ 88.2 | $ 76.4 | $ 67.7 | $ 78.1 | $ 89.7 |
| Basic and diluted weighted average Core EPS | $ 0.24 | $ 0.21 | $ 0.19 | $ 0.21 | $ 0.29 |

(1) Amortization refers to the portion of change in fair value of MSR primarily attributed to the realization of expected cash flows (runoff) of the portfolio. This amortization has been deducted from Core Earnings. Amortization of MSR is deemed a non-GAAP measure due to the company’s decision to account for MSR at fair value.


First Quarter 2014 Earnings Call
May 8, 2014
TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

# Safe Harbor Statement

## FORWARD-LOOKING STATEMENTS

This presentation includes "forward-looking statements" within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Actual results may differ from expectations, estimates and projections and, consequently, readers should not rely on these forward-looking statements as predictions of future events. Words such as "expect," "target," "assume," "estimate," "project," "budget," "forecast," "anticipate," "intend," "plan," "may," "will," "could," "should," "believe," "predicts," "potential," "continue," and similar expressions are intended to identify such forward-looking statements. These forward-looking statements involve significant risks and uncertainties that could cause actual results to differ materially from expected results, including, among other things, those described in our Annual Report on Form 10-K for the year ended December 31, 2013, and any subsequent Quarterly Reports on form 10-Q, under the caption "Risk Factors." Factors that could cause actual results to differ include, but are not limited to, higher than expected operating costs, changes in prepayment speeds of mortgages underlying our residential mortgage-backed securities (RMBS), the rates of default or decreased recovery on the mortgages underlying our non-Agency securities, failure to recover credit losses in our portfolio, changes in interest rates and the market value of our assets, the availability of financing, the availability of target assets at attractive prices, our ability to manage various operational risks associated with our business, our ability to maintain our REIT qualification, limitations imposed on our business due to our REIT status and our exempt status under the Investment Company Act of 1940, the impact of new legislation or regulatory changes on our operations, the impact of any deficiencies in the servicing or foreclosure practices of third parties and related delays in the foreclosure process, our ability to acquire mortgage loans or securitize the mortgage loans we acquire, our involvement in securitization transactions, the timing and profitability of our securitization transactions, the risks associated with our securitization transactions, our ability to acquire mortgage servicing rights, the impact of new or modified government mortgage refinance or principal reduction programs, unanticipated changes in overall market and economic conditions, and our exposure to claims and litigation, including litigation arising from our involvement in securitization transactions and investments in mortgage servicing rights.

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 (SEC). 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.

This presentation may include industry and market data obtained through research, surveys, and studies conducted by third parties and industry publications. We have not independently verified any such market and industry data from third-party sources. This presentation is provided for discussion purposes only and may not be relied upon as legal or investment advice, nor is it intended to be inclusive of all the risks and uncertainties that should be considered. This presentation does not constitute an offer to purchase or sell any securities, nor shall it be construed to be indicative of the terms of an offer that the parties or their respective affiliates would accept.

Readers are advised that the financial information in this presentation is based on company data available at the time of this presentation and, in certain circumstances, may not have been audited by the company's independent auditors.

# Executive Summary

## FIRST QUARTER 2014 RESULTS – STRONG RETURN ON BOOK VALUE

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

## ADVANCING STRATEGIC INITIATIVES

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

(1) See Appendix page 14 for calculation of first quarter return on book value.
(2) Core Earnings is a non-GAAP measure that we define as GAAP net income, excluding impairment losses, gains or losses on sales of securities and termination of interest rate swaps, unrealized gains or losses on the aggregate portfolio, certain non-recurring gains and losses related to discontinued operations and amortization of business combination intangible assets, and certain non-recurring upfront costs related to securitization transactions. As defined, Core Earnings includes interest income associated with our inverse interest-only securities (IIOs or Agency Derivatives), premium income or loss on credit default swaps, and servicing income, net of estimated amortization on MSR. Core Earnings is provided for purposes of comparability to other peer issuers. For a reconciliation of GAAP to non-GAAP financials, please refer to the GAAP to non-GAAP reconciliation table in the Appendix on slide 17.

# Macroeconomic & Policy Considerations

### MACROECONOMIC CONSIDERATIONS

- Unemployment recovery
- Home price appreciation continues

### POLICY CONSIDERATIONS:

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

# Book Value

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

First quarter Comprehensive Income of $152.6 million

Cash dividend of $0.26 per common share

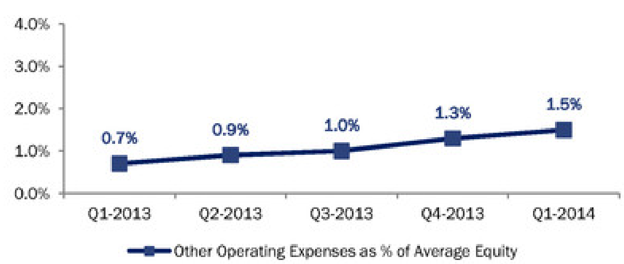
# Financial Summary

## Q1-2014 FINANCIAL HIGHLIGHTS

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

## CORE EARNINGS[1]


## EXPENSE RATIO




## Q1-2014 ACCOUNTING MATTERS

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

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

# Financing Profile[1]

## FEDERAL HOME LOAN BANK OF DES MOINES

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

## REPURCHASE AGREEMENTS

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

(1) Data as of March 31, 2014.

# Portfolio Performance Summary

## Q1-2014 PERFORMANCE HIGHLIGHTS

### TOTAL RETURN ON BOOK VALUE OF 3.9%[(1)]

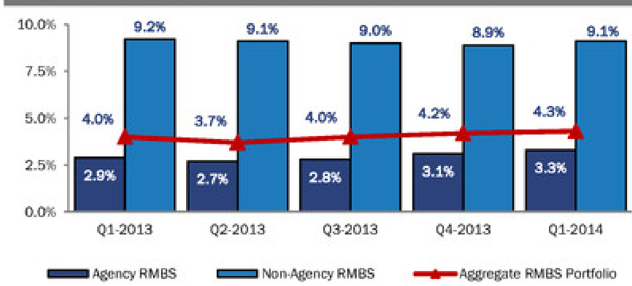
### RATES PERFORMANCE

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

### CREDIT PERFORMANCE

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

## ANNUALIZED YIELDS BY RMBS PORTFOLIO[(4)]



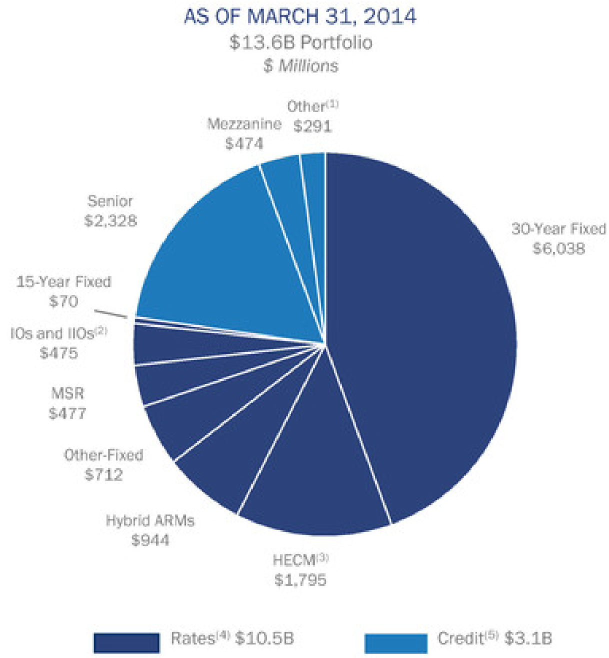

## Q1-2014 NET INTEREST YIELD

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

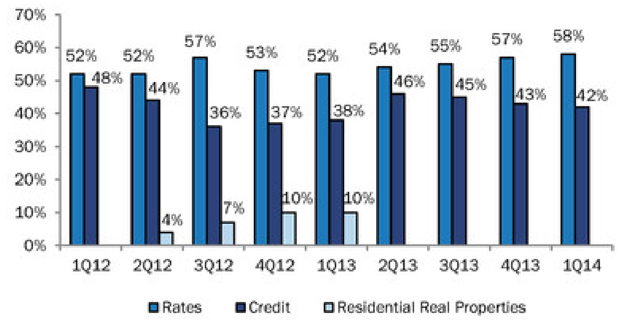
(1) See Appendix page 14 for calculation of first quarter return on book value.
(2) Assets in "Rates" include Agency RMBS, Agency Derivatives and MSR.
(3) Assets in "Credit" include non-Agency RMBS, prime jumbo residential mortgage loans, net economic interest in securitization trusts and CSL.
(4) Agency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

# Portfolio Composition

## PORTFOLIO COMPOSITION




## TARGETED CAPITAL ALLOCATION




## Q1-2014 HIGHLIGHTS

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

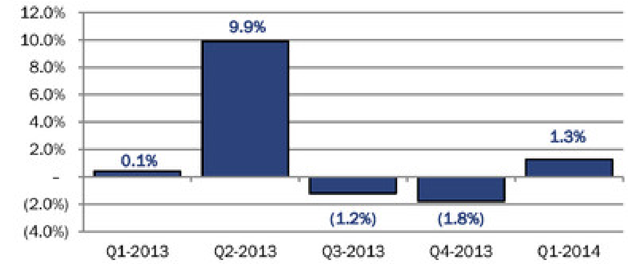
(1) Assets in "Other" include prime jumbo residential mortgage loans, CSL, net economic interest in securitization trusts and non-Agency IOs.
(2) Includes IIOs (or Agency Derivatives) of $210.3 million.
(3) HECM are loans that allow the homeowner to convert home equity into cash collateralized by the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

# Key Portfolio Metrics

## Q1-2014 PORTFOLIO METRICS

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

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




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

## Q1-2014 HEDGING STRATEGY

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

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

# Mortgage Servicing Rights

## Q1-2014 REVIEW

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

## BUSINESS UPDATE

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

# Mortgage Loan Conduit and Securitization

## PRIME JUMBO INITIATIVE EXPANDING

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

## EVALUATING OPPORTUNITY IN NON-QM MARKET

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

# Appendix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# Return on Book Value

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

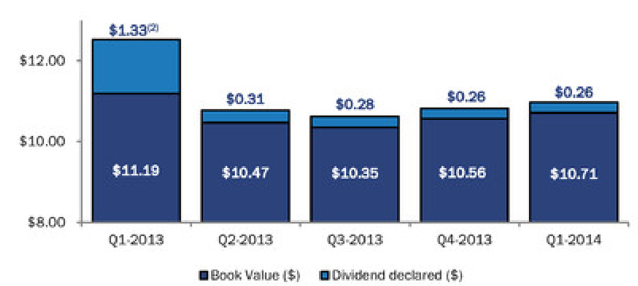
Note: Diluted shares outstanding at end of period are used as the denominator for book value per share calculation.

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

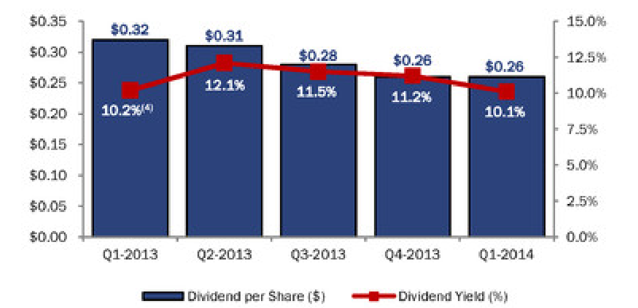
# Financial Performance

## COMPREHENSIVE INCOME (LOSS)

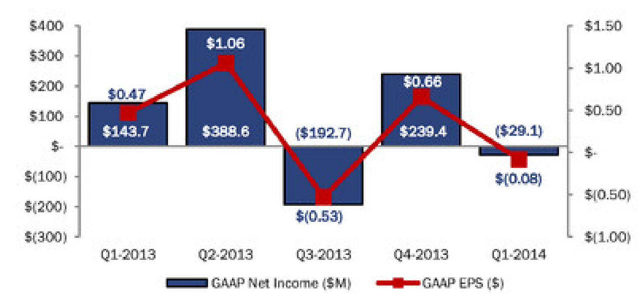

## BOOK VALUE AND DIVIDEND PER SHARE[1]




## DIVIDENDS[3]




## GAAP NET INCOME (LOSS)




(1) Diluted shares outstanding at end of period, which includes the effect of dilutive outstanding warrants determined using the treasury stock method, are used as the denominator for book value per share calculation.
(2) Includes cash dividend of $0.32 per share and the Silver Bay common stock distribution amounting to $1.01 per share, as measured in accordance with GAAP.
(3) Historical dividends may not be indicative of future dividend distributions. The company ultimately distributes dividends based on its taxable income per common share, not GAAP earnings. The annualized dividend yield on the company's common stock is calculated based on the closing price of the last trading day of the relevant quarter.
(4) Dividend yield based on cash dividend of $0.32 per share only. Does not include Silver Bay common stock distribution.

# Operating Performance

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

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

# GAAP to Core Earnings Reconciliation

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

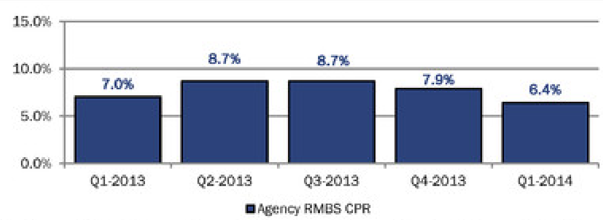
# Rates: Agency RMBS Metrics

## AGENCY PORTFOLIO YIELDS AND METRICS

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

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

## AGENCY RMBS CPR[5]




## AGENCY PORTFOLIO COMPOSITION

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

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

# Rates: Agency RMBS

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

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

# Rates: Mortgage Servicing Rights

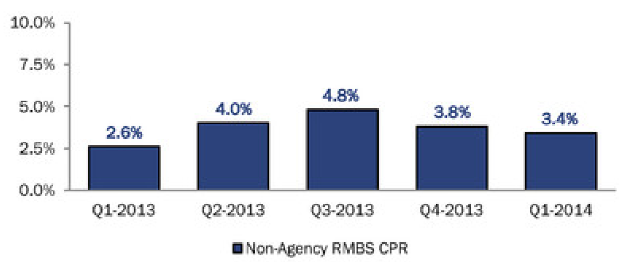
| | As of Dec. 31, 2013 | As of Mar. 31, 2014 |
|---|---|---|
| Fair Value ($M) | $514.4 | $476.7 |
| Unpaid Principal Balance ($M) | $42,324.3 | $41,596.3 |
| Weighted Average Coupon | 3.9% | 3.9% |
| Original FICO Score | 734 | 738 |
| Original LTV | 76% | 75% |
| 60+ Day Delinquencies | 0.9% | 1.0%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

# Credit: Non-Agency RMBS Metrics

## NON-AGENCY PORTFOLIO YIELDS AND METRICS

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

## NON-AGENCY RMBS CPR




## NON-AGENCY PORTFOLIO COMPOSITION

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

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

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

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

# Credit: Non-Agency RMBS

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

(1) Average purchase price utilized carrying value for weighting purposes. If current face were utilized for weighting purposes, the average purchase price for senior, mezzanine and total non-Agency RMBS, excluding our non-Agency interest-only portfolio, would have been $47.75, $56.56 and $49.11, respectively.
(2) Weighted average market price utilized current face for weighting purposes.
(3) FICO represents a mortgage industry accepted credit score of a borrower.
(4) Average credit enhancement remaining on our non-Agency RMBS portfolio, which is the average amount of protection available to absorb future credit losses due to defaults on the underlying collateral.
(5) 3-Month CPR is reflective of the prepayment speed on the underlying securitization; however, it does not necessarily indicate the proceeds received on our investment tranche. Proceeds received for each security are dependent on the position of the individual security within the structure of each deal.

# Financing[1]

## REPO MATURITIES[2]

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

## FHLB PLEDGED COLLATERAL AND MATURITIES[3]

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

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

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

# Hedging Strategy[1]

## INTEREST RATE SWAPS[2]

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

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

# Hedging Strategy[1]

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

(1) As of March 31, 2014.


TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company