

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 8-K**

**Current Report**

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

Date of Report: May 4, 2016

**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.)

**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))
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**Item 2.02 Results of Operations and Financial Condition.**

On May 4, 2016, Two Harbors Investment Corp. (the "Company") issued a press release announcing its financial results for the fiscal quarter ended March 31, 2016. A copy of the press release and the 2016 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 Item 2.02 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 of Two Harbors Investment Corp., dated May 4, 2016.
99.2	2016 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 4, 2016

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**Exhibit Index**

<b>Exhibit No.</b>	<b>Description</b>	<b>Filing Method</b>
99.1	Press Release of Two Harbors Investment Corp., dated May 4, 2016.	Electronically
99.2	2016 First Quarter Earnings Call Presentation.	Electronically

## **Two Harbors Investment Corp. Reports First Quarter 2016 Financial Results**

*Investment Opportunities Become More Attractive*

**NEW YORK, May 4, 2016** - [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), commercial real estate and other financial assets, today announced its financial results for the quarter ended March 31, 2016.

### ***Summary***

- Reported Core Earnings of \$71.8 million, or \$0.21 per weighted average common share.<sup>(1)</sup>
- Repurchased 8.0 million shares, representing 2.3% of common shares outstanding at December 31, 2015, at an average price of \$7.64 per share, which was accretive to book value.
- Closed on additional senior commercial real estate assets; aggregate portfolio carrying value of \$744.3 million at March 31, 2016.
- Added \$5.0 billion unpaid principal balance (UPB) of MSR through expanded flow-sale relationships and bulk acquisition.
- Sponsored two securitizations, issuing securities backed by approximately \$628.3 million UPB of prime jumbo residential mortgage loans.
- Reported book value of \$9.70 per common share, representing a (1.8%)<sup>(2)</sup> total return on book value after accounting for a dividend of \$0.23 per share.

“In the first quarter, we increased our capital allocation to commercial real estate assets due to the continued attractiveness of this sector,” stated Thomas Siering, Two Harbors’ President and Chief Executive Officer. “We also opportunistically purchased Agency RMBS as spreads widened intra-quarter. Our ability to dynamically allocate capital is important to our stockholders, as it allows us to take advantage of evolving market conditions.”

(1) Core Earnings is a non-GAAP measure. Please see page 13 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

(2) Return on book value for the quarter ended March 31, 2016 is defined as the decrease in book value from December 31, 2015 to March 31, 2016 of \$0.41, plus the dividend declared of \$0.23 per share, divided by December 31, 2015 book value of \$10.11 per share.

## Operating Performance

The following table summarizes the company's GAAP and non-GAAP earnings measurements and key metrics for the first quarter of 2016:

### Two Harbors Investment Corp. Operating Performance (unaudited)

(dollars in thousands, except per share data)

	Three Months Ended March 31, 2016		
	Earnings	Per weighted share	Annualized return on average equity
<b>Earnings</b>			
Core Earnings <sup>(1)</sup>	\$ 71,844	\$ 0.21	8.3 %
GAAP Net Loss	\$ (88,930)	\$ (0.25)	(10.2)%
Comprehensive Loss	\$ (67,585)	\$ (0.19)	(7.8)%
<b>Operating Metrics</b>			
Dividend per common share	\$0.23		
Book value per share at period end	\$9.70		
Other operating expenses as a percentage of average equity	1.7%		

(1) Please see page 13 for a reconciliation of GAAP to non-GAAP financial information.

### Earnings Summary

Two Harbors reported Core Earnings for the quarter ended March 31, 2016 of \$71.8 million, or \$0.21 per weighted average common share outstanding, as compared to Core Earnings for the quarter ended December 31, 2015 of \$72.1 million, or \$0.20 per weighted average common share outstanding. On a Core Earnings basis, the company recognized an annualized return on average equity of 8.3% and 7.8% for the quarters ended March 31, 2016 and December 31, 2015, respectively.

For the first quarter of 2016, the company recognized:

- net realized gains on RMBS and mortgage loans held-for-sale of \$16.7 million, net of tax;
- net unrealized gains on certain RMBS and mortgage loans held-for-sale of \$14.1 million, net of tax;
- other-than-temporary impairment loss of \$0.7 million, net of tax;
- net gains of \$9.6 million, net of tax, related to swap and swaption terminations and expirations;
- net unrealized losses of \$134.9 million, net of tax, associated with interest rate swaps and swaptions economically hedging its investment portfolio, repurchase agreements and Federal Home Loan Bank (FHLB) of Des Moines advances;
- net realized and unrealized gains on other derivative instruments of approximately \$9.4 million, net of tax;
- net realized and unrealized gains on consolidated financing securitizations of \$1.5 million, net of tax;
- a net decrease in fair value of \$88.7 million<sup>(2)</sup> on MSR, net of tax; and
- securitization deal costs of \$2.4 million, net of tax.

(2) Decrease in fair value on MSR, net of tax, of \$88.7 million is comprised of a decrease in fair value of \$73.7 million, net of tax, excluded from Core Earnings and \$15.0 million, net of tax, of estimated amortization included in Core Earnings.

The company reported a GAAP Net Loss of \$88.9 million, or \$0.25 per weighted average common share outstanding, for the quarter ended March 31, 2016, as compared to GAAP Net Income of \$210.7 million, or \$0.59 per weighted average common share outstanding, for the quarter ended December 31, 2015. On a GAAP Net Income basis, the company recognized an annualized return on average equity of (10.2%) and 22.7% for the quarters ended March 31, 2016 and December 31, 2015, respectively.

The company reported a Comprehensive Loss of \$67.6 million, or \$0.19 per weighted average common share outstanding, for the quarter ended March 31, 2016, as compared to a Comprehensive Loss of \$3.2 million, or \$0.01 per weighted average common share outstanding, for the quarter ended December 31, 2015. The company records unrealized fair value gains and losses on the majority of RMBS, classified as available-for-sale, in Other Comprehensive Income (Loss). On a Comprehensive Income (Loss) basis, the company recognized an annualized return on average equity of (7.8%) and (0.3%) for the quarters ended March 31, 2016 and December 31, 2015, respectively.

#### Other Key Metrics

Two Harbors declared a quarterly cash dividend of \$0.23 per common share for the quarter ended March 31, 2016. The annualized dividend yield on the company's common stock for the quarter, based on the March 31, 2016 closing price of \$7.94, was 11.6%.

The company's book value per share, after taking into account the first quarter 2016 dividend of \$0.23 per share, was \$9.70 as of March 31, 2016, compared to \$10.11 as of December 31, 2015, which represented a total return on book value for the quarter of (1.8%).<sup>(1)</sup>

Other operating expenses for the quarter ended March 31, 2016 were approximately \$14.9 million, or 1.7% of average equity, compared to approximately \$16.1 million, or 1.7% of average equity, for the quarter ended December 31, 2015.

#### ***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, net economic interests in consolidated securitization trusts and commercial real estate assets. As of March 31, 2016, the total value of the company's portfolio was \$12.2 billion.

The company's portfolio includes rates, credit and commercial real estate strategies. The rates strategy consisted of \$8.7 billion of Agency RMBS, Agency Derivatives and MSR as well as their associated notional hedges as of March 31, 2016. The credit strategy consisted of \$2.8 billion of non-Agency RMBS, net economic interests in consolidated securitization trusts, prime jumbo residential mortgage loans and credit sensitive residential mortgage loans, as well as their associated notional hedges as of March 31, 2016. The commercial strategy consisted of senior and mezzanine commercial real estate assets with an aggregate carrying value of \$744.3 million as of March 31, 2016.

For the quarter ended March 31, 2016, the annualized yield on the company's average aggregate portfolio was 4.58% and the annualized cost of funds on the associated average borrowings, which includes net interest rate spread expense on interest rate swaps, was 1.21%. This resulted in a net interest rate spread of 3.37%.

(1) Return on book value for the quarter ended March 31, 2016 is defined as the decrease in book value from December 31, 2015 to March 31, 2016 of \$0.41, plus the dividend declared of \$0.23 per share, divided by December 31, 2015 book value of \$10.11 per share.



### RMBS and Agency Derivatives

For the quarter ended March 31, 2016, the annualized yield on average RMBS and Agency Derivatives was 4.2%, consisting of an annualized yield of 3.3% in Agency RMBS and Agency Derivatives and 8.3% in non-Agency RMBS.

The company experienced a three-month average constant prepayment rate (CPR) of 9.2% for Agency RMBS and Agency Derivatives held as of March 31, 2016, compared to 10.3% for those securities held as of December 31, 2015. The weighted average cost basis of the principal and interest Agency portfolio was 106.6% of par as of March 31, 2016 and 108.1% of par as of December 31, 2015. The net premium amortization was \$24.2 million and \$25.3 million for the quarters ended March 31, 2016 and December 31, 2015, respectively.

The company experienced a three-month average CPR of 5.3% for non-Agency principal and interest RMBS held as of March 31, 2016, as compared to 6.2% for those securities held as of December 31, 2015. The weighted average cost basis of the non-Agency portfolio was 58.2% of par as of March 31, 2016, compared to 60.4% of par as of December 31, 2015. The discount accretion was \$16.8 million for the quarter ended March 31, 2016, compared to \$19.2 million for the quarter ended December 31, 2015. The total net discount remaining was \$1.0 billion as of March 31, 2016, compared to \$1.1 billion as of December 31, 2015, with \$0.4 billion designated as credit reserve as of March 31, 2016.

As of March 31, 2016, fixed-rate investments composed 83.7% and adjustable-rate investments composed 16.3% of the company's RMBS and Agency Derivatives portfolio.

As of March 31, 2016, the company had residential mortgage loans held-for-investment with a carrying value of \$3.7 billion and the company's collateralized borrowings had a carrying value of \$2.8 billion, resulting in net economic interests in consolidated securitization trusts of \$896.0 million.

### Mortgage Servicing Rights

The company held MSR on mortgage loans with UPB totaling \$55.3 billion. The MSR had a fair market value of \$446.2 million as of March 31, 2016, and the company recognized unrealized losses of \$101.4 million during the quarter ended March 31, 2016.

The company does not directly service mortgage loans, but instead contracts with fully licensed subservicers to handle substantially all servicing functions for the loans underlying the company's MSR. The company recognized \$34.1 million of servicing income, \$7.4 million of servicing expenses and \$0.5 million in reserve expense for representation and warranty obligations during the quarter ended March 31, 2016.

### Residential Mortgage Loans Held for Sale

As of March 31, 2016, the company held prime jumbo residential mortgage loans with a fair market value of \$315.0 million and had outstanding purchase commitments to acquire an additional \$252.2 million UPB of residential mortgage loans, subject to fallout if the loans do not close. For the quarter ended March 31, 2016, the annualized yield on the prime jumbo residential mortgage loan portfolio was 4.1%, compared to 4.0% for the quarter ended December 31, 2015.

During the quarter, the company sponsored two securitizations, Agate Bay Mortgage Trust 2016-1 and Agate Bay Mortgage Trust 2016-2. The trusts issued securities backed by approximately \$628.3 million UPB of prime jumbo residential mortgage loans.

### Commercial Real Estate

The company originates and acquires senior and mezzanine commercial real estate assets. These assets are U.S.-domiciled and are secured by a diverse mix of property types, which includes office, retail, multifamily and hotel properties.

As of March 31, 2016, the company held senior and mezzanine commercial real estate assets with an aggregate carrying value of \$744.3 million. For the quarter ended March 31, 2016, the annualized yield on commercial real estate assets was 6.4% as compared to 6.0% for the quarter ended December 31, 2015.

#### Other Investments and Risk Management Derivatives

The company held \$1.6 billion notional of net long TBAs as of March 31, 2016, which are accounted for as derivative instruments in accordance with GAAP.

As of March 31, 2016, the company was a party to interest rate swaps and swaptions with a notional amount of \$20.6 billion. Of this amount, \$6.5 billion notional in swaps were utilized to economically hedge interest rate risk associated with the company's LIBOR-based repurchase agreements and FHLB advances, \$8.9 billion notional in swaps were utilized to economically hedge interest rate risk associated with the company's investment portfolio, and \$5.2 billion net notional in swaptions were utilized as macroeconomic hedges.

The following tables summarize the company's investment portfolio as of March 31, 2016 and December 31, 2015:

<b>Two Harbors Investment Corp. Portfolio</b>				
(dollars in thousands)				
Portfolio Composition	As of March 31, 2016		As of December 31, 2015	
	(unaudited)		(unaudited)	
<b>Rates Strategy</b>				
<b>Agency Bonds</b>				
Fixed Rate Bonds	\$ 7,972,296	65.3%	5,864,294	52.7%
Hybrid ARMs	36,800	0.3%	108,596	1.0%
Total Agency	8,009,096	65.6%	5,972,890	53.7%
Agency Derivatives	157,219	1.3%	157,906	1.4%
Mortgage servicing rights	446,170	3.6%	493,688	4.4%
Residential mortgage loans held-for-sale	61,319	0.5%	36,069	0.3%
<b>Credit Strategy</b>				
<b>Non-Agency Bonds</b>				
Senior Bonds	1,172,288	9.6%	1,313,695	11.8%
Mezzanine Bonds	397,492	3.3%	532,572	4.8%
Non-Agency Other	5,578	—%	6,163	0.1%
Total Non-Agency	1,575,358	12.9%	1,852,430	16.7%
Net Economic Interest in Securitization <sup>(1)</sup>	896,020	7.3%	1,173,617	10.6%
Residential mortgage loans held-for-sale	325,940	2.7%	775,362	7.0%
Commercial real estate assets	744,259	6.1%	660,953	5.9%
<b>Aggregate Portfolio</b>	<b>\$ 12,215,381</b>		<b>\$ 11,122,915</b>	

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

Portfolio Metrics	Three Months Ended	Three Months Ended
	March 31, 2016	December 31, 2015
	(unaudited)	(unaudited)
Annualized portfolio yield during the quarter	4.58%	4.56%
<b>Rates Strategy</b>		
Agency RMBS, Agency Derivatives and mortgage servicing rights	3.7%	3.8%
<b>Credit Strategy</b>		
Non-Agency RMBS, Legacy <sup>(1)</sup>	8.6%	8.4%
Non-Agency RMBS, New issue <sup>(1)</sup>	4.3%	4.0%
Net economic interest in securitizations	4.8%	4.6%
Residential mortgage loans held-for-sale	4.1%	4.0%
Commercial Strategy	6.4%	6.0%
Annualized cost of funds on average borrowing balance during the quarter <sup>(2)</sup>	1.21%	1.30%
Annualized interest rate spread for aggregate portfolio during the quarter	3.37%	3.26%
Debt-to-equity ratio at period-end <sup>(3)</sup>	3.0:1.0	2.5:1.0
<b>Portfolio Metrics Specific to RMBS and Agency Derivatives as of March 31, 2016</b>		
<b>Weighted average cost basis of principal and interest securities</b>		
Agency <sup>(4)</sup>	\$ 106.59	\$ 108.10
Non-Agency <sup>(5)</sup>	\$ 58.20	\$ 60.42
<b>Weighted average three month CPR</b>		
Agency	9.2%	10.3%
Non-Agency	5.3%	6.2%
Fixed-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	83.7%	75.7%
Adjustable-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	16.3%	24.3%

(1) Legacy non-Agency RMBS includes non-Agency bonds issued up to and including 2009. New issue non-Agency RMBS includes bonds issued after 2009.

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

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

(4) Weighted average cost basis includes RMBS principal and interest securities only. Average purchase price utilized carrying value for weighting purposes.

(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 \$53.89 at March 31, 2016 and \$55.80 at December 31, 2015.

“There were exciting opportunities available in the market in the first quarter,” stated Bill Roth, Two Harbors’ Chief Investment Officer. “We increased leverage to take advantage of wider Agency spreads, while adding to our MSR and commercial real estate holdings. We have continued this trend post-quarter end as we see attractive available spreads in various sectors.”

### **Financing Summary**

The company reported a debt-to-equity ratio, defined as total borrowings under repurchase agreements and FHLB advances to fund RMBS, Agency Derivatives, residential mortgage loans held-for-sale and commercial real estate assets divided by total equity, of 3.0:1.0 and 2.5:1.0 as of March 31, 2016 and December 31, 2015, respectively.

As of March 31, 2016, the company had outstanding \$6.2 billion of repurchase agreements funding RMBS, Agency Derivatives, residential mortgage loans held-for-sale and commercial real estate assets with 20 different counterparties. Excluding the effect of the company’s interest rate swaps, the repurchase agreements had a weighted average borrowing rate of 1.15% as of March 31, 2016.

The company’s wholly owned subsidiary, TH Insurance Holdings Company LLC (TH Insurance), is a member of the FHLB. As a member of the FHLB, TH Insurance has access to a variety of products and services offered by the FHLB, including secured advances. As of March 31, 2016, TH Insurance had \$4.0 billion in outstanding secured advances, with a weighted average borrowing rate of 0.59%, and had no additional available uncommitted capacity for borrowings.

As of March 31, 2016, the company's aggregate repurchase agreements and FHLB advances funding RMBS, Agency Derivatives, residential mortgage loans held-for-sale and commercial real estate assets had a weighted average of 5.2 years to maturity.

The following table summarizes the company's borrowings by collateral type under repurchase agreements and FHLB advances outstanding as of March 31, 2016 and December 31, 2015, and the related cost of funds for the three months ended March 31, 2016 and December 31, 2015:

(in thousands)	As of March 31, 2016	As of December 31, 2015
	(unaudited)	(unaudited)
Collateral type:		
Agency RMBS and Agency Derivatives	\$ 7,514,775	\$ 5,709,003
Mortgage servicing rights	—	—
Non-Agency MBS	1,072,780	1,278,214
Net economic interests in consolidated securitization trusts <sup>(1)</sup>	903,162	983,290
Residential mortgage loans held-for-sale	256,005	596,156
Commercial real estate assets	443,130	226,611
	<u>\$ 10,189,852</u>	<u>\$ 8,793,274</u>
Cost of Funds Metrics	Three Months Ended March 31, 2016	Three Months Ended December 31, 2015
	(unaudited)	(unaudited)
Annualized cost of funds on average borrowings during the quarter:		
Agency RMBS and Agency Derivatives	0.9%	0.8%
Mortgage servicing rights	0.7%	0.5%
Non-Agency MBS	—%	—%
Net economic interests in consolidated securitization trusts <sup>(1)</sup>	2.3%	2.0%
Residential mortgage loans held-for-sale	0.9%	0.8%
Commercial real estate assets	0.7%	0.5%
	1.7%	1.2%

(1) Includes the retained interests from on-balance sheet securitizations, which are eliminated in consolidation in accordance with GAAP.

### Share Repurchase Program

During the first quarter of 2016, the company repurchased 8.0 million shares of common stock pursuant to its share repurchase program at an average price of \$7.64 per share, which was accretive to book value, for a total cost of \$61.3 million. From the inception of the program through March 31, 2016, the company had repurchased an aggregate of 24.1 million shares at a cost of \$200.4 million, with an additional 50.9 million shares remaining available for purchase pursuant to the share repurchase program.

## Conference Call

Two Harbors Investment Corp. will host a conference call on May 5, 2016 at 9:00 a.m. EST to discuss first quarter 2016 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 86760221, 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 12:00 p.m. EST on May 5, 2016, through 12:00 a.m. EST on May 12, 2016. The playback can be accessed by calling (855) 859-2056 (or (404) 537-3406 for international callers), conference code 86760221. 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, commercial real estate 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](http://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 our Annual Report on Form 10-K for the year ended December 31, 2015, 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: the state of credit markets and general economic conditions; changes in interest rates and the market value of our assets; changes in prepayment rates of mortgages underlying our target assets; the rates of default or decreased recovery on the mortgages underlying our target assets; the occurrence, extent and timing of credit losses within our portfolio; the concentration of credit risks we are exposed to; declines in home prices; our ability to establish, adjust and maintain appropriate hedges for the risks in our portfolio; the availability and cost of our target assets; the availability and cost of financing; changes in the competitive landscape within our industry; our ability to successfully implement new strategies and to diversify our business into new asset classes; our ability to manage various operational risks and costs associated with our business; interruptions in or impairments to our communications and information technology systems; our ability to acquire mortgage loans and successfully securitize the mortgage loans we acquire; our ability to acquire mortgage servicing rights (MSR) and successfully operate our seller-servicer subsidiary and oversee our subservicers; the impact of any deficiencies in the servicing or foreclosure practices of third parties and related delays in the foreclosure process; our exposure to legal and regulatory claims; legislative and regulatory actions affecting our business; the impact of new or modified government mortgage refinance or principal reduction programs; our ability to maintain our REIT qualification; the state of commercial real estate markets and our ability to acquire or originate commercial real estate loans or related assets; and limitations imposed on our business due to our REIT status and our exempt status under the Investment Company Act of 1940.

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 13 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](http://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 Investor and Media Relations, Two Harbors Investment Corp., (612) 629-2514 or [July.hugen@twoharborsinvestment.com](mailto:July.hugen@twoharborsinvestment.com)

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**TWO HARBORS INVESTMENT CORP.**

**CONSOLIDATED BALANCE SHEETS**

(dollars in thousands, except share data)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	(unaudited)	
<b>ASSETS</b>		
Available-for-sale securities, at fair value	\$ 9,584,454	\$ 7,825,320
Residential mortgage loans held-for-sale, at fair value	387,259	811,431
Residential mortgage loans held-for-investment in securitization trusts, at fair value	3,705,647	3,173,727
Commercial real estate assets	744,259	660,953
Mortgage servicing rights, at fair value	446,170	493,688
Cash and cash equivalents	754,827	737,831
Restricted cash	281,145	262,562
Accrued interest receivable	54,517	49,970
Due from counterparties	233,378	17,206
Derivative assets, at fair value	197,847	271,509
Other assets	295,102	271,575
<b>Total Assets</b>	<b>\$ 16,684,605</b>	<b>\$ 14,575,772</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Repurchase agreements	\$ 6,189,852	\$ 5,008,274
Collateralized borrowings in securitization trusts, at fair value	2,809,627	2,000,110
Federal Home Loan Bank advances	4,000,000	3,785,000
Derivative liabilities, at fair value	77,038	7,285
Due to counterparties	91,547	34,294
Dividends payable	79,939	92,016
Other liabilities	65,911	72,232
<b>Total Liabilities</b>	<b>13,313,914</b>	<b>10,999,211</b>
<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 347,562,770 and 353,906,807 shares issued and outstanding, respectively	3,476	3,539
Additional paid-in capital	3,647,236	3,705,519
Accumulated other comprehensive income	380,406	359,061
Cumulative earnings	1,595,825	1,684,755
Cumulative distributions to stockholders	(2,256,252)	(2,176,313)
<b>Total Stockholders' Equity</b>	<b>3,370,691</b>	<b>3,576,561</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 16,684,605</b>	<b>\$ 14,575,772</b>

**TWO HARBORS INVESTMENT CORP.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

(dollars in thousands)

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

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	(unaudited)	
<b>Interest income:</b>		
Available-for-sale securities	\$ 79,428	\$ 135,525
Trading securities	—	4,695
Residential mortgage loans held-for-sale	7,202	4,271
Residential mortgage loans held-for-investment in securitization trusts	32,771	18,237
Commercial real estate assets	11,072	44
Cash and cash equivalents	290	197
Total interest income	<u>130,763</u>	<u>162,969</u>
<b>Interest expense:</b>		
Repurchase agreements	16,029	20,565
Collateralized borrowings in securitization trusts	19,359	10,708
Federal Home Loan Bank advances	5,972	2,230
Total interest expense	<u>41,360</u>	<u>33,503</u>
Net interest income	89,403	129,466
Other-than-temporary impairment losses	(717)	(127)
<b>Other income (loss):</b>		
Gain on investment securities	29,474	129,457
Loss on interest rate swap and swaption agreements	(125,484)	(126,443)
Gain on other derivative instruments	16,015	2,967
Gain on residential mortgage loans held-for-sale	10,803	9,092
Servicing income	34,133	32,087
Loss on servicing asset	(101,440)	(52,403)
Other income (loss)	2,827	(1,857)
Total other loss	<u>(133,672)</u>	<u>(7,100)</u>
<b>Expenses:</b>		
Management fees	12,044	12,721
Securitization deal costs	3,732	2,611
Servicing expenses	7,861	6,716
Other operating expenses	14,856	16,055
Total expenses	<u>38,493</u>	<u>38,103</u>
<b>(Loss) income before income taxes</b>	<u>(83,479)</u>	<u>84,136</u>
Provision for (benefit from) income taxes	5,451	(10,657)
<b>Net (loss) income</b>	<u>\$ (88,930)</u>	<u>\$ 94,793</u>
Basic and diluted (loss) earnings per weighted average common share	<u>\$ (0.25)</u>	<u>\$ 0.26</u>
Dividends declared per common share	<u>\$ 0.23</u>	<u>\$ 0.26</u>
Basic and diluted weighted average number of shares of common stock outstanding	<u>349,436,015</u>	<u>366,507,657</u>



**TWO HARBORS INVESTMENT CORP.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

(dollars in thousands)

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

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	(unaudited)	
<b>Comprehensive (loss) income:</b>		
<b>Net (loss) income</b>	\$ (88,930)	\$ 94,793
<b>Other comprehensive income (loss), net of tax:</b>		
Unrealized gain (loss) on available-for-sale securities	21,345	(5,931)
Other comprehensive income (loss)	21,345	(5,931)
<b>Comprehensive (loss) income</b>	<u>\$ (67,585)</u>	<u>\$ 88,862</u>

**TWO HARBORS INVESTMENT CORP.**

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

(dollars in thousands, except share data)

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

	Three Months Ended March 31,	
	2016	2015
	(unaudited)	
Reconciliation of net (loss) income to Core Earnings:		
Net (loss) income	\$ (88,930)	\$ 94,793
Adjustments for non-core earnings:		
Gain on sale of securities and residential mortgage loans held-for-sale, net of tax	(16,749)	(122,527)
Unrealized gain on securities and residential mortgage loans held-for-sale, net of tax	(14,103)	(8,644)
Other-than-temporary impairment loss, net of tax	717	127
Realized gain on termination or expiration of swaps and swaptions, net of tax	(9,586)	(7,279)
Unrealized loss on interest rate swaps and swaptions economically hedging investment portfolio, repurchase agreements and FHLB advances, net of tax	134,942	97,469
Gain on other derivative instruments, net of tax	(9,393)	(824)
Realized and unrealized (gain) loss on financing securitizations, net of tax	(1,478)	2,902
Realized and unrealized loss on mortgage servicing rights, net of tax	73,661	36,318
Securitization deal costs, net of tax	2,426	1,697
Change in representation and warranty reserve, net of tax	337	43
Core Earnings <sup>(1)</sup>	<u>\$ 71,844</u>	<u>\$ 94,075</u>
Weighted average shares outstanding	349,436,015	366,507,657
Core Earnings per weighted average share outstanding	\$ 0.21	\$ 0.26

(1) Core Earnings is a non-GAAP measure that we define as GAAP net income, excluding impairment losses, realized and unrealized gains or losses on the aggregate portfolio, amortization of business combination intangible assets, reserve expense for representation and warranty obligations on MSR and certain 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.

**TWO HARBORS INVESTMENT CORP.**  
**SUMMARY OF QUARTERLY CORE EARNINGS**

(dollars in millions, except per share data)

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

	Three Months Ended				
	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	(unaudited)				
<b>Net Interest Income:</b>					
Interest income	\$ 130.8	\$ 133.6	\$ 152.8	\$ 152.5	\$ 163.0
Interest expense	41.4	36.6	37.0	35.0	33.5
Net interest income	89.4	97.0	115.8	117.5	129.5
<b>Other income:</b>					
Interest spread on interest rate swaps	(6.2)	(12.6)	(19.4)	(26.2)	(27.5)
Interest spread on other derivative instruments	5.4	6.0	5.6	6.4	7.7
Servicing income, net of amortization <sup>(1)</sup>	17.9	16.8	10.8	17.2	19.1
Other income	1.3	1.4	1.1	1.0	1.0
Total other (loss) income	18.4	11.6	(1.9)	(1.6)	0.3
Expenses	34.3	35.8	35.6	35.3	35.4
Core Earnings before income taxes	73.5	72.8	78.3	80.6	94.4
Income tax (benefit) expense	1.7	0.7	(1.1)	0.4	0.3
<b>Core Earnings</b>	<b>\$ 71.8</b>	<b>\$ 72.1</b>	<b>\$ 79.4</b>	<b>\$ 80.2</b>	<b>\$ 94.1</b>
Basic and diluted weighted average Core EPS	\$ 0.21	\$ 0.20	\$ 0.22	\$ 0.22	\$ 0.26

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



# First Quarter 2016 Earnings Call

May 5, 2016



**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, 2015, 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: the state of credit markets and general economic conditions; changes in interest rates and the market value of our assets; changes in prepayment rates of mortgages underlying our target assets; the rates of default or decreased recovery on the mortgages underlying our target assets; the occurrence, extent and timing of credit losses within our portfolio; the concentration of credit risks we are exposed to; declines in home prices; our ability to establish, adjust and maintain appropriate hedges for the risks in our portfolio; the availability and cost of our target assets; the availability and cost of financing; changes in the competitive landscape within our industry; our ability to successfully implement new strategies and to diversify our business into new asset classes; our ability to manage various operational risks and costs associated with our business; interruptions in or impairments to our communications and information technology systems; our ability to acquire mortgage loans and successfully securitize the mortgage loans we acquire; our ability to acquire mortgage servicing rights (MSR) and successfully operate our seller-servicer subsidiary and oversee our subservicers; the impact of any deficiencies in the servicing or foreclosure practices of third parties and related delays in the foreclosure process; the state of commercial real estate markets and our ability to acquire or originate commercial real estate loans or related assets; our exposure to legal and regulatory claims; legislative and regulatory actions affecting our business; the impact of new or modified government mortgage refinance or principal reduction programs; our ability to maintain our REIT qualification; and limitations imposed on our business due to our REIT status and our exempt status under the Investment Company Act of 1940.

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.

# Financial Summary<sup>(1)</sup>



## QUARTERLY FINANCIAL RESULTS

- Core Earnings<sup>(2)</sup> of \$71.8 million, or \$0.21 per share
- Comprehensive Loss of \$67.6 million, or \$0.19 per share
- Total return on book value of (1.8%)<sup>(3)</sup>
  - Cash dividend of \$0.23 per share
- Repurchased 8.0 million shares of common stock
  - Average purchase price of \$7.64 per share
  - 2.3% of common shares outstanding at December 31, 2015
  - Accretive to book value

(1) Except as otherwise indicated in this presentation, reported data is as of or for the period ended March 31, 2016.

(2) Core Earnings is a non-GAAP measure. Please see Appendix slide 17 of this presentation for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

(3) See Appendix slide 14 for calculation of Q1-2016 return on book value.

# Business Overview

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## COMMERCIAL REAL ESTATE

- Closed on three assets with an aggregate carrying value of \$98.3 million
- Opportunity attractive

## MORTGAGE SERVICING RIGHTS

- Portfolio of \$55.3 billion in unpaid principal balance (UPB)
- Added four MSR flow sellers
- Closed bulk MSR acquisition

## MORTGAGE LOAN CONDUIT

- Sponsored two securitizations totaling approximately \$628 million UPB

# Market and Policy Update



## MACRO CONSIDERATIONS

- Interest rates fell as Fed commentary expressed caution
- Home price appreciation continued
  - CoreLogic Home Price Index up 6.7% on rolling 12-month basis<sup>(1)</sup>
- Stable employment data
  - Unemployment rate remained low; 5.0% in March 2016<sup>(2)</sup>
  - Labor force participation improving

## POLICY MATTERS

- Remain actively engaged with a variety of parties in Washington, D.C.
  - FHFA ruling
  - Credit risk transfer
  - Private label securitization market
  - Role of private capital in mortgage market

(1) Source: CoreLogic Home Price Index rolling 12-month change as of March 2016.  
(2) Source: U.S. Bureau of Labor Statistics.



# Book Value



(Dollars in millions, except per share data)	Q4-2015 Book Value	Q4-2015 Book Value per share	Q1-2016 Book Value	Q1-2016 Book Value per share
<b>Beginning stockholders' equity</b>	<b>\$3,772.7</b>	<b>\$10.30</b>	<b>\$3,576.6</b>	<b>\$10.11</b>
GAAP Net Income:				
Core Earnings, net of tax	72.1		71.8	
Realized gains, net of tax	15.1		25.5	
Unrealized mark-to-market gains (losses), net of tax	123.5		(186.2)	
Other comprehensive income (loss)	(213.9)		21.3	
Dividend declaration	(92.0)		(79.9)	
Other	1.7		2.8	
<b>Balance before capital transactions</b>	<b>3,679.2</b>		<b>3,431.9</b>	
Repurchase of common stock	(102.7)		(61.3)	
Issuance of common stock, net of offering costs	0.1		0.1	
<b>Ending stockholders' equity</b>	<b>\$3,576.6</b>	<b>\$10.11</b>	<b>\$3,370.7</b>	<b>\$9.70</b>

Q1-2016  
Comprehensive  
Loss of \$67.6  
million

Declared Q1-2016  
dividend of \$0.23  
per share

Share repurchases  
accretive to book  
value by \$0.06  
per share in Q4-2015;  
\$0.05 per share in  
Q1-2016

# Core Earnings Summary<sup>(1)</sup>



## Q1-2016 FINANCIAL HIGHLIGHTS

(Dollars in millions)	Q4-2015	Q1-2016	Variance (\$)	Variance (%)
Interest income	\$133.6	\$130.8	(\$2.8)	(2.1%)
Interest expense	\$36.6	\$41.4	(\$4.8)	(13.1%)
Net interest income	\$97.0	\$89.4	(\$7.6)	(7.9%)
Loss on swaps and swaptions	(\$12.6)	(\$6.2)	\$6.4	50.7%
Gain on other derivatives	\$6.0	\$5.4	(\$0.6)	(10.9%)
Servicing income, net of amortization on MSR	\$16.8	\$17.9	\$1.1	(6.8%)
Other	\$1.4	\$1.3	(\$0.1)	(4.2%)
Total other income	\$11.6	\$18.4	\$6.8	n/a
Expenses	\$35.8	\$34.3	\$1.5	4.6%
Income taxes	\$0.7	\$1.7	(\$1.0)	n/a
<b>Core Earnings<sup>(1)</sup></b>	<b>\$72.1</b>	<b>\$71.8</b>	<b>(\$0.3)</b>	<b>(0.4%)</b>
<b>Basic and diluted weighted average Core EPS</b>	<b>\$0.20</b>	<b>\$0.21</b>	<b>\$0.01</b>	<b>5.0%</b>

- Net interest income down modestly quarter-over-quarter
  - Increased leverage on Agency RMBS
  - Growth in commercial real estate assets, partially offset by increased financing
- Lower swap costs driven by increases in LIBOR and reduction in average notional swaps
- Servicing income increased \$1.1 million quarter-over-quarter
  - Growth in MSR portfolio due to flow and bulk purchases
  - Amortization (runoff) consistent with prior quarter
- Other operating expenses decreased \$1.2 million quarter-over-quarter
  - Percentage of average equity consistent with prior quarter

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 17 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

# Financing Profile



## FINANCING FOR COMMERCIAL REAL ESTATE ASSETS

- Increased financing capabilities and flexibility
- Two \$250 million financing facilities currently in place; one facility added in the first quarter
- Debt-to-equity of 1.3x<sup>(1)</sup>

## FEDERAL HOME LOAN BANK OF DES MOINES

- Outstanding secured advances of \$4.0 billion
- Average borrowing rate of 0.59%

## REPURCHASE AGREEMENTS

- Focused on diversification and financial stability across repo counterparties
- Outstanding borrowings of \$6.2 billion with 20 active counterparties; 30 total counterparties
- Repo markets functioning normally; continue to ladder repo maturities
- Subsequent to quarter-end, added a direct lending counterparty

(1) Defined as total borrowings to fund commercial real estate assets divided by total equity in investments.

# Portfolio Performance and Hedging



## Q1-2016 PERFORMANCE HIGHLIGHTS

### NET INTEREST MARGIN BENEFIT FROM HIGHER YIELDING ASSETS

#### RATES

- Increased Agency exposure due to wider spreads
- Strong Interest-Only and MSR performance

#### CREDIT

- Continued to sell lower yielding Legacy non-Agency bonds

#### COMMERCIAL

- Initial holdings performed well; opportunity remains attractive

#### HEDGING

- Increased leverage while maintaining low interest rate exposure
- Debt-to-equity of 3.0x at March 31, 2016, up from 2.5x at December 31, 2015<sup>(3)</sup>

## Q1-2016 PORTFOLIO METRICS

Three Months Ended	Dec. 31, 2015	Mar. 31, 2016
<b>Annualized portfolio yield during the quarter</b>	<b>4.56%</b>	<b>4.58%</b>
<b>Rates</b>		
Agency RMBS, Agency Derivatives and MSR	3.8%	3.7%
<b>Credit</b>		
Non-Agency RMBS, Legacy <sup>(1)</sup>	8.4%	8.6%
Non-Agency RMBS, New Issue <sup>(1)</sup>	4.0%	4.3%
Net economic interest in securitization trusts	4.6%	4.8%
Prime jumbo residential mortgage loans	4.0%	4.1%
<b>Commercial</b>	<b>6.0%</b>	<b>6.4%</b>
<b>Annualized cost of funds on average repurchase and advance balance during the quarter<sup>(2)</sup></b>	<b>1.30%</b>	<b>1.21%</b>
<b>Annualized interest rate spread for aggregate portfolio during the quarter</b>	<b>3.26%</b>	<b>3.37%</b>

(1) "Legacy" non-Agency RMBS includes non-Agency bonds issued up to and including 2009. "New issue" non-Agency RMBS includes bonds issued after 2009.

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

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

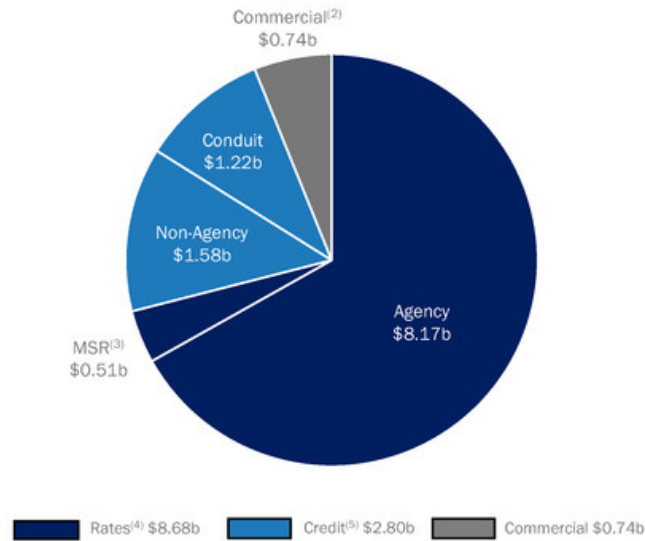


# Portfolio Composition

## INCREASED CAPITAL ALLOCATION TO AGENCY RMBS AND COMMERCIAL ASSETS

### PORTFOLIO COMPOSITION<sup>(1)</sup>

\$12.2 BILLION PORTFOLIO AS OF MARCH 31, 2016



### HISTORICAL CAPITAL ALLOCATION

	Sept 30, 2015	Dec 31, 2015	Mar 31, 2016
<b>Rates<sup>(4)</sup></b>			
Agency	41%	35%	43%
MSR	12%	14%	13%
<b>Credit<sup>(5)</sup></b>			
Non-Agency	30%	27%	22%
Conduit	13%	16%	11%
<b>Commercial</b>	<b>4%</b>	<b>8%</b>	<b>11%</b>

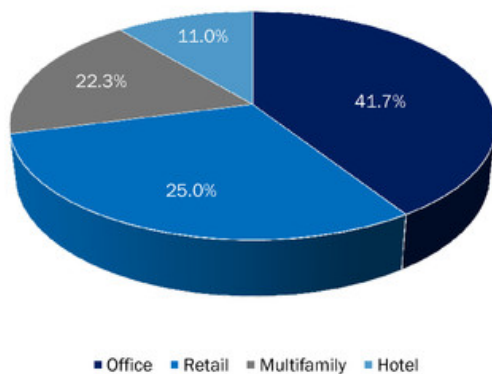
(1) For additional detail on the portfolio, see Appendix slides 18-24.  
 (2) Commercial consists of senior and mezzanine commercial real estate debt and related instruments.  
 (3) MSR includes Ginnie Mae buyout residential mortgage loans.  
 (4) Assets in "Rates" include Agency RMBS, Agency Derivatives, MSR and Ginnie Mae buyout residential mortgage loans.  
 (5) Assets in "Credit" include non-Agency RMBS, prime jumbo residential mortgage loans, net economic interest in securitization trusts and credit sensitive residential mortgage loans.

## Commercial Real Estate Update

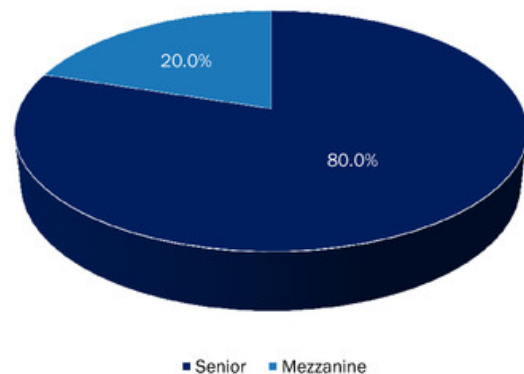


- Aggregate portfolio carrying value of \$744.3 million at March 31, 2016
  - Fourteen senior and six mezzanine assets
- Weighted average initial loan-to-value (LTV) of 72.9%; weighted average spread of LIBOR plus 496 basis points
- Anticipate capital allocation in 2016 to exceed initial target of \$500 million
- Closed on additional two assets subsequent to quarter-end totaling approximately \$125 million

PORTFOLIO BY PROPERTY TYPE



PORTFOLIO BY LOAN TYPE



# MSR and Conduit Update<sup>(1)</sup>



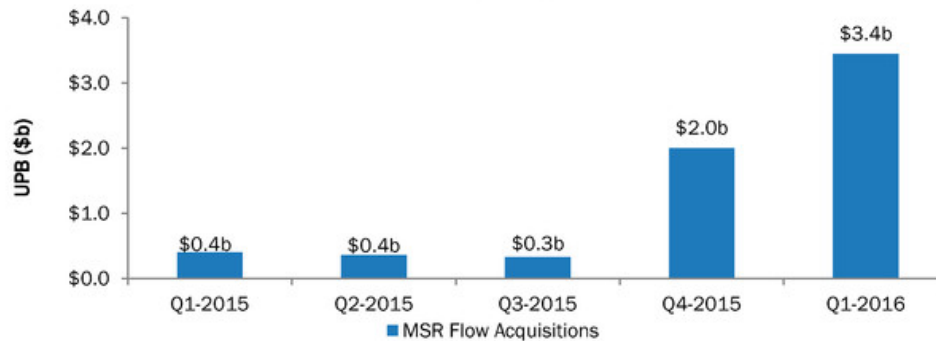
## MORTGAGE SERVICING RIGHTS

- 10 active flow sale relationships
- Flow MSR volume has increased significantly; anticipate near-term volumes of \$1.5-2.0 billion/month
- Added \$3.4 billion from flow sale arrangements and \$1.6 billion from bulk acquisition
- Gross yields strong at 8.1%<sup>(2)</sup>

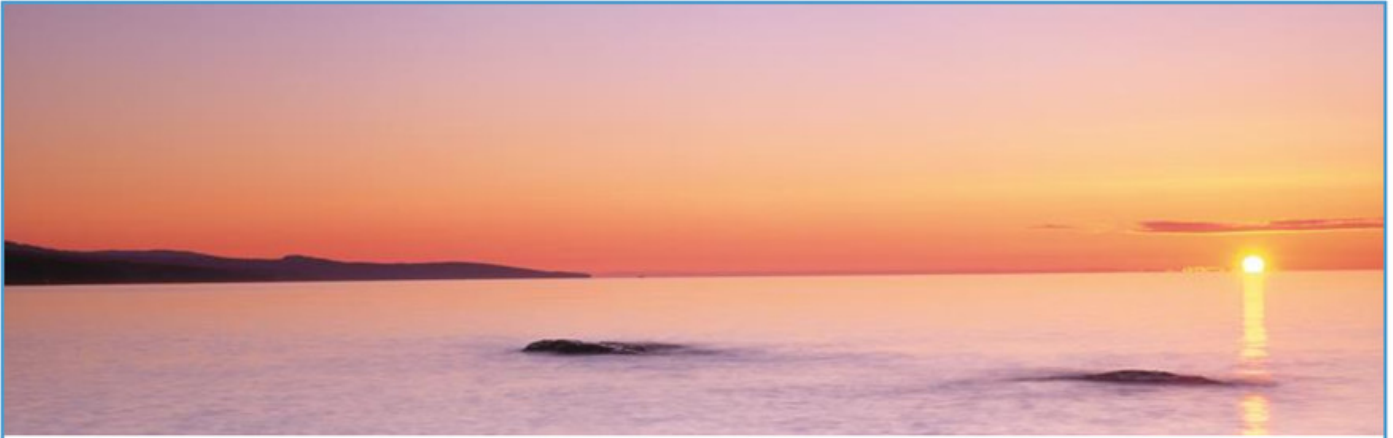
## MORTGAGE LOAN CONDUIT

- Sponsored ABMT 2016-1 and ABMT 2016-2, totaling \$628 million UPB
- Significant issuer in private label securities market
  - Broad investor interest and participation; over 55 different investors in program since inception<sup>(3)</sup>
- Retained interests in securitization trusts declining due to sales of previously retained AAA bonds

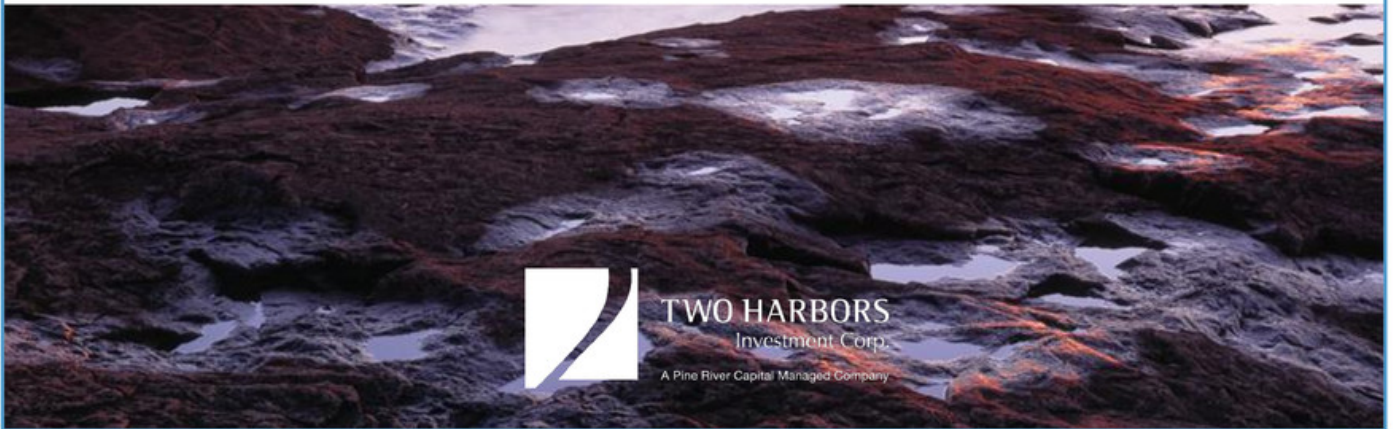
FLOW MSR SUMMARY



(1) Data for the three months ended March 31, 2016, except where noted.  
 (2) Gross yield includes servicing income, net of sub-servicing expense and amortization.  
 (3) Total investors considers only new issue buyers.



## Appendix



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## Return on Book Value



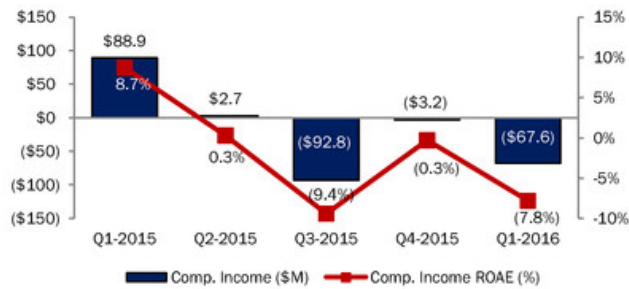
<b>Return on book value Q1-2016</b> (Per share amounts, except for percentage)	
Book value at December 31, 2015	\$10.11
Book value at March 31, 2016	9.70
Decrease in book value	(0.41)
Dividends declared in Q1-2016	0.23
Return on book value Q1-2016	(\$0.18)
Percent return on book value Q1-2016 <sup>(1)</sup>	(1.8%)

(1) Return on book value for three-month period ended March 31, 2016 is defined as the decrease in book value from December 31, 2015 to March 31, 2016 of \$0.41 per share, plus dividends declared of \$0.23 per share, divided by December 31, 2015 book value of \$10.11 per share.

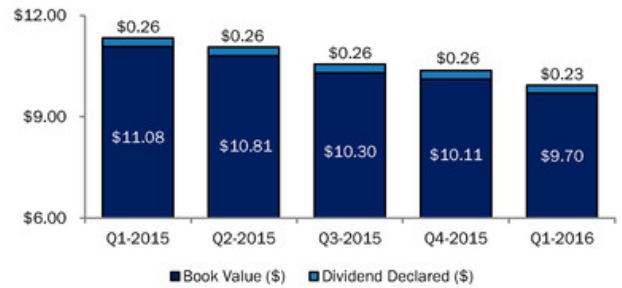
# Financial Performance



## COMPREHENSIVE INCOME (LOSS)



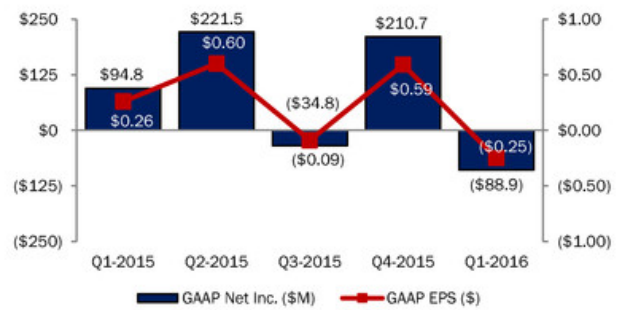
## BOOK VALUE AND DIVIDEND PER SHARE <sup>(1)</sup>



## DIVIDENDS <sup>(1)</sup>



## GAAP NET INCOME (LOSS)



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

# Operating Performance



(In millions, except for per share data)	Core Earnings <sup>(1)</sup>	Realized Gains	Unrealized MTM	Q4-2015 Financials	Core Earnings <sup>(1)</sup>	Realized Gains	Unrealized MTM	Q1-2016 Financials
Interest income	\$133.6	\$ -	\$ -	\$133.6	\$130.8	\$-	\$-	\$130.8
Interest expense	36.6	-	-	36.6	41.4	-	-	41.4
Net interest income	97.0	-	-	97.0	89.4	-	-	89.4
Net other-than-temporary impairment losses	-	-	-	-	-	-	(0.7)	(0.7)
Gain (loss) on investment securities	-	109.6	(9.7)	99.9	-	21.7	7.8	29.5
(Loss) gain on interest rate swaps and swaptions	(12.6)	(101.1)	156.2	42.5	(6.2)	30.6	(149.9)	(125.5)
Gain (loss) on other derivative instruments	6.0	(6.8)	(1.3)	(2.1)	5.4	6.3	4.4	16.1
Gain (loss) on residential mortgage loans held-for-sale	-	3.6	(7.7)	(4.1)	-	1.1	9.7	10.8
Servicing income	32.8	-	-	32.8	34.1	-	-	34.1
(Loss) gain on servicing asset	(16.0)	-	12.8	(3.2)	(16.2)	-	(85.2)	(101.4)
Other income (loss)	1.4	(2.0)	(4.9)	(5.5)	1.3	(2.2)	3.7	2.8
Total other (loss) income	11.6	3.3	145.4	160.3	18.4	57.5	(209.5)	(133.6)
Management fees & other operating expenses	35.8	2.0	-	37.8	34.3	4.2	-	38.5
Net income (loss) before income taxes	72.8	1.3	145.4	219.5	73.5	53.3	(210.2)	(83.4)
Income tax (benefit) expense	0.7	(13.8)	21.9	8.8	1.7	27.8	(24.0)	5.5
<b>Net Income (loss)</b>	<b>\$72.1</b>	<b>\$15.1</b>	<b>\$123.5</b>	<b>\$210.7</b>	<b>\$71.8</b>	<b>\$25.5</b>	<b>(\$186.2)</b>	<b>(\$88.9)</b>
Weighted average EPS	\$0.20	\$0.04	\$0.34	\$0.59	\$0.21	\$0.07	(\$0.53)	(\$0.25)

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 17 of this presentation for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

## GAAP to Core Earnings Reconciliation<sup>(1)</sup>



Reconciliation of GAAP to non-GAAP Information (In thousands, except for per share data)	Three Months Ended December 31, 2015	Three Months Ended March 31, 2016
Reconciliation of net income (loss) to Core Earnings:		
Net income (loss)	\$210,706	(\$88,930)
Adjustments for non-core earnings:		
Gain on sale of securities and residential mortgage loans, net of tax	(100,548)	(16,749)
Unrealized loss (gain) on securities and residential mortgage loans held-for-sale, net of tax	14,668	(14,103)
Other-than-temporary impairment loss	-	717
Unrealized (gain) loss on interest rate swaps and swaptions economically hedging investment portfolio, repurchase agreements and FHLB advances, net of tax	(134,182)	134,942
Realized loss (gain) on termination or expiration of swaps and swaptions, net of tax	77,672	(9,586)
Loss (gain) on other derivative instruments, net of tax	6,880	(9,393)
Realized and unrealized loss (gain) on financing securitizations, net of tax	6,997	(1,478)
Realized and unrealized (gain) loss on mortgage servicing rights, net of tax	(11,342)	73,661
Securitization deal costs, net of tax	780	2,426
Change in representation and warranty reserve, net of tax	502	337
<b>Core Earnings</b>	<b>\$72,133</b>	<b>\$71,844</b>
Weighted average shares outstanding	360,090,432	349,436,015
Core Earnings per weighted average share outstanding	\$0.20	\$0.21

(1) Core Earnings is a non-GAAP measure that we define as GAAP net income, excluding impairment losses, realized and unrealized gains or losses on the aggregate portfolio, amortization of business combination intangible assets, reserve expense for representation and warranty obligations on MSR and certain 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.



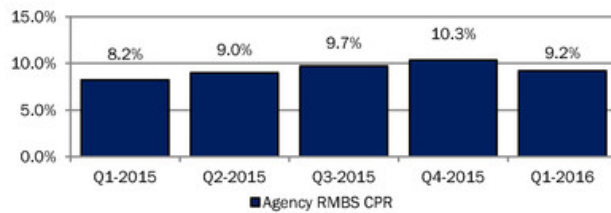
# Rates: Agency RMBS Metrics

## AGENCY PORTFOLIO YIELDS AND METRICS

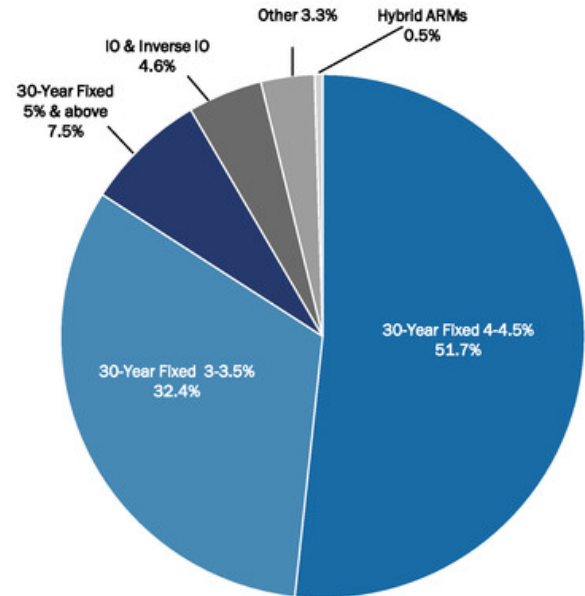
Portfolio Yield	Realized Q4-2015	At Dec. 31, 2015	Realized Q1-2016	At Mar. 31, 2016
Agency yield	3.5%	3.4%	3.3%	3.1%
Repo and FHLB costs	0.5%	0.6%	0.6%	0.7%
Swap costs	0.8%	0.7%	0.4%	0.4%
Net interest spread	2.2%	2.1%	2.3%	2.0%

Portfolio Metrics	Q4-2015	Q1-2016
Weighted average 3-month CPR <sup>(1)</sup>	10.3%	9.2%
Weighted average cost basis <sup>(2)</sup>	\$108.1	\$106.6

## AGENCY RMBS CPR<sup>(1)</sup>



## AGENCY PORTFOLIO COMPOSITION



(1) Agency weighted average 3-month Constant Prepayment Rate (CPR) includes IIOs (or Agency Derivatives).

(2) Weighted average cost basis includes RMBS principal and interest securities only. Average purchase price utilized carrying value for weighting purposes.

## Rates: Agency RMBS



As of Mar. 31, 2016	Par Value (\$M)	Market Value (\$M)	% Lower Balance/HARP <sup>(1)</sup>	Amortized Cost Basis (\$M)	Weighted Average Coupon	Weighted Average Age (Months)
<b>30-Year fixed</b>						
3.0-3.5%	\$2,529	\$2,650	-%	\$2,639	3.5%	2
4.0-4.5%	3,863	4,220	81.2%	4,157	4.2%	32
≥ 5.0%	538	610	73.7%	581	5.5%	86
	6,930	7,480	51.8%	7,377	4.0%	26
<b>Hybrid ARMs</b>	34	37	-%	36	5.1%	145
<b>Other</b>	278	272	58.3%	256	4.1%	104
<b>IOs and IIOs</b>	3,721	378 <sup>(2)</sup>	0.3%	356	3.7%	76
<b>Total</b>	<b>\$10,963</b>	<b>\$8,167</b>	<b>49.4%</b>	<b>\$8,025</b>	<b>4.0%</b>	<b>31</b>

(1) Percent of securities with implicit or explicit prepayment protection, including lower loan balances (securities collateralized by loans less than or equal to \$175K of initial principal balance) and HARP securities (pools that consist of borrowers who have refinanced through HARP, typically collateralized by loans with greater than or equal to 80% LTV).

(2) Represents market value of \$220.6 million of IOs and \$157.2 million of Agency Derivatives.

## Rates: Mortgage Servicing Rights



	As of Dec. 31, 2015	As of Mar. 31, 2016
Fair value (\$M)	\$493.7	\$446.2
Unpaid principal balance (\$M)	\$51,386.1	\$55,344.3
Weighted average coupon	3.9%	3.9%
Original FICO score	751	751
Original LTV	73%	70%
60+ day delinquencies	1.1%	0.9%
Net servicing spread	27.4 basis points	27.2 basis points
<b>Vintage:</b>		
Pre-2009	2.6%	2.3%
2009-2012	47.3%	42.1%
Post 2012	50.1%	55.6%
<b>Percent of MSR portfolio:</b>		
Conventional	80.5%	82.7%
Government FHA	14.5%	12.9%
Government VA/USDA	5.0%	4.4%

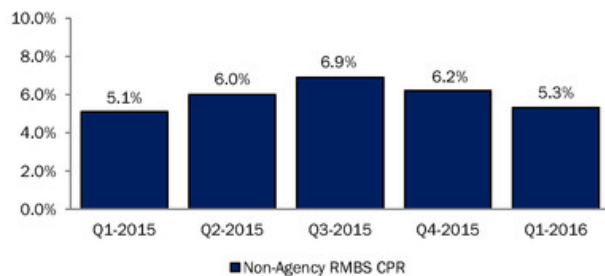
## Credit: Non-Agency RMBS Metrics



### NON-AGENCY PORTFOLIO YIELDS AND METRICS

Portfolio Yield	Realized Q4-2015	At Dec. 31, 2015	Realized Q1-2016	At Mar. 31, 2016
Non-Agency yield	7.8%	8.1%	8.3%	8.3%
Repo and FHLB costs	2.0%	2.1%	2.5%	2.3%
Swap costs	0.1%	0.1%	0.3%	0.3%
Net interest spread	5.7%	5.9%	5.5%	5.7%

### NON-AGENCY RMBS CPR



### NON-AGENCY PORTFOLIO COMPOSITION

Non-Agency: Loan Type	Q4-2015	Q1-2016
Sub-prime	68%	71%
Option-ARM	8%	9%
Prime	6%	6%
Alt-A	4%	5%
Other	14%	9%
Portfolio Metrics	Q4-2015	Q1-2016
Weighted average 3-month CPR	6.2%	5.3%
Weighted average cost basis <sup>(1)</sup>	\$60.4	\$58.2

(1) 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 \$53.89 at March 31, 2016.



## Credit: Non-Agency RMBS



As of March 31, 2016	Senior Bonds	Mezzanine Bonds	Total P&I
<b>Portfolio characteristics:</b>			
Carrying value (\$M)	\$1,172.3	\$397.5	\$1,569.8
% of non-agency portfolio	74.7%	25.3%	100.0%
Average purchase price <sup>(1)</sup>	\$54.21	\$69.98	\$58.20
Average coupon	3.1%	2.4%	2.9%
Weighted average market price <sup>(2)</sup>	\$72.50	\$78.00	\$73.82
<b>Collateral attributes:</b>			
Average loan age (months)	114	118	115
Average loan size (\$K)	\$363	\$307	\$351
Average original Loan-to-Value	71.3%	69.6%	70.9%
Average original FICO <sup>(3)</sup>	635	659	640
<b>Current performance:</b>			
60+ day delinquencies	27.8%	18.9%	26.0%
Average credit enhancement <sup>(4)</sup>	8.1%	19.7%	10.5%
3-Month CPR <sup>(5)</sup>	4.7%	9.4%	5.3%

(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 \$49.86, \$66.69 and \$53.89, 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.

# Commercial Real Estate Assets



	Type	Origination Date	Principal Balance	Book Value	Cash Coupon <sup>(1)</sup>	Yield <sup>(2)</sup>	Original Term (Years)	State	Property Type	Initial LTV <sup>(3)</sup>	Stabilized LTV <sup>(4)</sup>
Asset 1	Senior	12/15	120.0	118.9	L + 4.20%	5.91%	4	LA	Retail	65.5%	60.0%
Asset 2	Senior	09/15	105.0	104.4	L + 3.42%	4.76%	3	CA	Retail	70.9%	66.9%
Asset 3	Senior	11/15	76.6	76.0	L + 4.20%	5.80%	3	NY	Office	66.4%	68.7%
Asset 4	Mezzanine	11/15	59.4	59.4	L + 7.25%	7.81%	3	Multi-state	Office	77.6%	77.5%
Asset 5	Mezzanine	03/15	45.9	45.7	L + 6.75%	8.14%	2	Multi-state	Hotel	70.3%	63.5%
Asset 6	Senior	12/15	43.5	43.2	L + 4.05%	5.61%	3	TX	Multifamily	81.2%	76.8%
Asset 7	Senior	02/16	39.9	39.3	L + 4.30%	5.63%	3	TX	Office	72.9%	70.4%
Asset 8	Senior	12/15	39.2	38.9	L + 4.65%	6.43%	4	PA	Office	74.5%	67.5%
Asset 9	Senior	11/15	38.0	37.5	L + 4.55%	6.41%	4	MD	Office	80.0%	64.5%
Asset 10	Senior	03/16	33.8	33.6	5.11%	5.24%	10	NJ	Office	74.9%	74.9%
Asset 11	Senior	01/16	25.8	25.4	L + 4.80%	6.47%	3	IL	Multifamily	82.8%	66.7%
Asset 12	Senior	10/15	23.5	23.4	L + 3.60%	4.94%	4	NY	Multifamily	73.4%	58.6%
Asset 13	Senior	08/15	18.7	18.6	L + 4.05%	5.67%	3	FL	Multifamily	85.0%	68.4%
Asset 14	Mezzanine	08/15	17.0	17.0	L + 8.75%	10.06%	2	FL	Hotel	71.9%	67.9%
Asset 15	Senior	08/15	13.6	13.5	L + 5.25%	6.83%	3	FL	Multifamily	76.3%	75.3%

(1) Cash coupon does not include origination or exit fees.

(2) Yield includes net origination fees and exit fees, but does not include future fundings.

(3) Initial LTV considers the original appraisal at the time of origination.

(4) Stabilized LTV considers the prospective market value "as stabilized" which reflects the property's market value as of the time the property is projected to achieve stabilized occupancy. Stabilized occupancy is the occupancy level that a property is expected to achieve after the property is exposed to the market for lease over a reasonable period of time and at comparable terms and conditions to other similar properties.

## Commercial Real Estate Assets (Continued)



	Type	Origination Date	Principal Balance	Book Value	Cash Coupon <sup>(1)</sup>	Yield <sup>(2)</sup>	Original Term (Years)	State	Property Type	Initial LTV <sup>(3)</sup>	Stabilized LTV <sup>(4)</sup>
Asset 16	Senior	10/15	11.9	11.7	L + 4.99%	6.55%	3	MO	Hotel	73.2%	57.8%
Asset 17	Senior	09/15	11.0	10.9	L + 4.03%	5.39%	3	FL	Multifamily	77.7%	76.9%
Asset 18	Mezzanine	07/15	9.9	9.9	L + 12.25%	14.03%	3	PA	Office	81.6%	79.6%
Asset 19	Mezzanine	08/15	9.9	9.9	L + 9.50%	11.59%	5	GA	Office	78.7%	66.4%
Asset 20	Mezzanine	11/15	7.7	7.1	13.00% <sup>(5)</sup>	13.00%	10	NY	Hotel	68.3%	43.7%
<b>Total/weighted Average</b>			<b>\$750.3</b>	<b>\$744.3</b>	<b>L + 4.96%</b>	<b>6.37%</b>	<b>3.6</b>			<b>72.9%</b>	<b>67.5%</b>

(1) Cash coupon does not include origination or exit fees.

(2) Yield includes net origination fees and exit fees, but does not include future fundings.

(3) Initial LTV considers the original appraisal at the time of origination.

(4) Stabilized LTV considers the prospective market value "as stabilized" which reflects the property's market value as of the time the property is projected to achieve stabilized occupancy. Stabilized occupancy is the occupancy level that a property is expected to achieve after the property is exposed to the market for lease over a reasonable period of time and at comparable terms and conditions to other similar properties.

(5) A variable rate per annum generating not less than a 13% internal rate of return on the principal balance of the loan, inclusive of the exit fee.

## Repo and FHLB Financing<sup>(1)</sup>



Repo and FHLB Collateral <sup>(2)</sup>	Repo	FHLB	Total (\$M)
Available-for-sale securities, at fair value	\$6,472.1	\$2,984.6	\$9,456.7
Derivative asset, at fair value	157.2	-	157.2
Residential mortgage loans held-for-sale, at fair value	31.7	291.5	323.2
Commercial real estate assets	245.5	421.3	666.8
Net economic interests in consolidated securitization trusts	274.7	780.2	1,054.9
	\$7,181.2	\$4,477.6	\$11,658.8

Repo Maturities <sup>(3)</sup>	Amount (\$M)	Percent (%)
Within 30 days	\$2,379.5	39.1%
30 to 59 days	2,117.7	34.8%
60 to 89 days	632.0	10.4%
90 to 119 days	196.8	3.2%
120 to 364 days	761.4	12.5%
	\$6,087.4	100.0%

FHLB Maturities	Amount (\$M)	Percent (%)
≤ 1 year	\$428.2	10.7%
> 1 and ≤ 3 years	223.0	5.6%
> 3 and ≤ 5 years	815.0	20.4%
> 10 years <sup>(4)</sup>	2,533.8	63.3%
	\$4,000.0	100.0%

(1) As of March 31, 2016.

(2) Excludes FHLB membership and activity stock totaling \$167.9 million.

(3) Weighted average of 35 days to maturity.

(4) Includes advances of \$2.5 billion with original maturities of 20 years.

## Interest Rate Swaps<sup>(1)</sup>



Maturities	Notional Amounts (\$B)	Average Fixed Pay Rate	Average Receive Rate	Average Maturity (Years)
<b>Payers Hedging Repo and FHLB Advances</b>				
2016	\$1.7	0.462%	0.624%	0.5
2017	2.4	0.765%	0.620%	1.3
2018	0.3	0.984%	0.617%	1.8
2019	0.3	1.283%	0.623%	3.2
2020 and after	1.8	1.797%	0.622%	7.5
	\$6.5	1.013%	0.622%	3.0
<b>Other Payers</b>				
2018	\$4.2	1.298%	0.638%	2.3
2020 and after	1.2	2.164%	0.627%	4.8
	\$5.4	1.493%	0.635%	2.9
Maturities	Notional Amounts (\$B)	Average Pay Rate	Average Fixed Receive Rate	Average Maturity (Years)
<b>Other Receivers</b>				
2018	\$0.6	0.618%	1.440%	2.6
2019	0.5	0.621%	1.042%	2.8
2020 and after	2.4	0.624%	1.938%	6.1
	\$3.5	0.623%	1.728%	5.0

(1) As of March 31, 2016.

## Interest Rate Swaptions<sup>(1)</sup>



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	\$12.0	\$3.7	3.7	\$1,500	3.25%	3M LIBOR	10.0
	>6 Months	126.3	7.9	40.4	4,500	3.69%	3M LIBOR	5.8
<b>Total Payer</b>		<b>\$138.3</b>	<b>\$11.6</b>	<b>27.5</b>	<b>\$6,000</b>	<b>3.58%</b>	<b>3M LIBOR</b>	<b>6.8</b>
Sale Contracts:								
Payer	>6 Months	(\$81.2)	(\$1.6)	15.0	(\$800)	3M LIBOR	3.44%	10.0
<b>Total Payer</b>		<b>(\$81.2)</b>	<b>(\$1.6)</b>	<b>15.0</b>	<b>(\$800)</b>	<b>3M LIBOR</b>	<b>3.44%</b>	<b>10.0</b>

(1) As of March 31, 2016.



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