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: February 6, 2017

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 February 6, 2017, Two Harbors Investment Corp. (the "Company") issued a press release announcing its financial results for the fiscal quarter ended December 31, 2016. A copy of the press release and the 2016 Fourth 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 February 6, 2017.
99.2	2016 Fourth 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: February 6, 2017

Exhibit Index

Exhibit No.	Description	Filing Method
99.1	Press Release of Two Harbors Investment Corp., dated February 6, 2017.	Electronically
99.2	2016 Fourth Quarter Earnings Call Presentation.	Electronically

TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

Two Harbors Investment Corp. Reports Fourth Quarter 2016 Financial Results

Delivered Total Stockholder Return of 20% in 2016[(1)]

MSR Instrumental to Fourth Quarter Book Value Stability

NEW YORK, February 6, 2017 - Two Harbors Investment Corp. (NYSE: TWO), a leading hybrid mortgage real estate investment trust (REIT) that invests in residential mortgage-backed securities (RMBS), mortgage servicing rights (MSR), commercial real estate and other financial assets, today announced its financial results for the quarter ended December 31, 2016.

Quarterly Summary

- Reported book value of $9.78 per common share, representing a 0.1%[(2)] total quarterly return on book value after accounting for a dividend of $0.24 per share.
- Delivered Comprehensive Income of $2.2 million, a return on average equity of 0.3%, or $0.01 per weighted average common share.
- Reported Core Earnings of $83.4 million, or $0.24 per weighted average common share.[(3)]

2016 Summary

- Delivered total stockholder return of 20% in 2016.[(1)]
- Generated total annual return on book value of 5.9%, after accounting for dividends of $0.93 per share.[(4)]
- Completed wind down of mortgage loan conduit consistent with our timeline and expense expectations; reallocated capital to assets with higher anticipated returns, including MSR and commercial real estate.
- Added $32.0 billion unpaid principal balance (UPB) of MSR; total fair market value of $693.8 million at December 31, 2016.
- Increased capital allocated to commercial real estate strategy; aggregate portfolio carrying value of $1.4 billion at December 31, 2016.
- Repurchased 8.0 million shares, at an average price of $7.64 per share, representing 2.3% of shares outstanding at December 31, 2016.

"Despite the market volatility in the quarter, our ability to protect book value while generating strong earnings illustrates the merits of our approach to risk management," stated Thomas Siering, Two Harbors' President and Chief Executive Officer. "We delivered a 20% total shareholder return in 2016, and the progress we have made on our strategic plan has us well positioned to increase our earnings potential in the year ahead."

(1) Two Harbors' total stockholder return is calculated for the period December 31, 2015 to December 31, 2016. Total stockholder return is defined as stock price appreciation including dividends. Source: Bloomberg.
(2) Return on book value for the quarter ended December 31, 2016 is defined as the decrease in book value from September 30, 2016 to December 31, 2016 of $0.23, plus the dividend declared of $0.24 per share, divided by September 30, 2016 book value of $10.01 per share.
(3) 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.
(4) Return on book value for the year ended December 31, 2016 is defined as the decrease in book value from December 31, 2015 to December 31, 2016 of $0.33, plus dividends declared of $0.93 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 fourth quarter of 2016:

Two Harbors Investment Corp. Operating Performance (unaudited)

(dollars in thousands, except per share data)

	Three Months Ended December 31, 2016			Year Ended December 31, 2016		
Earnings	Earnings	Per weighted share	Annualized return on average equity	Earnings	Per weighted share	Annualized return on average equity
Comprehensive Income	$ 2,187	$ 0.01	0.3%	$ 193,444	$ 0.56	5.6%
GAAP Net Income	$ 341,403	$ 0.98	39.4%	$ 353,278	$ 1.01	10.2%
Core Earnings(1)	$ 83,392	$ 0.24	9.6%	$ 313,927	$ 0.90	9.1%

Operating Metrics	
Dividend per common share	$0.24
Book value per share at period end	$9.78
Other operating expenses as a percentage of average equity	1.9%

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

Earnings Summary

Two Harbors reported Comprehensive Income of $2.2 million, or $0.01 per weighted average common share outstanding, for the quarter ended December 31, 2016, as compared to Comprehensive Income of $136.5 million, or $0.39 per weighted average common share outstanding, for the quarter ended September 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 0.3% and 15.7% for the quarters ended December 31, 2016 and September 30, 2016, respectively.

The company reported GAAP Net Income of $341.4 million, or $0.98 per weighted average common share outstanding, for the quarter ended December 31, 2016, as compared to GAAP Net Income of $117.8 million, or $0.34 per weighted average common share outstanding, for the quarter ended September 30, 2016. On a GAAP Net Income basis, the company recognized an annualized return on average equity of 39.4% and 13.6% for the quarters ended December 31, 2016 and September 30, 2016, respectively.

For the fourth quarter of 2016, the company recognized:

- net realized losses on RMBS and mortgage loans held-for-sale of $158.0 million, net of tax;
- net unrealized gains on certain RMBS and mortgage loans held-for-sale of $14.8 million, net of tax;
- net gains of $40.8 million, net of tax, related to swap and swaption terminations and expirations;
- net unrealized gains of $138.5 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 $87.8 million, net of tax;
- net realized and unrealized losses on consolidated financing securitizations of $6.7 million, net of tax;
- net realized and unrealized gains of $142.7 million(1) on MSR, net of tax; and
- restructuring charges of $1.8 million, net of tax.

(1) Excludes estimated amortization of $31.6 million, net of tax, included in Core Earnings.

The company reported Core Earnings for the quarter ended December 31, 2016 of $83.4 million, or $0.24 per weighted average common share outstanding, as compared to Core Earnings for the quarter ended September 30, 2016 of $82.5 million, or $0.24 per weighted average common share outstanding. On a Core Earnings basis, the company recognized an annualized return on average equity of 9.6% and 9.5% for the quarters ended December 31, 2016 and September 30, 2016, respectively.

Other Key Metrics

Two Harbors declared a quarterly cash dividend of $0.24 per common share for the quarter ended December 31, 2016. The annualized dividend yield on the company's common stock for the quarter, based on the December 31, 2016 closing price of $8.72, was 11.0%.

The company's book value per share, after taking into account the fourth quarter 2016 dividend of $0.24 per share, was $9.78 as of December 31, 2016, compared to $10.01 as of September 30, 2016, which represented a total return on book value for the quarter of 0.1%.(1)

Other operating expenses for the quarter ended December 31, 2016 were approximately $16.2 million, or 1.9% of average equity, compared to approximately $14.8 million, or 1.7% of average equity, for the quarter ended September 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, net economic interests in consolidated securitization trusts and commercial real estate assets. As of December 31, 2016, the total value of the company's portfolio was $15.6 billion.

The company's portfolio includes rates, credit and commercial real estate strategies. The rates strategy consisted of $12.1 billion of Agency RMBS, Agency Derivatives and MSR as well as their associated notional hedges as of December 31, 2016. The credit strategy consisted of $2.1 billion of non-Agency RMBS, net economic interests in consolidated securitization trusts, as well as their associated notional hedges as of December 31, 2016. The commercial strategy consisted of senior and mezzanine commercial real estate assets with an aggregate carrying value of $1.4 billion as of December 31, 2016.

For the quarter ended December 31, 2016, the annualized yield on the company's average aggregate portfolio was 3.54% and the annualized cost of funds on the associated average borrowings, which includes net interest rate spread expense on interest rate swaps, was 1.17%. This resulted in a net interest rate spread of 2.37%.

RMBS and Agency Derivatives

For the quarter ended December 31, 2016, the annualized yield on average RMBS and Agency Derivatives was 3.6%, consisting of an annualized yield of 3.0% 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 7.1% for Agency RMBS and Agency Derivatives held as of December 31, 2016, compared to 9.7% for those securities held as of September 30, 2016. The weighted average cost basis of the principal and interest Agency portfolio was 105.9% of par as of December 31, 2016 and 105.6% of par as of September 30, 2016. The net premium amortization was $28.6 million and $33.0 million for the quarters ended December 31, 2016 and September 30, 2016, respectively.

(1) Return on book value for the quarter ended December 31, 2016 is defined as the decrease in book value from September 30, 2016 to December 31, 2016 of $0.23, plus the dividend declared of $0.24 per share, divided by September 30, 2016 book value of $10.01 per share.

The company experienced a three-month average CPR of 6.2% for non-Agency principal and interest RMBS held as of December 31, 2016, as compared to 7.3% for those securities held as of September 30, 2016. The weighted average cost basis of the non-Agency portfolio was 57.9% of par as of December 31, 2016, compared to 59.1% of par as of September 30, 2016. The discount accretion was $20.3 million for the quarter ended December 31, 2016, compared to $18.3 million for the quarter ended September 30, 2016. The total net discount remaining was $1.2 billion as of December 31, 2016, compared to $1.1 billion as of September 30, 2016, with $0.4 billion designated as credit reserve as of December 31, 2016.

As of December 31, 2016, fixed-rate investments composed 86.9% and adjustable-rate investments composed 13.1% of the company's RMBS and Agency Derivatives portfolio.

As of December 31, 2016, the company had residential mortgage loans held-for-investment with a carrying value of $3.3 billion and the company's collateralized borrowings had a carrying value of $3.0 billion, resulting in net economic interests in consolidated securitization trusts of $234.1 million.

Mortgage Servicing Rights

As of December 31, 2016, the company held MSR on mortgage loans with UPB totaling $62.8 billion.[1] The MSR had a fair market value of $693.8 million, as of December 31, 2016, and the company recognized fair value gains of $127.9 million during the quarter ended December 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 $34.9 million of servicing income, $7.2 million[1] of servicing expenses and $0.1 million in servicing reserve expense during the quarter ended December 31, 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 December 31, 2016, the company held senior and mezzanine commercial real estate assets with an aggregate carrying value of $1.4 billion. For the quarter ended December 31, 2016, the annualized yield on commercial real estate loans was 6.1%, as compared to 6.2% for the quarter ended September 30, 2016.

Residential Mortgage Loans Held for Sale

In the quarter, the company sold substantially all of its remaining portfolio of prime jumbo residential mortgage loans. As previously disclosed, the company discontinued its mortgage loan conduit and securitization business.

(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 $1.5 billion notional of net short TBAs as of December 31, 2016, which are accounted for as derivative instruments in accordance with GAAP.

As of December 31, 2016, the company was a party to interest rate swaps and swaptions with a notional amount of $20.6 billion. Of this amount, $10.1 billion notional in swaps were utilized to economically hedge interest rate risk associated with the company's LIBOR-based repurchase agreements and FHLB advances, $10.3 billion notional in swaps were utilized to economically hedge interest rate risk associated with the company's investment portfolio, and $0.2 billion net notional in swaptions were utilized as macroeconomic hedges.

The following tables summarize the company's investment portfolio as of December 31, 2016 and September 30, 2016:

Two Harbors Investment Corp. Portfolio

(dollars in thousands)

Portfolio Composition	As of December 31, 2016		As of September 30, 2016	
	(unaudited)		(unaudited)	
Rates Strategy				
Agency Bonds				
Fixed Rate Bonds	$ 11,196,011	71.6%	$ 12,404,228	73.1%
Hybrid ARMs	30,463	0.2%	32,588	0.2%
Total Agency	11,226,474	71.8%	12,436,816	73.3%
Agency Derivatives	126,599	0.8%	141,232	0.8%
Mortgage servicing rights	693,815	4.4%	455,629	2.7%
Residential mortgage loans held-for-sale	28,732	0.2%	56,908	0.4%
Credit Strategy				
Non-Agency Bonds				
Senior Bonds	1,210,462	7.8%	1,192,975	7.1%
Mezzanine Bonds	687,644	4.4%	649,993	3.8%
Non-Agency Other	4,277	—%	4,841	—%
Total Non-Agency	1,902,383	12.2%	1,847,809	10.9%
Net Economic Interest in Securitization(1)	234,121	1.5%	244,131	1.4%
Residential mortgage loans held-for-sale	11,414	0.1%	666,266	3.9%
Commercial real estate assets	1,412,543	9.0%	1,114,548	6.6%
Aggregate Portfolio	$ 15,636,081		$ 16,963,339	

(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 December 31, 2016	Three Months Ended September 30, 2016
	(unaudited)	(unaudited)
Annualized portfolio yield during the quarter	3.54%	3.50%
Rates Strategy		
Agency RMBS, Agency Derivatives and mortgage servicing rights	2.6%	2.6%
Credit Strategy		
Non-Agency RMBS, Legacy(1)	9.1%	9.1%
Non-Agency MBS, New issue(1)	6.4%	6.1%
Net economic interest in securitizations	12.0%	9.3%
Residential mortgage loans held-for-sale	4.0%	4.1%
Commercial Strategy	6.1%	6.2%
Annualized cost of funds on average borrowing balance during the quarter(2)	1.17%	1.08%
Annualized interest rate spread for aggregate portfolio during the quarter	2.37%	2.42%
Debt-to-equity ratio at period-end(3)	3.9:1.0	4.2:1.0

Portfolio Metrics Specific to RMBS and Agency Derivatives	As of December 31, 2016	As of September 30, 2016
	(unaudited)	(unaudited)
Weighted average cost basis of principal and interest securities		
Agency(4)	$ 105.85	$ 105.64
Non-Agency(5)	$ 57.86	$ 59.05
Weighted average three month CPR		
Agency	7.1%	9.7%
Non-Agency	6.2%	7.3%
Fixed-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	86.9%	88.1%
Adjustable-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	13.1%	11.9%

(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 $55.46 at December 31, 2016 and $55.64 at September 30, 2016.

“Owning high quality MSR was a key element in the stable performance of our portfolio this quarter, as it provided an effective hedge against the rise in interest rates and the widening of Agency spreads,” stated Bill Roth, Two Harbors’ Chief Investment Officer. “We are excited about the year ahead and the opportunity to continue deploying capital in a manner that maximizes shareholder value.”

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 3.9:1.0 and 4.2:1.0 as of December 31, 2016 and September 30, 2016, respectively.

As of December 31, 2016, the company had outstanding $9.3 billion of repurchase agreements funding RMBS, Agency Derivatives and commercial real estate assets with 23 different counterparties. Excluding the effect of the company’s interest rate swaps, the repurchase agreements had a weighted average borrowing rate of 1.31% as of December 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 December 31, 2016, TH Insurance had $4.0 billion in outstanding secured advances, with a weighted average borrowing rate of 0.85%, and had no additional available uncommitted capacity for borrowings.

As of December 31, 2016, the company had outstanding $70.0 million of short-term borrowings secured by MSR collateral under revolving credit facilities with a weighted average borrowing rate of 4.53% and remaining maturities of 306 days.

As of December 31, 2016, the company's aggregate repurchase agreements, FHLB advances and revolving credit facilities funding RMBS, Agency Derivatives, commercial real estate assets and MSR had a weighted average of 3.8 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 December 31, 2016 and September 30, 2016, and the related cost of funds for the three months ended December 31, 2016 and September 30, 2016:

	As of December 31, 2016	As of September 30, 2016
(in thousands)	(unaudited)	(unaudited)
Collateral type:		
Agency RMBS and Agency Derivatives	$ 10,843,917	$ 11,994,502
Mortgage servicing rights	70,000	30,000
Non-Agency MBS	1,282,524	1,232,816
Net economic interests in consolidated securitization trusts(1)	153,231	159,393
Residential mortgage loans held-for-sale	—	485,411
Commercial real estate assets	1,036,679	765,251
	$ 13,386,351	$ 14,667,373

Cost of Funds Metrics	Three Months Ended December 31, 2016	Three Months Ended September 30, 2016
	(unaudited)	(unaudited)
Annualized cost of funds on average borrowings during the quarter:	1.1%	1.0%
Agency RMBS and Agency Derivatives	0.8%	0.8%
Mortgage servicing rights(2)	5.4%	5.4%
Non-Agency MBS	2.7%	2.5%
Net economic interests in consolidated securitization trusts(1)	2.2%	1.7%
Residential mortgage loans held-for-sale	0.7%	0.8%
Commercial real estate assets(2)	1.8%	1.8%

(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.

Dividends and Taxable Income

The company declared cash dividends to stockholders of $0.93 per share during the 2016 taxable year. The company fulfilled its requirement as a REIT to distribute at least 90% of its taxable income to stockholders.

Conference Call

Two Harbors Investment Corp. will host a conference call on February 7, 2017 at 9:00 a.m. EST to discuss fourth 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 37202558, 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. EST on February 7, 2017, through 12:00 a.m. EST on February 14, 2017. The playback can be accessed by calling (855) 859-2056 (or (404) 537-3406 for international callers), conference code 37202558. 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, 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 effectively execute and to realize the benefits of strategic transactions and initiatives we have pursued or may in the future pursue; 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 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)

	December 31, 2016	December 31, 2015
	(unaudited)	
ASSETS		
Available-for-sale securities, at fair value	$ 13,128,857	$ 7,825,320
Residential mortgage loans held-for-sale, at fair value	40,146	811,431
Residential mortgage loans held-for-investment in securitization trusts, at fair value	3,271,317	3,173,727
Commercial real estate assets	1,412,543	660,953
Mortgage servicing rights, at fair value	693,815	493,688
Cash and cash equivalents	406,883	737,831
Restricted cash	408,312	262,562
Accrued interest receivable	62,751	49,970
Due from counterparties	60,380	17,206
Derivative assets, at fair value	324,182	271,509
Other assets	302,870	271,575
Total Assets	$ 20,112,056	$ 14,575,772
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Repurchase agreements	$ 9,316,351	$ 5,008,274
Collateralized borrowings in securitization trusts, at fair value	3,037,196	2,000,110
Federal Home Loan Bank advances	4,000,000	3,785,000
Revolving credit facilities	70,000	—
Derivative liabilities, at fair value	12,501	7,285
Due to counterparties	111,884	34,294
Dividends payable	83,437	92,016
Other liabilities	79,576	72,232
Total Liabilities	16,710,945	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 347,652,326 and 353,906,807 shares issued and outstanding, respectively	3,477	3,539
Additional paid-in capital	3,659,973	3,705,519
Accumulated other comprehensive income	199,227	359,061
Cumulative earnings	2,038,033	1,684,755
Cumulative distributions to stockholders	(2,499,599)	(2,176,313)
Total Stockholders' Equity	3,401,111	3,576,561
Total Liabilities and Stockholders' Equity	$ 20,112,056	$ 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 December 31,		Year Ended December 31,	
	2016	**2015**	**2016**	**2015**
	(unaudited)		(unaudited)	
Interest income:				
Available-for-sale securities	$ 122,719	$ 88,543	$ 415,052	$ 458,515
Trading securities	—	—	—	8,676
Residential mortgage loans held-for-sale	3,248	7,698	23,037	28,966
Residential mortgage loans held-for-investment in securitization trusts	33,228	30,832	133,993	95,740
Commercial real estate assets	19,540	6,297	59,819	9,138
Cash and cash equivalents	354	235	1,589	902
Total interest income	179,089	133,605	633,490	601,937
Interest expense:				
Repurchase agreements	31,679	14,851	97,461	73,049
Collateralized borrowings in securitization trusts	26,764	17,815	97,729	57,216
Federal Home Loan Bank advances	7,297	3,909	26,101	11,921
Revolving credit facilities	476	—	604	—
Total interest expense	66,216	36,575	221,895	142,186
Net interest income	112,873	97,030	411,595	459,751
Other-than-temporary impairment losses	—	—	(1,822)	(535)
Other income:				
(Loss) gain on investment securities	(173,469)	99,867	(107,374)	363,379
Gain (loss) on interest rate swap and swaption agreements	177,979	42,526	45,371	(210,621)
Gain (loss) on other derivative instruments	143,443	(2,077)	99,379	(5,049)
(Loss) gain on residential mortgage loans held-for-sale	(1,563)	(4,015)	16,085	14,285
Servicing income	34,959	32,799	143,616	127,412
Gain (loss) on servicing asset	127,895	(3,267)	(83,531)	(99,584)
Other loss	(4,978)	(5,525)	(5,955)	(21,790)
Total other income	304,266	160,308	107,591	168,032
Expenses:				
Management fees	11,166	12,270	46,434	50,294
Securitization deal costs	(89)	1,200	6,152	8,971
Servicing expenses	8,214	8,252	32,724	28,101
Other operating expenses	16,203	16,130	63,483	64,162
Restructuring charges	1,801	—	2,990	—
Total expenses	37,295	37,852	151,783	151,528
Income before income taxes	379,844	219,486	365,581	475,720
Provision for (benefit from) income taxes	38,441	8,780	12,303	(16,490)
Net income	$ 341,403	$ 210,706	$ 353,278	$ 492,210
Basic and diluted earnings per weighted average common share	$ 0.98	$ 0.59	$ 1.01	$ 1.35
Dividends declared per common share	$ 0.24	$ 0.26	$ 0.93	$ 1.04
Basic and diluted weighted average number of shares of common stock outstanding	347,643,257	360,090,432	348,073,704	365,247,738

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 December 31,		Year Ended December 31,	
	2016	**2015**	**2016**	**2015**
	(unaudited)		(unaudited)	
Comprehensive income (loss):				
Net income	$ 341,403	$ 210,706	$ 353,278	$ 492,210
Other comprehensive loss, net of tax:				
Unrealized loss on available-for-sale securities	(339,216)	(213,940)	(159,834)	(496,728)
Other comprehensive loss	(339,216)	(213,940)	(159,834)	(496,728)
Comprehensive income (loss)	$ 2,187	$ (3,234)	$ 193,444	$ (4,518)

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 December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
	(unaudited)		(unaudited)	
Reconciliation of Comprehensive income (loss) to Core Earnings:				
Comprehensive income (loss)	$ 2,187	$ (3,234)	$ 193,444	$ (4,518)
Adjustment for other comprehensive loss:				
Unrealized loss on available-for-sale securities	339,216	213,940	159,834	496,728
Net income	$ 341,403	$ 210,706	$ 353,278	$ 492,210
Adjustments for non-core earnings:				
Loss (gain) on sale of securities and residential mortgage loans held-for-sale, net of tax	158,026	(100,548)	93,317	(371,080)
Unrealized (gain) loss on securities and residential mortgage loans held-for-sale, net of tax	(14,794)	14,668	(23,203)	19,612
Other-than-temporary impairment loss, net of tax	—	—	1,822	535
Realized (gain) loss on termination or expiration of swaps and swaptions, net of tax	(40,793)	77,672	70,966	190,242
Unrealized gains on interest rate swaps and swaptions economically hedging investment portfolio, repurchase agreements and FHLB advances, net of tax	(138,488)	(134,182)	(122,682)	(91,874)
(Gain) loss on other derivative instruments, net of tax	(87,772)	6,880	(52,349)	17,108
Realized and unrealized losses on financing securitizations, net of tax	6,661	6,997	11,875	26,384
Realized and unrealized (gain) loss on mortgage servicing rights, net of tax	(142,677)	(11,342)	(27,433)	36,607
Securitization deal costs, net of tax	(58)	780	3,999	5,831
Change in servicing reserves, net of tax	83	502	1,347	206
Restructuring charges	1,801	—	2,990	—
Core Earnings[(1)]	$ 83,392	$ 72,133	$ 313,927	$ 325,781 [(2)]
Weighted average shares outstanding	347,643,257	360,090,432	348,073,704	365,247,738
Core Earnings per weighted average share outstanding	$ 0.24	$ 0.20	$ 0.90	$ 0.89

(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, servicing reserve expenses 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				
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
	(unaudited)				
Net Interest Income:					
Interest income	$ 179.1	$ 168.9	$ 154.8	$ 130.8	$ 133.6
Interest expense	66.2	60.4	54.0	41.4	36.6
Net interest income	112.9	108.5	100.8	89.4	97.0
Other income:					
Interest spread on interest rate swaps	(2.9)	(4.3)	(7.7)	(6.2)	(12.6)
Interest spread on other derivative instruments	4.1	3.7	5.0	5.4	6.0
Servicing (expense) income, net of amortization(1)	(0.4)	5.4	11.3	17.9	16.8
Other income	1.7	1.5	1.4	1.3	1.4
Total other income	2.5	6.3	10.0	18.4	11.6
Expenses	35.5	34.2	36.6	34.3	35.8
Core Earnings before income taxes	79.9	80.6	74.2	73.5	72.8
Income tax (benefit) expense	(3.5)	(1.9)	(2.0)	1.7	0.7
Core Earnings	$ 83.4	$ 82.5	$ 76.2	$ 71.8	$ 72.1
Basic and diluted weighted average Core EPS	$ 0.24	$ 0.24	$ 0.22	$ 0.21	$ 0.20

(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.


Fourth Quarter 2016 Earnings Call
FEBRUARY 7, 2017
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 effectively execute and to realize the benefits of strategic transactions and initiatives we have pursued or may in the future pursue; 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 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]

TOTAL STOCKHOLDER RETURN OF 20% IN 2016[2]

FOURTH QUARTER 2016

- Total return on book value of 0.1%[3]
  - Book value of $9.78 per share and cash dividend of $0.24 per share
- Comprehensive Income of $2.2 million, or $0.01 per share
- GAAP net income of $341.4 million, or $0.98 per share
- Core Earnings[4] of $83.4 million, or $0.24 per share

FULL YEAR 2016

- Total return on book value of 5.9%[3]
- Comprehensive Income of $193.4 million, or $0.56 per share
- GAAP net income of $353.3 million, or $1.01 per share
- Core Earnings[4] of $313.9 million, or $0.90 per share
- Repurchased 8.0 million shares at an average price of $7.64 per share, representing 2.3% of shares outstanding at December 31, 2016

(1) Except as otherwise indicated in this presentation, reported data is as of or for the period ended December 31, 2016.
(2) Two Harbors' total stockholder return is calculated for the period December 31, 2015 to December 31, 2016. Total stockholder return is defined as stock price appreciation including dividends. Source: Bloomberg.
(3) See Appendix slide 15 for calculation of Q4-2016 and 2016 return on book value.
(4) Core Earnings is a non-GAAP measure. Please see Appendix slide 18 of this presentation for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Strategic Overview

POSITIONED TO INCREASE EARNINGS POWER IN 2017

ACCOMPLISHMENTS IN 2016

- Streamlined and simplified business model
  - Completed wind down of conduit business
- Redeployed capital to assets with higher anticipated returns
  - Mortgage servicing rights
  - Commercial real estate assets
- Maintained disciplined approach to risk management
  - Book value and income stability
- Diversified financing profile

KEY AREAS OF FOCUS IN 2017

- Continue to thoughtfully manage Agency portfolio and build out MSR position
- Capitalize on tailwinds supporting non-Agency
- Increase capital allocated to commercial strategy
- Generate additional returns through capital deployment and expense management

Book Value

(Dollars in millions, except per share data)	Q4-2016 Book Value	Q4-2016 Book Value per share	FY-2016 Book Value	FY-2016 Book Value per share
Beginning stockholders' equity	**$3,478.2**	**$10.01**	**$3,576.6**	**$10.11**
GAAP Net Income:				
Core Earnings, net of tax	83.4		313.9	
Realized gains and losses, net of tax	(61.5)		(201.3)	
Unrealized mark-to-market gains and losses, net of tax	319.5		240.7	
Other comprehensive loss	(339.2)		(159.9)	
Dividend declaration	(83.4)		(323.3)	
Other	4.0		15.2	
Balance before capital transactions	3,401.0		3,461.9	
Repurchase of common stock	—		(61.3)	
Issuance of common stock, net of offering costs	0.1		0.5	
Ending stockholders' equity	**$3,401.1**	**$9.78**	**$3,401.1**	**$9.78**

Comprehensive Income (GAAP)

Q4-2016 Comprehensive Income of $2.2 million; $193.4 million FY-2016

Declared Q4-2016 dividend of $0.24 per share; $0.93 per share FY-2016

Core Earnings Summary[1]

Q4-2016 FINANCIAL SUMMARY

(Dollars in millions)	Q3-2016	Q4-2016	Variance ($)	Variance (%)
Interest income	$168.9	$179.1	$10.2	6.1 %
Interest expense	60.4	66.2	(5.8)	(9.7%)
Net interest income	108.5	112.9	4.4	4.0 %
Loss on swaps and swaptions	(4.3)	(2.9)	1.4	31.7%
Gain on other derivatives	3.7	4.1	0.4	13.6%
Servicing income, net of amortization on MSR	5.4	(0.4)	(5.8)	(108.6%)
Other	1.5	1.7	0.2	12.9 %
Total other income	6.3	2.5	(3.8)	n/a
Expenses	34.2	35.5	1.3	(3.7%)
Income taxes	(1.9)	(3.5)	1.6	n/a
Core Earnings[1]	**$82.5**	**$83.4**	**$0.9**	**1.0 %**
Basic and diluted weighted average Core EPS	**$0.24**	**$0.24**	**$—**	

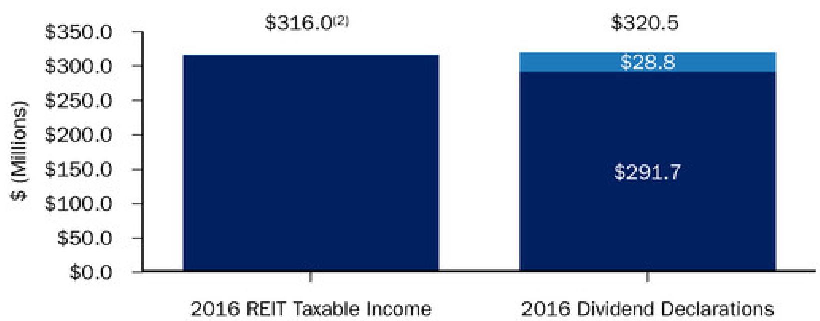
- Net interest income increased quarter-over-quarter
  - Higher average leverage
  - Favorable yields on recently acquired Agency RMBS
  - Slower prepayment expectations on Agency interest-only (IO) positions
  - Increased net interest income on CRE assets
- Other operating expenses increased quarter-over-quarter
  - Expenses incurred in support of portfolio growth

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 18 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Tax Characterization of Dividend

FULL YEAR 2016 DIVIDEND SUMMARY

- Generated REIT taxable income of $316.0 million in 2016
- 2016 dividend declarations totaled $320.5 million, or $0.93 per common share
  - $28.8 million relates to carryover from 2015 REIT taxable income
  - $291.7 million relates to 2016 REIT taxable income, resulting in distribution of 92.3% of REIT taxable income
  - Carrying approximately $24.3 million of ordinary income into 2017, representing approximately $0.07 per share
- Distributions characterized as fully taxable on Form 1099-DIV[(1)]



(1) The U.S. federal income tax treatment of holding Two Harbors common stock to any particular stockholder will depend on the stockholder's particular tax circumstances. You are urged to consult your tax advisor regarding the U.S. federal, state, local and foreign income and other tax consequences to you, in light of your particular investment or tax circumstances, of acquiring, holding and disposing of Two Harbors common stock. Two Harbors does not provide tax, accounting or legal advice. Any tax statements contained herein were not intended or written to be used, and cannot be used for the purpose of avoiding U.S., federal, state or local tax penalties. Please consult your advisor as to any tax, accounting or legal statements made herein.

(2) Excludes net capital loss of $61.2 million generated in 2016 tax year. Capital loss may be utilized in the next five future tax years before expiring.

Diversified Financing Profile

REPURCHASE AGREEMENTS

- Outstanding borrowings of $9.3 billion with 23 active counterparties; 31 total counterparties
- Repo markets functioning efficiently for RMBS

FEDERAL HOME LOAN BANK OF DES MOINES

- Outstanding secured advances of $4.0 billion
- Weighted average borrowing rate of 0.85%

FINANCING FOR MSR

- Outstanding borrowings of $70.0 million under two revolving credit facilities
- Initial terms favorable
  - Advance rate of 60.0%-65.0%
  - Spread over LIBOR of 365-375 basis points

FINANCING FOR COMMERCIAL REAL ESTATE ASSETS

- Outstanding borrowings under repurchase agreements of $392.1 million with three financing facilities
  - Added $195 million facility for bridge financing during the quarter

CONVERTIBLE DEBT ISSUANCE POST-QUARTER END

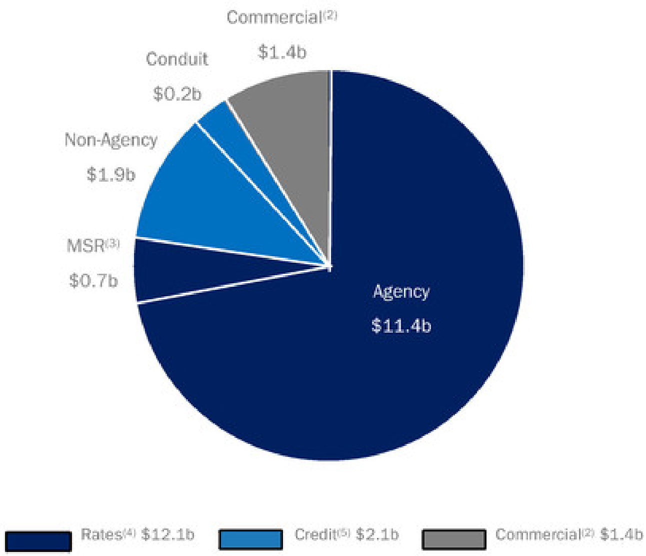
- $287.5 million principal amount of 5-year unsecured senior convertible notes
- Proceeds will be used to acquire target assets and for general corporate purposes

Portfolio Composition

DIVERSIFIED CAPITAL ALLOCATION

PORTFOLIO COMPOSITION(1)

$15.6 BILLION PORTFOLIO AS OF DECEMBER 31, 2016



HISTORICAL CAPITAL ALLOCATION

	December 31, 2014	December 31, 2015	December 31, 2016
Rates(4)	56%	49%	58%
Credit(5)	44%	43%	27%
Commercial(2)	n/a	8%	15%

(1) For additional detail on the portfolio, see Appendix slides 19-26.
(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

DRIVING CONSISTENT AND STABLE RETURNS

Q4-2016 PERFORMANCE SUMMARY

RATES

- Agency spreads widened
- Dramatic increase in interest rates drove slower prepayment speeds late in the quarter

CREDIT

- Mortgage credit spreads tightened
- Strong underlying fundamentals

COMMERCIAL

- Continued strong portfolio performance

PORTFOLIO METRICS

Three Months Ended	September 30, 2016	December 31, 2016
Annualized portfolio yield during the quarter	**3.50%**	**3.54%**
Rates		
Agency RMBS, Agency Derivatives and MSR	2.6%	2.6%
Credit		
Non-Agency RMBS, Legacy[1]	9.1%	9.1%
Non-Agency MBS, New issue[1]	6.1%	6.4%
Net economic interest in securitization trusts	9.3%	12.0%
Residential mortgage loans held-for-sale	4.1%	4.0%
Commercial	6.2%	6.1%
Annualized cost of funds on average repurchase and advance balance during the quarter[2]	**1.08%**	**1.17%**
Annualized interest rate spread for aggregate portfolio during the quarter	**2.42%**	**2.37%**

(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.

Rates Update

MSR INSTRUMENTAL TO BOOK VALUE STABILITY

CONSERVATIVE RISK PROFILE

- Low interest rate exposure
- Utilize a combination of hedging tools
- MSR is a key component of hedging strategy; substantial increase in MSR valuation in fourth quarter

PORTFOLIO SUMMARY

- Agency RMBS holdings of $11.4 billion
  - Repositioned portfolio to better align with current rate environment
- MSR portfolio of $0.7 billion in fair market value
  - Added $10.6 billion UPB of new issue, high quality MSR in the fourth quarter
  - Expect near-term flow MSR volume of approximately $2.0-3.0 billion UPB per month

Credit Update

STRONG TAILWINDS FOR RESIDENTIAL CREDIT DRIVES LONG-TERM OPPORTUNITY

PORTFOLIO SUMMARY

- Legacy non-Agency RMBS holdings of $1.9 billion
- Average market price of $74.53 allows for upside opportunity[1]
- Non-Agency prepayment speeds continued to be strong in 2016
- Continue to release credit reserves

MORTGAGE LOAN CONDUIT WIND DOWN

- Completed wind down of mortgage loan conduit and redeployed capital
- Sold substantially all of remaining prime jumbo loans
- Retained interest in securitization trusts of $234 million at December 31, 2016; represents approximately 2% of capital

(1) Weighted average market price utilized current face for weighting purposes. Please see slide 23 in the Appendix for more information on our non-Agency RMBS portfolio.

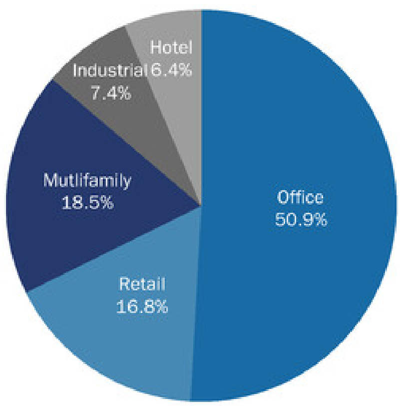
Commercial Real Estate Update

SIGNIFICANT OPPORTUNITY FOR LENDING

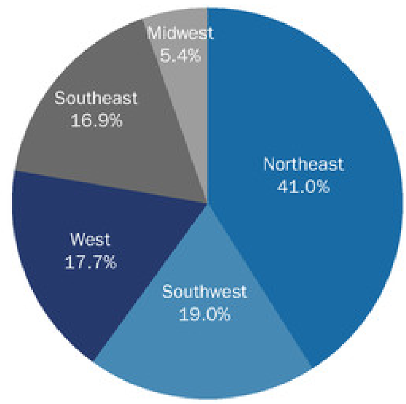
PORTFOLIO SUMMARY

- Aggregate portfolio carrying value of $1.4 billion at December 31, 2016
  - Thirty senior and six mezzanine assets
- Weighted average stabilized loan-to-value (LTV) of 62.4%[1]; weighted average spread of LIBOR plus 474 basis points
- 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
Investment Corp.
A Pine River Capital Managed Company

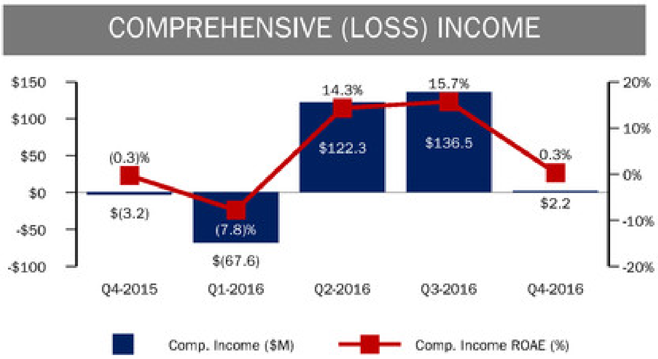
Return on Book Value

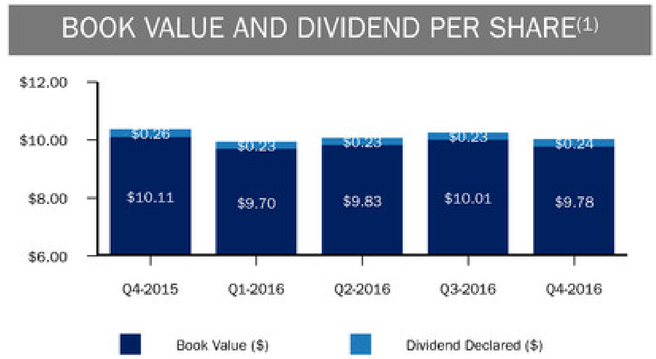
Return on book value Q4-2016 (Per share amounts, except for percentage)	
Book value at September 30, 2016	$10.01
Book value at December 31, 2016	9.78
Decrease in book value	(0.23)
Dividends declared in Q4-2016	0.24
Return on book value Q4-2016	$0.01
Percent return on book value Q4-2016[1]	0.1%

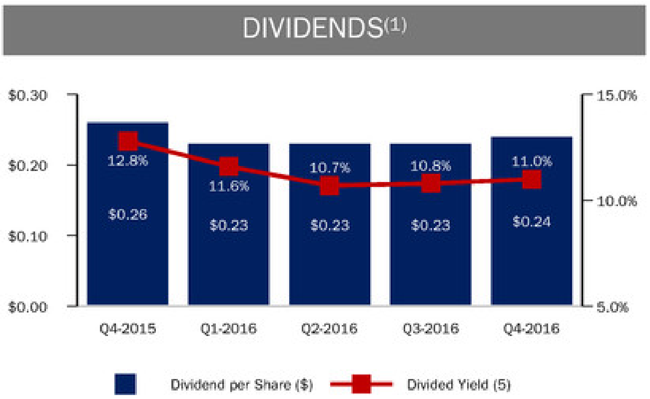
Return on book value FY-2016 (Per share amounts, except for percentage)	
Book value at December 31, 2015	$10.11
Book value at December 31, 2016	9.78
Decrease in book value	(0.33)
Dividends declared FY-2016	0.93
Return on book value FY-2016	$0.60
Percent return on book value YTD-2016[2]	5.9%

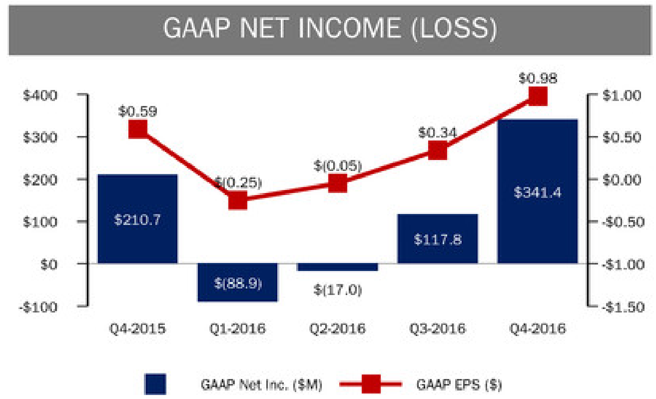
(1) Return on book value for three-month period ended December 31, 2016 is defined as the decrease in book value from September 30, 2016 to December 31, 2016 of $0.23 per share, plus dividends declared of $0.24 per share, divided by September 30, 2016 book value of $10.01 per share.
(2) Return on book value for twelve-month period ended December 31, 2016 is defined as the decrease in book value from December 31, 2015 to December 31, 2016 of $0.33 per share, plus dividends declared of $0.93 per share, divided by December 31, 2015 book value of $10.11 per share.

Financial Performance









(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)	Q3-2016 Core Earnings[1]	Q3-2016 Realized Gains (Losses)	Q3-2016 Unrealized MTM	Q3-2016 Total	Q4-2016 Core Earnings[1]	Q4-2016 Realized Gains (Losses)	Q4-2016 Unrealized MTM	Q4-2016 Total
Interest income	$168.9	$—	$—	$168.9	$179.1	$—	$—	$179.1
Interest expense	60.4	—	—	60.4	66.2	—	—	66.2
Net interest income	108.5	—	—	108.5	112.9	—	—	112.9
Net other-than-temporary impairment losses	—	—	(1.0)	(1.0)	—	—	—	—
Gain (loss) on investment securities	—	31.8	(3.5)	28.3	—	(189.6)	16.1	(173.5)
(Loss) gain on interest rate swaps and swaptions	(4.3)	(95.1)	105.0	5.6	(2.9)	37.6	143.3	178.0
Gain (loss) on other derivative instruments	3.7	(62.5)	46.8	(12.0)	4.1	99.8	39.5	143.4
Gain (loss) on residential mortgage loans held-for-sale	—	4.1	(5.0)	(0.9)	—	0.4	(2.0)	(1.6)
Servicing income	38.7	—	—	38.7	35.0	—	—	35.0
(Loss) gain on servicing asset	(33.3)	(58.2)	58.0	(33.5)	(35.4)	(2.7)	166.0	127.9
Other income (loss)	1.5	(4.1)	8.4	5.8	1.7	(5.6)	(1.1)	(5.0)
Total other income (loss)	6.3	(184.0)	209.7	32.0	2.5	(60.1)	361.8	304.2
Management fees & other operating expenses	34.2	4.3	—	38.5	35.5	1.8	—	37.3
Net income (loss) before income taxes	80.6	(188.3)	208.7	101.0	79.9	(61.9)	361.8	379.8
Income tax (benefit) expense	(1.9)	(62.4)	47.5	(16.8)	(3.5)	(0.4)	42.3	38.4
Net income (loss)	**$82.5**	**($125.9)**	**$161.2**	**$117.8**	**$83.4**	**($61.5)**	**$319.5**	**$341.4**
Weighted average EPS	$0.24	($0.36)	$0.46	$0.34	$0.24	($0.18)	$0.92	$0.98

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 18 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 September 30, 2016	Three Months Ended December 31, 2016
Reconciliation of Comprehensive income to Core Earnings:		
Comprehensive income	**$136,532**	**$2,187**
Adjustment for other comprehensive (income) loss:		
Unrealized (gain) loss on available-for-sale securities	(18,746)	339,216
Net income	**$117,786**	**$341,403**
Adjustments for non-core earnings:		
(Gain) loss on sale of securities and residential mortgage loans, net of tax	(35,628)	158,026
Unrealized loss (gain) on securities and residential mortgage loans held-for-sale, net of tax	6,720	(14,794)
Other-than-temporary impairment loss	1,015	—
Unrealized gains on interest rate swaps and swaptions economically hedging investment portfolio, repurchase agreements and FHLB advances, net of tax	(90,285)	(138,488)
Realized loss (gain) on termination or expiration of swaps and swaptions, net of tax	75,747	(40,793)
Loss (gain) on other derivative instruments, net of tax	11,147	(87,772)
Realized and unrealized (gain) loss on financing securitizations, net of tax	(4,268)	6,661
Realized and unrealized gains on mortgage servicing rights, net of tax	(2,938)	(142,677)
Securitization deal costs, net of tax	1,352	(58)
Change in servicing reserves, net of tax	692	83
Restructuring charges	1,189	1,801
Core Earnings	**$82,529**	**$83,392**
Weighted average shares outstanding	347,627,226	347,643,257
Core Earnings per weighted average share outstanding	$0.24	$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, servicing reserve expenses 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.

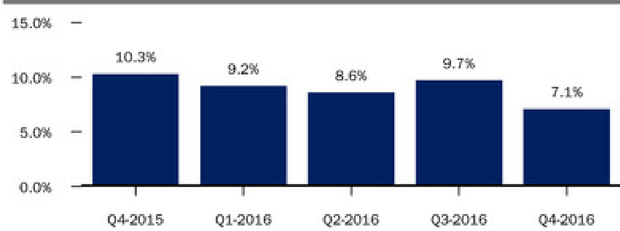
Rates: Agency RMBS Metrics

AGENCY PORTFOLIO YIELDS AND METRICS

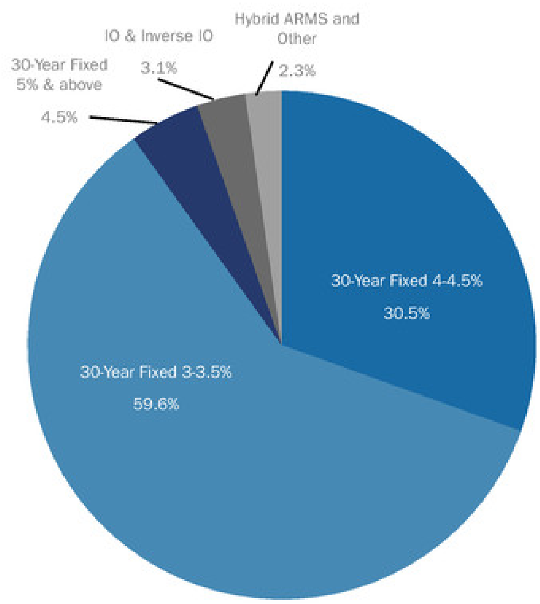
Portfolio Yield	Realized Q3-2016	At September 30, 2016	Realized Q4-2016	At December 31, 2016
Agency yield	2.8%	2.8%	3.0%	3.1%
Repo and FHLB costs	0.8%	0.8%	0.8%	0.9%
Swap costs	0.2%	0.1%	0.1%	0.2%
Net interest spread	1.8%	1.9%	2.1%	2.0%

Portfolio Metrics	Q3-2016	Q4-2016
Weighted average 3-month CPR[1]	9.7%	7.1%
Weighted average cost basis[2]	$105.6	$105.9

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 December 31, 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%	$6,653	$6,762	70.5%	$6,909	3.3%	5
4.0-4.5%	3,238	3,463	100.0%	3,480	4.2%	42
≥ 5.0%	455	512	100.0%	491	5.5%	96
	10,346	10,737	81.4%	10,880	3.7%	21
Hybrid ARMs	28	30	—%	30	4.9%	154
Other	235	230	0.8%	228	4.6%	141
IOs and IIOs	3,703	356 [2]	—%	356	3.3%	79
Total	**$14,312**	**$11,353**	**77.0%**	**$11,494**	**3.7%**	**26**

(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 $229.3 million of IOs and $126.6 million of Agency Derivatives.

Rates: Mortgage Servicing Rights[1]

	As of September 30, 2016	As of December 31, 2016
Fair value ($M)	$455.6	$693.8
Unpaid principal balance ($M)	$55,080.9	$62,828.0
Weighted average coupon	3.9%	3.8%
Original FICO score[2]	757	756
Original LTV	72%	73%
60+ day delinquencies	0.3%	0.3%
Net servicing spread	25.4 basis points	25.3 basis points
Vintage:		
Pre-2009	0.7%	0.5%
2009-2012	28.4%	23.4%
Post 2012	70.9%	76.1%
Percent of MSR portfolio:		
Conventional	99.7%	99.9%
Government FHA	0.3%	0.1%
Government VA/USDA	—%	—%

(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 Q3-2016	At September 30, 2016	Realized Q4-2016	At December 31, 2016
Non-Agency yield	8.7%	8.5%	8.7%	9.3%
Repo and FHLB costs	2.5%	2.5%	2.7%	2.6%
Swap costs	0.2%	0.1%	0.2%	0.2%
Net interest spread	6.0%	5.9%	5.8%	6.5%

NON-AGENCY MBS CPR

NON-AGENCY PORTFOLIO COMPOSITION

Non-Agency: Loan Type	September 30, 2016	December 31, 2016
Sub-prime	67%	71%
Option-ARM	8%	7%
Prime	5%	3%
Alt-A	6%	8%
Other	14%	11%
Portfolio Metrics	**Q3-2016**	**Q4-2016**
Weighted average 3-month CPR	7.3%	6.2%
Weighted average cost basis[1]	$59.1	$57.9

(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 $55.46 at December 31, 2016.

Credit: Non-Agency MBS

As of December 31, 2016	Senior Bonds	Mezzanine Bonds	Total P&I
Portfolio characteristics:			
Carrying value ($M)	$1,210.5	$687.6	$1,898.1
% of non-Agency portfolio	63.8%	36.2%	100.0%
Average purchase price[1]	$53.64	$65.63	$57.86
Average coupon	2.9%	2.2%	2.6%
Weighted average market price[2]	$74.60	$74.42	$74.53
Collateral attributes:			
Average loan age (months)	124	133	126
Average loan size ($K)	$361	$315	$347
Average original Loan-to-Value	70.7%	69.8%	70.4%
Average original FICO[3]	633	584	619
Current performance:			
60+ day delinquencies	24.7%	21.5%	23.8%
Average credit enhancement[4]	9.6%	20.6%	12.8%
3-Month CPR[5]	5.9%	7.0%	6.2%

(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 $50.40, $64.34 and $55.46, 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

$ in millions	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	$119.7	L + 4.20%	5.91%	4	LA	Mixed-Use	65.5%	60.0%
Asset 2	Senior	09/15	105.0	105.0	L + 3.42%	4.76%	3	CA	Retail	70.9%	66.9%
Asset 3	Senior	07/16	93.1	91.7	L + 4.45%	5.89%	4	Multi-state	Office	63.0%	61.5%
Asset 4	Senior	04/16	82.0	81.3	L + 4.75%	6.09%	3	NY	Industrial	55.4%	55.4%
Asset 5	Senior	11/15	77.1	76.9	L + 4.20%	5.80%	3	NY	Mixed-Use	66.4%	68.7%
Asset 6	Senior	10/16	73.0	72.0	L + 4.37%	5.85%	4	NC	Office	72.4%	62.9%
Asset 7	Senior	12/16	62.3	60.4	L + 4.11%	6.76%	4	FL	Office	73.3%	63.2%
Asset 8	Senior	06/16	50.3	49.8	L + 4.49%	5.95%	4	HI	Retail	76.2%	56.5%
Asset 9	Mezzanine	11/15	48.2	48.3	L + 7.25%	7.90%	3	Multi-state	Office	77.6%	77.5%
Asset 10	Mezzanine	03/15	45.9	45.9	L + 6.75%	8.14%	2	Multi-state	Hotel	70.3%	63.5%
Asset 11	Senior	12/15	43.5	43.5	L + 4.05%	5.61%	3	TX	Multifamily	81.2%	76.8%
Asset 12	Senior	04/16	43.5	42.9	L + 4.40%	6.11%	3	NY	Office	66.9%	62.1%
Asset 13	Senior	12/15	43.2	43.2	L + 4.65%	6.43%	4	PA	Office	74.5%	67.5%
Asset 14	Senior	02/16	41.8	41.5	L + 4.30%	5.63%	3	TX	Office	72.9%	70.4%
Asset 15	Senior	08/16	39.6	38.9	L + 4.95%	6.45%	4	NJ	Office	61.0%	63.0%
Assets 16-36	Various	Various	455.9	451.5	L + 5.18%	6.83%	4	Various	Various	73.6%	58.6%
Total/Weighted Average			**$ 1,424.4**	**$ 1,412.5**	**L + 4.74%**	**6.32%**	**4**			**70.3%**	**62.4%**

(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.

Financing

$ in millions

Oustanding Borrowings and Maturities[1]	Repurchase Agreements	FHLB Advances	Revolving Credit Facilities	Total Outstanding Borrowings	Percent (%)
Within 30 days	$ 3,253.1	$ 33.7	$ —	$ 3,286.8	24.6%
30 to 59 days	2,218.5	157.5	—	2,376.0	17.7%
60 to 89 days	1,128.4	237.0	—	1,365.4	10.2%
90 to 119 days	1,444.1	60.0	—	1,504.1	11.2%
120 to 364 days	1,086.7	163.0	70.0	1,319.7	9.9%
One to three years	185.6	815.0	—	1,000.6	7.5%
Ten years and over[2]	—	2,533.8	—	2,533.8	18.9%
	$ 9,316.4	$ 4,000.0	$ 70.0	$ 13,386.4	100.0%

Collateral Pledged for Borrowings[3]	Repurchase Agreements	FHLB Advances	Revolving Credit Facilities[4]	Total Collateral Pledged	Percent (%)
Available-for-sale securities, at fair value	$ 9,540.8	$ 3,576.5	$ —	$ 13,117.3	87.5%
Derivative asset, at fair value	126.3	—	—	126.3	0.8%
Commercial real estate assets	648.9	709.0	—	1,357.9	9.1%
Mortgage servicing rights, at fair value	—	—	180.9	180.9	1.2%
Net economic interests in consolidated securitization trusts	211.1	2.0	—	213.1	1.4%
	$ 10,527.1	$ 4,287.5	$ 180.9	$ 14,995.5	100.0%

(1) Weighted average of 3.8 years to maturity.
(2) Includes FHLB advances of $2.5 billion with original maturities of 20 years.
(3) Excludes FHLB membership and activity stock totaling $167.9 million.
(4) MSR over-collateralized due to operational considerations.

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				
2017	$2.4	0.765%	0.934%	0.6
2018	1.3	1.002%	0.860%	1.6
2019	0.4	1.283%	0.895%	2.4
2020	1.1	1.463%	0.930%	3.8
2021 and after	4.9	1.897%	0.946%	6.6
	$10.1	1.405%	0.927%	3.9
Other Payers				
2018	$4.0	1.307%	0.973%	1.6
2020	0.3	1.545%	0.881%	3.6
2021 and after	0.9	2.378%	0.997%	4.2
	$5.2	1.504%	0.972%	2.2

Maturities	Notional Amounts ($B)	Average Pay Rate	Average Fixed Receive Rate	Average Maturity (Years)
Other Receivers				
2018	$0.6	0.911%	1.440%	1.9
2019	0.5	0.882%	1.042%	2.1
2020	0.5	0.881%	1.580%	3.6
2021 and after	3.5	0.963%	2.137%	5.5
	$5.1	0.941%	1.894%	4.6

(1) Notional amount includes $777.1 million in forward starting interest rate swaps as of December 31, 2016.
(2) Weighted averages exclude forward starting interest rate swaps. As of December 31, 2016, the weighted average fixed pay rate on interest rate swaps starting in 2017 was 2.0%.

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	$29.4	$21.2	0.7	$2,500	2.56%	3M LIBOR	4.8
Payer	≥6 Months	13.6	0.8	6.7	300	3.50%	3M LIBOR	10.0
Total Payer		$43.0	$22.0	0.7	$2,800	2.66%	3M LIBOR	5.4
Receiver	<6 Months	$—	$20.9	2.0	$2,000	3M LIBOR	1.40%	4.8
Total Receiver		$—	$20.9	2.0	$2,000	3M LIBOR	1.40%	4.8
Sale Contracts:								
Payer	<6 Months	($51.3)	($1.4)	5.7	($2,230)	1.51%	3M LIBOR	4.6
Payer	≥6 Months	(29.9)	(1.0)	6.8	(300)	3.50%	3M LIBOR	10.0
Total Payer		($81.2)	($2.4)	6.0	($2,530)	1.74%	3M LIBOR	5.2
Receiver	<6 Months	$—	($2.3)	2.3	($2,045)	3M LIBOR	1.38%	6.6
Total Receiver		$—	($2.3)	2.3	($2,045)	3M LIBOR	1.38%	6.6


TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company