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: November 2, 2016

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 November 2, 2016, Two Harbors Investment Corp. (the "Company") issued a press release announcing its financial results for the fiscal quarter ended September 30, 2016. A copy of the press release and the 2016 Third 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 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Press Release of Two Harbors Investment Corp., dated November 2, 2016.
99.2	2016 Third Quarter Earnings Call Presentation.

SIGNATURES

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

TWO HARBORS INVESTMENT CORP.

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

Date: November 2, 2016

Exhibit Index

Exhibit No.	Description	Filing Method
99.1	Press Release of Two Harbors Investment Corp., dated November 2, 2016.	Electronically
99.2	2016 Third Quarter Earnings Call Presentation.	Electronically

TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

Two Harbors Investment Corp. Reports Third Quarter 2016 Financial Results

Strong Results Highlighted by Return on Book Value of 4.2%[(1)]

NEW YORK, November 2, 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 September 30, 2016.

Summary

- Reported book value of $10.01 per common share, representing a 4.2%[(1)] total return on book value after accounting for a dividend of $0.23 per share.
- Delivered Comprehensive Income of $136.5 million, a return on average equity of 15.7%, or $0.39 per weighted average common share.
- Reported Core Earnings of $82.5 million, or $0.24 per weighted average common share.[(2)]
- Added $10.6 billion in unpaid principal balance (UPB) of MSR and secured initial financing facility.
- Increased assets in commercial real estate portfolio; aggregate carrying value of $1.1 billion at September 30, 2016.
- Mortgage loan conduit wind down on track to be substantially complete by year-end 2016.

"We delivered strong results this quarter as smart portfolio management drove healthy increases in both earnings and book value," stated Thomas Siering, Two Harbors' President and Chief Executive Officer. "While we are pleased with our recent performance, we are even more enthusiastic about the coming year as the benefits of our efforts to streamline our business and increase our earnings potential are expected to materialize in 2017."

(1) Return on book value for the quarter ended September 30, 2016 is defined as the increase in book value from June 30, 2016 to September 30, 2016 of $0.18, plus the dividend declared of $0.23 per share, divided by June 30, 2016 book value of $9.83 per share.
(2) 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.

Operating Performance

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

Two Harbors Investment Corp. Operating Performance (unaudited)

(dollars in thousands, except per share data)

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
Earnings	Earnings	Per weighted share	Annualized return on average equity	Earnings	Per weighted share	Annualized return on average equity
Comprehensive Income	$ 136,532	$ 0.39	15.7%	$ 191,257	$ 0.55	7.4%
GAAP Net Income	$ 117,786	$ 0.34	13.6%	$ 11,875	$ 0.03	0.5%
Core Earnings[(1)]	$ 82,529	$ 0.24	9.5%	$ 230,535	$ 0.66	8.9%

Operating Metrics	
Dividend per common share	$0.23
Book value per share at period end	$10.01
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 Comprehensive Income of $136.5 million, or $0.39 per weighted average common share outstanding, for the quarter ended September 30, 2016, as compared to a Comprehensive Income of $122.3 million, or $0.35 per weighted average common share outstanding, for the quarter ended June 30, 2016. The company records unrealized fair value gains and losses on the majority of RMBS, classified as available-for-sale, in Other Comprehensive Income. On a Comprehensive Income basis, the company recognized an annualized return on average equity of 15.7% and 14.3% for the quarters ended September 30, 2016 and June 30, 2016, respectively.

The company reported GAAP Net Income of $117.8 million, or $0.34 per weighted average common share outstanding, for the quarter ended September 30, 2016, as compared to GAAP Net Loss of $17.0 million, or $0.05 per weighted average common share outstanding, for the quarter ended June 30, 2016. On a GAAP Net Income (Loss) basis, the company recognized an annualized return on average equity of 13.6% and (2.0%) for the quarters ended September 30, 2016 and June 30, 2016, respectively.

For the third quarter of 2016, the company recognized:

- net realized gains on RMBS and mortgage loans held-for-sale of $35.6 million, net of tax;
- net unrealized losses on certain RMBS and mortgage loans held-for-sale of $6.7 million, net of tax;
- net losses of $75.7 million, net of tax, related to swap and swaption terminations and expirations;
- net unrealized gains of $90.3 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 losses on other derivative instruments of approximately $11.1 million, net of tax;
- net realized and unrealized gains on consolidated financing securitizations of $4.3 million, net of tax;
- net realized and unrealized gains of $2.9 million[(1)] on MSR, net of tax;
- securitization deal costs of $1.4 million, net of tax; and
- restructuring charges of $1.2 million, net of tax.

(1) Excludes estimated amortization of $30.1 million, net of tax, included in Core Earnings.

The company reported Core Earnings for the quarter ended September 30, 2016 of $82.5 million, or $0.24 per weighted average common share outstanding, as compared to Core Earnings for the quarter ended June 30, 2016 of $76.2 million, or $0.22 per weighted average common share outstanding. On a Core Earnings basis, the company recognized an annualized return on average equity of 9.5% and 8.9% for the quarters ended September 30, 2016 and June 30, 2016, respectively.

Other Key Metrics

Two Harbors declared a quarterly cash dividend of $0.23 per common share for the quarter ended September 30, 2016. The annualized dividend yield on the company's common stock for the quarter, based on the September 30, 2016 closing price of $8.53, was 10.8%.

The company's book value per share, after taking into account the third quarter 2016 dividend of $0.23 per share, was $10.01 as of September 30, 2016, compared to $9.83 as of June 30, 2016, which represented a total return on book value for the quarter of 4.2%.(1)

Other operating expenses for the quarter ended September 30, 2016 were approximately $14.8 million, or 1.7% of average equity, compared to approximately $17.6 million, or 2.1% of average equity, for the quarter ended June 30, 2016.

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 September 30, 2016, the total value of the company's portfolio was $17.0 billion.

The company's portfolio includes rates, credit and commercial real estate strategies. The rates strategy consisted of $13.1 billion of Agency RMBS, Agency Derivatives and MSR as well as their associated notional hedges as of September 30, 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 September 30, 2016. The commercial strategy consisted of senior and mezzanine commercial real estate assets with an aggregate carrying value of $1.1 billion as of September 30, 2016.

For the quarter ended September 30, 2016, the annualized yield on the company's average aggregate portfolio was 3.50% and the annualized cost of funds on the associated average borrowings, which includes net interest rate spread expense on interest rate swaps, was 1.08%. This resulted in a net interest rate spread of 2.42%.

RMBS and Agency Derivatives

For the quarter ended September 30, 2016, the annualized yield on average RMBS and Agency Derivatives was 3.4%, consisting of an annualized yield of 2.8% in Agency RMBS and Agency Derivatives and 8.7% in non-Agency RMBS.

The company experienced a three-month average constant prepayment rate (CPR) of 9.7% for Agency RMBS and Agency Derivatives held as of September 30, 2016, compared to 8.6% for those securities held as of June 30, 2016. The weighted average cost basis of the principal and interest Agency portfolio was 105.6% of par as of September 30, 2016 and 105.3% of par as of June 30, 2016. The net premium amortization was $33.0 million and $28.1 million for the quarters ended September 30, 2016 and June 30, 2016, respectively.

(1) Return on book value for the quarter ended September 30, 2016 is defined as the increase in book value from June 30, 2016 to September 30, 2016 of $0.18, plus the dividend declared of $0.23 per share, divided by June 30, 2016 book value of $9.83 per share.

The company experienced a three-month average CPR of 7.3% for non-Agency principal and interest RMBS held as of September 30, 2016, as compared to 6.1% for those securities held as of June 30, 2016. The weighted average cost basis of the non-Agency portfolio was 59.1% of par as of September 30, 2016, compared to 58.6% of par as of June 30, 2016. The discount accretion was $18.3 million for the quarter ended September 30, 2016, compared to $15.5 million for the quarter ended June 30, 2016. The total net discount remaining was $1.1 billion as of September 30, 2016, compared to $1.1 billion as of June 30, 2016, with $0.4 billion designated as credit reserve as of September 30, 2016.

As of September 30, 2016, fixed-rate investments composed 88.1% and adjustable-rate investments composed 11.9% of the company's RMBS and Agency Derivatives portfolio.

As of September 30, 2016, the company had residential mortgage loans held-for-investment with a carrying value of $3.6 billion and the company's collateralized borrowings had a carrying value of $3.4 billion, resulting in net economic interests in consolidated securitization trusts of $244.1 million.

Mortgage Servicing Rights

As of September 30, 2016, the company held MSR on mortgage loans with UPB totaling $55.1 billion,[1] with a fair market value of $455.6 million. In the quarter, the company sold substantially all of its $8.7 billion Ginnie Mae MSR portfolio. In addition, the company recognized fair value losses of $33.5 million during the quarter ended September 30, 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 $38.7 million of servicing income, $7.3 million[1] of servicing expenses and $1.1 million in reserve expense for representation and warranty obligations during the quarter ended September 30, 2016.

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, hotel and industrial properties. As of September 30, 2016, the company held senior and mezzanine commercial real estate assets with an aggregate carrying value of $1.1 billion. For both of the quarters ended September 30, 2016 and June 30, 2016, the annualized yield on commercial real estate loans was 6.2%.

Residential Mortgage Loans Held for Sale

As of September 30, 2016, the company held prime jumbo residential mortgage loans with a fair market value of $655.8 million and had outstanding purchase commitments to acquire an additional $61.4 million UPB of residential mortgage loans, subject to fallout if the loans do not close. For the quarters ended September 30, 2016 and June 30, 2016, the annualized yield on the prime jumbo residential mortgage loan portfolio was 4.0% and 4.1%, respectively.

During the quarter, the company sponsored a securitization, Agate Bay Mortgage Trust 2016-3, backed by approximately $376.6 million UPB of prime jumbo residential mortgage loans. As previously disclosed, the company is discontinuing its mortgage loan conduit and securitization business. The wind down process is expected to be substantially complete by the end of 2016.

(1) Excludes residential mortgage loans held-for-investment in securitization trusts for which the company is the named servicing administrator.

Other Investments and Risk Management Derivatives

The company held $589.0 million notional of net short TBAs as of September 30, 2016, which are accounted for as derivative instruments in accordance with GAAP.

As of September 30, 2016, the company was a party to interest rate swaps and swaptions with a notional amount of $17.2 billion. Of this amount, $7.1 billion notional in swaps were utilized to economically hedge interest rate risk associated with the company's LIBOR-based repurchase agreements and FHLB advances, $9.8 billion notional in swaps were utilized to economically hedge interest rate risk associated with the company's investment portfolio, and $0.3 billion net notional in swaptions were utilized as macroeconomic hedges.

The following tables summarize the company's investment portfolio as of September 30, 2016 and June 30, 2016:

Two Harbors Investment Corp. Portfolio

(dollars in thousands)

Portfolio Composition	As of September 30, 2016		As of June 30, 2016	
	(unaudited)		(unaudited)	
Rates Strategy				
Agency Bonds				
Fixed Rate Bonds	$ 12,404,228	73.1%	$ 11,973,994	74.4%
Hybrid ARMs	32,588	0.2%	35,375	0.2%
Total Agency	12,436,816	73.3%	12,009,369	74.6%
Agency Derivatives	141,232	0.8%	152,032	0.9%
Mortgage servicing rights	455,629	2.7%	427,813	2.7%
Residential mortgage loans held-for-sale	56,908	0.4%	55,444	0.3%
Credit Strategy				
Non-Agency Bonds				
Senior Bonds	1,192,975	7.1%	1,138,771	7.1%
Mezzanine Bonds	649,993	3.8%	503,233	3.1%
Non-Agency Other	4,841	—%	5,237	—%
Total Non-Agency	1,847,809	10.9%	1,647,241	10.2%
Net Economic Interest in Securitization(1)	244,131	1.4%	334,851	2.1%
Residential mortgage loans held-for-sale	666,266	3.9%	553,616	3.4%
Commercial real estate assets	1,114,548	6.6%	926,377	5.8%
Aggregate Portfolio	$ 16,963,339		$ 16,106,743	

(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 September 30, 2016	Three Months Ended June 30, 2016
	(unaudited)	(unaudited)
Annualized portfolio yield during the quarter	3.50%	3.77%
Rates Strategy		
Agency RMBS, Agency Derivatives and mortgage servicing rights	2.6%	3.1%
Credit Strategy		
Non-Agency RMBS, Legacy(1)	9.1%	8.3%
Non-Agency MBS, New issue(1)	6.1%	5.9%
Net economic interest in securitizations	9.3%	7.2%
Residential mortgage loans held-for-sale	4.1%	4.1%
Commercial Strategy	6.2%	6.2%
Annualized cost of funds on average borrowing balance during the quarter(2)	1.08%	1.18%
Annualized interest rate spread for aggregate portfolio during the quarter	2.42%	2.59%
Debt-to-equity ratio at period-end(3)	4.2:1.0	4.0:1.0

Portfolio Metrics Specific to RMBS and Agency Derivatives	As of September 30, 2016	As of June 30, 2016
	(unaudited)	(unaudited)
Weighted average cost basis of principal and interest securities		
Agency(4)	$ 105.64	$ 105.31
Non-Agency(5)	$ 59.05	$ 58.61
Weighted average three month CPR		
Agency	9.7%	8.6%
Non-Agency	7.3%	6.1%
Fixed-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	88.1%	88.4%
Adjustable-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	11.9%	11.6%

(1) Legacy non-Agency RMBS includes non-Agency bonds issued up to and including 2009. New issue non-Agency MBS 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, MSR 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 MBS excluding the company's non-Agency interest-only portfolio would be $55.64 at September 30, 2016 and $54.64 at June 30, 2016.

"Favorable market conditions and our portfolio positioning resulted in each strategy contributing to our strong performance," stated Bill Roth, Two Harbors' Chief Investment Officer. "Importantly, our conservative risk profile largely insulates both income and book value from changes in interest rates, enhancing the stability of our financial performance."

Financing Summary

The company reported a debt-to-equity ratio, defined as total borrowings under repurchase agreements, FHLB advances and revolving credit facilities to fund RMBS, Agency Derivatives, residential mortgage loans held-for-sale, commercial real estate assets and MSR divided by total equity, of 4.2:1.0 and 4.0:1.0 as of September 30, 2016 and June 30, 2016, respectively.

As of September 30, 2016, the company had outstanding $10.6 billion of repurchase agreements funding RMBS, Agency Derivatives and commercial real estate assets with 22 different counterparties. Excluding the effect of the company's interest rate swaps, the repurchase agreements had a weighted average borrowing rate of 1.06% as of September 30, 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 September 30, 2016, TH Insurance had $4.0 billion in outstanding secured advances, with a weighted average borrowing rate of 0.67%, and had no additional available uncommitted capacity for borrowings.

As of September 30, 2016, the company had outstanding $30.0 million of short-term borrowings secured by MSR collateral under revolving credit facilities with a weighted average borrowing rate of 4.27% and remaining maturities of 336 days.

As of September 30, 2016, the company's aggregate repurchase agreements, FHLB advances and revolving credit facilities funding RMBS, Agency Derivatives, residential mortgage loans held-for-sale, commercial real estate assets and MSR had a weighted average of 3.5 years to maturity.

The following table summarizes the company's borrowings by collateral type under repurchase agreements, FHLB advances and revolving credit facilities outstanding as of September 30, 2016 and June 30, 2016, and the related cost of funds for the three months ended September 30, 2016 and June 30, 2016:

	As of September 30, 2016	As of June 30, 2016
(in thousands)	(unaudited)	(unaudited)
Collateral type:		
Agency RMBS and Agency Derivatives	$ 11,994,502	$ 11,245,063
Mortgage servicing rights	30,000	—
Non-Agency MBS	1,232,816	1,140,526
Net economic interests in consolidated securitization trusts(1)	159,393	238,313
Residential mortgage loans held-for-sale	485,411	429,796
Commercial real estate assets	765,251	616,150
	$ 14,667,373	$ 13,669,848

Cost of Funds Metrics	Three Months Ended September 30, 2016	Three Months Ended June 30, 2016
	(unaudited)	(unaudited)
Annualized cost of funds on average borrowings during the quarter:	1.0%	0.9%
Agency RMBS and Agency Derivatives	0.8%	0.7%
Mortgage servicing rights(2)	5.4%	—%
Non-Agency MBS	2.5%	2.4%
Net economic interests in consolidated securitization trusts(1)	1.7%	1.2%
Residential mortgage loans held-for-sale	0.8%	0.8%
Commercial real estate assets(2)	1.8%	1.9%

(1) Includes the retained interests from on-balance sheet securitizations, which are eliminated in consolidation in accordance with GAAP.
(2) Includes amortization of debt issuance costs.

Conference Call

Two Harbors Investment Corp. will host a conference call on November 3, 2016 at 9:00 a.m. EDT to discuss third 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 83689688, 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 November 3, 2016, through 12:00 a.m. EST on November 10, 2016. The playback can be accessed by calling (855) 859-2056 (or (404) 537-3406 for international callers), conference code 83689688. 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.

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 successfully securitize or sell mortgage loans; 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 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

Tim Perrott, Senior Director of Investor Relations, Two Harbors Investment Corp., (612) 629-2514 or
tim.perrott@twoharborsinvestment.com

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TWO HARBORS INVESTMENT CORP.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	September 30, 2016	December 31, 2015
	(unaudited)	
ASSETS		
Available-for-sale securities, at fair value	$ 14,284,625	$ 7,825,320
Residential mortgage loans held-for-sale, at fair value	723,174	811,431
Residential mortgage loans held-for-investment in securitization trusts, at fair value	3,620,037	3,173,727
Commercial real estate assets	1,114,548	660,953
Mortgage servicing rights, at fair value	455,629	493,688
Cash and cash equivalents	688,418	737,831
Restricted cash	264,872	262,562
Accrued interest receivable	67,089	49,970
Due from counterparties	56,095	17,206
Derivative assets, at fair value	199,013	271,509
Other assets	326,396	271,575
Total Assets	$ 21,799,896	$ 14,575,772
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Repurchase agreements	$ 10,637,373	$ 5,008,274
Collateralized borrowings in securitization trusts, at fair value	3,375,906	2,000,110
Federal Home Loan Bank advances	4,000,000	3,785,000
Revolving credit facilities	30,000	—
Derivative liabilities, at fair value	39,918	7,285
Due to counterparties	78,179	34,294
Dividends payable	79,956	92,016
Other liabilities	80,323	72,232
Total Liabilities	18,321,655	10,999,211
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 347,635,488 and 353,906,807 shares issued and outstanding, respectively	3,476	3,539
Additional paid-in capital	3,655,854	3,705,519
Accumulated other comprehensive income	538,443	359,061
Cumulative earnings	1,696,630	1,684,755
Cumulative distributions to stockholders	(2,416,162)	(2,176,313)
Total Stockholders' Equity	3,478,241	3,576,561
Total Liabilities and Stockholders' Equity	$ 21,799,896	$ 14,575,772

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 September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
	(unaudited)		(unaudited)	
Interest income:				
Available-for-sale securities	$ 111,393	$ 116,318	$ 292,333	$ 369,972
Trading securities	—	—	—	8,676
Residential mortgage loans held-for-sale	7,627	9,479	19,789	21,268
Residential mortgage loans held-for-investment in securitization trusts	33,495	24,841	100,765	64,908
Commercial real estate assets	15,907	1,947	40,279	2,841
Cash and cash equivalents	440	249	1,235	667
Total interest income	168,862	152,834	454,401	468,332
Interest expense:				
Repurchase agreements	27,056	18,235	65,782	58,198
Collateralized borrowings in securitization trusts	26,422	15,562	70,965	39,401
Federal Home Loan Bank advances	6,744	3,282	18,804	8,012
Revolving credit facilities	128	—	128	—
Total interest expense	60,350	37,079	155,679	105,611
Net interest income	108,512	115,755	298,722	362,721
Other-than-temporary impairment losses	(1,015)	(238)	(1,822)	(535)
Other income (loss):				
Gain on investment securities	28,290	64,123	66,095	263,512
Gain (loss) on interest rate swap and swaption agreements	5,584	(171,656)	(132,608)	(253,147)
Loss on other derivative instruments	(12,028)	(455)	(44,064)	(2,972)
(Loss) gain on residential mortgage loans held-for-sale	(889)	16,040	17,648	18,300
Servicing income	38,708	32,010	108,657	94,613
Loss on servicing asset	(33,451)	(61,549)	(211,426)	(96,317)
Other income (loss)	5,757	2,201	(977)	(16,265)
Total other income (loss)	31,971	(119,286)	(196,675)	7,724
Expenses:				
Management fees	11,387	12,617	35,268	38,024
Securitization deal costs	2,080	2,676	6,241	7,771
Servicing expenses	9,073	7,234	24,510	19,849
Other operating expenses	14,780	16,150	47,280	48,032
Restructuring charges	1,189	—	1,189	—
Total expenses	38,509	38,677	114,488	113,676
Income (loss) before income taxes	100,959	(42,446)	(14,263)	256,234
Benefit from income taxes	(16,827)	(7,656)	(26,138)	(25,270)
Net income (loss)	$ 117,786	$ (34,790)	$ 11,875	$ 281,504
Basic and diluted earnings (loss) per weighted average common share	$ 0.34	$ (0.09)	$ 0.03	$ 0.77
Dividends declared per common share	$ 0.23	$ 0.26	$ 0.69	$ 0.78
Basic and diluted weighted average number of shares of common stock outstanding	347,627,226	367,365,973	348,218,234	366,985,731

TWO HARBORS INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS), continued

(dollars in thousands)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
	(unaudited)		(unaudited)	
Comprehensive income (loss):				
Net income (loss)	$ 117,786	$ (34,790)	$ 11,875	$ 281,504
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on available-for-sale securities	18,746	(58,031)	179,382	(282,788)
Other comprehensive income (loss)	18,746	(58,031)	179,382	(282,788)
Comprehensive income (loss)	$ 136,532	$ (92,821)	$ 191,257	$ (1,284)

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 September 30,		Nine Months Ended September 30,		
	2016	2015	2016	2015	
	(unaudited)		(unaudited)		
Reconciliation of Comprehensive income (loss) to Core Earnings:					
Comprehensive income (loss)	$ 136,532	$ (92,821)	$ 191,257	$ (1,284)	
Adjustment for other comprehensive (income) loss:					
Unrealized (gain) loss on available-for-sale securities	(18,746)	58,031	(179,382)	282,788	
Net income (loss)	$ 117,786	$ (34,790)	$ 11,875	$ 281,504	
Adjustments for non-core earnings:					
Gain on sale of securities and residential mortgage loans held-for-sale, net of tax	(35,628)	(62,372)	(64,709)	(270,532)	
Unrealized loss (gain) on securities and residential mortgage loans held-for-sale, net of tax	6,720	(4,444)	(8,409)	4,944	
Other-than-temporary impairment loss, net of tax	1,015	238	1,822	535	
Realized loss on termination or expiration of swaps and swaptions, net of tax	75,747	48,972	111,759	112,570	
Unrealized (gain) loss on interest rate swaps and swaptions economically hedging investment portfolio, repurchase agreements and FHLB advances, net of tax	(90,285)	89,062	15,806	42,308	
Loss on other derivative instruments, net of tax	11,147	2,656	35,423	10,228	
Realized and unrealized (gain) loss on financing securitizations, net of tax	(4,268)	(1,108)	5,214	19,387	
Realized and unrealized (gain) loss on mortgage servicing rights, net of tax	(2,938)	39,209	115,244	47,949	
Securitization deal costs, net of tax	1,352	1,740	4,057	5,051	
Change in representation and warranty reserve, net of tax	692	253	1,264	(296)	
Restructuring charges	1,189	—	1,189	—	
Core Earnings(1)	$ 82,529	$ 79,416	$ 230,535	$ 253,648	(2)
Weighted average shares outstanding	347,627,226	367,365,973	348,218,234	366,985,731	
Core Earnings per weighted average share outstanding	$ 0.24	$ 0.22	$ 0.66	$ 0.70	

(1) Core Earnings is a non-GAAP measure that we define as Comprehensive Income, excluding realized and unrealized gains or losses on the aggregate portfolio, impairment losses, amortization of business combination intangible assets, reserve expense for representation and warranty obligations on MSR, certain upfront costs related to securitization transactions and restructuring charges. 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.

(2) Effective July 1, 2015, we refined the MSR amortization methodology utilized for Core Earnings. If this methodology was applied retroactively to the first 6 months of 2015, it would have resulted in an additional $8.6 million expense, net of tax, or $0.03 per weighted average share for that period.

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				
	September 30, 2016	June 30, 2016	December 31, 2015	March 31, 2016	September 30, 2015
	(unaudited)				
Net Interest Income:					
Interest income	$ 168.9	$ 154.8	$ 130.8	$ 133.6	$ 152.8
Interest expense	60.4	54.0	41.4	36.6	37.0
Net interest income	108.5	100.8	89.4	97.0	115.8
Other income:					
Interest spread on interest rate swaps	(4.3)	(7.7)	(6.2)	(12.6)	(19.4)
Interest spread on other derivative instruments	3.7	5.0	5.4	6.0	5.6
Servicing income, net of amortization(1)	5.4	11.3	17.9	16.8	10.8
Other income	1.5	1.4	1.3	1.4	1.1
Total other income (loss)	6.3	10.0	18.4	11.6	(1.9)
Expenses	34.2	36.6	34.3	35.8	35.6
Core Earnings before income taxes	80.6	74.2	73.5	72.8	78.3
Income tax (benefit) expense	(1.9)	(2.0)	1.7	0.7	(1.1)
Core Earnings	$ 82.5	$ 76.2	$ 71.8	$ 72.1	$ 79.4
Basic and diluted weighted average Core EPS	$ 0.24	$ 0.22	$ 0.21	$ 0.20	$ 0.22

(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.

Third Quarter 2016 Earnings Call

NOVEMBER 3, 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 successfully securitize or sell mortgage loans; 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[1]

DELIVERED STRONG RESULTS; WELL POSITIONED FOR FUTURE

QUARTERLY FINANCIAL HIGHLIGHTS

- Total return on book value of 4.2%[2]
  - Book value of $10.01 per share and cash dividend of $0.23 per share
- Comprehensive Income of $136.5 million, or $0.39 per share
- GAAP net income of $117.8 million, or $0.34 per share
- Core Earnings[3] of $82.5 million, or $0.24 per share

(1) Except as otherwise indicated in this presentation, reported data is as of or for the period ended September 30, 2016.
(2) See Appendix slide 14 for calculation of Q3-2016 and 2016 year-to-date return on book value.
(3) 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.

Strategic Overview

STRATEGIC COMPONENTS

- Flexible model
- Opportunistic capital allocation
- Disciplined risk management
  - Book value and income stability

KEY AREAS OF FOCUS THROUGH 2017

INCREASE EARNINGS POWER AND SIMPLIFY BUSINESS MODEL

- Continue to thoughtfully manage Agency portfolio and build out MSR position
- Capitalize on tailwinds supporting non-Agency
- Increase capital allocated to commercial strategy
- Deploy capital to maximize returns
  - On track to substantially wind down conduit by end of 2016; cost savings and incremental investment income from capital redeployment expected to be about $20 million in 2017

BUILDING STRONG MOMENTUM FOR 2017

Book Value

(Dollars in millions, except per share data)	Q3-2016 Book Value	Q3-2016 Book Value per share	YTD-2016 Book Value	YTD-2016 Book Value per share
Beginning stockholders' equity	**$3,418.1**	**$9.83**	**$3,576.6**	**$10.11**
GAAP Net Income (Loss):				
Core Earnings, net of tax	82.5		230.5	
Realized gains and losses, net of tax	(125.9)		(139.8)	
Unrealized mark-to-market gains and losses, net of tax	161.2		(78.8)	
Other comprehensive income	18.7		179.4	
Dividend declaration	(80.0)		(239.9)	
Other	3.5		11.2	
Balance before capital transactions	3,478.1		3,539.2	
Repurchase of common stock	—		(61.3)	
Issuance of common stock, net of offering costs	0.1		0.3	
Ending stockholders' equity	**$3,478.2**	**$10.01**	**$3,478.2**	**$10.01**

Comprehensive Income (GAAP)
Q3-2016 Comprehensive Income of $136.5 million; $191.3 million Income YTD-2016

Declared Q3-2016 dividend of $0.23 per share; $0.69 per share YTD-2016

Core Earnings Summary[1]

Q3-2016 FINANCIAL HIGHLIGHTS

(Dollars in millions)	Q2-2016	Q3-2016	Variance ($)	Variance (%)
Interest income	$154.8	$168.9	$14.1	9.1 %
Interest expense	54.0	60.4	(6.4)	(11.8%)
Net interest income	100.8	108.5	7.7	7.6 %
Loss on swaps and swaptions	(7.7)	(4.3)	3.4	43.9%
Gain on other derivatives	5.0	3.7	(1.3)	(25.8%)
Servicing income, net of amortization on MSR	11.3	5.4	(5.9)	(51.7%)
Other	1.4	1.5	0.1	5.2 %
Total other income	10.0	6.3	(3.7)	n/a
Expenses	36.6	34.2	(2.4)	6.9%
Income taxes	(2.0)	(1.9)	(0.1)	n/a
Core Earnings[1]	**$76.2**	**$82.5**	**$6.3**	**8.4 %**
Basic and diluted weighted average Core EPS	**$0.22**	**$0.24**	**$0.02**	

- Net interest income increased quarter-over-quarter
  - Higher overall leverage
- Servicing income decreased due to higher MSR amortization from increased prepayments, consistent with expectations
- Other operating expenses decreased $2.8 million quarter-over-quarter
  - Lower amortization of restricted stock awards
  - Early effects from the discontinuation of the mortgage loan conduit

(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.

Diversified Financing Profile

REPURCHASE AGREEMENTS

- Repo markets functioning without interruption
- Outstanding borrowings of $10.6 billion with 22 active counterparties; 31 total counterparties
- $441.8 million outstanding with direct lending counterparty

FINANCING FOR MSR

- Added $30 million revolving credit facility
- Initial terms favorable
  - Advance rate of 60.0%
  - Spread over LIBOR of 375 basis points
- Anticipate expanding upon this source of financing

FEDERAL HOME LOAN BANK OF DES MOINES

- Outstanding secured advances of $4.0 billion
- Weighted average borrowing rate of 0.67%

FINANCING FOR COMMERCIAL REAL ESTATE ASSETS

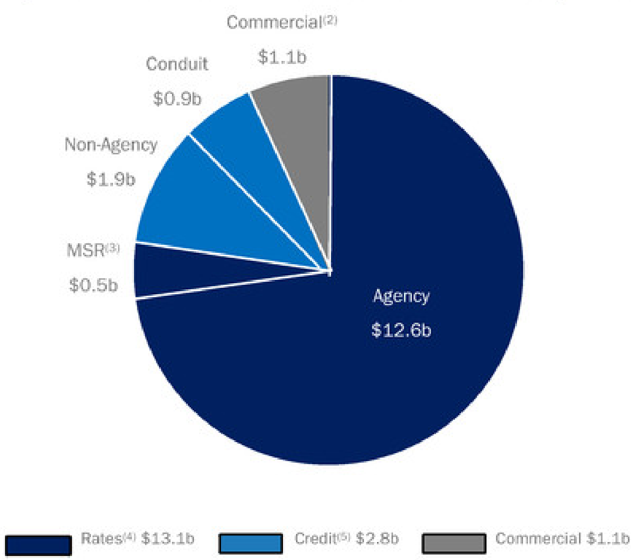
- Two $250 million financing facilities

Portfolio Composition

DIVERSIFIED AND BALANCED CAPITAL ALLOCATION

PORTFOLIO COMPOSITION[1]

$17.0 BILLION PORTFOLIO AS OF SEPTEMBER 30, 2016



HISTORICAL CAPITAL ALLOCATION

	December 31, 2015	June 30, 2016	September 30, 2016
Rates[4]	56%	56%	54%
Credit[5]	33%	31%	31%
Commercial	11%	13%	15%

(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 MBS, prime jumbo residential mortgage loans, net economic interest in securitization trusts and credit sensitive residential mortgage loans.

Portfolio Performance

FOCUS ON DRIVING CONSISTENT AND STABLE RETURNS

Q3-2016 PERFORMANCE HIGHLIGHTS

RATES

- Agency RMBS performed well as spreads tightened
- Increased prepayment speeds dampened realized yields modestly

CREDIT

- Strong underlying credit performance and increased prepayments drove legacy non-Agency yields higher

COMMERCIAL

- Healthy portfolio performance in-line quarter-over-quarter

PORTFOLIO METRICS

Three Months Ended	June 30, 2016	September 30, 2016
Annualized portfolio yield during the quarter	**3.77%**	**3.50%**
Rates		
Agency RMBS, Agency Derivatives and MSR	3.1%	2.6%
Credit		
Non-Agency RMBS, Legacy[2]	8.3%	9.1%
Non-Agency MBS, New issue[2]	5.9%	6.1%
Net economic interest in securitization trusts	7.2%	9.3%
Residential mortgage loans held-for-sale	4.1%	4.1%
Commercial	6.2%	6.2%
Annualized cost of funds on average repurchase and advance balance during the quarter[3]	**1.18%**	**1.08%**
Annualized interest rate spread for aggregate portfolio during the quarter	**2.59%**	**2.42%**

(1) Defined as average total borrowings to fund RMBS, residential mortgage loans held-for-sale, commercial real estate assets, MSR and Agency Derivatives, divided by total equity.
(2) "Legacy" non-Agency RMBS includes non-Agency bonds issued up to and including 2009. "New issue" non-Agency MBS includes bonds issued after 2009.
(3) Cost of funds includes interest spread expense associated with the portfolio's interest rate swaps.

Rates Update

BOOK VALUE AND INCOME LARGELY INSULATED FROM CHANGES IN INTEREST RATES

CONSERVATIVE RISK PROFILE

- Maintain low interest rate exposure
- Focus on preserving book value and income generation
- Agency pools combined with MSR provides attractive returns with less risk
  - Additional benefits from increased MSR yield and float income in slowing prepayment environment

THIRD QUARTER ACCOMPLISHMENTS

- Continue to add prepayment protected Agency RMBS; approximately 65% of pools had some form of prepayment protection as of September 30, 2016
- Added $10.6 billion UPB of new issue, high quality MSR
  - Expect near-term flow MSR volume of approximately $3.0 billion UPB per month

Credit Update

LEGACY NON-AGENCY RMBS

- Strong tailwinds for residential credit driving greater long-term opportunity for portfolio
  - Employment improving
  - Housing prices increasing
  - Affordability high
- Continue to reduce credit reserve; released over $400 million in the past 3 years
  - Expect future yields to be consistent with this quarter due to release of reserves

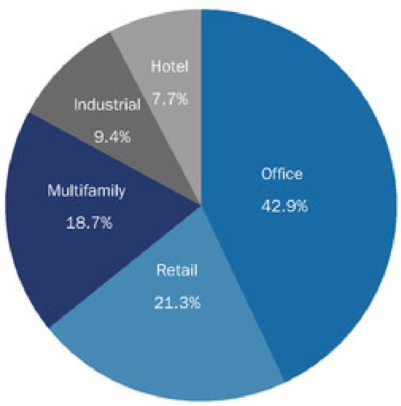
MORTGAGE LOAN CONDUIT

- On track to substantially complete wind down of conduit by year-end
- Completed ABMT 2016-3, a $377 million UPB securitization
- Positioned to redeploy freed up capital into strategies with higher returns
  - Agency pools combined with MSR
  - Commercial real estate assets

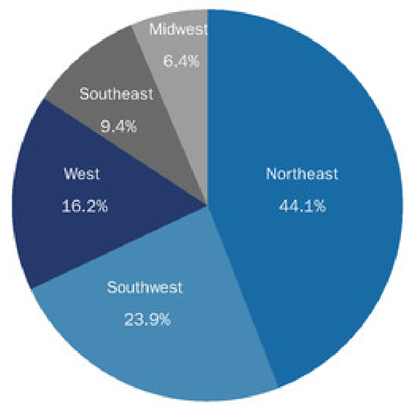
Commercial Real Estate Update

- Aggregate portfolio carrying value of $1.1 billion at September 30, 2016
  - Twenty-two senior and six mezzanine assets
- Weighted average stabilized loan-to-value (LTV) of 65.1%(1); weighted average spread of LIBOR plus 482 basis points
- Tremendous opportunity for lending; strong pipeline of loans

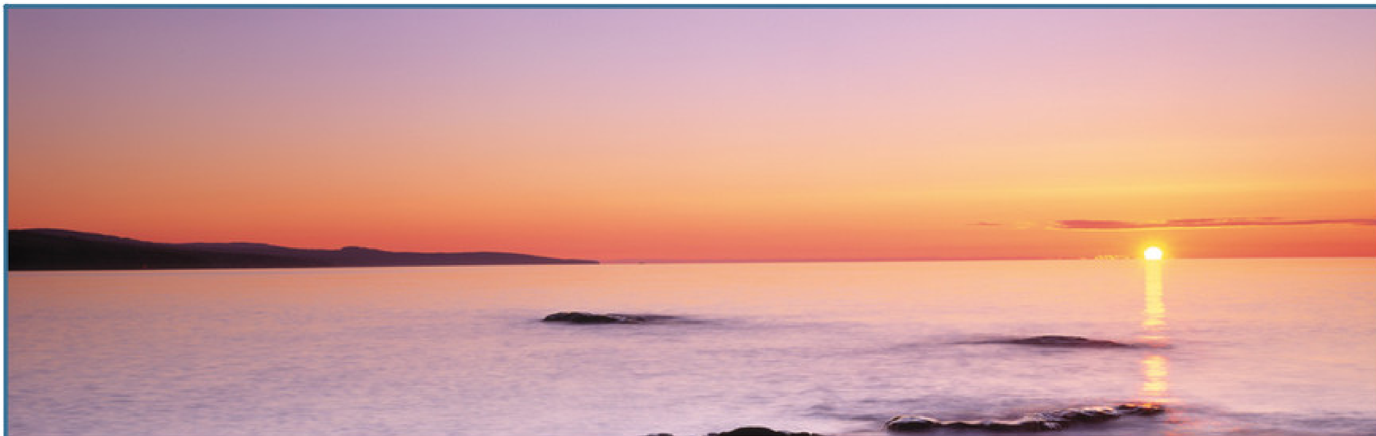
PORTFOLIO BY PROPERTY TYPE



PORTFOLIO BY GEOGRAPHY



(1) 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.



Appendix


TWO HARBORS
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Return on Book Value

Return on book value Q3-2016 (Per share amounts, except for percentage)	
Book value at June 30, 2016	$9.83
Book value at September 30, 2016	10.01
Increase in book value	0.18
Dividends declared in Q3-2016	0.23
Return on book value Q3-2016	$0.41
Percent return on book value Q3-2016(1)	4.2 %

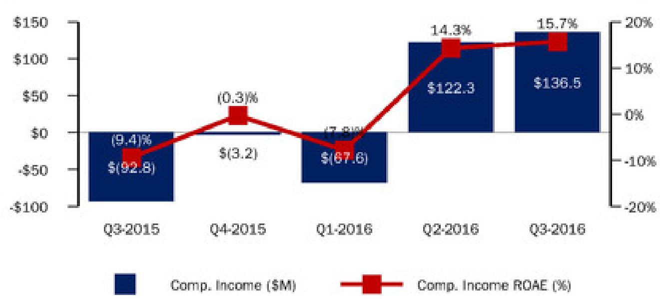
Return on book value YTD-2016 (Per share amounts, except for percentage)	
Book value at December 31, 2015	$10.11
Book value at September 30, 2016	10.01
Decrease in book value	(0.10)
Dividends declared YTD-2016	0.69
Return on book value YTD-2016	$0.59
Percent return on book value YTD-2016(2)	5.8 %

(1) Return on book value for three-month period ended September 30, 2016 is defined as the increase in book value from June 30, 2016 to September 30, 2016 of $0.18 per share, plus dividends declared of $0.23 per share, divided by June 30, 2016 book value of $9.83 per share.

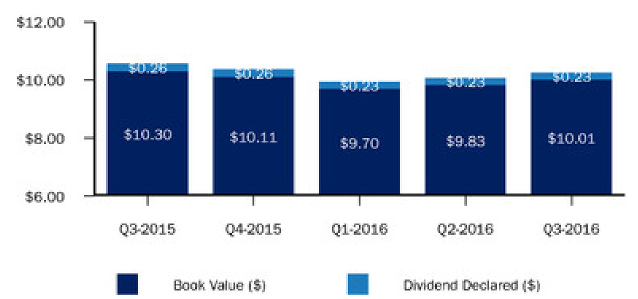
(2) Return on book value for nine-month period ended September 30, 2016 is defined as the decrease in book value from December 31, 2015 to September 30, 2016 of $0.10 per share, plus dividends declared of $0.69 per share, divided by December 31, 2015 book value of $10.11 per share.

Financial Performance

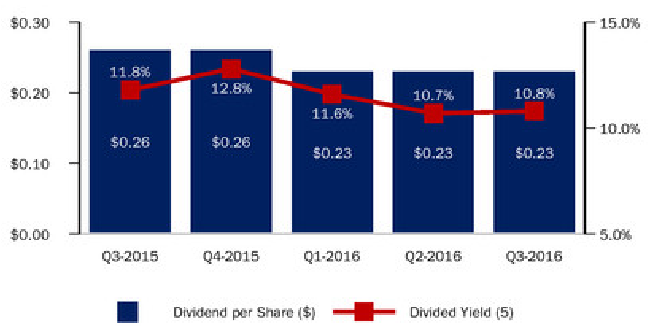
COMPREHENSIVE INCOME (LOSS)



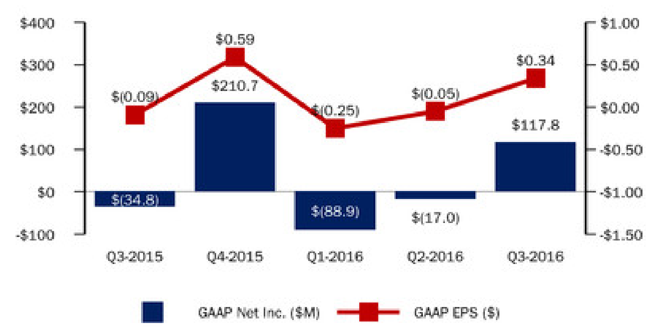
BOOK VALUE AND DIVIDEND PER SHARE[1]



DIVIDENDS[1]



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)	Q2-2016 Core Earnings[(1)]	Q2-2016 Realized Gains (Losses)	Q2-2016 Unrealized MTM	Q2-2016 Total	Q3-2016 Core Earnings[(1)]	Q3-2016 Realized Gains (Losses)	Q3-2016 Unrealized MTM	Q3-2016 Total
Interest income	$154.8	$—	$—	$154.8	$168.9	$—	$—	$168.9
Interest expense	54.0	—	—	54.0	60.4	—	—	60.4
Net interest income	100.8	—	—	100.8	108.5	—	—	108.5
Net other-than-temporary impairment losses	—	—	(0.1)	(0.1)	—	—	(1.0)	(1.0)
Gain (loss) on investment securities	—	9.9	(1.6)	8.3	—	31.8	(3.5)	28.3
(Loss) gain on interest rate swaps and swaptions	(7.7)	(55.1)	50.1	(12.7)	(4.3)	(95.1)	105.0	5.6
Gain (loss) on other derivative instruments	5.0	0.2	(53.2)	(48.0)	3.7	(62.5)	46.8	(12.0)
Gain (loss) on residential mortgage loans held-for-sale	—	3.8	3.9	7.7	—	4.1	(5.0)	(0.9)
Servicing income	35.8	—	—	35.8	38.7	—	—	38.7
(Loss) gain on servicing asset	(24.5)	—	(52.0)	(76.5)	(33.3)	(58.2)	58.0	(33.5)
Other income (loss)	1.4	(5.7)	(5.3)	(9.6)	1.5	(4.1)	8.4	5.8
Total other income (loss)	10.0	(46.9)	(58.1)	(95.0)	6.3	(184.0)	209.7	32.0
Management fees & other operating expenses	36.6	0.8	—	37.4	34.2	4.3	—	38.5
Net income (loss) before income taxes	74.2	(47.7)	(58.2)	(31.7)	80.6	(188.3)	208.7	101.0
Income tax (benefit) expense	(2.0)	(8.4)	(4.3)	(14.7)	(1.9)	(62.4)	47.5	(16.8)
Net income (loss)	**$76.2**	**($39.3)**	**($53.9)**	**($17.0)**	**$82.5**	**($125.9)**	**$161.2**	**$117.8**
Weighted average EPS	$0.22	($0.11)	($0.16)	($0.05)	$0.24	($0.36)	$0.46	$0.34

(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[1]

Reconciliation of GAAP to non-GAAP Information (In thousands, except for per share data)	Three Months Ended June 30, 2016	Three Months Ended September 30, 2016
Reconciliation of Comprehensive income to Core Earnings:		
Comprehensive income	**$122,310**	**$136,532**
Adjustment for other comprehensive income:		
Unrealized gain on available-for-sale securities	(139,291)	(18,746)
Net (loss) income	**($16,981)**	**$117,786**
Adjustments for non-core earnings:		
Gain on sale of securities and residential mortgage loans, net of tax	(12,332)	(35,628)
Unrealized (gain) loss on securities and residential mortgage loans held-for-sale, net of tax	(1,026)	6,720
Other-than-temporary impairment loss	90	1,015
Unrealized gain on interest rate swaps and swaptions economically hedging investment portfolio, repurchase agreements and FHLB advances, net of tax	(28,851)	(90,285)
Realized loss on termination or expiration of swaps and swaptions, net of tax	45,598	75,747
Loss on other derivative instruments, net of tax	33,669	11,147
Realized and unrealized loss (gain) on financing securitizations, net of tax	10,960	(4,268)
Realized and unrealized loss (gain) on mortgage servicing rights, net of tax	44,521	(2,938)
Securitization deal costs, net of tax	279	1,352
Change in representation and warranty reserve, net of tax	235	692
Restructuring charges	—	1,189
Core Earnings	**$76,162**	**$82,529**
Weighted average shares outstanding	347,597,955	347,627,226
Core Earnings per weighted average share outstanding	$0.22	$0.24

(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, certain upfront costs related to securitization transactions and restructuring charges. 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.

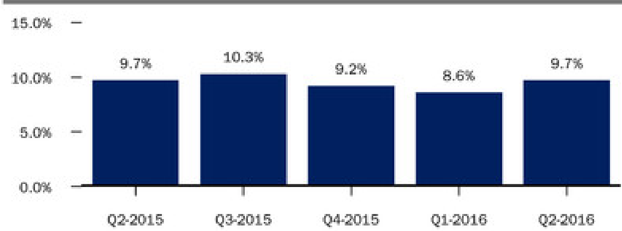
Rates: Agency RMBS Metrics

AGENCY PORTFOLIO YIELDS AND METRICS

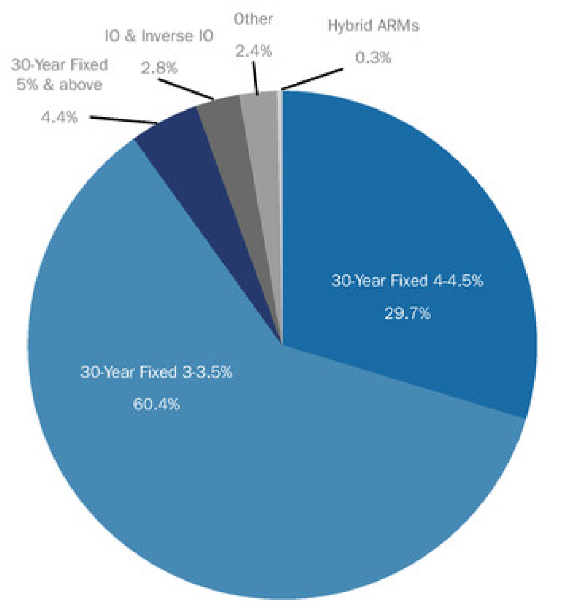
Portfolio Yield	Realized Q2-2016	At June 30, 2016	Realized Q3-2016	At September 30, 2016
Agency yield	3.0%	2.8%	2.8%	2.8%
Repo and FHLB costs	0.7%	0.7%	0.8%	0.8%
Swap costs	0.3%	0.2%	0.2%	0.1%
Net interest spread	2.0%	1.9%	1.8%	1.9%

Portfolio Metrics	Q2-2016	Q3-2016
Weighted average 3-month CPR[(1)]	8.6%	9.7%
Weighted average cost basis[(2)]	$105.3	$105.6

AGENCY RMBS CPR[(1)]



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 September 30, 2016	Par Value ($M)	Market Value ($M)	% Prepay Protected[1]	Amortized Cost Basis ($M)	Weighted Average Coupon	Weighted Average Age (Months)
30-Year fixed						
3.0-3.5%	$7,251	$7,597	49.9%	$7,563	3.1%	5
4.0-4.5%	3,381	3,731	100.0%	3,636	4.2%	39
≥ 5.0%	484	555	100.0%	522	5.5%	92
	11,116	11,883	68.0%	11,721	3.6%	20
Hybrid ARMs	30	33	—%	32	5.0%	151
Other	294	304	0.6%	278	4.2%	119
IOs and IIOs	3,599	358 [2]	—%	345	3.6%	78
Total	**$15,039**	**$12,578**	**64.2%**	**$12,376**	**3.6%**	**24**

(1) Includes securities with implicit or explicit protection including lower loan balances (securities collateralized by loans less than or equal to $175K of initial principal balance), higher LTVs (securities collateralized by loans with greater than or equal to 80% LTV), certain geographic concentrations and lower FICO scores.
(2) Represents market value of $217.3 million of IOs and $141.2 million of Agency Derivatives.

Rates: Mortgage Servicing Rights[1]

	As of June 30, 2016	As of September 30, 2016
Fair value ($M)	$427.8	$455.6
Unpaid principal balance ($M)	$55,622.0	$55,080.9
Weighted average coupon	3.9%	3.9%
Original FICO score[2]	750	757
Original LTV	75%	72%
60+ day delinquencies	0.9%	0.3%
Net servicing spread	27.0 basis points	25.4 basis points
Vintage:		
Pre-2009	2.2%	0.7%
2009-2012	39.9%	28.4%
Post 2012	57.9%	70.9%
Percent of MSR portfolio:		
Conventional	83.8%	99.7%
Government FHA	12.1%	0.3%
Government VA/USDA	4.1%	—%

(1) Excludes residential mortgage loans held-for-investment in securitization trusts for which the company is the named servicing administrator.
(2) FICO represents a mortgage industry accepted credit score of a borrower.

Credit: Non-Agency MBS Metrics

NON-AGENCY PORTFOLIO YIELDS AND METRICS

Portfolio Yield	Realized Q2-2016	At June 30, 2016	Realized Q3-2016	At September 30, 2016
Non-Agency yield	8.1%	8.3%	8.7%	8.5%
Repo and FHLB costs	2.4%	2.4%	2.5%	2.5%
Swap costs	0.3%	0.3%	0.2%	0.1%
Net interest spread	5.4%	5.6%	6.0%	5.9%

NON-AGENCY MBS CPR

NON-AGENCY PORTFOLIO COMPOSITION

Non-Agency: Loan Type	June 30, 2016	September 30, 2016
Sub-prime	68%	67%
Option-ARM	9%	8%
Prime	6%	5%
Alt-A	5%	6%
Other	12%	14%
Portfolio Metrics	**Q2-2016**	**Q3-2016**
Weighted average 3-month CPR	6.1%	7.3%
Weighted average cost basis(1)	$58.6	$59.1

(1) Weighted average cost basis includes MBS 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 MBS excluding the company's non-Agency interest-only portfolio would have been $55.64 at September 30, 2016.

Credit: Non-Agency MBS

As of September 30, 2016	Senior Bonds	Mezzanine Bonds	Total P&I
Portfolio characteristics:			
Carrying value ($M)	$1,193.0	$650.0	$1,843.0
% of non-Agency portfolio	64.7%	35.3%	100.0%
Average purchase price[1]	$53.96	$68.40	$59.05
Average coupon	2.9%	2.3%	2.7%
Weighted average market price[2]	$74.86	$76.97	$75.59
Collateral attributes:			
Average loan age (months)	120	124	121
Average loan size ($K)	$361	$303	$345
Average original Loan-to-Value	70.9%	69.4%	70.5%
Average original FICO[3]	635	656	641
Current performance:			
60+ day delinquencies	25.3%	19.1%	23.6%
Average credit enhancement[4]	10.1%	19.1%	12.5%
3-Month CPR[5]	5.7%	11.5%	7.3%

(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 MBS, excluding our non-Agency interest-only portfolio, would have been $50.16, $65.98 and $55.64, 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 MBS 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(1)	Yield(2)	Original Term (Years)	State	Property Type	Initial LTV(3)	Stabilized LTV(4)
Asset 1	Senior	12/15	$120.0	$119.5	L + 4.20%	5.91%	4	LA	Retail	65.5%	60.0%
Asset 2	Senior	09/15	105.0	104.8	L + 3.42%	4.76%	3	CA	Retail	70.9%	66.9%
Asset 3	Senior	07/16	93.1	91.6	L + 4.45%	5.89%	4	Multi-state	Office	63.0%	61.5%
Asset 4	Senior	04/16	82.0	81.1	L + 4.75%	6.09%	3	NY	Industrial	55.4%	55.4%
Asset 5	Senior	11/15	77.1	76.8	L + 4.20%	5.80%	3	NY	Office	66.4%	68.7%
Asset 6	Senior	06/16	50.3	49.7	L + 4.49%	5.95%	4	HI	Retail	76.2%	56.5%
Asset 7	Mezzanine	11/15	49.1	49.1	L + 7.25%	7.90%	3	Multi-state	Office	77.6%	77.5%
Asset 8	Mezzanine	03/15	45.9	45.8	L + 6.75%	8.14%	2	Multi-state	Hotel	70.3%	63.5%
Asset 9	Senior	12/15	43.5	43.4	L + 4.05%	5.61%	3	TX	Multifamily	81.2%	76.8%
Asset 10	Senior	04/16	43.5	42.8	L + 4.40%	6.11%	3	NY	Office	66.9%	62.1%
Asset 11	Senior	12/15	42.2	42.1	L + 4.65%	6.43%	4	PA	Office	74.5%	67.5%
Asset 12	Senior	02/16	40.6	40.2	L + 4.30%	5.63%	3	TX	Office	72.9%	70.4%
Asset 13	Senior	08/16	39.6	38.9	L + 4.95%	6.45%	4	NJ	Office	61.0%	63.0%
Asset 14	Senior	11/15	38.0	37.7	L + 4.55%	6.41%	4	MD	Office	80.0%	64.5%
Asset 15	Senior	03/16	33.8	33.6	5.11%	5.24%	10	NJ	Office	74.9%	74.9%

(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

	Type	Origination Date	Principal Balance	Book Value	Cash Coupon[1]	Yield[2]	Original Term (Years)	State	Property Type	Initial LTV[3]	Stabilized LTV[4]
Asset 16	Senior	01/16	30.4	30.0	L + 4.80%	6.45%	3	IL	Multifamily	82.8%	66.7%
Asset 17	Senior	08/16	24.0	23.8	L + 4.70%	6.34%	4	NY	Industrial	70.0%	70.0%
Asset 18	Senior	10/15	23.5	23.4	L + 3.60%	4.94%	4	NY	Multifamily	73.4%	58.6%
Asset 19	Senior	08/15	19.3	19.3	L + 5.25%	6.83%	3	FL	Multifamily	76.3%	75.3%
Asset 20	Senior	08/15	18.7	18.6	L + 4.05%	5.67%	3	FL	Multifamily	85.0%	68.4%
Asset 21	Senior	08/16	18.4	18.2	L + 4.57%	5.98%	3	FL	Multifamily	71.0%	58.0%
Asset 22	Mezzanine	08/15	17.0	17.0	L + 8.75%	10.06%	2	FL	Hotel	71.9%	67.9%
Asset 23	Senior	10/15	16.0	15.9	L + 4.99%	6.49%	3	MO	Hotel	73.2%	57.8%
Asset 24	Senior	06/16	13.4	13.2	L + 4.62%	5.98%	3	NY	Multifamily	69.5%	64.7%
Asset 25	Senior	09/15	11.0	11.0	L + 4.03%	5.39%	3	FL	Multifamily	77.7%	76.9%
Asset 26	Mezzanine	07/15	10.3	10.3	L + 12.25%	14.03%	3	PA	Office	81.6%	79.6%
Asset 27	Mezzanine	08/15	9.9	9.9	L + 9.50%	11.59%	5	GA	Office	78.7%	66.4%
Asset 28	Mezzanine	11/15	7.2	6.8	13.00%[5]	16.28%	10	NY	Hotel	68.3%	43.7%
Total/Weighted Average			**$1,122.8**	**$1,114.5**	**L + 4.82%**	**6.28%**	**3.6**			**70.2%**	**65.1%**

(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

Repo and FHLB Collateral[1]	Repo	FHLB	Total ($M)
Available-for-sale securities, at fair value	$11,115.6	$3,156.3	$14,271.9
Derivative asset, at fair value	140.8	—	140.8
Residential mortgage loans held-for-sale, at fair value	—	632.7	632.7
Commercial real estate assets	399.6	597.6	997.2
Net economic interests in consolidated securitization trusts	219.0	4.1	223.1
	$11,875.0	$4,390.7	$16,265.7

Repo Maturities[2]	Amount ($M)	Percent (%)
Within 30 days	$3,967.5	37.3%
30 to 59 days	2,896.7	27.2%
60 to 89 days	1,185.0	11.2%
90 to 119 days	1,012.6	9.5%
120 to 364 days	1,353.0	12.7%
One year and over	222.6	2.1%
	$10,637.4	100.0%

FHLB Maturities	Amount ($M)	Percent (%)
≤ 1 year	$651.2	16.3%
> 1 and ≤ 3 years	$815.0	20.4%
> 3 and ≤ 5 years	—	—%
> 10 years[3]	2,533.8	63.3%
	$4,000.0	100.0%

(1) Excludes FHLB membership and activity stock totaling $167.9 million.
(2) Weighted average of 69 days to maturity.
(3) Includes advances of $2.5 billion with original maturities of 20 years.

Interest Rate Swaps

Maturities	Notional Amounts ($B)[1]	Average Fixed Pay Rate[2]	Average Receive Rate[2]	Average Maturity Years[2]
Payers Hedging Repo and FHLB Advances				
2016	$1.0	0.435%	0.857%	0.2
2017	2.4	0.765%	0.787%	0.8
2018	1.3	1.002%	0.674%	1.9
2019	0.3	1.283%	0.731%	2.7
2020 and after	2.1	1.733%	0.731%	6.7
	$7.1	0.858%	0.765%	1.5
Other Payers				
2018	$4.7	1.273%	0.853%	1.9
2020 and after	1.3	2.094%	0.812%	4.9
	$6.0	1.456%	0.843%	2.5
Maturities	Notional Amounts ($B)	Average Pay Rate	Average Fixed Receive Rate	Average Maturity (Years)
Other Receivers				
2018	$1.2	0.729%	1.214%	2.1
2019	0.5	0.702%	1.042%	2.3
2020 and after	2.1	0.783%	2.037%	6.1
	$3.8	0.755%	1.647%	4.3

(1) Notional amount includes $577.1 million in forward starting interest rate swaps as of September 30, 2016.
(2) Weighted averages exclude forward starting interest rate swaps. As of September 30, 2016, the weighted average fixed pay rate on interest rate swaps starting in March 2017 was 1.8%.

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	$43.0	$0.1	8.8	$1,800	3.27%	3M LIBOR	5.6
Total Payer		$43.0	$0.1	8.8	$1,800	3.27%	3M LIBOR	5.6
Receiver	<6 Months	$—	$3.1	4.9	$1,500	3M LIBOR	1.34%	3.0
Total Receiver		$—	$3.1	4.9	$1,500	3M LIBOR	1.34%	3.0
Sale Contracts:								
Payer	<6 Months	$—	($5.9)	4.5	($2,230)	1.14%	3M LIBOR	4.6
Payer	>6 Months	(81.2)	(0.2)	9.0	(800)	3.44%	3M LIBOR	10.0
Total Payer		($81.2)	($6.1)	4.5	($3,030)	1.74%	3M LIBOR	6.0


TWO HARBORS
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