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: August 6, 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 August 6, 2014, Two Harbors Investment Corp. (the "Company") issued a press release announcing its financial results for the fiscal quarter ended June 30, 2014. A copy of the press release and the 2014 Second 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 Item 2.02 is incorporated by reference).

Item 7.01 Regulation FD.

The Company has prepared and made available on its website a webinar entitled "Subprime Bond Case Study" dated August 6, 2014. The presentation profiles a subprime bond that the Company held in its portfolio for several years. The presentation is attached hereto as Exhibit 99.3 and is incorporated herein by reference.

The information in this Current Report, including Exhibit 99.3 attached hereto, is furnished pursuant to Item 7.01 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 7.01 of this Current Report, including Exhibit 99.3, 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 Item 7.01 is incorporated by reference).

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Press Release of Two Harbors Investment Corp., dated August 6, 2014.
99.2	2014 Second Quarter Earnings Call Presentation.
99.3	Subprime Bond Case Study Webinar.

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: August 6, 2014

Exhibit Index

Exhibit No.	Description	Filing Method
99.1	Press Release of Two Harbors Investment Corp., dated August 6, 2014.	Electronically
99.2	2014 Second Quarter Earnings Call Presentation.	Electronically
99.3	Subprime Bond Case Study Webinar.	Electronically

Two Harbors Investment Corp. Reports Second Quarter 2014 Financial Results

Delivered Total Return on Book Value of 6.0% in the Second Quarter of 2014[(1)]

NEW YORK, August 6, 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 June 30, 2014.

Highlights

- Book value was $11.09 per diluted common share, representing a 6.0%[(1)] total return on book value, after accounting for a dividend of $0.26 per share, bringing the total return on book value for the first half of 2014 to 9.9%.[(2)]
- Delivered Comprehensive Income of $230.8 million, a return on average equity of 23.0%, or $0.63 per diluted weighted average common share.
- Reported Core Earnings of $89.7 million, or $0.24 per diluted weighted average common share.[(3)]
- Generated an aggregate portfolio yield of 4.6% for the quarter ended June 30, 2014, consistent with the quarter ended March 31, 2014.
- Advanced residential mortgage loan conduit significantly, with inventory and purchase commitments totaling over $1 billion as of June 30, 2014.

"We enjoyed strong performance throughout our business in the quarter, which resulted in a total return on book value of 6.0%," stated Thomas Siering, Two Harbors' President and Chief Executive Officer. "We acquired both bulk and flow MSR and made excellent progress on our mortgage loan conduit. We believe that both of these platforms will create tangible franchise value for the benefit of our stockholders."

(1) Return on book value for the quarter ended June 30, 2014 is defined as the increase in book value per diluted share from March 31, 2014 to June 30, 2014 of $0.38, plus the dividend declared of $0.26 per share, divided by March 31, 2014 diluted book value of $10.71 per share.
(2) Return on book value for the six months ended June 30, 2014 is defined as the increase in book value per diluted share from December 31, 2013 to June 30, 2014 of $0.53, plus dividends declared of $0.52 per share, divided by December 31, 2013 diluted book value of $10.56 per share.
(3) Core Earnings is a non-GAAP measure that the company defines as net income, excluding impairment losses, realized and 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 or expense and premium income or loss on derivative instruments 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.

Operating Performance

The following table summarizes the company's GAAP and non-GAAP earnings measurements and key metrics for the respective periods in 2014:

Two Harbors Operating Performance						
(dollars in thousands, except per share data)						
	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	(unaudited)			(unaudited)		
Earnings	Earnings	Per diluted weighted share	Annualized return on average equity	Earnings	Per diluted weighted share	Annualized return on average equity
Core Earnings(1)	$ 89,671	$ 0.24	8.9%	$ 177,874	$ 0.49	9.0%
GAAP Net Income	$ 39,657	$ 0.11	3.9%	$ 10,512	$ 0.03	0.5%
Comprehensive Income	$ 230,817	$ 0.63	23.0%	$ 383,407	$ 1.05	19.4%
Operating Metrics						
Dividend per common share	$0.26					
Book value per diluted share at period end	$11.09					
Other operating expenses as a percentage of average equity	1.5%					

(1) 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 June 30, 2014 of $89.7 million, or $0.24 per diluted weighted average common share outstanding, as compared to Core Earnings for the quarter ended March 31, 2014 of $88.2 million, or $0.24 per diluted weighted average common share outstanding. On a Core Earnings basis, the company recognized an annualized return on average equity of 8.9% and 9.1% for the quarters ended June 30, 2014 and March 31, 2014, respectively.

For the second quarter of 2014, the company recognized:

- net realized gains on RMBS, trading securities and mortgage loans held-for-sale of $34.8 million, net of tax;
- unrealized gains on trading securities, mortgage loan forward purchase commitments and mortgage loans held-for-sale of $10.0 million, net of tax;
- net losses of $4.4 million, net of tax, related to swap and swaption terminations and expirations;
- unrealized losses, net of tax, of $78.7 million associated with its interest rate swaps and swaptions economically hedging its investment portfolio, repurchase agreements and FHLB advances;
- net realized and unrealized losses on other derivative instruments of approximately $18.0 million, net of tax;
- net realized and unrealized gains on consolidated financing securitizations of $20.8 million, net of tax;
- a net decrease in fair value of $27.9 million(2) on MSR, net of tax; and
- amortization of intangible assets of $0.1 million, net of tax.

(2) Decrease in fair value on MSR, net of tax, of $27.9 million is comprised of a decrease in fair value of $14.4 million, net of tax, excluded from Core Earnings and $13.5 million, net of tax, of estimated amortization included in Core Earnings.

The company reported GAAP Net Income of $39.7 million, or $0.11 per diluted weighted average common share outstanding, for the quarter ended June 30, 2014, as compared to GAAP Net Loss of $29.1 million, or $0.08 per diluted weighted average common share outstanding, for the quarter ended March 31, 2014. On a GAAP basis, the company recognized an annualized return on average equity of 3.9% and (3.0%) for the quarters ended June 30, 2014 and March 31, 2014, respectively.

The company reported Comprehensive Income of $230.8 million, or $0.63 per diluted weighted average common share outstanding, for the quarter ended June 30, 2014, as compared to Comprehensive Income of $152.6 million, or $0.42 per diluted weighted average common share outstanding, for the quarter ended March 31, 2014. 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 23.0% and 15.7% for the quarters ended June 30, 2014 and March 31, 2014, respectively.

Other Key Metrics

Two Harbors declared a quarterly cash dividend of $0.26 per common share for the quarter ended June 30, 2014. The annualized dividend yield on the company's common stock for the second quarter of 2014, based on the June 30, 2014 closing price of $10.48, was 9.9%.

The company's book value per diluted share, after taking into account the second quarter 2014 dividend of $0.26 per share, was $11.09 as of June 30, 2014, compared to $10.71 as of March 31, 2014, which represented a total return on book value for the second quarter of 2014 of 6.0%.(1) For the six months ended June 30, 2014, the company reported a total return on book value of 9.9%.(2)

Other operating expenses for the second quarter of 2014 were approximately $15.0 million, or 1.5% of average equity, compared to approximately $14.5 million, or 1.5% of average equity, for the first quarter of 2014.

Portfolio Summary

The company's aggregate portfolio is principally comprised of RMBS available-for-sale securities, inverse interest-only securities (Agency Derivatives), MSR, residential mortgage loans held-for-sale and net economic interests in consolidated securitization trusts. As of June 30, 2014, the total value of the company's portfolio was $14.5 billion.

The company's portfolio includes the rates strategy, which consists of $10.8 billion of Agency RMBS, Agency Derivatives and MSR as well as associated notional hedges as of June 30, 2014. The remaining portfolio is invested in the credit strategy, which consists of $3.7 billion of non-Agency RMBS, net economic interests in consolidated securitization trusts, prime jumbo residential mortgage loans and credit sensitive loans, as well as their associated notional hedges as of June 30, 2014.

For the quarter ended June 30, 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 1.3%. This resulted in a net interest rate spread of 3.4%.

RMBS and Agency Derivatives

For the quarter ended June 30, 2014, the annualized yield on average RMBS securities and Agency Derivatives was 4.4%, consisting of an annualized yield of 3.4% in Agency RMBS and Agency Derivatives and 8.7% in non-Agency RMBS.

(1) Return on book value for the quarter ended June 30, 2014 is defined as the increase in book value per diluted share from March 31, 2014 to June 30, 2014 of $0.38, plus the dividend declared of $0.26 per share, divided by March 31, 2014 diluted book value of $10.71 per share.
(2) Return on book value for the six months ended June 30, 2014 is defined as the increase in book value per diluted share from December 31, 2013 to June 30, 2014 of $0.53, plus dividends declared of $0.52 per share, divided by December 31, 2013 diluted book value of $10.56 per share.

The company experienced a three-month average constant prepayment rate (CPR) of 8.5% for Agency RMBS securities and Agency Derivatives held during the quarter ended June 30, 2014, compared to 6.4% for the quarter ended March 31, 2014. The weighted average cost basis of the principal and interest Agency portfolio was 108.4% of par for the quarter ended June 30, 2014, compared to 108.3% of par for the quarter ended March 31, 2014. The net premium amortization was $34.1 million and $31.8 million for the quarters ended June 30, 2014 and March 31, 2014, respectively.

The company experienced a three-month average CPR of 3.6% for non-Agency principal and interest RMBS securities held during the quarter ended June 30, 2014, as compared to 3.4% for those securities held during the quarter ended March 31, 2014. The weighted average cost basis of the non-Agency portfolio was 55.4% of par for the quarter ended June 30, 2014, compared to 53.3% of par for the quarter ended March 31, 2014. The discount accretion was $32.3 million and $31.8 million for the quarters ended June 30, 2014 and March 31, 2014, respectively. The total net discount remaining was $2.2 billion as of June 30, 2014, compared to $2.3 billion as of March 31, 2014, with $1.2 billion designated as credit reserve as of June 30, 2014.

As of June 30, 2014, fixed-rate investments composed 75.5% and adjustable-rate investments composed 24.5% of the company's RMBS and Agency Derivatives portfolio.

As of June 30, 2014, the company had mortgage loans held-for-investment with a carrying value of $804.7 million and the company's collateralized borrowings had a carrying value of $561.9 million, resulting in net economic interests in consolidated securitization trusts of $242.8 million.

Mortgage Servicing Rights

The company held MSR on mortgage loans having $45.6 billion in unpaid principal balance, which had a fair market value of $500.5 million, as of June 30, 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. The company recognized $33.9 million of servicing income, $6.2 million of subservicing expense and a $29.6 million decrease in fair market value of MSR during the three months ended June 30, 2014.

Mortgage Loans Held for Sale

As of June 30, 2014, the company held prime jumbo residential mortgage loans with a fair market value of $377.0 million and had outstanding purchase commitments to acquire an additional $647.9 million of mortgage loans, subject to fallout if the loans do not close. For the quarter ended June 30, 2014, the annualized yield on the prime jumbo residential mortgage loan portfolio was 4.1%.

Subsequent to quarter-end, the company completed a securitization, Agate Bay Mortgage Trust 2014-1. The trust issued securities backed by approximately $268 million of prime jumbo 30-year fixed residential mortgage loans. After completing this deal, the company's prime jumbo loan holdings and pipeline totaled approximately $1 billion, as of August 6, 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 June 30, 2014. The company also held $372.0 million notional of net short TBAs as of June 30, 2014, which are accounted for as derivative instruments in accordance with GAAP.

As of June 30, 2014, the company was a party to interest rate swaps and swaptions with a notional amount of $35.1 billion. Of this amount, $16.6 billion notional in swaps were utilized to economically hedge interest rate risk associated with the company's LIBOR-based repurchase agreements and FHLB advances, $7.0 billion notional in swaps were utilized to economically hedge interest rate risk associated with the company's investment portfolio, and $11.5 billion notional in swaptions were utilized as macro-economic hedges.

The following table summarizes the company's investment portfolio:

Two Harbors Investment Portfolio			
(dollars in thousands)			
Portfolio Composition	As of June 30, 2014		
	(unaudited)		
Rates Strategy			
Agency Bonds			
Fixed Rate Bonds	$	9,503,019	65.7%
Hybrid ARMs		548,509	3.8%
Total Agency		10,051,528	69.5%
Agency Derivatives		204,773	1.4%
Mortgage servicing rights		500,490	3.5%
Credit Strategy			
Non-Agency Bonds			
Senior Bonds		2,579,292	17.8%
Mezzanine Bonds		469,478	3.2%
Non-Agency Other		7,953	0.1%
Total Non-Agency		3,056,723	21.1%
Net Economic Interest in Securitization(1)		242,745	1.7%
Mortgage loans held-for-sale		399,841	2.8%
Aggregate Portfolio	$	14,456,100	

Portfolio Metrics	Three Months Ended June 30, 2014
	(unaudited)
Annualized portfolio yield during the quarter	4.64%
Rates Strategy	
Agency RMBS, Agency Derivatives and mortgage servicing rights	3.8%
Credit Strategy	
Non-Agency RMBS, Legacy(2)	9.0%
Non-Agency RMBS, New issue(2)	3.5%
Net economic interest in securitizations	5.3%
Mortgage loans held-for-sale	
Prime nonconforming residential mortgage loans	4.1%
Credit sensitive residential mortgage loans	6.1%
Annualized cost of funds on average borrowing balance during the quarter(3)	1.26%
Annualized interest rate spread for aggregate portfolio during the quarter	3.38%
Debt-to-equity ratio at period-end(4)	2.9 to 1.0

Portfolio Metrics Specific to RMBS and Agency Derivatives as of June 30, 2014		
Weighted average cost basis of principal and interest securities		
Agency	$	108.36
Non-Agency(5)	$	55.39
Weighted average three month CPR		
Agency		8.5%
Non-Agency		3.6%
Fixed-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio		75.5%
Adjustable-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio		24.5%

(1) Net economic interest in securitization consists of mortgage loans held-for-investment, net of collateralized borrowings in consolidated securitization trusts.
(2) Legacy non-Agency RMBS includes non-Agency bonds issued up-to and including 2009. New issue non-Agency RMBS includes bonds issued after 2009.
(3) Cost of funds includes interest spread expense associated with the portfolio's interest rate swaps.
(4) Defined as total borrowings to fund RMBS, mortgage loans held-for-sale and Agency Derivatives, divided by total equity.
(5) 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 $51.23 at June 30, 3014.

“Our rates and credit strategies performed well during the second quarter” stated Bill Roth, Two Harbors’ Chief Investment Officer. “We are excited to report that our mortgage loan conduit gained momentum, with inventory and locks totaling over $1 billion at June 30, 2014.”

Financing Summary

The company reported a debt-to-equity ratio, defined as total borrowings under repurchase agreements and FHLB advances to fund RMBS securities, Agency Derivatives and mortgage loans held-for-sale divided by total equity, of 2.9 to 1.0 as of both June 30, 2014 and March 31, 2014.

As of June 30, 2014, the company had outstanding $11.4 billion of repurchase agreements funding RMBS securities, Agency Derivatives, mortgage loans held-for-sale and U.S. Treasuries with 24 different counterparties. Excluding the debt associated with the company’s U.S. Treasuries and the effect of the company’s interest rate swaps, the repurchase agreements had a weighted average borrowing rate of 0.69% and weighted average remaining maturity of 68 days as of June 30, 2014.

The company’s wholly owned subsidiary, TH Insurance Holdings Company LLC (TH Insurance), is a member of 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 June 30, 2014, TH Insurance had $1.5 billion in outstanding secured advances with a weighted average borrowing rate of 0.4% and a weighted average of 47 months to maturity. The outstanding secured advances represent full use of the current available borrowing capacity. To the extent TH Insurance Holdings has unused capacity, it may be adjusted at the sole discretion of the FHLB.

As of June 30, 2014, the company’s aggregate repurchase agreements and FHLB advances funding RMBS securities, Agency Derivatives and mortgage loans held-for-sale had 238 weighted average days to maturity.

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:

	As of June 30, 2014
(in thousands)	(unaudited)
Collateral type:	
Agency RMBS and Agency Derivatives	$ 9,571,970
Mortgage servicing rights	—
Non-Agency RMBS	2,089,014
Mortgage loans held-for-sale	
Prime nonconforming residential mortgage loans	227,772
Credit sensitive residential mortgage loans	2,431
	$ 11,891,187

Cost of Funds Metrics	Three Months Ended June 30, 2014
	(unaudited)
Annualized cost of funds on average borrowing and FHLB advance balance during the quarter:	**0.7%**
Agency RMBS and Agency Derivatives	0.4%
Mortgage servicing rights	—%
Non-Agency RMBS	1.8%
Mortgage loans held-for-sale	
Prime nonconforming residential mortgage loans	2.4%
Credit sensitive residential mortgage loans	3.6%

Conference Call

Two Harbors Investment Corp. will host a conference call on August 7, 2014 at 9:00 a.m. EDT to discuss second 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 65397284, 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 August 7, 2014, through 12:00 a.m. EDT on August 14, 2014. The playback can be accessed by calling (855) 859-2056 (or (404) 537-3406 for international callers), Conference Code 65397284. 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

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TWO HARBORS INVESTMENT CORP.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	June 30, 2014	December 31, 2013
	(unaudited)	(audited)
ASSETS		
Available-for-sale securities, at fair value	$ 13,108,251	$ 12,256,727
Trading securities, at fair value	1,002,422	1,000,180
Mortgage loans held-for-sale, at fair value	399,841	544,581
Mortgage loans held-for-investment in securitization trusts, at fair value	804,666	792,390
Mortgage servicing rights, at fair value	500,490	514,402
Cash and cash equivalents	1,182,696	1,025,487
Restricted cash	286,965	401,647
Accrued interest receivable	50,110	50,303
Due from counterparties	30,381	25,087
Derivative assets, at fair value	331,601	549,859
Other assets	117,246	13,199
Total Assets	$ 17,814,669	$ 17,173,862
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Repurchase agreements	$ 11,391,187	$ 12,250,450
Collateralized borrowings in securitization trusts, at fair value	561,921	639,731
Federal Home Loan Bank advances	1,500,000	—
Derivative liabilities, at fair value	17,097	22,081
Accrued interest payable	16,521	20,277
Due to counterparties	140,975	318,848
Dividends payable	95,189	—
Other liabilities	33,274	67,480
Total Liabilities	13,756,164	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 366,110,919 and 364,935,168 shares issued and outstanding, respectively	3,661	3,649
Additional paid-in capital	3,805,824	3,795,372
Accumulated other comprehensive income	817,630	444,735
Cumulative earnings	1,038,909	1,028,397
Cumulative distributions to stockholders	(1,607,519)	(1,417,158)
Total stockholders' equity	4,058,505	3,854,995
Total Liabilities and Stockholders' Equity	$ 17,814,669	$ 17,173,862

TWO HARBORS INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(dollars in thousands)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(unaudited)		(unaudited)	
Interest income:				
Available-for-sale securities	$ 127,605	$ 134,651	$ 251,518	$ 264,943
Trading securities	1,940	1,261	3,866	2,525
Mortgage loans held-for-sale	2,699	4,794	7,285	6,112
Mortgage loans held-for-investment in securitization trusts	7,761	4,369	15,654	6,023
Cash and cash equivalents	144	250	361	557
Total interest income	140,149	145,325	278,684	280,160
Interest expense:				
Repurchase agreements	18,603	22,553	39,175	45,571
Collateralized borrowings in securitization trusts	5,592	2,169	10,945	2,987
Federal Home Loan Bank advances	755	—	908	—
Total interest expense	24,950	24,722	51,028	48,558
Net interest income	115,199	120,603	227,656	231,602
Other-than-temporary impairments:				
Total other-than-temporary impairment losses	—	(1,426)	(212)	(1,662)
Non-credit portion of loss recognized in other comprehensive income	—	—	—	—
Net other-than-temporary credit impairment losses	—	(1,426)	(212)	(1,662)
Other income:				
Gain (loss) on investment securities	37,688	50,863	(967)	77,831
(Loss) gain on interest rate swap and swaption agreements	(116,019)	259,826	(221,547)	278,798
(Loss) gain on other derivative instruments	(24,202)	62,283	(18,401)	45,621
Gain (loss) on mortgage loans held-for-sale	11,801	(35,142)	8,620	(20,819)
Servicing income	33,868	245	64,309	245
Loss on servicing asset	(29,571)	(45)	(62,331)	(45)
Other income	21,003	1,610	21,463	7,899
Total other (loss) income	(65,432)	339,640	(208,854)	389,530
Expenses:				
Management fees	12,190	12,591	24,301	17,352
Securitization deal costs	—	—	—	2,028
Servicing expenses	6,229	307	11,454	338
Other operating expenses	14,951	9,179	29,485	15,709
Total expenses	33,370	22,077	65,240	35,427
Income (loss) from continuing operations before income taxes	16,397	436,740	(46,650)	584,043
(Benefit from) provision for income taxes	(23,260)	49,119	(57,162)	54,083
Net income from continuing operations	39,657	387,621	10,512	529,960
Income from discontinued operations	—	1,016	—	2,393
Net income	$ 39,657	$ 388,637	$ 10,512	$ 532,353

TWO HARBORS INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(dollars in thousands)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(unaudited)		(unaudited)	
Basic earnings per weighted average common share:				
Continuing operations	$ 0.11	$ 1.06	$ 0.03	$ 1.58
Discontinued operations	—	—	—	0.01
Net income	$ 0.11	$ 1.06	$ 0.03	$ 1.59
Diluted earnings per weighted average common share:				
Continuing operations	$ 0.11	$ 1.06	$ 0.03	$ 1.57
Discontinued operations	—	—	—	0.01
Net income	$ 0.11	$ 1.06	$ 0.03	$ 1.58
Dividends declared per common share	$ 0.26	$ 0.31	$ 0.52	$ 0.63
Weighted average number of shares of common stock:				
Basic	366,078,124	365,589,300	365,846,295	335,603,697
Diluted	366,078,124	366,057,203	365,846,295	336,677,044
Comprehensive income (loss):				
Net income	$ 39,657	$ 388,637	$ 10,512	$ 532,353
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities, net	191,160	(534,713)	372,895	(430,461)
Other comprehensive income (loss)	191,160	(534,713)	372,895	(430,461)
Comprehensive income (loss)	$ 230,817	$ (146,076)	$ 383,407	$ 101,892

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(unaudited)		(unaudited)	
Reconciliation of net income to Core Earnings:				
Net income	$ 39,657	$ 388,637	$ 10,512	$ 532,353
Adjustments for non-core earnings:				
(Gain) loss on sale of securities and mortgage loans, net of tax	(34,772)	(53,828)	3,704	(72,989)
Unrealized (gain) loss on trading securities, equity securities and mortgage loans held-for-sale, net of tax	(9,980)	25,622	(7,687)	8,545
Other-than-temporary impairment loss, net of tax	—	1,426	212	1,662
Realized loss on termination or expiration of swaps and swaptions, net of tax	4,399	2,629	6,380	61,183
Unrealized loss (gain), net of tax, on interest rate swaps and swaptions economically hedging investment portfolio, repurchase agreements and FHLB advances	78,666	(256,143)	138,353	(341,127)
Loss (gain) on other derivative instruments, net of tax	18,026	(27,666)	13,372	(13,655)
Gain on financing securitizations	(20,829)	(1,558)	(21,142)	(7,847)
Unrealized loss, net of tax, on mortgage servicing rights	14,418	30	33,824	30
Securitization deal costs	—	—	—	2,028
Income from discontinued operations	—	(1,016)	—	(2,393)
Amortization of business combination intangible assets, net of tax	86	—	346	—
Core Earnings	$ 89,671	$ 78,133	$ 177,874	$ 167,790
Weighted average shares outstanding - Basic	366,078,124	365,589,300	365,846,295	335,603,697
Weighted average shares outstanding - Diluted	366,078,124	366,057,203	365,846,295	336,677,044
Core Earnings per weighted average share outstanding - Diluted	$ 0.24	$ 0.21	$ 0.49	$ 0.50

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				
	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
	(unaudited)				
Net Interest Income:					
Interest income	$ 140.1	$ 138.5	$ 137.4	$ 138.0	$ 145.3
Interest expense	24.9	26.0	26.9	24.9	24.7
Net interest income	115.2	112.5	110.5	113.1	120.6
Other income:					
Interest spread on interest rate swaps	(18.9)	(13.8)	(10.1)	(15.1)	(19.4)
Interest spread on other derivative instruments	7.9	4.7	(2.4)	(7.5)	(1.5)
Servicing income, net of amortization(1)	19.9	17.9	5.2	1.2	0.3
Other income	0.2	0.2	0.4	—	—
Total other income (loss)	9.1	9.0	(6.9)	(21.4)	(20.6)
Expenses	33.2	31.5	26.2	22.1	22.1
Core Earnings before income taxes	91.1	90.0	77.4	69.6	77.9
Income tax expense (benefit)	1.4	1.8	1.0	1.9	(0.2)
Core Earnings	$ 89.7	$ 88.2	$ 76.4	$ 67.7	$ 78.1
Basic and diluted weighted average Core EPS	$ 0.24	$ 0.24	$ 0.21	$ 0.19	$ 0.21

(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.

Second Quarter 2014 Earnings Call

August 7, 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

STRONG SECOND QUARTER 2014 RESULTS

- Reported book value of $11.09 per share; total return on book value 6.0%[1]
  - Q2-2014 cash dividend of $0.26 per share
- Delivered Comprehensive Income of $230.8 million
  - Return on average equity of 23.0%, or $0.63 per share
- Generated Core Earnings of $89.7 million, or $0.24 per share[2]

ADVANCING STRATEGIC INITIATIVES

- Mortgage loan conduit and securitization
  - Prime jumbo pipeline gained significant momentum
- Mortgage Servicing Rights (MSR)
  - Continued to work with a variety of counterparties to expand initiative
  - Added MSR via bulk and flow sales

(1) See Appendix slide 14 for calculation of second quarter return on book value.
(2) Core Earnings is a non-GAAP measure that we define as net income, excluding impairment losses, realized and 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 or expense, and premium income or loss on derivative instruments and servicing income, net of estimated amortization on MSR. Core Earnings is provided for purposes of comparability to other peer issuers. For a reconciliation of GAAP to non-GAAP financials, please refer to the GAAP to non-GAAP reconciliation table in the Appendix on slide 17.

Macroeconomic & Policy Considerations

MACROECONOMIC CONSIDERATIONS

- Home price appreciation continues; CoreLogic Home Price Index up 7.5% on rolling 12-month basis[1]
- Unemployment recovery
- Low interest rates overall
- Muted volatility

POLICY CONSIDERATIONS

- End of Federal Reserve's Quantitative Easing (QE)
  - Announced final reduction in asset purchases to occur after October meeting
- GSE Reform
  - Variety of potential legislative proposals
- Actively engaged with a variety of parties in Washington

(1) Source: CoreLogic Home Price Index rolling 12-month change as of June 30, 2014.

Book Value

(Dollars in thousands, except per share data)	Q2-2014 Book Value ($M)	Q2-2014 Book Value per share	YTD-2014 Book Value ($M)	YTD-2014 Book Value per share
Beginning stockholders' equity – basic	$3,919.0	$10.71	$3,855.0	$10.56
GAAP Net Income:				
Core Earnings, net of tax	89.7		177.9	
Realized gains (losses), net of tax	15.1		(23.5)	
Unrealized mark-to-market (losses), net of tax	(65.1)		(143.8)	
Other comprehensive income	191.1		372.8	
Dividend declaration	(95.2)		(190.4)	
Other	3.8		10.3	
Balance before capital transactions	4,058.4		$4,058.3	
Issuance of common stock, net of offering costs	0.1		0.2	
Ending stockholders' equity – basic and diluted	$4,058.5	$11.09	$4,058.5	$11.09

Q2-2014 Comprehensive Income of $230.8 million; YTD-2014 Comprehensive Income of $383.4 million

Cash dividend of $0.26 per common share in Q1-2014 and Q2-2014

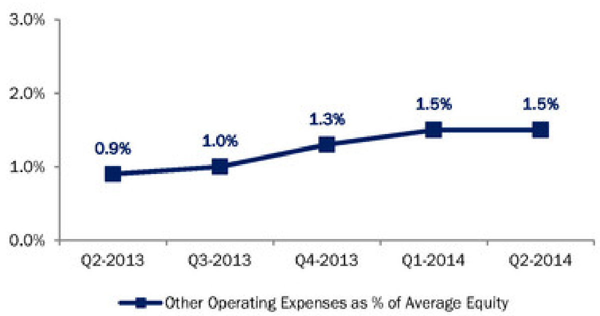
Financial Summary

Q2-2014 FINANCIAL HIGHLIGHTS

- Core Earnings of $0.24 per share; annualized return on average equity of 8.9%[1]
- Driven by:
  - Solid yields across portfolio
  - Low implied debt-to-equity
  - Stable operating expense ratio

CORE EARNINGS[1]

EXPENSE RATIO



Q2-2014 ACCOUNTING MATTERS

- Released approximately $25 million of credit reserves
- Mortgage loan interest rate lock commitments accounted for as derivatives; reported at fair value on balance sheet
- MSR unpaid principal balance (UPB) increased from $41.6 billion to $45.6 billion; fair market value of MSR was $500.5 million

(1) See footnote 2 on slide 3 for Core Earnings definition. For a reconciliation of GAAP to non-GAAP financials, 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 $1.5 billion; using total available borrowing capacity
  - Average maturity approximately 47 months; borrowing rate 0.4%
  - Pledged collateral includes Agency RMBS, non-Agency RMBS and prime jumbo residential mortgage loans
  - Expect collateral shift toward A-rated or better non-Agency RMBS and prime jumbo residential mortgage loans over time

REPURCHASE AGREEMENTS

- Repo markets functioning in normal manner; no meaningful shifts in financing haircuts or repo rates
- Continued to ladder repo maturities; average 68 days to maturity with 24 counterparties(2)
- Focused on diversification and financial stability across repo counterparties

MATURITY PROFILE OF 238 DAYS ON AGGREGATE REPO BORROWINGS AND FHLB ADVANCES(2)

(1) Data as of June 30, 2014.
(2) Excludes repurchase agreements collateralized by U.S. Treasuries

Portfolio Performance Summary

Q2-2014 PERFORMANCE HIGHLIGHTS

TOTAL RETURN ON BOOK VALUE OF 6.0%[1]

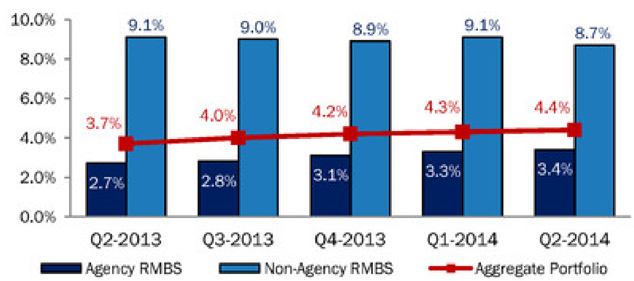
RATES PERFORMANCE[2]

- Stable results; 10 bps increase in yield quarter-over-quarter

CREDIT PERFORMANCE[3]

- Stable legacy yields, new issue non-Agency RMBS yields[4] down 0.4%
- Yield on net economic interest in securitization trusts decreased
  - Sold high yielding Interest-Only (IO) bond
  - Added to AAA bond holdings – now approximately $180 million

ANNUALIZED YIELDS BY RMBS PORTFOLIO[5]



Q2-2014 NET INTEREST YIELD

Portfolio Metrics	Three Months Ended March 31, 2014	Three Months Ended June 30, 2014
Annualized portfolio yield during the quarter	**4.60%**	**4.64%**
Rates[2]		
Agency RMBS, Agency Derivatives and MSR	3.7%	3.8%
Credit[3]		
Non-Agency RMBS, Legacy[4]	9.2%	9.0%
Non-Agency RMBS, New issue[4]	3.9%	3.5%
Net economic interest in securitization trusts	8.4%	5.3%
Prime jumbo residential mortgage loans	4.0%	4.1%
Credit sensitive loans (CSL)	3.8%	6.1%
Annualized cost of funds on average repurchase and advance balance during the quarter[6]	**1.16%**	**1.26%**
Annualized interest rate spread for aggregate portfolio during the quarter	**3.44%**	**3.38%**

(1) See Appendix page 14 for calculation of second quarter return on book value.
(2) Assets in "Rates" include Agency RMBS, inverse interest-only securities (IIOs or 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) "Legacy" non-Agency RMBS includes non-Agency bonds issued up to and including 2009. "New issue" non-Agency RMBS includes bonds issued after 2009.
(5) Agency yield includes impact of Agency Derivatives. Interest income on Agency Derivatives was $7.0 million and $7.9 million for the first and second quarters of 2014, respectively.
(6) Cost of funds includes interest spread expense associated with the portfolio's interest rate swaps.

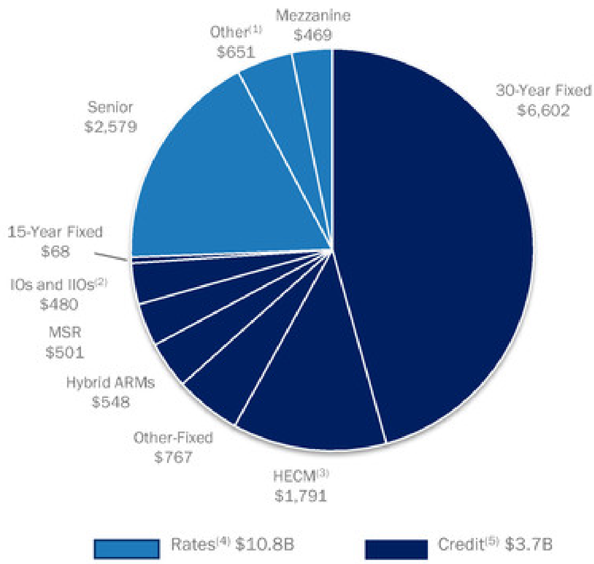
Portfolio Composition

PORTFOLIO COMPOSITION

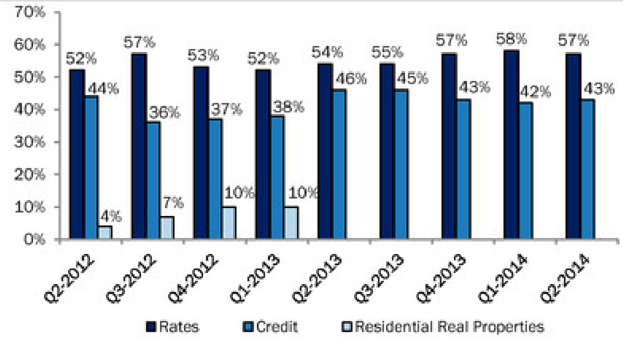
AS OF JUNE 30, 2014

$14.5B Portfolio

$ Millions



TARGETED CAPITAL ALLOCATION



Q2-2014 HIGHLIGHTS

- 57% capital allocation to Rates[4]
  - Sold approximately half of ARM holdings
  - Focused on higher coupon, shorter duration assets
- 43% capital allocation to Credit[5]
  - Capital allocation to conduit increased quarter-over-quarter; expect allocation to increase over time

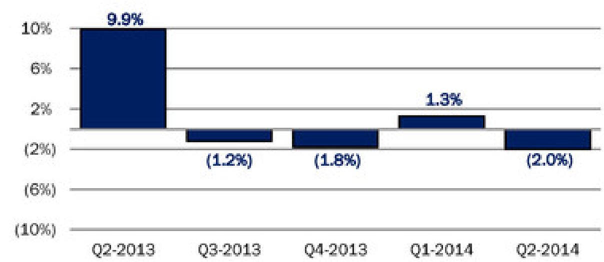
(1) Assets in "Other" include prime jumbo residential mortgage loans, CSL, net economic interest in securitization trusts and non-Agency IOs.
(2) Includes IIOs (or Agency Derivatives) of $204.8 million.
(3) HECM are loans that allow the homeowner to convert home equity into cash collateralized by the 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

Q2-2014 PORTFOLIO METRICS

- Low implied debt-to-equity ratio of 3.0x versus 2.7x at March 31, 2014[1]
  - Higher due to increased FHLB borrowings; lower short TBA position
- Agency CPR increased due to seasonal fluctuations and lower mortgage rates
- Discount non-Agency prepayment speeds remain favorable

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



Portfolio Metrics		Q1-2014	Q2-2014
Agency	Weighted average 3-month CPR[3]	6.4%	8.5%
	Weighted average cost basis[4]	$108.3	$108.4
Non-Agency	Weighted average 3-month CPR	3.4%	3.6%
	Weighted average cost basis[4]	$53.3	$55.4
Change in equity value for +100bps change in interest rates[2]		1.3%	(2.0%)
Implied Debt-to-equity[1]		2.7x	3.0x

Q2-2014 HEDGING STRATEGY

- Maintain low overall rate posture
- Limited basis risk exposure
- Increased notional swap position by $2.0 billion primarily to hedge prime jumbo pipeline

(1) Implied debt-to-equity is calculated after including net long or short TBA position. As of March 31, 2014 and June 30, 2014, the net TBA position was short $1.0 billion and short $0.3 billion 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 $51.23 at June 30, 2014.

Mortgage Loan Conduit and Securitization

CONDUIT INITIATIVE GAINING MOMENTUM

- Prime jumbo holdings $377 million at June 30, 2014
- Pipeline (i.e., interest rate locks) approximately $650 million; up from $154 million at March 31, 2014
- Focus on building additional originator relationships; on target for 35-40 originators by year-end
- Maintain strong pipeline; intend to complete future securitizations if market conditions permit

EVALUATING OPPORTUNITY IN NON-QM MARKET

- Potentially attractive investments for portfolio
- Serves goal to be a provider of capital to U.S. mortgage market

AGATE BAY MORTGAGE TRUST 2014-1

- $268 million prime jumbo securitization closed in Q3-2014
- Backed by 334 prime jumbo mortgage loans
- Created attractive investments for our portfolio

Mortgage Servicing Rights

ACQUIRED $5.3 BILLION UPB MSR THROUGH BULK AND FLOW

- Completed $4.8 billion UPB bulk purchase from Flagstar Bank
  - Underlying pool of Fannie Mae mortgage loans; primarily new production
  - Purchase price of approximately $50 million
- Purchased $545 million UPB via flow from PHH Corp.
  - Production from early 2014
- Evaluating flow and bulk MSR transactions

Appendix


TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

Return on Book Value

Return on book value Q2-2014 (Per diluted share amounts, except for percentage)	
Book value at June 30, 2014	$11.09
Book value at March 31, 2014	10.71
Increase in book value	0.38
Dividend declared in Q2-2014	0.26
Return on book value Q2-2014	$0.64
Return on book value Q2-2014[1]	6.0%

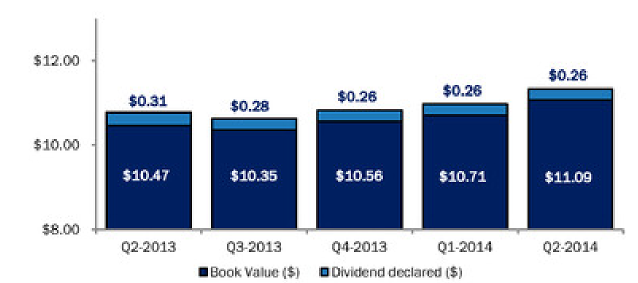
Note: Diluted shares outstanding at end of period are used as the denominator for book value per share calculation.

(1) Return on book value for quarter ended June 30, 2014 is defined as the increase in book value per diluted share, from March 31, 2014 to June 30, 2014 of $0.38, plus dividend declared of $0.26 per share, divided by March 31, 2014 diluted book value of $10.71 per share.

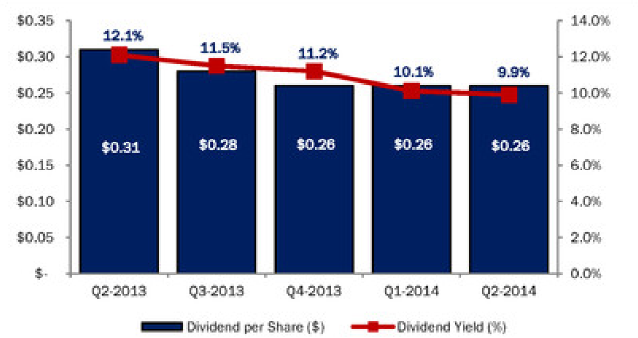
Financial Performance

COMPREHENSIVE INCOME (LOSS)

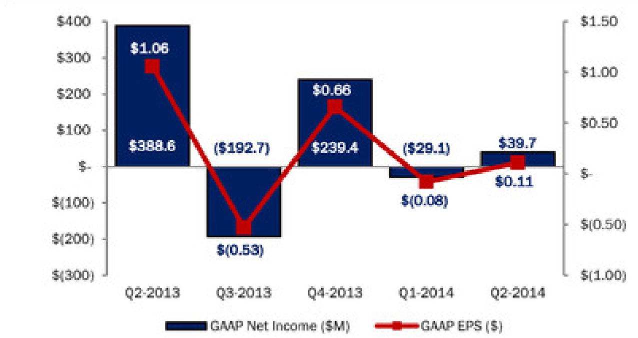
BOOK VALUE AND DIVIDEND PER SHARE(1)



DIVIDENDS(2)



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

Operating Performance

(In millions, except for per share data)	Core Earnings	Realized Gains	Unrealized MTM	Q1-2014 Financials	Core Earnings	Realized Gains	Unrealized MTM	Q2-2014 Financials
Interest income	$138.5	$ -	$ -	$138.5	$140.1	$ -	$ -	$140.1
Interest expense	26.0	-	-	26.0	24.9	-	-	24.9
Net interest income	112.5	-	-	112.5	115.2	-	-	115.2
Net other-than-temporary impairment losses	-	-	(0.2)	(0.2)	-	-	-	-
(Loss) gain on investment securities	-	(38.5)	(0.2)	(38.7)	-	35.9	1.8	37.7
Loss on interest rate swaps and swaptions	(13.8)[1]	(1.2)	(90.5)	(105.5)	(18.9)[1]	(5.1)	(92.0)	(116.0)
Gain (loss) on other derivative instruments	4.7	2.2[2]	(1.1)	5.8	7.9	(33.3)[2]	1.2	(24.2)
Gain (loss) on mortgage loans held-for-sale	-	0.1	(3.3)	(3.2)	-	(1.8)	13.6	11.8
Servicing income	30.4	-	-	30.4	33.8	-	-	33.8
Loss on servicing asset	(12.5)	-	(20.3)	(32.8)	(13.9)	-	(15.7)	(29.6)
Other income (loss)	0.2	0.6	(0.2)	0.6	0.2	6.4	14.4	21.0
Total other income (loss)	9.0	(36.8)	(115.6)	(143.4)	9.1	2.1	(76.7)	(65.5)
Management fees & other operating expenses	31.5	0.4	-	31.9	33.2	0.1	-	33.3
Net income (loss) from continuing operations before income taxes	90.0	(37.2)	(115.8)	(63.0)	91.1	2.0	(76.7)	16.4
Income tax expense (benefit)	1.8	1.4	(37.1)	(33.9)	1.4	(13.1)	(11.6)	(23.3)
Net income (loss)	**$88.2**	**$(38.6)**	**$(78.7)**	**$(29.1)**	**89.7**	**15.1**	**(65.1)**	**39.7**
Basic and diluted weighted average EPS	$0.24	$(0.10)	$(0.22)	$(0.08)	$0.24	$0.04	$(0.17)	$0.11

(1) Q1-2014 and Q2-2014 loss on interest rate swaps and swaptions includes $13.8 million and $18.9 million, respectively, in interest costs, of which $1.7 million and $1.8 million, respectively, for the periods relates to swaps associated with U.S. Treasuries.

(2) Q1-2014 includes $7.7 million, net of taxes, of realized gains from to-be-announced securities (TBAs) and TBA options. Q2-2014 includes $20.7 million, net of taxes, of realized losses from TBAs and TBA options.

GAAP to Core Earnings Reconciliation

(In thousands, except for per share data)	Three Months Ended March 31, 2014	Three Months Ended June 30, 2014
Reconciliation of GAAP to non-GAAP Information		
Core Earnings:		
Net (loss) income attributable to common stockholders	$(29,145)	$39,657
Adjustments for non-core earnings:		
Loss (gain) on sale of securities and mortgage loans, net of tax	38,476	(34,772)
Unrealized loss (gain) on trading securities and mortgage loans held-for-sale, net of tax	2,293	(9,980)
Other-than-temporary impairment loss, net of tax	212	-
Realized loss on termination or expiration of swaps and swaptions, net of tax	1,981	4,399
Unrealized loss on interest rate swaps and swaptions, net of tax	59,687	78,666
(Gain) loss on other derivative instruments, net of tax	(4,654)	18,026
Realized and unrealized gain on financing securitizations	(313)	(20,829)
Unrealized loss, net of tax, on mortgage servicing rights	19,406	14,418
Amortization of business combination intangible assets, net of tax	260	86
Core Earnings	**$88,203**	**$89,671**
Weighted average shares outstanding - Diluted	365,611,890	366,078,124
Core Earnings per weighted average share outstanding - Diluted	0.24	0.24

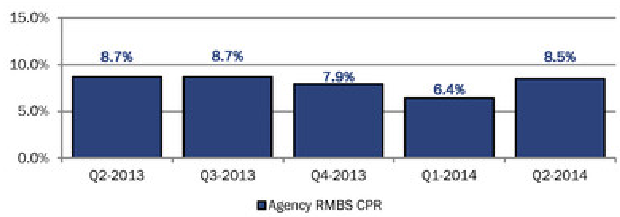
Rates: Agency RMBS Metrics

AGENCY PORTFOLIO YIELDS AND METRICS

Portfolio Yield	Realized Q1-2014	At March 31, 2014	Realized Q2-2014	At June 30, 2014
Agency yield[1]	3.3%	3.2%	3.4%	3.2%
Cost of financing[2]	0.9%	0.9%	1.1%	1.1%
Net interest spread	2.4%	2.3%	2.3%	2.1%

Portfolio Metrics	Q1-2014	Q2-2014
Weighted average 3-month CPR[5]	6.4%	8.5%
Weighted average cost basis[6]	$108.3	$108.4

AGENCY RMBS CPR[5]



AGENCY PORTFOLIO COMPOSITION

Agency: Vintage & Prepayment Protection	Q1-2014	Q2-2014
2006 & subsequent vintages – Premium and IOs	14%	18%
HECM	18%	18%
$85K Max Pools[3]	17%	17%
High LTV (predominately MHA)[4]	16%	15%
Other Low Loan Balance Pools[7]	12%	12%
Low FICO[8]	7%	6%
Seasoned (2005 and prior vintages)	5%	5%
Prepayment Protected	5%	5%
2006 & subsequent vintages – Discount	6%	4%

(1) Agency yield includes impact of Agency Derivatives. Interest income on Agency Derivatives was $7.0 million and $7.9 million for the first and second quarters of 2014, respectively.
(2) Cost of financing Agency RMBS includes interest spread expense associated with the portfolio's interest rate swaps of $12.1 million and $16.0 million for the first and second quarters of 2014, respectively. Interest spread expense increased cost of financing Agency RMBS by 0.5% and 0.7% in the first and second quarters of 2014, 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 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 June 30, 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%	$5,328	$5,739	56.0%	$5,765	4.2%	24
≥ 5.0%	764	863	8.4%	829	5.5%	65
	$6,092	$6,602	64.4%	$6,594	4.4%	30
15-Year Fixed						
3.0-3.5%	$63	$65	0.6%	$62	3.0%	43
4.0-4.5%	2	2	0.0%	2	4.0%	48
≥ 5.0%	1	1	0.0%	1	6.6%	108
	$66	$68	0.6%	$65	3.1%	44
HECM	$1,636	$1,791	17.5%	$1,731	4.7%	32
Hybrid ARMs	$532	$548	5.3%	$540	2.8%	38
Other-Fixed	$719	$767	7.5%	$748	4.7%	73
IOs and IIOs	$4,564	$480[1]	4.7%	$456	4.0%	66
Total	$13,609	$10,256	100.0%	$10,134	4.4%	34

(1) Represents the market value of $274.8 million of IOs and $204.8 million of Agency Derivatives.

Rates: Mortgage Servicing Rights

	As of March 31, 2014	As of June 30, 2014
Fair Value ($M)	$476.7	$500.5
Unpaid Principal Balance ($M)	$41,596.3	$45,629.2
Weighted Average Coupon	3.9%	3.9%
Original FICO Score	738	740
Original LTV	75%	74%
60+ Day Delinquencies	1.0%	1.2%
Net Servicing Spread	25 basis points	25 basis points
Vintage:		
Pre-2009	3.7%	3.8%
2009-2012	62.8%	64.5%
Post 2012	33.5%	31.7%
Percent of MSR Portfolio:		
Conventional	67.1%	71.1%
Government FHA	24.7%	21.7%
Government VA/USA	8.2%	7.2%

Credit: Non-Agency RMBS Metrics

NON-AGENCY PORTFOLIO YIELDS AND METRICS

Portfolio Yield	Realized Q1-2014	At March 31, 2014	Realized Q2-2014	At June 30, 2014
Non-Agency yield	9.1%	9.0%	8.7%	8.6%
Cost of financing[1]	2.3%	2.3%	2.6%	2.6%
Net interest spread	6.8%	6.7%	6.1%	6.0%

NON-AGENCY RMBS CPR

NON-AGENCY PORTFOLIO COMPOSITION

Non-Agency: Loan Type	Q1-2014	Q2-2014
Sub-Prime	83%	78%
Prime	5%	11%
Option-ARM	8%	7%
Alt-A	4%	4%

Portfolio Metrics	Q1-2014	Q2-2014
Weighted average 3-month CPR	3.4%	3.6%
Weighted average cost basis[2]	$53.3	$55.4

(1) Cost of financing non-Agency RMBS includes interest spread expense associated with the portfolio's interest rate swaps of $2.0 million and $3.1 million for the first and second quarters of 2014, respectively. Interest spread expense increased cost of financing non-Agency RMBS by 0.4% and 0.7% first and second quarters of 2014, respectively.

(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 $51.23 at June 30, 2014.

Credit: Non-Agency RMBS

As of June 30, 2014	Senior Bonds	Mezzanine Bonds	Total P&I
Portfolio Characteristics:			
Carrying Value ($M)	$2,579.3	$469.5	$3,048.8
% of Credit Portfolio	84.6%	15.4%	100.0%
Average Purchase Price[1]	$54.68	$59.30	$55.39
Average Coupon	2.3%	1.7%	2.2%
Weighted Average Market Price[2]	$70.21	$79.01	$71.44
Collateral Attributes:			
Average Loan Age (months)	87	106	90
Average Loan Size ($K)	$288	$204	$275
Average Original Loan-to-Value	72.4%	71.1%	72.2%
Average Original FICO[3]	630	649	633
Current Performance:			
60+ Day Delinquencies	28.4%	25.1%	27.9%
Average Credit Enhancement[4]	8.5%	22.1%	10.6%
3-Month CPR[5]	3.3%	5.4%	3.6%

(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 have been $50.28, $57.15 and $51.23, 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.

FHLB Financing[1]

FHLB PLEDGED COLLATERAL AND MATURITIES[2]

Collateral	Amount ($M)
Available–for-sale securities, at fair value	$1,355.3
Net economic interests in consolidated securitization trusts	181.6
Mortgage loans held-for-sale, at fair value	116.1
Restricted cash	0.3
	$1,653.3

Maturities	Amount ($M)	Percent (%)
≤ 3 months	2.5	0.2%
> 3 and ≤ 6 months	0.0	0.0%
> 6 and ≤ 12 months	33.7	2.2%
> 12 and ≤ 24 months	0.0	0.0%
> 24 months	1,463.8	97.6%
	1,500.0	

(1) As of June 30, 2014.
(2) Excludes FHLB membership and activity stock totaling $60.0 million as of June 30, 2014

Repurchase Agreements(1)

REPO MATURITIES(2)

	Amount ($M)	Percent (%)
Within 30 days	$3,919.9	38%
30 to 59 days	3,050.8	29%
60 to 89 days	1,089.1	10%
90 to 119 days	1,027.1	10%
120 to 364 days	1,211.1	12%
One year and over	93.2	1%
	10,391.2	

INTEREST RATE SWAPS(2)

Swaps Maturities	Notional Amounts ($B)	Average Fixed Pay Rate	Average Receive Rate	Average Maturity (Years)
2016	$10.3	0.563%	0.228%	1.92
2017	4.0	0.950%	0.230%	3.04
2018	1.1	1.314%	0.230%	3.99
2019 and after	1.2	2.536%	0.228%	8.79
	$16.6	0.848%	0.228%	2.82

(1) As of June 30, 2014.
(2) Pledged collateral includes RMBS, Agency Derivatives and mortgage loans held-for-sale; does not include U.S. Treasuries with repurchase agreements of $1.0 billion outstanding.
(3) Notional amounts do not include $7.0 billion of notional interest rate swaps economically hedging our investment portfolio.

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	$223.5	$146.2	34.34	$6,000	4.27%	3M LIBOR	9.0
Total Payer		$223.5	$146.2	34.34	$6,000	4.27%	3M LIBOR	9.0
Receiver	< 6 Months	$10.1	$3.2	3.61	$4,250	3M LIBOR	1.59%	5.3
Receiver	≥ 6 Months	0.9	0.3	6.30	2,000	3M LIBOR	1.08%	5.0
Total Receiver		$11.0	$3.5	4.48	$6,250	3M LIBOR	1.43%	5.2
Sale Contracts:								
Payer	≥ 6 Months	$(81.2)	$(42.9)	36.02	$(800)	3.44%	3M LIBOR	10.0
Total Payer		$(81.2)	$(42.9)	36.02	$(800)	3.44%	3M LIBOR	10.0

(1) As of June 30, 2014.


TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

Two Harbors | Subprime Bond Case Study

August 6, 2014

TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

Safe Harbor Statement

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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.

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Subprime Bond Overview

MARKET CHARACTERISTICS

- Subprime sector since the crisis has functioned like a distressed market
- Legacy subprime bonds have been purchased at a significant discount to par due to the credit sensitivities of the security
  - Became deeply discounted as borrower performance deteriorated during the housing/financial crisis
- Mispricing of credit risk presents an opportunity for investors with strong expertise in credit analysis
- Subordination and excess spread built into the capital structure can provide sub-prime bonds protection against substantial losses on the underlying loans.
- Performance of underlying collateral is driver of realized yield on the asset; not all bonds are created equal

BORROWER CHARACTERISTICS

- Low credit score
- Impaired or limited credit history
- High debt-to-income ratio
- Undisclosed or verified income
- Minimal down payment (e.g. high loan-to-value ratio)

Two Harbors Subprime Bond Portfolio

SUBPRIME HOLDINGS(1)

- Approximately 80% of non-Agency RMBS portfolio
- Carrying value of $2.4 billion
- Face value of $3.5 billion
- Average purchase price $47.50
- Average coupon of 1.3%
  - Approximately 87% of subprime holdings have floating rate(2)
  - Average floating coupon rate 0.62%
- 60+ day delinquencies 31.2%
- 3-month Constant Prepayment Rate (CPR) 3.2%
- Credit enhancement 11.1%
  - Not including excess interest spread that offsets credit losses

(1) As of June 30, 2014.
(2) Floating rate is based on carrying value.

Home Equity Asset Trust (HEAT) 2006-3 at Issuance(1)

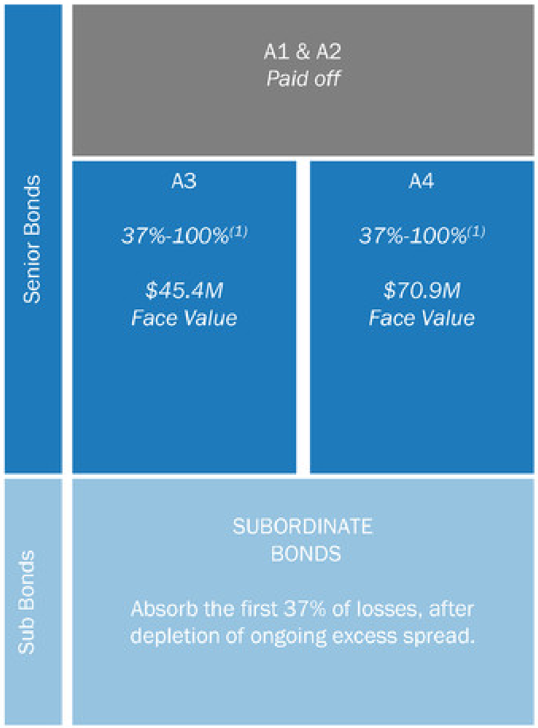
	A1	A2	A3	A4
Senior Bonds(2)	$345 million Face Value	$90 million Face Value	$101 million Face Value	$70.9 million Face Value
Subordinate Bonds – 19.2% at Issuance(3)(4)				

Bond and Collateral Characteristics at Issuance

- Senior bonds pay sequentially; A1 through A4
  - Backed by group 2 collateral
- Senior bonds initially AAA rated
- Receives protection from credit losses from the subordinate bonds and ongoing excess interest
- Original group 2 collateral summary:(4)
  - Vintages: 2005 to 2006
  - Over 83% single-family properties
  - Over 89% with 30-year amortization period
  - 29% located in California; 12% in Florida; 4% in Georgia
  - 45% with LTV of 71% to 80%; 31% with LTV of 81% to 90%(5)

(1) As it pertains to this presentation, HEAT 2006-3 will be used to reference the senior bonds backed by group 2 collateral, as well as the corresponding subordinate bonds.
(2) Represents senior bonds backed by second collateral group. HEAT 2006-3 1A1, a senior bond, was also issued but is backed by group 1 collateral.
(3) Subordinated bonds protect all senior bonds regardless if they are backed by either group 1 or group 2 collateral.
(4) Source: Bloomberg.
(5) "LTV" is defined as original Loan-to-Value.

HEAT 2006-3 at Two Harbors Acquisition in 2011



DEAL SUMMARY[1]

- A1 and A2 were paid off
- A3 was receiving principal payments
- A4 downgraded to "C" rating

COLLATERAL SUMMARY[2]

- 60+ day delinquencies 32%
- 6-month severities 71%
- Credit enhancement 37%
  - Not including excess interest spread of approximately 4%

TWO HARBORS PURCHASE SUMMARY

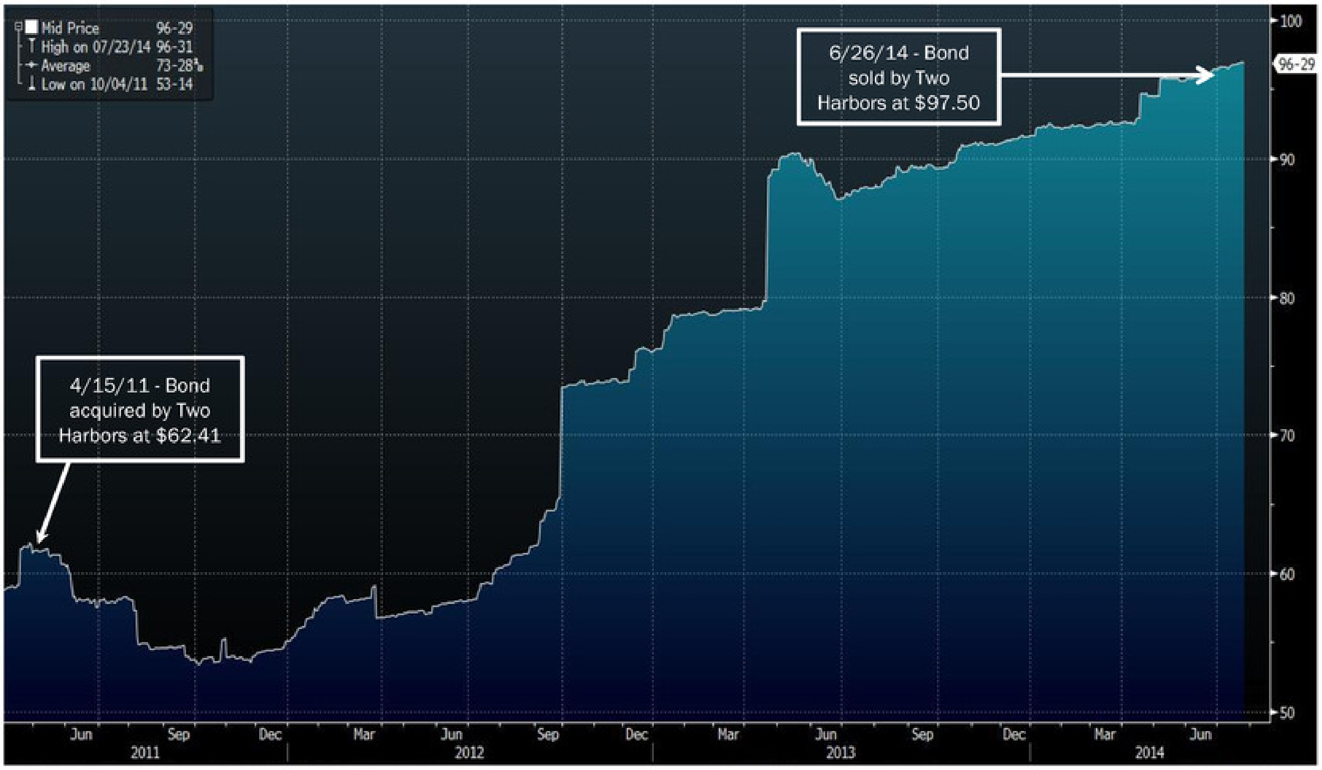
- Purchased A4 at a price of $62.41 in April 2011
  - Expected returns were approximately 10%
  - Pays a coupon of LIBOR +0.31%

MSA VIDEO LINK

http://vimeo.com/102537046

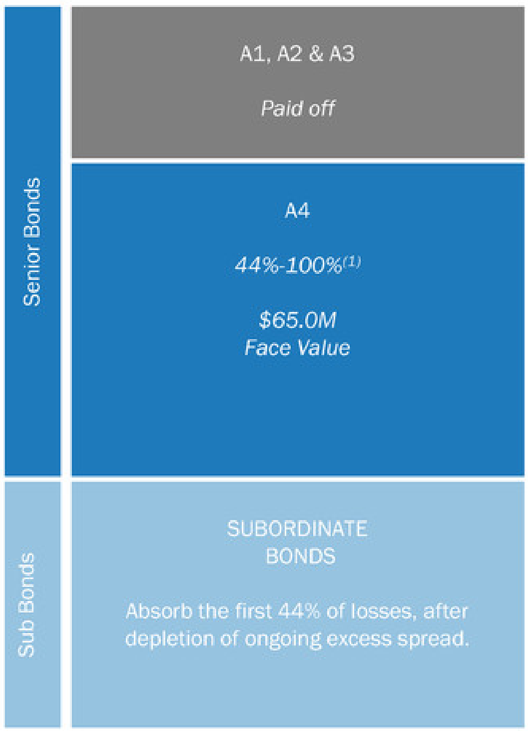
(1) Senior bonds absorb losses 37%-100%.
(2) Source: Bloomberg.

HEAT 2006-3 2A4 Price Path – 4/1/2011 to 6/30/2014



(1) Source: Bloomberg

HEAT 2006-3 at Two Harbors Sale in 2014



DEAL SUMMARY[1]

- A1, A2 and A3 were paid off
- A4 had been upgraded to "B" rating
- A4 started receiving principal payments in March 2014

COLLATERAL SUMMARY[2]

- 60+ day delinquencies 26%
- 6-month severities 59%
- Credit enhancement 44%
  - Not including excess interest spread of approximately 1%

TWO HARBORS SALE SUMMARY

- Sold A4 at a price of $97.50 in June 2014
  - Up 56% in approximately 3 years
  - Yield was low; minimal upside remaining

(1) Senior bonds absorb losses 44%-100%.
(2) Source: Bloomberg.

Outlook for Subprime Bond Portfolio

WE BELIEVE UPSIDE POTENTIAL REMAINS IN OUR SUBPRIME PORTFOLIO

- Conservative prepay/default assumptions
- Higher prepayment behavior and potential servicing actions could provide value in the future
  - Refinancing due to low interest rates
  - Better economic growth
  - Home Price Appreciation (HPA)
  - Increasing housing turnover from better mobility as employment metrics improve
- Servicer actions are helping borrowers
- Consider other plausible scenarios when reviewing the expected fundamental performance of these bonds
- Legacy subprime bonds provide attractive loss-adjusted yields against a backdrop of improving loan performance

RISK CONSIDERATIONS THAT MAY RESULT IN VALUATION DECLINES

- Potential HPA declines; increased delinquencies and defaults
- Uncertain cash flow because of potential servicer actions

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