

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): May 7, 2013 (May 7, 2013)

**Two Harbors Investment Corp.**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction  
of incorporation)

**001-34506**  
(Commission  
File Number)

**27-0312904**  
(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))
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**Item 2.02 Results of Operations and Financial Condition**

On May 7, 2013, Two Harbors Investment Corp. issued a press release announcing its financial results for the fiscal quarter ended March 31, 2013. A copy of the press release and the 2013 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).

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**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits

<b>Exhibit No.</b>	<b>Description</b>
99.1	Press Release, dated May 7, 2013, issued by Two Harbors Investment Corp. announcing First Quarter 2013 results.
99.2	2013 First Quarter Earnings Call Presentation

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**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, 2013



**Two Harbors Investment Corp. Reports First Quarter 2013 Financial Results**  
*Delivered Comprehensive Income of \$248.0 Million*

**NEW YORK, May 7, 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 March 31, 2013.

**Highlights**

- Delivered Comprehensive Income of \$248.0 million, or \$0.81 per diluted weighted average common share.
- Book value was \$11.19 per diluted common share, representing an 8.5%<sup>1</sup> return on book value, after accounting for a cash dividend of \$0.32 per common share and a special dividend of shares of Silver Bay Realty Trust Corp. ("Silver Bay") common stock amounting to \$1.01<sup>2</sup> per share.
- Reported Core Earnings of \$89.7 million, or \$0.29 per diluted weighted average common share.
- Completed an accretive public offering in March, which resulted in the issuance of 57.5 million shares of common stock for net proceeds of approximately \$762.9 million.
- Generated an aggregate yield of 4.0% in the RMBS portfolio, consistent with the company's expectations. Yields were driven by non-Agency portfolio performance of 9.2%.
- Reported progress regarding a number of previously-identified new business initiatives, including the acquisition of a company that has seller-servicer approvals from the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Government National Mortgage Association (Ginnie Mae) to hold and manage mortgage servicing rights (MSRs).

"We had another terrific quarter. Comprehensive income was strong, and our book value increased considerably during the first quarter after accounting for our special dividend," said Thomas Siering, Two Harbors' President and Chief Executive Officer. "We were pleased to affect the distribution of Silver Bay common stock, fulfilling our stated intention for this investment."

(1) Decrease in book value per diluted share from December 31, 2012 to March 31, 2013 of \$0.35 plus dividends declared of \$1.33 divided by December 31, 2012 diluted book value of \$11.54.

(2) The per share calculation utilized the closing price of Silver Bay common stock on March 28, 2013, which was \$20.70, multiplied by 17,824,647 shares of Silver Bay common stock, divided by Two Harbors' shares outstanding of 365,065,756 on the record date, April 2, 2013. The dividend per share received by a stockholder for tax purposes was approximately \$0.95 per share, which utilized the closing share price of Silver Bay common stock on the payable date, April 24, 2013, adjusted for the shares sold in open market and converted to cash proceeds which were distributed in lieu of fractional shares.

## Operating Performance

The following table summarizes the company's GAAP and non-GAAP earnings measurements and key metrics for the first quarter 2013:

<b>Two Harbors Operating Performance</b>			
(dollars in thousands, except per share data)		Q1-2013	
	Earnings	Per diluted weighted share	Annualized return on average equity
<b>Earnings</b>			
Core Earnings <sup>1</sup>	\$ 89,657	\$ 0.29	9.7%
GAAP Net Income	\$ 143,716	\$ 0.47	15.6%
Comprehensive Income	\$ 247,968	\$ 0.81	26.9%
<b>Operating Metrics</b>			
	Q1-2013		
Dividend per common share	\$ 0.32		
Special dividend declaration - Silver Bay common stock <sup>2</sup>	\$ 1.01		
Book value per diluted share at period end	\$ 11.19		
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, certain non-recurring gains and losses related to discontinued operations, 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") and premium income or loss on credit default swaps.

(2) The per share calculation utilized the closing price of Silver Bay common stock on March 28, 2013, which was \$20.70, multiplied by 17,824,647 shares of Silver Bay common stock, divided by Two Harbors' shares outstanding of 365,065,756 on the record date, April 2, 2013. The dividend per share received by a stockholder for tax purposes was approximately \$0.95 per share, which utilized the closing share price of Silver Bay common stock on the payable date, April 24, 2013, adjusted for the shares sold in open market and converted to cash proceeds which were distributed in lieu of partial shares.

### Earnings Summary

Two Harbors reported Core Earnings for the quarter ended March 31, 2013, of \$89.7 million, or \$0.29 per diluted weighted average common share outstanding, as compared to Core Earnings for the quarter ended December 31, 2012, of \$84.0 million, or \$0.28 per diluted weighted average common share outstanding.

During the quarter, the company recognized:

- a net realized gain of \$18.9 million, net of tax, due to the sale of RMBS for \$796.6 million with an amortized cost of \$777.7 million;
- a change in unrealized fair value gains on equity securities of \$7.8 million, net of tax, and recognized a change in unrealized fair value gains on mortgage loans held-for-sale of \$9.3 million, net of tax;
- other-than-temporary credit impairment losses on its RMBS of \$0.2 million, net of tax;
- a net loss of \$58.6 million, net of tax, related to swap and swaption terminations and expirations;
- an unrealized gain, net of tax, of \$84.0 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 \$1.0 million associated with its interest rate swaps economically hedging its trading securities;
- net losses on other derivative instruments of approximately \$14.0 million, net of tax;
- a net unrealized gain of \$6.3 million on mortgage loans held-for-investment and collateralized borrowings in securitization trust, net of tax;
- securitization deal costs of \$2.0 million, net of tax; and
- income from discontinued operations of \$1.3 million, net of tax.

The company reported GAAP Net Income of \$143.7 million, or \$0.47 per diluted weighted average common share outstanding, for the quarter ended March 31, 2013, as compared to \$189.3 million, or \$0.64 per diluted weighted average common share outstanding, for the quarter ended December 31, 2012. On a GAAP basis, the company earned an annualized return on average equity of 15.6% and 22.1% for the quarters ended March 31, 2013 and December 31, 2012, respectively.

The company reported Comprehensive Income of \$248.0 million, or \$0.81 per diluted weighted average common share outstanding, for the quarter ended March 31, 2013, as compared to \$185.4 million, or \$0.63 per diluted weighted average common share outstanding, for the quarter ended December 31, 2012. 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 26.9% and 21.6% for the quarters ended March 31, 2013 and December 31, 2012, respectively.

#### Other Key Metrics

During the quarter, Two Harbors declared a quarterly cash dividend of \$0.32 per common share, and also declared a special dividend of shares of Silver Bay common stock, which amounted to \$1.01<sup>3</sup> per common share. As previously announced on March 18, 2013, the company's board of directors declared a special dividend pursuant to which the company distributed, on a pro rata basis, 17,824,647 shares of Silver Bay common stock to Two Harbors stockholders of record at the close of business as of April 2, 2013. This distribution was payable on or about April 24, 2013.

The company's book value per diluted share, after taking into account the first quarter 2013 dividend of \$1.33<sup>4</sup>, was \$11.19 as of March 31, 2013, compared to \$11.54 as of December 31, 2012.

Other operating expenses for the first quarter 2013 were approximately \$6.6 million, or 0.7% of average equity, compared to approximately \$6.3 million, or 0.7% of average equity, for the fourth quarter 2012.

#### **Portfolio Summary**

For the quarter ended March 31, 2013, 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 is equivalent to the prior quarter.

The company reported debt-to-equity, defined as total borrowings to fund RMBS securities, mortgage loans held-for-sale and Agency Derivatives divided by total equity, of 3.1:1.0 and 3.4:1.0 at March 31, 2013 and December 31, 2012, respectively.

The company's portfolio is principally comprised of RMBS available-for-sale securities and Agency Derivatives. As of March 31, 2013, the total value of the portfolio was \$15.3 billion, of which approximately \$12.3 billion was Agency RMBS and Agency Derivatives and \$3.0 billion was non-Agency RMBS. As of March 31, 2013, fixed-rate securities composed 79.7% of the company's portfolio and adjustable-rate securities composed 20.3% 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 March 31, 2013.

Two Harbors was a party to interest rate swaps and swaptions as of March 31, 2013 with an aggregate notional amount of \$22.5 billion, of which \$21.5 billion was utilized to economically hedge interest rate risk associated with the company's short-term LIBOR-based repurchase agreements.

(3) The per share calculation utilized the closing price of Silver Bay common stock on March 28, 2013, which was \$20.70, multiplied by 17,824,647 shares of Silver Bay common stock, divided by Two Harbors' shares outstanding of 365,065,756 on the record date, April 2, 2013. The dividend per share received by a stockholder for tax purposes was approximately \$0.95 per share, which utilized the closing share price of Silver Bay common stock on the payable date, April 24, 2013, adjusted for the shares sold in open market and converted to cash proceeds which were distributed in lieu of fractional shares.

(4) Includes cash dividend of \$0.32 per share and Silver Bay distribution amounting to \$1.01 per share.

The following table summarizes the company's investment portfolio:

<b>Two Harbors Portfolio</b>		
(dollars in thousands, except per share data)		
RMBS and Agency Derivatives Portfolio Composition		As of March 31, 2013
Agency Bonds		
Fixed Rate Bonds	\$	11,750,898 76.9%
Hybrid ARMs		181,657 1.2%
Total Agency		11,932,555 78.1%
Agency Derivatives		
		309,740 2.1%
Non-Agency Bonds		
Senior Bonds		2,450,813 16.0%
Mezzanine Bonds		576,205 3.8%
Non-Agency Other		3,958 —%
Total Non-Agency		3,030,976 19.8%
Aggregate Portfolio		
	\$	15,273,271
Fixed-rate investment securities as a percentage of aggregate portfolio		
		79.7%
Adjustable-rate investment securities as a percentage of aggregate portfolio		
		20.3%
Portfolio Metrics		For the Quarter Ended March 31, 2013
Annualized yield on average RMBS and Agency Derivatives during the quarter		
Agency		2.9%
Non-Agency		9.2%
Aggregate Portfolio		4.0%
Annualized cost of funds on average repurchase balance during the quarter <sup>1</sup>		
		1.1%
Annualized interest rate spread for aggregate portfolio during the quarter		
		2.9%
Weighted average cost basis of principal and interest securities		
Agency	\$	107.83
Non-Agency <sup>2</sup>	\$	52.25
Weighted average three month CPR for its RMBS and Agency Derivative portfolio		
Agency		7.0%
Non-Agency		2.6%
Debt-to-equity ratio at period-end <sup>3</sup>		
		3.1 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 \$48.56 at March 31, 2013.

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

“Our non-Agency portfolio performed well in the first quarter, driving our strong overall performance,” said Bill Roth, Two Harbors' Chief Investment Officer. “We believe our existing portfolio combined with new initiatives will enable us to deliver value to stockholders going forward.”

The company experienced a three-month average Constant Prepayment Rate (CPR) of 7.0% for Agency RMBS and Agency Derivatives held as of March 31, 2013, as compared to 6.6% for securities held as of December 31, 2012. The weighted average cost basis of the Agency portfolio was 107.8% of par as of March 31, 2013, and 108.2% as of December 31, 2012. The net premium amortization was \$38.1 million and \$43.9 million for the quarters ended March 31, 2013 and December 31, 2012, respectively.



The company experienced a three-month average CPR of 2.6% for non-Agency RMBS held as of March 31, 2013, as compared to 3.2% for such securities held as of December 31, 2012. The weighted average cost basis of the non-Agency portfolio was 52.3% of par as of March 31, 2013, and 52.2% of par as of December 31, 2012. The discount accretion was \$35.3 million and \$37.3 million for the quarters ended March 31, 2013 and December 31, 2012, respectively. The total net discount remaining was \$2.3 billion as of both March 31, 2013, and December 31, 2012, with \$1.4 billion designated as credit reserve as of March 31, 2013.

### ***New Business Initiatives***

#### **Mortgage Loan Conduit and Securitization**

During the quarter, the company participated in a securitization through which it acquired subordinated debt and excess servicing rights from a securitization trust issued by a third party. Due to certain control rights the company holds and management's conclusion that the company is the primary beneficiary of the trust, the underlying prime jumbo residential mortgage loans are classified on the company's balance sheet as mortgage loans held-for-investment in securitization trust and the underlying debt is classified as collateralized borrowings in securitization trust. As of March 31, 2013, the company had mortgage loans held-for-investment with a carrying value of \$434.1 million and the company's collateralized borrowings had a carrying value of \$397.2 million.

As of March 31, 2013, the company held prime jumbo residential mortgage loans held-for-sale with a carrying value of \$69.2 million and had outstanding purchase commitments to acquire an additional \$8.7 million. The company's intention in the future is to securitize these loans and/or exit through a whole loan sale.

#### **Mortgage Servicing Rights (MSRs)**

In mid-March, the company announced that one of its wholly-owned subsidiaries had been approved by Freddie Mac as a servicer in its home mortgage (1-4 unit) program. This approval allows the company to invest in MSRs on mortgage loans guaranteed by Freddie Mac.

In early May, the company announced that another of its wholly-owned subsidiaries had acquired a company that has seller-servicer approvals from Fannie Mae, Freddie Mac and Ginnie Mae to hold and manage MSRs. The company believes this acquisition will greatly aid in the company's efforts to advance its investments in MSRs.

### ***New Investment Initiatives***

#### **Credit Sensitive Loans (CSLs)**

In early 2013, the company began acquiring credit sensitive loans (CSLs), which are loans that are currently performing, but where the borrower has previously experienced payment delinquencies and is more likely to be underwater (i.e., the amount owed on a mortgage loan exceeds the current market value of the home). As a result, the probability of default on CSLs is higher than on newly originated mortgage loans. As of March 31, 2013, the company had acquired CSLs with a carrying value of \$123.2 million. The company's intention in the future is to either securitize these loans or hold them in an alternative financing structure.

**Warrants**

During the first quarter 2013, warrant holders exercised warrants to purchase approximately 5.8 million shares of the company's common stock. This resulted in proceeds to the company totaling approximately \$63.8 million.

On April 2, 2013, the company announced certain adjustments to the terms of its outstanding warrants as a result of the special dividend of shares of Silver Bay common stock to Two Harbors stockholders. Under the terms of the Warrant Agreement governing the warrants to purchase shares of the company's common stock, the declaration of the Silver Bay common stock dividend by the company triggered an adjustment to (1) the exercise price per warrant share payable upon exercise of the warrants (previously, \$11.00 per warrant share), and (2) the number of shares of Two Harbors common stock issuable upon exercise of the warrants and payment of the exercise price therefore (previously, one share of common stock was issued for each warrant share exercised). As a result, the exercise price is now \$10.25 per warrant share and, upon exercise, a warrant holder will receive 1.0727 shares of Two Harbor's common stock for each warrant exercised.

As of March 31, 2013, approximately 7.6 million warrants remained outstanding. The warrants expire on November 7, 2013.

**Public Stock Offering**

The company completed an accretive public offering in March 2013, which resulted in the issuance of 57.5 million shares of common stock for net proceeds of approximately \$763 million.

**Conference Call**

Two Harbors Investment Corp. will host a conference call on May 8, 2013 at 9:00 am EDT to discuss first quarter 2013 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 35291699, 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](http://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. EDT on May 8, 2013, through 12 a.m. EDT on May 16, 2013. The playback can be accessed by calling (855) 859-2056 (or (404) 537-3406 for international callers) and providing Confirmation Code 35291699. 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](http://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 11 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](http://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](mailto:July.Hugen@twoharborsinvestment.com).

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TWO HARBORS INVESTMENT CORP.  
CONSOLIDATED BALANCE SHEETS  
(dollars in thousands, except per share data)

	March 31, 2013	December 31, 2012
	(unaudited)	
<b>ASSETS</b>		
Available-for-sale securities, at fair value	\$ 14,963,531	\$ 13,666,954
Trading securities, at fair value	1,002,414	1,002,062
Equity securities, at fair value	368,970	335,638
Mortgage loans held-for-sale, at fair value	192,417	58,607
Mortgage loans held-for-investment in securitization trust, at fair value	434,068	—
Cash and cash equivalents	1,140,706	821,108
Restricted cash	277,428	302,322
Accrued interest receivable	47,089	42,613
Due from counterparties	15,499	39,974
Derivative assets, at fair value	511,749	462,080
Other assets	49,020	82,586
Total Assets	<u>\$ 19,002,891</u>	<u>\$ 16,813,944</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Repurchase agreements	\$ 13,444,565	\$ 12,624,510
Collateralized borrowings in securitization trust, at fair value	397,229	—
Derivative liabilities, at fair value	45,423	129,294
Accrued interest payable	19,348	19,060
Due to counterparties	535,971	412,861
Accrued expenses	9,485	13,295
Dividends payable	485,791	164,347
Total Liabilities	<u>\$ 14,937,812</u>	<u>\$ 13,363,367</u>
<b>Stockholders' Equity</b>		
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 362,142,394 and 298,813,258 shares issued and outstanding, respectively	3,621	2,988
Additional paid-in capital	3,774,548	2,948,345
Accumulated other comprehensive income	800,710	696,458
Cumulative earnings	593,074	449,358
Cumulative distributions to stockholders	(1,106,874)	(646,572)
Total Stockholders' Equity	<u>4,065,079</u>	<u>3,450,577</u>
Total Liabilities and Stockholders' Equity	<u>\$ 19,002,891</u>	<u>\$ 16,813,944</u>

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 March 31,	
	2013	2012
	(unaudited)	
<b>Interest income:</b>		
Available-for-sale securities	\$ 130,292	\$ 84,214
Trading securities	1,264	1,050
Mortgage loans held-for-sale	1,318	69
Mortgage loans held-for-investment in securitization trust, at fair value	1,654	—
Cash and cash equivalents	307	168
<b>Total Interest Income</b>	<b>134,835</b>	<b>85,501</b>
<b>Interest expense:</b>		
Repurchase agreements	23,018	11,467
Collateralized borrowings in securitization trust	818	—
<b>Total Interest Expense</b>	<b>23,836</b>	<b>11,467</b>
<b>Net Interest Income</b>	<b>110,999</b>	<b>74,034</b>
Other-than-temporary impairment losses	(236)	(4,275)
<b>Other income:</b>		
Gain on investment securities	26,968	9,931
Gain (loss) on interest rate swap and swaption agreements	18,972	(16,193)
Loss on other derivative instruments	(16,662)	(8,903)
Gain (loss) on mortgage loans held-for-sale	14,323	(32)
Gain on mortgage loans held-for-investment and collateralized borrowings in securitization trust	6,289	—
<b>Total Other Income (Loss)</b>	<b>49,890</b>	<b>(15,197)</b>
<b>Expenses:</b>		
Management fees	4,761	6,743
Securitization deal costs	2,028	—
Other operating expenses	6,561	3,550
<b>Total Expenses</b>	<b>13,350</b>	<b>10,293</b>
<b>Income from continuing operations before income taxes</b>	<b>147,303</b>	<b>44,269</b>
Provision for (benefit from) income taxes	4,964	(7,577)
<b>Net income from continuing operations</b>	<b>142,339</b>	<b>51,846</b>
Income (loss) from discontinued operations	1,377	(46)
<b>Net income attributable to common stockholders</b>	<b>\$ 143,716</b>	<b>\$ 51,800</b>
<b>Basic earnings (loss) per weighted average common share</b>		
Continuing operations	\$ 0.47	\$ 0.28
Discontinued operations	—	—
<b>Net income</b>	<b>\$ 0.47</b>	<b>\$ 0.28</b>

## 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 March 31,	
	2013	2012
	(unaudited)	
<b>Diluted earnings per weighted average common share</b>		
Continuing operations	\$ 0.47	\$ 0.28
Discontinued operations	—	—
Net income	\$ 0.47	\$ 0.28
<b>Dividends declared per common share</b>	\$ 0.32	\$ 0.40
Weighted average shares outstanding - Basic	305,284,922	186,855,589
Weighted average shares outstanding - Diluted	306,963,711	186,855,589
Comprehensive income:		
Net income	\$ 143,716	\$ 51,800
Other comprehensive income:		
Unrealized gain on available-for-sale securities, net	104,252	143,910
Other comprehensive income	104,252	143,910
Comprehensive income	\$ 247,968	\$ 195,710

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	
	March 31,	
	2013	2012
Reconciliation of net income attributable to common stockholders to		
Core Earnings:		
Net income attributable to common stockholders	\$ 143,716	\$ 51,800
Adjustments for non-core earnings:		
Gain on sale of securities and mortgage loans, net of tax	(19,161)	(11,103)
Unrealized (gain) loss on trading securities, equity securities and mortgage loans, net of tax	(17,077)	803
Other-than-temporary impairment loss, net of tax	236	4,275
Realized loss on termination or expiration of swaps and swaptions, net of tax	58,554	9,843
Unrealized gain, net of tax, on interest rate swap and swaptions economically hedging repurchase agreements and available-for-sale securities	(83,957)	(4,294)
Unrealized (gain) loss, net of tax, on interest rate swap economically hedging trading securities	(1,027)	4,974
Loss on other derivative instruments, net of tax	14,011	7,433
Unrealized gain on financing securitizations	(6,289)	—
Securitization deal costs	2,028	—
(Income) loss from discontinued operations	(1,377)	46
Core Earnings	\$ 89,657	\$ 63,777
Weighted average shares outstanding - Basic	305,284,922	186,855,589
Weighted average shares outstanding - Diluted	306,963,711	186,855,589
Core Earnings per weighted average share outstanding - diluted	\$ 0.29	\$ 0.34



# Two Harbors Investment Corp.

First Quarter 2013  
Earnings Call

May 8, 2013



# Safe Harbor Statement

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## 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

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## First Quarter Results – Exceptional Economic Return

- Generated exceptional economic return in Q1-2013 with \$248 million in comprehensive income, or \$0.81 per diluted weighted average common share.
  - Comprehensive income was driven by strong non-Agency performance.
- Generated total return on book value for Q1-2013 of 8.5%<sup>1</sup>.
- Declared a dividend of \$0.32 per common share and a special dividend of Silver Bay common stock amounting to \$1.01<sup>2</sup> per share.
  - Distributed approximately 17.8 million shares of Silver Bay common stock on or about April 24, 2013 to stockholders of record on April 2, 2013. The distribution ratio for this special dividend amounted to approximately 0.049<sup>3</sup> shares of SBY common stock for each share of Two Harbors common stock, and fulfills our stated objective with this investment.
- Completed an accretive offering in March 2013, resulting in the issuance of 57.5 million shares for net proceeds of approximately \$763 million.
- Reported progress regarding a number of previously-identified new business initiatives.



(1) See Appendix page 14 for calculation of first quarter 2013 return on book value.

(2) The per share calculation utilized the closing price of Silver Bay common stock on March 28, 2013, which was \$20.70, multiplied by 17,824,647 shares of Silver Bay common stock, divided by Two Harbors' shares outstanding of 365,065,756 on the record date, April 2, 2013. The dividend per share received by a stockholder for tax purposes was approximately \$0.95 per share, which utilized the closing share price of Silver Bay common stock on the payable date, April 24, 2013, adjusted for the shares sold in open market and converted to cash proceeds which were distributed in lieu of fractional shares.

(3) Based on the shares outstanding on the record date, April 2, 2013, stockholders were entitled to receive 0.048825853 shares of Silver Bay common stock for each share of Two Harbors common stock held on that date. 3

# Macroeconomic Update

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## Key Macroeconomic Factors that Impact our Business

### Home Prices

- The U.S. housing market continues to perform well, with the CoreLogic Home Price Index +10%<sup>1</sup> on a rolling 12-month basis.

### Employment

- Unemployment is still high, which is a meaningful determinant of probability of default on a mortgage loan.
- If employment trends improve, interest rates could move higher.

### Eurozone Crisis

- The Eurozone Crisis continues to pressure global markets.

### Interest Rates

- Rates moved modestly higher in the first quarter, as economic indicators such as GDP strengthened.
- We continue to hedge against an increase in rates.

### Policy Considerations

- HARP extension through 2015
- GSE reform
- Potential new FHFA Director
- Streamlined refinancing of non-Agency loans



(1) Source: CoreLogic Home Price Index rolling 12-month change as of February 28, 2013.

# Investment Opportunities

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## Expansion of Core Competency Set

- Agency and non-Agency markets
- Progress on several new opportunities:
  - Mortgage Servicing Rights (MSRs)
  - Securitization
  - Credit Sensitive Loans (CSLs)
- Criteria for evaluating investment opportunities includes 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



# Financial Summary

## Financial Highlights

- Core Earnings<sup>1</sup> of \$0.29 per weighted average share represents an annualized ROE of 9.7%.
- GAAP Earnings of \$0.47 per weighted average share.
- Expense ratio of 0.7% is in-line with fourth quarter.
- Leverage declined to 3.1x from 3.4x at December 31, 2012, largely due to our capital raise completed on March 22, 2013.

## Expense Ratio



## Core Earnings<sup>1</sup>



## Accounting Matters

- OTTI of \$236k remains immaterial to our non-Agency RMBS portfolio.
- On-balance sheet securitization accounted for under fair value election.
- Distribution of Silver Bay common stock on April 24, 2013 resulted in a taxable realized gain of approximately \$16<sup>2</sup> million.
- Installment sales gains of \$1.4 million and reduction to management fee of \$4.3 million related to the Silver Bay contribution transaction.

(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, certain non-recurring gains and losses related to discontinued operations, 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") and premium income or loss on credit default swaps.

(2) The realized gain utilized the closing price on April 24, 2013, which was \$19.40, less the cost basis of \$18.50, multiplied by 17,824,647 shares of Silver Bay common stock.

# Book Value

Book Value	Q1-2013 Book Value (\$M)	Common Shares Outstanding	Net Book Value Per Common Share
<b>Beginning stockholders' equity</b>	\$ 3,450.6	298.8	\$ 11.55
GAAP Net Income:			
Core Earnings, net of tax	89.7		
Realized gains and losses, net of tax	(49.8)		
Unrealized mark-to-market losses, net of tax	102.4		
Discontinued Operations	1.4		
Other Comprehensive Income, net of tax	104.3		
Dividend declaration <sup>1</sup>	(460.3)		
Other	-		
<b>Balance before Capital Transactions</b>	\$ 3,238.3	298.8	
Issuance of Common Stock, Net of Offering Costs	763.0	57.5	
Proceeds from Issuance of Common Stock through Warrant Exercise	63.8	5.8	
<b>Ending stockholders' equity – basic</b>	\$ 4,065.1	362.1	11.23
Warrants outstanding <sup>2</sup>	-	1.0	(0.04)
<b>Ending stockholders' equity – diluted</b>	\$ 4,065.1	363.1	11.19

Comprehensive Income of \$248.0 million

Includes cash dividend of \$116.8 million, or \$0.32 per diluted share

Includes special dividend of \$343.5 million, which represents the market value of Silver Bay common stock held as of the date of declaration

Completed accretive public offering



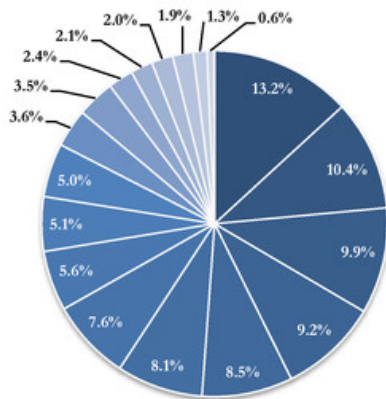
- (1) Dividend utilized the dividend declaration date of March 18, 2013; included a cash dividend of \$116.8 million and a special dividend of \$343.5 million.  
 (2) Using the treasury stock method, 1.0 million shares would be considered outstanding and dilutive to book value per share at March 31, 2013.



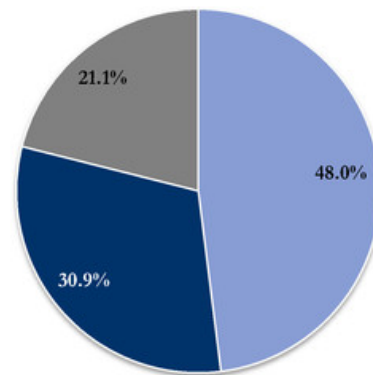
# Financing Profile

- We continue to ladder repo maturities, and average 82<sup>1</sup> days to maturity. We currently have 24 counterparties.
- The majority of repo is held with counterparties having a CDS spread of <150<sup>1</sup>, indicating low overall counterparty risk profile.
- Approximately 53%<sup>1</sup> of our Agency repo is with counterparties based in North America and 56%<sup>1</sup> of our non-Agency repo is with counterparties based in North America.

Diverse Agency Counterparties<sup>2</sup>



High-Quality Non-Agency Counterparties<sup>3</sup>



■ CDS Spread <100 ■ CDS Spread 101 to 150 ■ CDS Spread 150+



(1) As of March 31, 2013.  
 (2) Reflects the counterparty percentage of our outstanding repurchase agreements for our Agency portfolio as of March 31, 2013.  
 (3) Reflects the CDS Spread for our non-Agency portfolio repo counterparties as of March 31, 2013.

# Portfolio Performance Summary

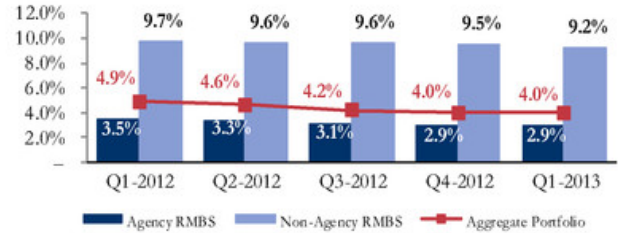
## Portfolio Highlights

- Agency portfolio underperformed as spreads widened
- Performance driven by non-Agency strategy
- Returned 8.5%<sup>1</sup> on book value, outperforming the benchmark indices shown below

## Benchmark Indices<sup>3</sup>

Sector	Q1-2013
Agency Strategy: Barclays US MBS Fixed Rate Index vs. duration-matched swap at 6:1 leverage	-0.2%
Credit: ABX 06-2 AAA	3.3%
Proxy for 50% Agency and 50% Non-Agency Strategy	1.6%
<b>Two Harbors' Return on Book Value<sup>1</sup></b>	<b>8.5%</b>

## Annualized Yields by Portfolio<sup>2</sup>



## Net Interest Spread

	Three Months Ended					
	December 31, 2012			March 31, 2013		
	Agency	Non-Agency	Aggregate Portfolio	Agency	Non-Agency	Aggregate Portfolio
Annualized Yield <sup>2</sup>	2.9%	9.5%	4.0%	2.9%	9.2%	4.0%
Cost of repurchase agreements	(0.6%)	(2.6%)	(0.7%)	(0.5%)	(2.4%)	(0.7%)
Cost of interest rate swaps & swaptions	(0.5%)	-	(0.4%)	(0.5%)	-	(0.4%)
Cost of financing	(1.1%)	(2.6%)	(1.1%)	(1.0%)	(2.4%)	(1.1%)
Net interest spread	1.8%	6.9%	<b>2.9%</b>	1.9%	6.8%	<b>2.9%</b>

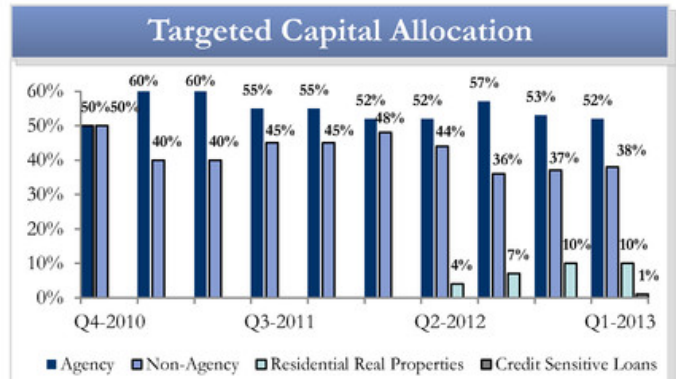
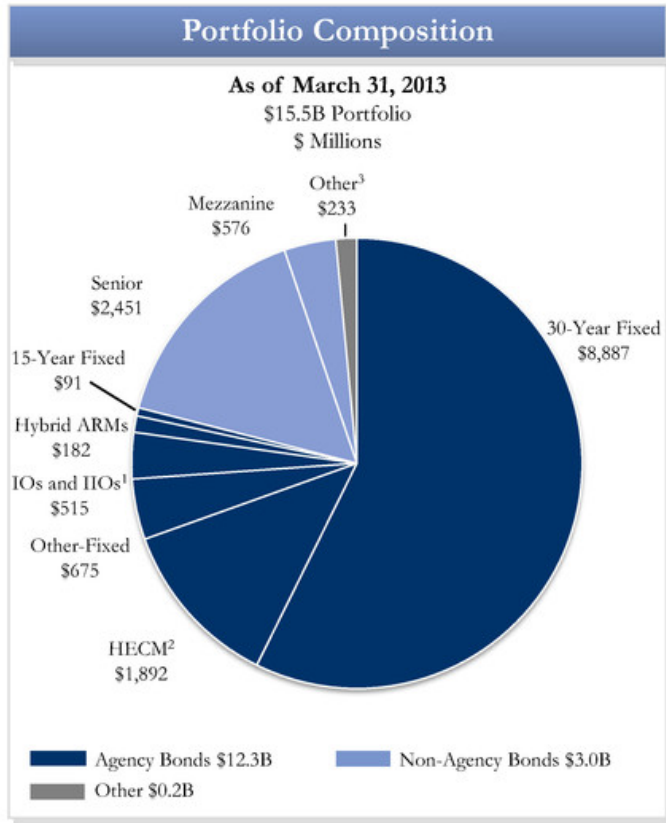
(1) See Appendix page 14 for calculation of first quarter 2013 return on book value.

(2) Agency yield includes impact of Agency Derivatives. Interest income on Agency Derivatives was \$4.0 million and \$4.4 million for the fourth quarter of 2012 and the first quarter of 2013, respectively, contributing an additional 0.1% to aggregate yields in both periods.

(3) Source for benchmark indices: Bloomberg.



# Portfolio Composition



- ### Highlights
- Non-Agency underlying performance continues to improve, still potential for upside
  - Raised capital in March, for net proceeds of approximately \$763 million
    - Approximately 75% deployed as of April 30, 2013

(1) Includes Agency Derivatives ("IIOs") of \$309.7 million.  
 (2) Home Equity Conversion Mortgage loans ("HECM") are loans that allow the homeowner to convert home equity into cash collateralized by the value of their home.  
 (3) "Other" category includes CSLs of \$123 million, prime jumbo loans of \$69 million, net economic interest in securitization of \$37 million, and non-Agency IOs of \$4 million.

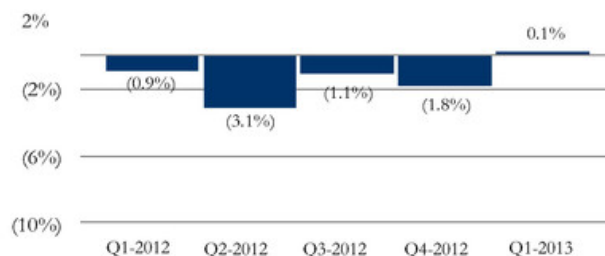
# Key Portfolio Metrics

## 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		Q4-2012	Q1-2013
Agency	Weighted average 3-month CPR <sup>1</sup>	6.6%	7.0%
	Weighted average cost basis <sup>2</sup>	\$108.2	\$107.8
Non-Agency	Weighted average 3-month CPR	3.2%	2.6%
	Weighted average cost basis <sup>2</sup>	\$52.2	\$52.3
Change in equity value for +100bps change in interest rates <sup>3</sup>		(1.8%)	0.1%
Debt-to-Equity <sup>4</sup>		3.4x	3.1x

## BV Exposure to +100 bps Change in Rates<sup>3</sup>



## Hedging Strategy

- Our portfolio has very little overall interest rate exposure.
- A parallel increase in rates, including LIBOR, would drive higher interest income.
- We have \$16.7 billion notional swaps and \$5.8 billion notional swaptions as of March 31, 2013.



(1) Agency weighted average 3-month Constant Prepayment Rate ("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 IO portfolio would be \$48.56 at March 31, 2013.  
 (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, mortgage loans held-for-sale and Agency Derivatives divided by total equity.

# Hybrid Model Provides Flexibility

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## Prime Jumbo Securitization

- Opportunity to create attractive mortgage credit investment is beneficial to shareholders
- Participated in a prime jumbo securitization in 1Q13
- Continue building aggregation capabilities

## Credit Sensitive Loans (CSLs)

- Very similar to the performing residential mortgage loans in subprime/Alt-A deals
- We will control servicing on the loans
- As of April 30, 2013, we had purchased or contracted to purchase approximately \$600 million CSLs (approximately \$450 million in market value)
- Potential to securitize and create attractive credit investments

## Mortgage Servicing Rights (MSRs)

- Natural interest rate hedge for portfolio
- Leverages strength in prepayment analysis
- We recently acquired a company with seller-servicer approvals from Fannie Mae, Freddie Mac and Ginnie Mae

## GSE Credit Investments

- Will evaluate when, and if, the GSEs move to distribute credit risk



# Appendix

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# Q1-2013 Return on Book Value of 8.5%

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## Return on book value<sup>1</sup>

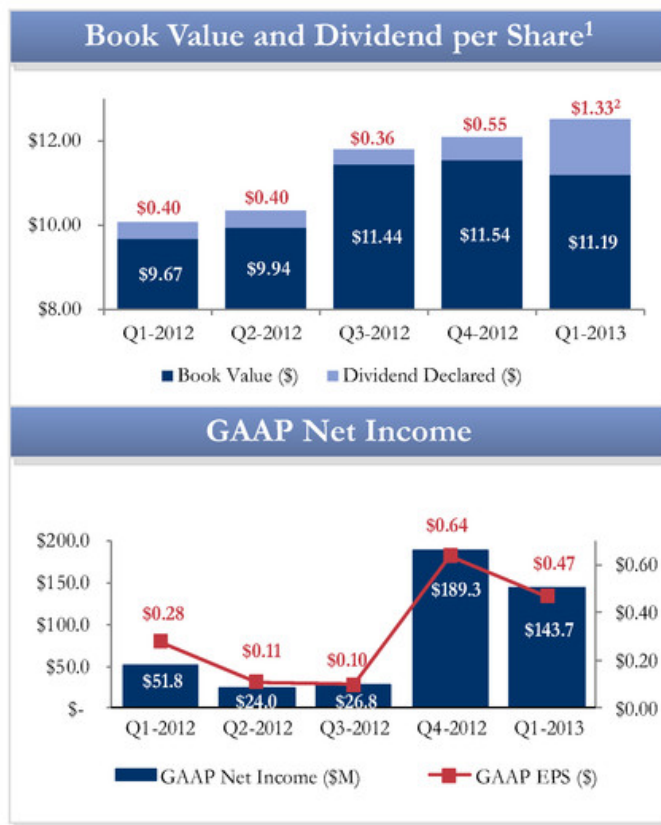
(Per diluted share amounts, except for percentage)

Book value at March 31, 2013	\$	11.19
Book value at December 31, 2012		11.54
Decrease in book value		(0.35)
Dividend declared in 1Q13 <sup>2</sup>		1.33
Return on book value (\$)	\$	0.98
Return on book value (%)		8.5%



- (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 Silver Bay common stock distribution amounting to \$1.01 per share. See page 3 for calculation of the Silver Bay common stock dividend.

# Operating Performance



(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. If basic shares outstanding were used as the denominator in the calculation, book value per share would have been \$11.23 at March 31, 2013.

(2) Includes cash dividend of \$0.32 per share and Silver Bay common stock distribution amounting to \$1.01 per share. See page 3 for calculation of the Silver Bay common stock dividend.

(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 quarter.

(4) Dividend yield based on cash dividend of \$0.32 only. Does not include Silver Bay common stock distribution, which amounted to \$1.01 per share.

# Operating Performance

Operating Performance (In millions, except for per share amounts)	Core Earnings	Realized Gains	Unrealized MTM	Q4-2012 Financials	Core Earnings	Realized Gains	Unrealized MTM	Q1-2013 Financials
Interest income	\$ 137.3	\$ -	\$ -	\$ 137.3	\$ 134.8	\$ -	\$ -	\$ 134.8
Interest expense	24.4	-	-	24.4	23.8	-	-	23.8
Net interest income	112.9	-	-	112.9	111.0	-	-	111.0
Net other-than-temporary impairment losses	-	-	(1.6)	(1.6)	-	-	(0.2)	(0.2)
Gain on investment securities	-	103.1	5.1	108.2	0.2	18.9	7.8	26.9
(Loss) gain on interest rate swap and swaptions <sup>1</sup>	(15.4)	(3.5)	12.8	(6.1)	(14.0)	(58.7)	91.7	19.0
Gain (loss) on other derivative instruments <sup>2</sup>	0.3	(21.1)	(6.5)	(27.3)	2.9	(12.7)	(6.9)	(16.7)
Gain (loss) on mortgage loans held-for-sale	-	2.1	(0.4)	1.7	-	0.4	13.9	14.3
Gain on mortgage loans held-for-investment and collateralized borrowings in securitization trust	-	-	-	-	-	-	6.3	6.3
Total other (loss) income	(15.1)	80.6	11.0	76.5	(10.9)	(52.1)	112.8	49.8
Management fees & other operating expenses	16.1	-	-	16.1	11.3	2.0	-	13.3
Net income (loss) from continuing operations before income taxes	81.7	80.6	9.4	171.7	88.8	(54.1)	112.6	147.3
Income tax benefit (expense)	2.3	7.7	0.2	10.2	0.9	4.3	(10.2)	(5.0)
<b>Net income (loss) from continuing operations</b>	<b>84.0</b>	<b>88.3</b>	<b>9.6</b>	<b>181.9</b>	<b>89.7</b>	<b>(49.8)</b>	<b>102.4</b>	<b>142.3</b>
Discontinued operations	-	7.4	-	7.4	-	1.4	-	1.4
<b>Net income (loss)</b>	<b>\$ 84.0</b>	<b>\$ 95.7</b>	<b>\$ 9.6</b>	<b>\$ 189.3</b>	<b>\$ 89.7</b>	<b>\$ (48.4)</b>	<b>\$ 102.4</b>	<b>\$ 143.7</b>
Basic and diluted weighted average EPS	\$ 0.28	\$ 0.33	\$ 0.03	\$ 0.64	\$ 0.29	\$ (0.16)	\$ 0.34	\$ 0.47

## Supplemental data:

Unrealized gains on interest rate swaps and swaptions economically hedging repurchase agreements and available-for-sale securities	\$ 11.9	\$ 90.1
Income tax benefit (expense)	0.3	(6.1)
Total	\$ 12.2	\$ 84.0

(1) First quarter 2013 loss on interest rate swap includes \$14.0 million in interest costs, of which \$1.2 million relates to swaps associated with U.S. Treasuries.

(2) Core Earnings includes \$3.8 million and \$1.5 million of net premium amortization on credit default swaps for the fourth quarter of 2012 and the first quarter of 2013, respectively.



# Silver Bay Stock Dividend<sup>1</sup>

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## Considerations for basis in Two Harbors common stock:

- On or about April 24, 2013, Two Harbors distributed shares of Silver Bay common stock that, for tax purposes, equated to \$0.95 per share. Two Harbors' stockholders of record as of April 2, 2013 were entitled to receive 0.048825853 shares of Silver Bay common stock for each share of Two Harbors' common stock (and cash in lieu of issuing fractional shares of Silver Bay common stock).
- The company intends to distribute cash in 2013 that is equal to its current and accumulated earnings and profits through December 31, 2013, in addition to the distribution of Silver Bay common stock. The cumulative quarterly 2013 distributions of cash and Silver Bay common stock that are in excess of the current and accumulated earnings and profits will be treated as a "nondividend distribution" for U.S. federal income tax purposes, which will have the effect of reducing the basis of a stockholder's shares of Two Harbors common stock.
- Each quarterly distribution during 2013 will be characterized for tax purposes as having the same percentage allocation that is designated as ordinary, capital gain, and nondividend distribution. The percentage allocation is based on the total cash and the fair market value of property distributed relative to the annual 2013 taxable income. Therefore, the nondividend distribution component will be allocated on a Form 1099 for federal income tax purposes to each dividend paid during 2013.

## Considerations for basis in Silver Bay common stock:

- Two Harbors' stockholders will have a tax basis in the distributed Silver Bay common stock of \$19.40, which was the closing price of Silver Bay common stock on April 24, 2013.
- See the Press Release "Two Harbors Investment Corp. Announces Tax Basis Information for the Distribution of Silver Bay Realty Trust Corp. Common Stock" issued April 29, 2013 for additional information.



(1) **Consult your Tax Advisor for tax advice.** The tax laws require stockholders to retain records with respect to the Distribution, including information regarding the amount, basis and fair market value relating to the Silver Bay common stock distributed. Stockholders may have additional reporting obligations to the Internal Revenue Service and/or other tax authorities. The U.S. federal income tax treatment of holding Two Harbors common stock to any particular stockholder will depend on the stockholder's particular tax circumstances. You are urged to consult your tax advisor regarding the U.S. federal, state, local and foreign income and other tax consequences to you, in light of your particular investment or tax circumstances, of acquiring, holding and disposing of Two Harbors common stock.



# Portfolio Metrics

## Portfolio Yields and Metrics

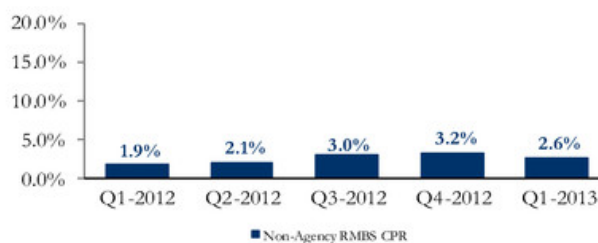
Portfolio Yield	Realized Q4-2012	At Dec 31, 2012	Realized Q1-2013	At March 31, 2013
Annualized yield <sup>1</sup>	4.0%	4.0%	4.0%	3.8%
Agency <sup>1</sup>	2.9%	2.9%	2.9%	2.9%
Non-Agency	9.5%	9.4%	9.2%	9.2%
Cost of financing <sup>2</sup>	1.1%	1.2%	1.1%	1.1%
Net interest spread	2.9%	2.8%	2.9%	2.7%

Portfolio Metrics		Q4-2012	Q1-2013
Agency	Weighted average 3-month CPR	6.6%	7.0%
	Weighted average cost basis <sup>3</sup>	\$108.2	\$107.8
Non-Agency	Weighted average 3-month CPR	3.2%	2.6%
	Weighted average cost basis <sup>3</sup>	\$52.2	\$52.3
Change in equity value for +100bps change in interest rates <sup>4</sup>		1.8%	0.1%
Debt-to-Equity <sup>5</sup>		3.4x	3.1x

## Agency RMBS CPR



## Non-Agency RMBS CPR



- (1) Agency yield includes impact of Agency Derivatives. Interest income on Agency Derivatives was \$4.0 million and \$4.4 million for the fourth quarter of 2012 and the first quarter of 2013, respectively, contributing an additional 0.1% to aggregate yields in both periods.
- (2) Cost of financing RMBS includes interest spread expense associated with the portfolio's interest rate swaps of \$14.2 million and \$12.8 million for the fourth quarter of 2012 and the first quarter of 2013, 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 \$48.56 at March 31, 2013.
- (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, mortgage loans held-for-sale and Agency Derivatives divided by total equity.

# Financing and Hedging Strategy

Interest Rate Swaps <sup>1</sup>					Financing		
March 31, 2013					Repurchase Agreements: RMBS and Agency Derivatives <sup>2</sup>		
Swaps Maturities	Notional Amounts (\$M)	Average Fixed Pay Rate	Average Receive Rate	Average Maturity (Years)	March 31, 2013 Amount (\$M)	Percent (%)	
2013	\$ 500	0.523%	0.288%	0.40	Within 30 days	\$2,014	16%
2014	900	0.316%	0.304%	0.79	30 to 59 days	4,333	35%
2015	4,000	0.386%	0.305%	1.78	60 to 89 days	2,501	20%
2016	2,550	0.583%	0.298%	2.92	90 to 119 days	2,570	21%
2017 and after	7,735	0.975%	0.294%	4.81	120 to 364 days	798	6%
	\$ 15,685	0.709%	0.298%	3.36	One year and over	200	2%
						<b>\$12,416</b>	

## Interest Rate Swaptions

March 31, 2013

Swaption	Expiration	Option			Underlying Swap			
		Cost (\$M)	Fair Value (\$M)	Average Months to Expiration	Notional Amount (\$M)	Average Fixed Pay Rate	Average Receive Rate	Average Term (Years)
Payer	< 6 Months	\$ 29.0	\$ 0.4	4.90	\$ 2,300	3.77%	3M Libor	9.5
Payer	≥ 6 Months	133.7	148.4	55.03	3,500	3.94%	3M Libor	10.0
Total Payer		\$ 162.7	\$ 148.8	52.94	\$ 5,800	3.87%	3M Libor	9.8

(1) Notional amounts do not include \$1.0 billion of notional interest rate swaps economically hedging our trading securities.

(2) Does not include repurchase agreements collateralized by U.S. Treasuries of \$1.0 billion and mortgage loans held for sale of \$23.1 million as of March 31, 2013.

# Agency Securities as of March 31, 2013

	Par Value (\$M)	Market Value (\$M)	% of Agency Portfolio	Amortized Cost Basis (\$M)	Weighted Average Coupon	Weighted Average Age (Months)
<b>30-Year Fixed</b>						
3.0-3.5%	\$ 3,811	\$ 3,960	32.4%	\$ 4,018	3.1%	6
4.0-4.5%	3,489	3,821	31.2%	3,786	4.2%	12
≥ 5.0%	989	1,106	9.0%	1,076	5.6%	51
	\$ 8,289	\$ 8,887	72.6%	\$ 8,880	4.0%	14
<b>15-Year Fixed</b>						
3.0-3.5%	\$ 80	\$ 84	0.7%	\$ 78	3.0%	29
4.0-4.5%	2	2	0.0%	2	4.0%	34
≥ 5.0%	4	5	0.0%	5	5.8%	111
	\$ 86	\$ 91	0.7%	\$ 85	3.2%	33
HECM	\$ 1,671	\$ 1,892	15.5%	\$ 1,799	4.7%	17
Hybrid ARMs	168	182	1.5%	177	3.8%	106
Other-Fixed	596	675	5.5%	645	4.7%	54
IOs and IIOs	4,328	515 <sup>(1)</sup>	4.2%	505	4.8%	74
<b>Total</b>	<b>\$ 15,138</b>	<b>\$ 12,242</b>	<b>100.0%</b>	<b>\$ 12,091</b>	<b>4.1%</b>	<b>21</b>



(1) Represents the market value of \$206 million of IOs and \$310 million of Agency Derivatives as of March 31, 2013.

# Non-Agency Securities as of March 31, 2013

	Senior Bonds	Mezzanine Bonds	Total P&I Bonds
<b>Portfolio Characteristics</b>			
Carrying Value (\$M)	\$2,451	\$576	\$3,027
% of Non-Agency Portfolio	81.0%	19.0%	100.0%
Average Purchase Price <sup>1</sup>	\$51.05	\$57.35	\$52.25
Average Coupon	1.8%	1.3%	1.7%
<b>Collateral Attributes</b>			
Average Loan Age (months)	78	98	82
Average Loan Size (\$K)	\$249	\$182	\$236
Average Original Loan-to-Value	77.1%	76.2%	77.0%
Average Original FICO <sup>2</sup>	632	634	632
<b>Current Performance</b>			
60+ Day Delinquencies	36.8%	31.3%	35.7%
Average Credit Enhancement <sup>3</sup>	13.2%	30.0%	16.4%
3-Month CPR <sup>4</sup>	2.4%	3.4%	2.6%



- (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 \$47.23, \$55.18 and \$48.56, respectively, at March 31, 2013.
- (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 March 31, 2013

Agency: Vintage & Prepayment Protection	Q4-2012	Q1-2013	
High LTV (predominately MHA) <sup>1</sup>	27%	27%	} Implicit or Explicit Prepayment Protection
\$85K Max Pools <sup>2</sup>	20%	22%	
HECM <sup>3</sup>	17%	15%	
Other Low Loan Balance Pools <sup>4</sup>	16%	15%	
Low FICO <sup>5</sup>	7%	7%	
Prepayment protected	5%	5%	
Seasoned (2005 and prior vintages)	4%	5%	
2006 & subsequent vintages - Discount	2%	2%	
2006 & subsequent vintages – Premium and IOs	2%	2%	
<b>Non-Agency: Loan Type</b>	<b>Q4-2012</b>	<b>Q1-2013</b>	
Sub-Prime	87%	87%	
Option-ARM	8%	7%	
Alt-A	4%	4%	
Prime	1%	2%	



- (1) 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 Home Affordable Refinance Program (HARP).
- (2) Securities collateralized by loans of less than or equal to \$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.

