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

FORM 8-K

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

Date of Report: May 6, 2020

Two Harbors Investment Corp.
(Exact name of registrant as specified in its charter)

Maryland	**001-34506**	**27-0312904**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)
575 Lexington Avenue, Suite 2930	**New York, NY**	**10022**
(Address of Principal Executive Offices)		(Zip Code)

(612) 629-2500
Registrant's telephone number, including area code

(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 (see General Instruction A.2. below):

☐ 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))

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class:	Trading Symbol(s)	Name of Exchange on Which Registered:
Common Stock, par value $0.01 per share	TWO	New York Stock Exchange
8.125% Series A Cumulative Redeemable Preferred Stock	TWO PRA	New York Stock Exchange
7.625% Series B Cumulative Redeemable Preferred Stock	TWO PRB	New York Stock Exchange
7.25% Series C Cumulative Redeemable Preferred Stock	TWO PRC	New York Stock Exchange
7.75% Series D Cumulative Redeemable Preferred Stock	TWO PRD	New York Stock Exchange
7.50% Series E Cumulative Redeemable Preferred Stock	TWO PRE	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

☐

Item 2.02 Results of Operations and Financial Condition.

On May 6, 2020, Two Harbors Investment Corp. (the "Company") issued a press release announcing its financial results for the fiscal quarter ended March 31, 2020. A copy of the press release and the 2020 First Quarter Earnings Call Presentation are attached hereto as Exhibits 99.1 and 99.2, respectively, and are incorporated herein by reference.

The information in this Current Report, including Exhibits 99.1 and 99.2 attached hereto, is furnished pursuant to Item 2.02 of Form 8-K and shall not be deemed to be “filed” for any other purpose, including for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in Item 2.02 of this Current Report, including Exhibits 99.1 and 99.2, shall not be deemed incorporated by reference into any filing of the registrant under the Securities Act of 1933 or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filings (unless the registrant specifically states that the information or exhibit in this Item 2.02 is incorporated by reference).

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Press Release of Two Harbors Investment Corp., dated May 6, 2020.
99.2	2020 First Quarter Earnings Call Presentation.
104	Cover Page Interactive Data File, formatted in Inline XBRL.

SIGNATURES

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

TWO HARBORS INVESTMENT CORP.

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

Date: May 6, 2020

TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

Two Harbors Investment Corp. Reports First Quarter 2020 Financial Results

Took Decisive Action in Unprecedented Market Conditions Stemming from COVID-19 Pandemic

NEW YORK, May 6, 2020 - Two Harbors Investment Corp. (NYSE: TWO), a leading mortgage real estate investment trust (REIT) that invests in residential mortgage-backed securities (RMBS), mortgage servicing rights (MSR) and other financial assets, today announced its financial results for the quarter ended March 31, 2020.

Quarterly Summary

- Experienced unprecedented market conditions stemming from the global COVID-19 pandemic. As a result, we took decisive action to reduce portfolio risk and amass a strong defensive liquidity position.
- Sold substantially all of our non-Agency securities, eliminating the risk of continued outsized margin calls and ongoing funding concerns associated with the significant spread widening on these assets.
- Focused on the safety and well-being of our people by implementing mandatory work-from-home measures across all three of our offices.
- Reported book value of $6.96 per common share.
- Incurred a Comprehensive Loss of $(2.1) billion, or $(7.63) per weighted average basic common share, representing an annualized return on average common equity of (225.2)%.
- Reported Core Earnings of $67.6 million, or $0.25 per weighted average basic common share.(1)

Post Quarter-End Business Update

- Announced non-renewal of management agreement and transition to self-management effective September 19, 2020. Expect benefits to stockholders to include: (1) substantial annual cost savings of approximately $42 million or $0.15 per common share; (2) further alignment of interests of management and stockholders; (3) enhanced returns on any future capital growth; and (4) potential for attracting new institutional investors.
- In advanced discussions with two major banks regarding servicing advance facilities, which are expected to be finalized in the next 30-60 days, subject to customary closing conditions and GSE approvals.
- Paid interim dividend of $0.05 per common share and all first quarter preferred dividends; will continue to evaluate our quarterly dividends based on evolving market conditions.

"The global COVID-19 health pandemic led to unprecedented market conditions in the first quarter. As a result, we focused on raising our excess liquidity and de-risking our portfolio," stated Thomas Siering, Two Harbors' President and Chief Executive Officer. "During the quarter, we made every margin call and at March 31st had a strong liquidity position with $1.2 billion in unrestricted cash. Going forward, while we can't predict how this global pandemic will play out, we are making every effort to best position our company for events outside of our control. Despite all of the uncertainty, we believe that we can withstand future volatility and ultimately, on the other side of this crisis, once again drive long-term stockholder value."

(1) Core Earnings is a non-GAAP measure. Please see page 11 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 first quarter of 2020 and fourth quarter of 2019:

Two Harbors Investment Corp. Operating Performance (unaudited)

(dollars in thousands, except per common share data)

	Three Months Ended March 31, 2020			Three Months Ended December 31, 2019		
Earnings attributable to common stockholders	**Earnings**	**Per weighted average basic common share**	**Annualized return on average common equity**	**Earnings**	**Per weighted average basic common share**	**Annualized return on average common equity**
Comprehensive (Loss) Income	$ (2,086,676)	$ (7.63)	(225.2)%	$ 56,850	$ 0.21	5.7%
GAAP Net (Loss) Income	$ (1,888,606)	$ (6.91)	(203.8)%	$ 115,804	$ 0.42	11.6%
Core Earnings[1]	$ 67,617	$ 0.25	7.3 %	$ 67,671	$ 0.25	6.8%
Operating Metrics						
Dividend per common share	$ —			$ 0.40		
Annualized dividend yield[2]	—%			10.9%		
Book value per common share at period end	$ 6.96			$ 14.54		
Return on book value[3]	(52.1%)			1.5%		
Other operating expenses, excluding non-cash LTIP amortization[4]	$ 13,482			$ 11,719		
Other operating expenses, excluding non-cash LTIP amortization, as a percentage of average equity[4]	1.1%			0.9%		

(1) Please see page 11 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.
(2) Dividend yield is calculated based on annualizing the dividends declared in the given period, divided by the closing share price as of the end of the period.
(3) Return on book value is defined as the increase (decrease) in book value per common share from the beginning to the end of the given period, plus dividends declared in the period, divided by the book value as of the beginning of the period.
(4) Excludes non-cash equity compensation expense of $2.3 million for the first quarter of 2020 and $2.4 million for the fourth quarter of 2019.

"In March, the COVID-19 pandemic had a swift and dramatic effect on volatility, leading to unprecedented spread widening across many asset classes," stated Matt Koeppen, Two Harbors' Co-Chief Investment Officer. "In response to this crisis, we de-levered, reduced risk and raised excess cash. We sold Agency RMBS, both specified pools and TBAs. We also sold substantially all of our non-Agency portfolio, eliminating the risks of continued outsized margin calls and ongoing funding concerns associated with the significant spread widening on these assets. As a result of these decisive actions, we are strongly positioned from a liquidity perspective to manage upcoming cash requirements."

"Looking forward, and notwithstanding near-term challenges, we currently believe that the opportunity set in our target assets of Agency RMBS paired with MSR is very attractive," continued Bill Greenberg, Two Harbors' Co-Chief Investment Officer. "The MSR asset is where were are seeing the most interesting opportunities. We estimate that newly originated MSR returns on a forward basis are 25% or higher, when paired with Agency RMBS. We believe that given the maturity of our MSR business, we are uniquely positioned to take advantage of that attractive opportunity on an ongoing basis."

As a result of the global COVID-19 pandemic, the company experienced unprecedented market conditions during quarter ended March 31, 2020, including unusually significant spread widening in both Agency RMBS and non-Agency securities. In response, the company focused its efforts on raising excess liquidity and de-risking its portfolio. On March 25, 2020, the company sold substantially all of its non-Agency securities in order to eliminate the risks posed by continued outsized margin calls and ongoing funding concerns associated with the significant spread widening on these assets. The company also sold approximately one-third of its Agency RMBS in order to reduce risk and raise cash to establish a strong defensive liquidity position to weather potential ongoing economic and market instability.

Portfolio Summary

The company's portfolio is comprised of $19.3 billion of Agency RMBS, Agency Derivatives and MSR as well as their associated notional hedges as of March 31, 2020. Additionally, the company held $1.9 billion bond equivalent value of net long to-be-announced securities (TBAs).

The following tables summarize the company's investment portfolio as of March 31, 2020 and December 31, 2019:

Two Harbors Investment Corp. Portfolio

(dollars in thousands)

Portfolio Composition	As of March 31, 2020		As of December 31, 2019	
	(unaudited)		(unaudited)	
Rates Strategy				
Agency				
Fixed Rate	$ 17,692,839	91.6%	$ 27,763,471	83.2%
Other Agency[1]	87,096	0.5%	83,509	0.2%
Total Agency	17,779,935	92.1%	27,846,980	83.4%
Mortgage servicing rights	1,505,163	7.8%	1,909,444	5.7%
Credit Strategy				
Non-Agency				
Senior	2,593	—%	3,073,098	9.2%
Mezzanine	—	—%	480,765	1.5%
Other	23,807	0.1%	74,410	0.2%
Total Non-Agency	26,400	0.1%	3,628,273	10.9%
Aggregate Portfolio	19,311,498		33,384,697	
Net TBA position[2]	1,846,871		7,656,187	
Total Portfolio	$ 21,158,369		$ 41,040,884	

Portfolio Metrics	Three Months Ended March 31, 2020	Three Months Ended December 31, 2019
	(unaudited)	(unaudited)
Annualized portfolio yield during the quarter[3]	3.52%	3.54%
Rates Strategy		
Agency RMBS, Agency Derivatives and mortgage servicing rights	3.18%	3.20%
Credit Strategy		
Non-Agency securities	6.76%	6.29%
Annualized cost of funds on average borrowing balance during the quarter[4]	2.39%	2.35%
Annualized net yield for aggregate portfolio during the quarter	1.13%	1.19%

(1) Other Agency includes hybrid ARMs and Agency derivatives.
(2) Represents bond equivalent value of TBA position. Bond equivalent value is defined as notional amount multiplied by market price. Accounted for as derivative instruments in accordance with GAAP.
(3) Includes interest income on RMBS and servicing income net of servicing expenses and amortization on MSR.
(4) Cost of funds includes interest spread income/expense associated with the portfolio's interest rate swaps.

Portfolio Metrics Specific to RMBS and Agency Derivatives	As of March 31, 2020	As of December 31, 2019
	(unaudited)	(unaudited)
Weighted average cost basis of Agency principal and interest securities[5]	$ 104.97	$ 103.96
Weighted average three month CPR on Agency RMBS	12.3%	14.3%
Fixed-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	99.4%	89.1%
Adjustable-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	0.6%	10.9%

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

Portfolio Metrics Specific to MSR[1]	As of March 31, 2020	As of December 31, 2019
(dollars in thousands)	(unaudited)	(unaudited)
Unpaid principal balance	$ 179,714,087	$ 175,882,142
Fair market value	$ 1,505,163	$ 1,909,444
Gross weighted average coupon	4.1%	4.1%
Weighted average original FICO score[2]	754	754
Weighted average original LTV	75%	75%
60+ day delinquencies	0.3%	0.3%
Net servicing spread	27.3 basis points	27.0 basis points

	Three Months Ended March 31, 2020	Three Months Ended December 31, 2019
	(unaudited)	(unaudited)
Fair value losses	$ (586,665)	$ (21,739)
Servicing income	$ 130,797	$ 127,690
Servicing expenses	$ 19,624	$ 20,149
Change in servicing reserves	$ 232	$ 72

Note: The company does not directly service mortgage loans, but instead contracts with appropriately licensed subservicers to handle substantially all servicing functions in the name of the subservicer for the loans underlying the company's MSR.

(1) Metrics exclude residential mortgage loans in securitization trusts for which the company is the named servicing administrator.

(2) FICO represents a mortgage industry accepted credit score of a borrower.

Other Investments and Risk Management Metrics	As of March 31, 2020	As of December 31, 2019
(dollars in thousands)	(unaudited)	(unaudited)
Net long TBA notional amount[3]	$ 1,761,000	$ 7,427,000
Interest rate swaps notional, utilized to economically hedge interest rate exposure (or duration)	$ 56,158,068	$ 39,702,470
Swaptions net notional, utilized as macroeconomic hedges	1,376,000	1,257,000
Total interest rate swaps and swaptions notional	$ 57,534,068	$ 40,959,470

(3) Accounted for as derivative instruments in accordance with GAAP.

Financing Summary

The following tables summarize the company's financing metrics and outstanding repurchase agreements, FHLB advances, revolving credit facilities, term notes and convertible senior notes as of March 31, 2020 and December 31, 2019:

March 31, 2020	Balance	Weighted Average Borrowing Rate	Weighted Average Months to Maturity	Number of Distinct Counterparties
(dollars in thousands, unaudited)				
Repurchase agreements collateralized by RMBS	$ 17,795,516	1.86%	1.76	
Repurchase agreements collateralized by MSR	—	—%	—	
Total repurchase agreements	17,795,516	1.86%	1.76	22
FHLB advances collateralized by RMBS[4]	50,000	2.39%	174.64	1
Revolving credit facilities collateralized by MSR	252,143	3.49%	11.53	1
Term notes payable collateralized by MSR	394,772	3.72%	50.86	n/a
Unsecured convertible senior notes	285,238	6.25%	21.53	n/a
Total borrowings	$ 18,777,669			

(4) 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. On April 15, 2020, we received notification from the FHLB that TH Insurance's credit limit for new advances had been reduced to zero pending the FHLB's review of our updated financial information as of March 31, 2020.

December 31, 2019	Balance	Weighted Average Borrowing Rate	Weighted Average Months to Maturity	Number of Distinct Counterparties
(dollars in thousands, unaudited)				
Repurchase agreements collateralized by RMBS	$ 28,884,848	2.12%	2.44	
Repurchase agreements collateralized by MSR	262,615	3.51%	11.05	
Total repurchase agreements	29,147,463	2.14%	2.52	24
FHLB advances collateralized by RMBS[1]	210,000	2.00%	42.56	1
Revolving credit facilities collateralized by MSR	300,000	4.26%	14.37	1
Term notes payable collateralized by MSR	394,502	4.59%	53.85	n/a
Unsecured convertible senior notes	284,954	6.25%	24.53	n/a
Total borrowings	$ 30,336,919			

(1) 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. On April 15, 2020, we received notification from the FHLB that TH Insurance's credit limit for new advances had been reduced to zero pending the FHLB's review of our updated financial information as of March 31, 2020.

Borrowings by Collateral Type	As of March 31, 2020	As of December 31, 2019
(dollars in thousands)	(unaudited)	(unaudited)
Collateral type:		
Agency RMBS and Agency Derivatives	$ 17,837,978	$ 27,563,240
Mortgage servicing rights	646,915	957,117
Non-Agency securities	7,538	1,531,608
Other[2]	285,238	284,954
Total/Annualized cost of funds on average borrowings during the quarter	$ 18,777,669	$ 30,336,919
Debt-to-equity ratio at period-end[3]	6.5:1.0	6.1:1.0
Economic debt-to-equity ratio at period-end[4]	7.0:1.0	7.5:1.0

Cost of Funds Metrics	Three Months Ended March 31, 2020	Three Months Ended December 31, 2019
	(unaudited)	(unaudited)
Annualized cost of funds on average borrowings during the quarter:	2.2%	2.4%
Agency RMBS and Agency Derivatives	2.0%	2.2%
Mortgage servicing rights[5]	4.7%	5.0%
Non-Agency securities	3.0%	3.0%
Other[2][5]	6.7%	6.8%

(2) Includes unsecured convertible senior notes.
(3) Defined as total borrowings to fund RMBS, MSR and Agency Derivatives, divided by total equity.
(4) Defined as total borrowings to fund RMBS, MSR and Agency Derivatives, plus the implied debt on net TBA positions, divided by total equity.
(5) Includes amortization of debt issuance costs.

Conference Call

Two Harbors Investment Corp. will host a conference call on May 7, 2020 at 9:00 a.m. EDT to discuss first quarter 2020 financial results and related information. To participate in the teleconference, please call toll-free (866) 548-4713, conference code 6869956, 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 May 7, 2020, through 12:00 a.m. EDT on June 6, 2020. The playback can be accessed by calling (888) 203-1112 , conference code 6869956. 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 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, 2019, 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; the ongoing impact of the COVID-19 pandemic, and the actions taken by federal and state authorities and GSEs response, on the U.S. economy, financial markets and our target assets; 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 decision not to renew our management agreement with PRCM Advisers LLC and our ability to successfully transition to a self-managed company; 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 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; 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 basic common share that exclude certain items. The non-GAAP financial measures presented by the company provide supplemental information to assist investors in analyzing the company's results of operations and help facilitate comparisons to industry peers. However, because these measures are not calculated in accordance with GAAP, they should not be considered a substitute for, or superior to, the financial measures calculated in accordance with GAAP. The company's GAAP financial results and the reconciliations from these results should be carefully evaluated. See the GAAP to non-GAAP reconciliation table on page 12 of this release.

Additional Information

Stockholders of Two Harbors and other interested persons may find additional information regarding the company at the SEC's Internet site at www.sec.gov or by directing requests to: Two Harbors Investment Corp., Attn: Investor Relations, 575 Lexington Avenue, Suite 2930, New York, NY 10022, telephone (612) 629-2500.

Contact

Margaret Karr, Investor Relations, Two Harbors Investment Corp., (212) 364-3663 or
margaret.field@twoharborsinvestment.com

# # #

TWO HARBORS INVESTMENT CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	March 31, 2020	December 31, 2019
	(unaudited)	
ASSETS		
Available-for-sale securities, at fair value (amortized cost $17,279,572; allowance for credit losses $41,390)	$ 17,733,059	$ 31,406,328
Mortgage servicing rights, at fair value	1,505,163	1,909,444
Cash and cash equivalents	1,206,889	558,136
Restricted cash	680,395	1,058,690
Accrued interest receivable	57,854	92,634
Due from counterparties	581,355	318,963
Derivative assets, at fair value	117,368	188,051
Reverse repurchase agreements	147,651	220,000
Other assets	172,914	169,376
Total Assets	$ 22,202,648	$ 35,921,622
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Repurchase agreements	$ 17,795,516	$ 29,147,463
Federal Home Loan Bank advances	50,000	210,000
Revolving credit facilities	252,143	300,000
Term notes payable	394,772	394,502
Convertible senior notes	285,238	284,954
Derivative liabilities, at fair value	176,156	6,740
Due to counterparties	200,729	259,447
Dividends payable	—	128,125
Accrued interest payable	79,543	149,626
Other liabilities	64,418	70,299
Total Liabilities	19,298,515	30,951,156
Stockholders' Equity		
Preferred stock, par value $0.01 per share; 50,000,000 shares authorized and 40,050,000 and 40,050,000 shares issued and outstanding, respectively ($1,001,250 and $1,001,250 liquidation preference, respectively)	977,501	977,501
Common stock, par value $0.01 per share; 450,000,000 shares authorized and 273,528,243 and 272,935,731 shares issued and outstanding, respectively	2,735	2,729
Additional paid-in capital	5,156,151	5,154,764
Accumulated other comprehensive income	491,330	689,400
Cumulative earnings	786,235	2,655,891
Cumulative distributions to stockholders	(4,509,819)	(4,509,819)
Total Stockholders' Equity	2,904,133	4,970,466
Total Liabilities and Stockholders' Equity	$ 22,202,648	$ 35,921,622

TWO HARBORS INVESTMENT CORP.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(dollars in thousands)

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(unaudited)	
Interest income:		
Available-for-sale securities	$ 248,684	$ 235,886
Other	6,823	9,597
Total interest income	255,507	245,483
Interest expense:		
Repurchase agreements	152,605	147,560
Federal Home Loan Bank advances	1,592	6,074
Revolving credit facilities	3,531	5,156
Term notes payable	4,804	—
Convertible senior notes	4,776	4,735
Total interest expense	167,308	163,525
Net interest income	88,199	81,958
Other-than-temporary impairment losses	—	(206)
Other income (loss):		
Loss on investment securities	(1,081,607)	(19,292)
Servicing income	130,797	116,948
Loss on servicing asset	(586,665)	(188,974)
Loss on interest rate swap, cap and swaption agreements	(250,596)	(83,259)
(Loss) gain on other derivative instruments	(133,468)	104,278
Other income	798	123
Total other loss	(1,920,741)	(70,176)
Expenses:		
Management fees	14,550	12,082
Servicing expenses	19,905	19,912
Other operating expenses	15,797	15,556
Total expenses	50,252	47,550
Loss before income taxes	(1,882,794)	(35,974)
Benefit from income taxes	(13,138)	(10,039)
Net loss	(1,869,656)	(25,935)
Dividends on preferred stock	18,950	18,950
Net loss attributable to common stockholders	$ (1,888,606)	$ (44,885)
Basic loss per weighted average common share	$ (6.91)	$ (0.18)
Diluted loss per weighted average common share	$ (6.91)	$ (0.18)
Dividends declared per common share	$ —	$ 0.47
Weighted average number of shares of common stock:		
Basic	273,392,615	252,357,878
Diluted	273,392,615	252,357,878

TWO HARBORS INVESTMENT CORP.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME, CONTINUED

(dollars in thousands)

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

	Three Months Ended March 31,	
	2020	**2019**
	(unaudited)	
Comprehensive (loss) income:		
Net loss	$ (1,869,656)	$ (25,935)
Other comprehensive (loss) income, net of tax:		
Unrealized (loss) gain on available-for-sale securities	(198,070)	356,152
Other comprehensive (loss) income	(198,070)	356,152
Comprehensive (loss) income	(2,067,726)	330,217
Dividends on preferred stock	18,950	18,950
Comprehensive (loss) income attributable to common stockholders	$ (2,086,676)	$ 311,267

TWO HARBORS INVESTMENT CORP.

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION

(dollars in thousands, except share data)

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

	Three Months Ended March 31, 2020	Three Months Ended December 31, 2019
	(unaudited)	(unaudited)
Reconciliation of Comprehensive (loss) income to Core Earnings:		
Comprehensive (loss) income attributable to common stockholders	$ (2,086,676)	$ 56,850
Adjustment for other comprehensive loss attributable to common stockholders:		
Unrealized loss on available-for-sale securities	198,070	58,954
Net (loss) income attributable to common stockholders	$ (1,888,606)	$ 115,804
Adjustments for non-Core Earnings:		
Other-than-temporary impairments and loss recovery adjustments	—	2,198
Realized loss (gain) on securities	1,035,038	(27,615)
Unrealized loss (gain) on securities	931	(526)
Provision for credit losses	45,638	—
Realized and unrealized loss (gain) on mortgage servicing rights	511,059	(51,387)
Realized (gain) loss on termination or expiration of swaps and swaptions	(361,853)	1,495
Unrealized losses on interest rate swaps and swaptions	599,834	10,148
Losses on other derivative instruments	138,819	19,833
Other (income) loss	(735)	73
Change in servicing reserves	232	72
Non-cash equity compensation expense	2,315	2,423
Other nonrecurring expenses	719	—
Net benefit from income taxes on non-Core Earnings	(15,774)	(4,847)
Core Earnings attributable to common stockholders[(1)]	$ 67,617	$ 67,671
Weighted average basic common shares	273,392,615	272,906,815
Core Earnings attributable to common stockholders per weighted average basic common share	$ 0.25	$ 0.25

(1) Core Earnings is a non-U.S. GAAP measure that we define as comprehensive (loss) income attributable to common stockholders, excluding “realized and unrealized gains and losses” (impairment losses, provision for credit losses, realized and unrealized gains and losses on the aggregate portfolio, reserve expense for representation and warranty obligations on MSR, non-cash compensation expense related to restricted common stock and other nonrecurring expenses). As defined, Core Earnings includes net interest income, accrual and settlement of interest on derivatives, dollar roll income on TBAs, servicing income, net of estimated amortization on MSR, management fees and recurring cash related operating expenses. Dollar roll income is the economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements. Core Earnings provides supplemental information to assist investors in analyzing the Company’s results of operations and helps facilitate comparisons to industry peers.

TWO HARBORS INVESTMENT CORP.

SUMMARY OF QUARTERLY CORE EARNINGS

(dollars in millions, except per share data)

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

	Three Months Ended				
	March 31, 2020	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**
	(unaudited)				
Net Interest Income:					
Interest income	$ 255.5	$ 237.3	$ 251.1	$ 269.1	$ 245.5
Interest expense	167.3	167.3	191.1	192.4	163.5
Net interest income	88.2	70.0	60.0	76.7	82.0
Other income:					
Servicing income, net of amortization(1)	55.2	54.6	52.7	52.7	52.5
Interest spread on interest rate swaps	(12.6)	4.8	19.1	22.9	23.7
Gain on other derivative instruments	5.3	9.0	—	16.7	28.7
Other income	0.1	0.1	0.4	0.5	0.5
Total other income	48.0	68.5	72.2	92.8	105.4
Expenses	47.0	49.4	46.2	42.9	45.2
Core Earnings before income taxes	89.2	89.1	86.0	126.6	142.2
Income tax expense	2.6	2.5	2.0	1.6	0.6
Core Earnings	86.6	86.6	84.0	125.0	141.6
Dividends on preferred stock	19.0	18.9	19.0	19.0	18.9
Core Earnings attributable to common stockholders(2)	$ 67.6	$ 67.7	$ 65.0	$ 106.0	$ 122.7
Weighted average basic Core EPS	$ 0.25	$ 0.25	$ 0.24	$ 0.39	$ 0.49
Core earnings return on average common equity	7.3%	6.8%	6.5%	11.1%	14.3%

(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.

(2) Please see page 11 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.


First Quarter 2020
Earnings Call
MAY 7, 2020
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, 2019, 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; the ongoing impact of the COVID-19 pandemic, and the actions taken by federal and state governmental authorities and GSEs in response, on the U.S. economy, financial markets and our target assets; 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 decision not to renew our management agreement with PRCM Advisers LLC and our ability to successfully transition to a self-managed company; 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; 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.

Executive Overview

Took Decisive Action in Unprecedented Market Conditions Stemming from COVID-19 Pandemic

Quarterly Summary

- Experienced unprecedented market conditions stemming from the global COVID-19 pandemic. As a result, we took decisive action to reduce portfolio risk and amass a strong defensive liquidity position.
- Sold substantially all of our non-Agency securities, eliminating the risk of continued outsized margin calls and ongoing funding concerns associated with the significant spread widening on these assets.
- Focused on the safety and well-being of our people by implementing mandatory work-from-home measures across all three of our offices.
- Reported book value of $6.96 per common share.
- Incurred a Comprehensive Loss of $(2.1) billion, or $(7.63) per weighted average basic common share, representing an annualized return on average common equity of (225.2)%.
- Reported Core Earnings of $67.6 million, or $0.25 per weighted average basic common share.[1]

Post Quarter-End Business Update

- Announced non-renewal of management agreement and transition to self-management effective September 19, 2020. Expect benefits to stockholders to include: (1) substantial annual cost savings of approximately $42 million or $0.15 per common share; (2) further alignment of interests of management and stockholders; (3) potential for enhanced returns on future capital growth; and (4) potential for attracting new institutional investors.
- In advanced discussions with two major banks regarding servicing advance facilities, which are expected to be finalized in the next 30-60 days, subject to customary closing conditions and GSE approvals.
- Paid interim dividend of $0.05 per common share and all first quarter preferred dividends; will continue to evaluate our quarterly dividends based on evolving market conditions.

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 24 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Book Value Summary

(Dollars in millions, except per share data)	Q1-2020 Book Value	Q1-2020 Book Value per share
Beginning common stockholders' equity	**$ 3,969.2**	**$ 14.54**
GAAP Net Loss:		
Core Earnings, net of tax[1]	86.6	
Dividend declaration - preferred	(19.0)	
Core Earnings attributable to common stockholders, net of tax[1]	67.6	
Realized and unrealized gains and losses, net of tax	(1,956.2)	
Other comprehensive loss, net of tax	(198.1)	
Preferred stock dividends in arrears	19.0	
Other	2.3	
Repurchases of common stock	(1.1)	
Issuance of common stock, net of offering costs	0.1	
Ending common stockholders' equity	**$ 1,902.8**	**$ 6.96**
Total preferred stock liquidation preference	1,001.3	
Ending total equity	**$ 2,904.1**	

Attribution of Decrease in Book Value	
Realized and unrealized losses on Credit Strategy (non-Agency securities & derivatives)	(71)%
Realized and unrealized losses on Rates Strategy (Agency RMBS, MSR & derivatives)	(33)%
Other	4 %

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 24 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Core Earnings Review(1)

(Dollars in millions, except per share data)		Q4-2019		Q1-2020		Variance ($)
Interest income	$	237.3	$	255.5	$	18.2
Interest expense		167.3		167.3		—
Net interest income		70.0		88.2		18.2
Servicing income, net of amortization on MSR		54.6		55.2		0.6
Gain (loss) on swaps and swaptions		4.8		(12.6)		(17.4)
Gain on other derivatives		9.0		5.3		(3.7)
Other		0.1		0.1		—
Total other income		68.5		48.0		(20.5)
Expenses		49.4		47.0		2.4
Provision for income taxes		2.5		2.6		0.1
Core Earnings(1)		**86.6**		**86.6**		**—**
Dividends on preferred stock		18.9		19.0		(0.1)
Core Earnings attributable to common stockholders(1)	**$**	**67.7**	**$**	**67.6**	**$**	**(0.1)**
Basic weighted average Core EPS	**$**	**0.25**	**$**	**0.25**		
Core Earnings annualized return on average common equity		**6.8%**		**7.3%**		

- First quarter Core Earnings results
  - Favorably driven by:
    - Higher net interest income due to purchase of higher coupon Agency RMBS earlier in the quarter
    - Lower amortization
  - Offset by:
    - Increased interest spread cost on swap positions due to LIBOR resets
    - Lower TBA dollar roll income

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 24 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Performance Summary

- Repo costs improved in the quarter, but this was offset by higher swap costs as 3-month LIBOR rates declined in the quarter
- Expect to see improvement in repo costs as LIBOR has come down post quarter-end

	Realized Q4-2019	Realized Q1-2020
Annualized portfolio yield(1)	**3.54%**	**3.52%**
Rates		
Agency RMBS, Agency Derivatives and MSR	3.20%	3.18%
Credit		
Non-Agency securities	6.29%	6.76%
Annualized cost of funds(2)	**2.35%**	**2.39%**
Annualized net yield for aggregate portfolio	**1.19%**	**1.13%**

(1) Includes interest income on RMBS and servicing income net of servicing expenses and amortization on MSR.
(2) Cost of funds includes interest spread income/expense associated with the portfolio's interest rate swaps and caps.

Financing Profile

ECONOMIC DEBT-TO-EQUITY(1)

- 7.0x at March 31, 2020, compared to 7.5x at December 31, 2019
- Average leverage of 7.4x in the first quarter

DIVERSE FINANCING PROFILE

AGENCY RMBS

- Outstanding repurchase agreements of $17.8 billion with 22 counterparties
- Have not experienced any significant issues accessing the repo markets; active in rolling repo positions in the quarter

MORTGAGE SERVICING RIGHTS

- Outstanding borrowings of $252.1 million under bilateral MSR financing facilities
- $400 million of outstanding 5-year MSR term notes(2)
- Committed total capacity of $450 million under MSR financing alternatives
- In advanced discussions with two major banks on servicing advance facilities

(1) Defined as total borrowings to fund RMBS, MSR and Agency Derivatives, plus the implied debt on net TBA positions, divided by total equity.
(2) Excludes deferred debt issuance costs.

Transition to Self-Management

NON-RENEWAL OF MANAGEMENT AGREEMENT

- Announced election not to renew the management agreement with PRCM Advisers
- Decision was a result of diligent, thorough and extensive months-long process led by the independent directors of our Board
- Expect to pay one-time cash termination fee of approximately $144 million
- Confident that this is the right time to make this change and results in material economic benefits to our stockholders

ANTICIPATED BENEFITS FOR STOCKHOLDERS

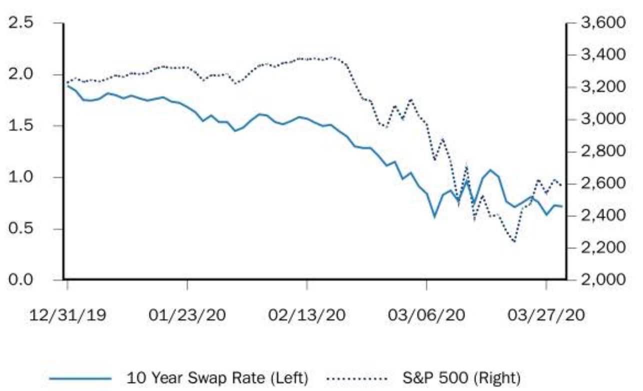
- ✓ Substantial anticipated annual cost savings of approximately $0.15 per common share
- ✓ Potential for enhanced returns on future capital growth
- ✓ Further aligns management with stockholders and reduces conflicts of interest
- ✓ Potential for attracting new institutional investors who disfavor external management structures
- ✓ Expect to continue to be managed by experienced senior management team

Markets Overview - COVID-19 Pandemic

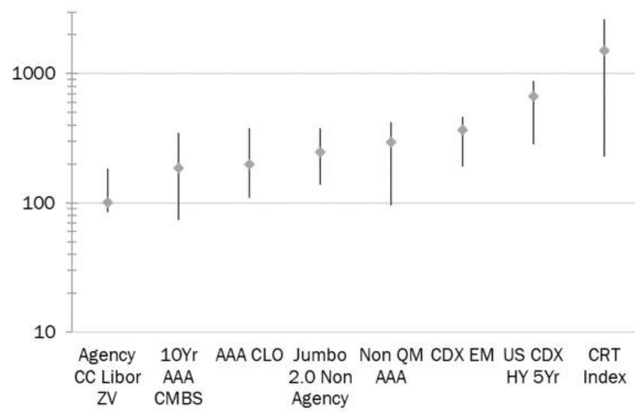
RAPID AND DRAMATIC VOLATILITY RESULTED IN UNPRECEDENTED SPREAD WIDENING

- The COVID-19 pandemic had a swift and dramatic impact on the financial markets in March, causing extreme volatility and unprecedented spread widening across all asset classes
- Interest rates fell roughly 100 basis points (bps); equities, after reaching a high on February 19th, fell 35% before recovering
- Agency RMBS spreads widened as much as 100 bps to 200 bps, depending on coupon, beginning in the second week of March
- Since quarter-end, Agency RMBS have recovered almost completely to pre-crisis levels, whereas most other sectors have retraced some of their widening

Q1-2020 10-YEAR SWAP RATE AND S&P 500 PERFORMANCE(1)



SPREAD WIDENING IMPACT ACROSS ASSET CLASSES(2)



(1) Source: Bloomberg, as of March 31, 2020.
(2) Source: J.P. Morgan data query, as of April 29, 2020.

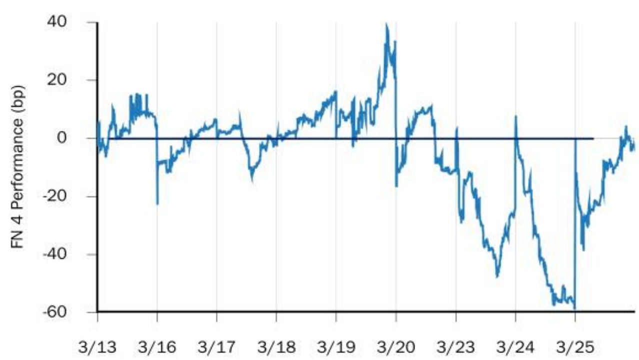
Markets Overview - COVID-19 Pandemic

HISTORIC MBS SPREAD WIDENING

- Current coupon spreads widened a similar amount compared to the 2008 financial crisis, but in a more compressed time period
  - It took 10 days vs. 60 days to reach the wides, and another 10 days vs. 100 days to retrace to the tights
- There were very extreme movements in mortgage spreads, sometimes widening and tightening 50 bps in a single day
- Price volatility was also created by illiquidity in the RMBS market

SPREAD CHANGES IN 2008 VS. MARCH 2020(1)

DAILY SPREAD CHANGES IN MARCH 2020(2)



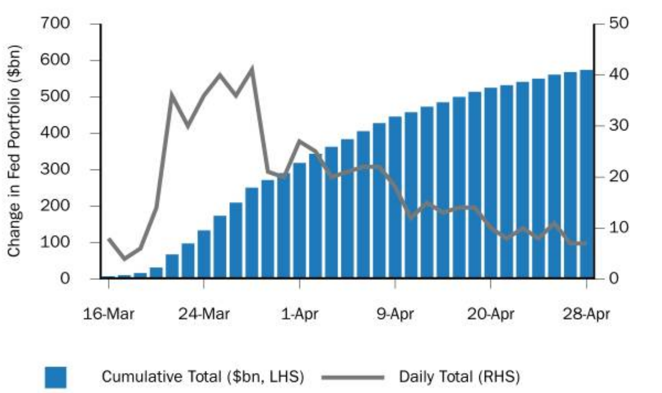
(1) J.P. Morgan's MBS Index, as of April 27, 2020.
(2) Source: Bloomberg, as of April 24, 2020.

Markets Overview - COVID-19 Pandemic

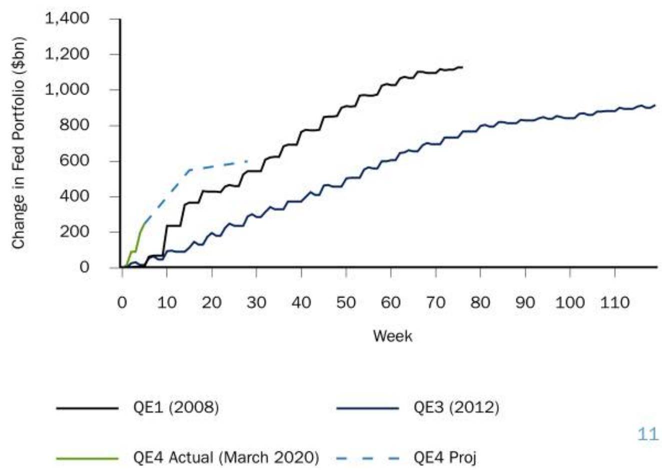
EMERGENCY FED INTERVENTIONS THROUGHOUT MARCH STABILIZED THE MARKETS

- **March 3:** Fed intervened with an emergency 50 basis point cut to try to calm the markets
- **March 15**: The Fed cut rates again to zero. Additionally, the Fed announced that they would begin purchasing $500 billion Treasuries and $200 billion Agency RMBS in an attempt to stabilize those markets
- **March 23**: Fed said that they would buy an unlimited amount of Treasuries and RMBS to stabilize the market; this has become known as QE4
  - To date, the Fed has purchased more than $500 billion of RMBS, and expanded its balance sheet to over $6 trillion

DAILY FED PURCHASES[1]



CHANGE IN FED PORTFOLIO[2]



(1) Source: Citi Research, Federal Reserve, as of April 15, 2020.
(2) Source: Citi Research, Bloomberg, as of April 15, 2020.

Portfolio Composition and Quarterly Activity

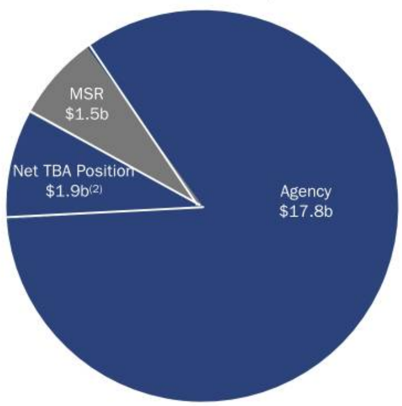
PORTFOLIO ACTIVITY

- Took the following actions in response to the COVID-19 pandemic liquidity crisis:
  - De-levered Agency portfolio by selling approximately $18 billion of specified pools and TBAs
  - Sold substantially all of the non-Agency securities, eliminating risk of continued outsized margin calls and ongoing funding concerns

Q1-2020 PORTFOLIO COMPOSITION(1)

$21.2b PORTFOLIO AS OF MARCH 31, 2020

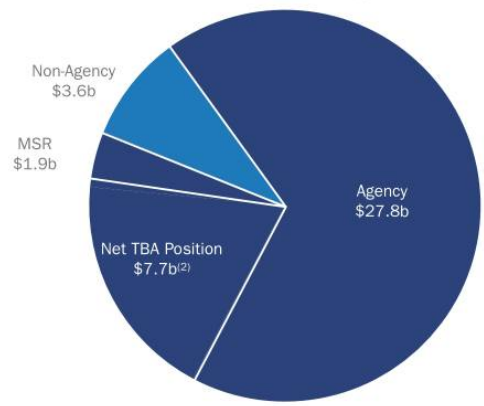
Includes $19.3b settled positions



Q4-2019 PORTFOLIO COMPOSITION

$41.0b PORTFOLIO AS OF DECEMBER 31, 2019

Includes $33.4b settled positions



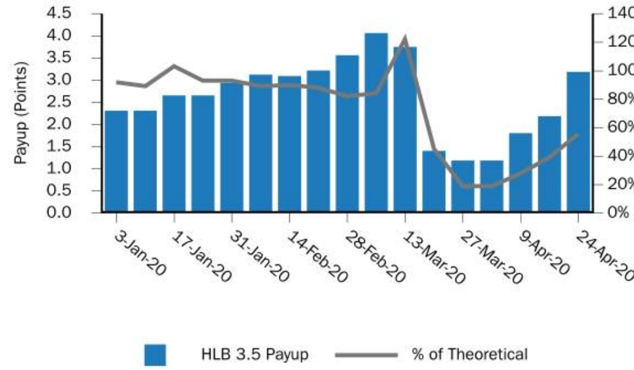
(1) For additional detail on the portfolio, see Appendix slides 25-27.
(2) Represents bond equivalent value of TBA position. Bond equivalent value is defined as notional amount multiplied by market price. Accounted for as derivative instruments in accordance with GAAP.

Specified Pools

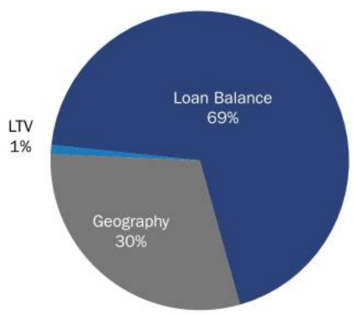
SPECIFIED POOL QUARTERLY CHANGES

- Despite falling rates and theoretically more valuable protection, specified pool payups fell precipitously during the quarter, at times trading below TBA levels
- During the quarter we sold $7.0 billion of TBAs
- We also sold $13.4 billion of low payup 3's through 4.5's
- Specified pools significantly recovered in April

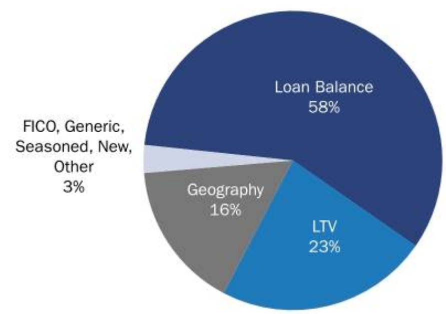
EXAMPLE OF HIGH LOAN BALANCE 3.5(1)



SPECIFIED POOL PORTFOLIO COMPOSITION 3/31/2020



SPECIFIED POOL PORTFOLIO COMPOSITION 12/31/2019



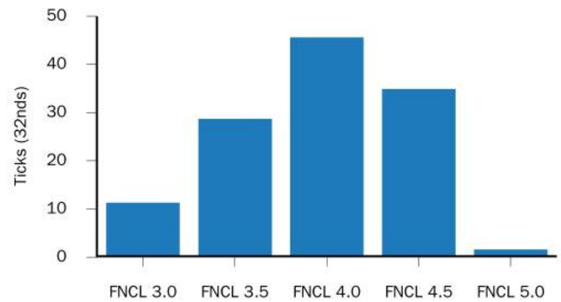
(1) J.P. Morgan data query, as of April 27, 2020.

Coupon Positioning & Performance

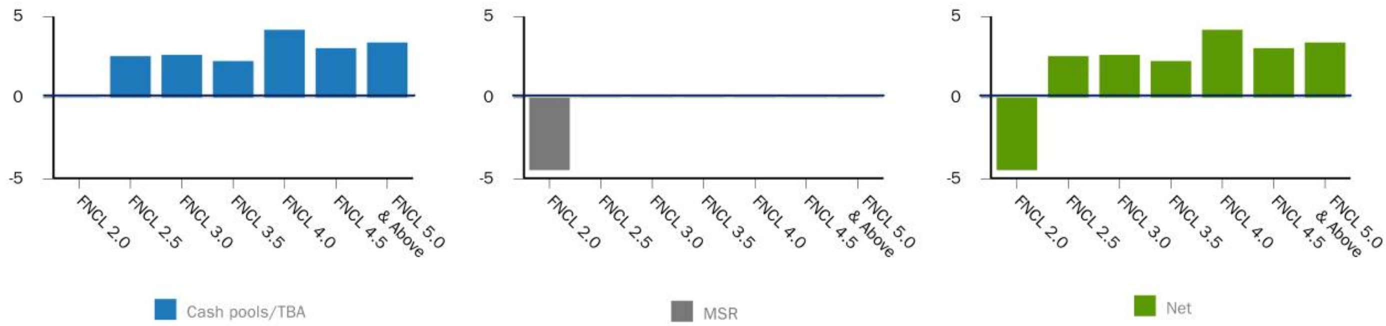
QUARTERLY REVIEW

- Despite massive intraday and interday volatility in the RMBS spreads, quarter-to-date RMBS performed well, with the middle of the stack outperforming their hedges by about 1 point
- In March, when liquidity was poor, reduced lower coupons since they were more liquid than higher coupons
- Opportunistically moved down in coupon when the Fed stepped in to buy higher coupons

QUARTERLY TBA PERFORMANCE(1)



EFFECTIVE COUPON POSITIONING(2)



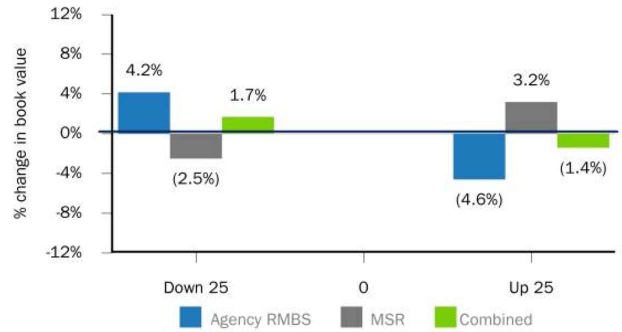
(1) J.P. Morgan Data Query as of March 31, 2020.
(2) The effective coupon positioning for MSR is an internally calculated exposure that represents the current coupon equivalents of our MSR assets. Data as of March 31, 2020.

Risk Positioning

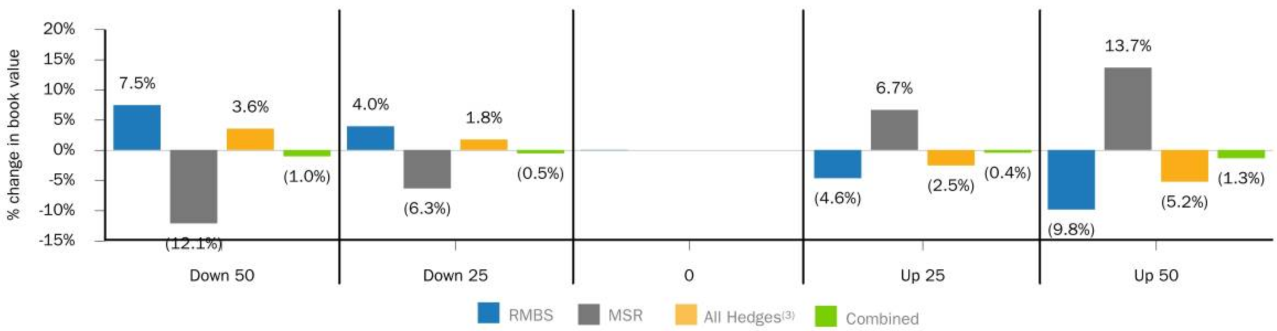
LOW RISK EXPOSURES

- Exposure to mortgage spreads and interest rates remains small
- In a 25 bps spread widening, potential book value decrease of 1.4%
- In a 50 bps instantaneous parallel shift upward in interest rates, potential book value decrease of 1.3%

COMMON BOOK VALUE EXPOSURE TO CHANGES IN SPREADS(1)



COMMON BOOK VALUE EXPOSURE TO CHANGES IN RATES(2)



Note: Sensitivity data as of March 31, 2020. The above spread scenario is provided for illustration purposes only and is not necessarily indicative of Two Harbors' financial condition and operating results, nor is it necessarily indicative of the financial condition or results of operations that may be expected for any future period or date.

(1) The information presented in this chart projects the potential impact on common book value of instantaneous changes in current coupon mortgage spreads. Spread sensitivity is based on results from third party models in conjunction with inputs from our internal investment professionals. Actual results could differ materially from these estimates.

(2) Represents estimated change in common book value for theoretical parallel shift in interest rates.

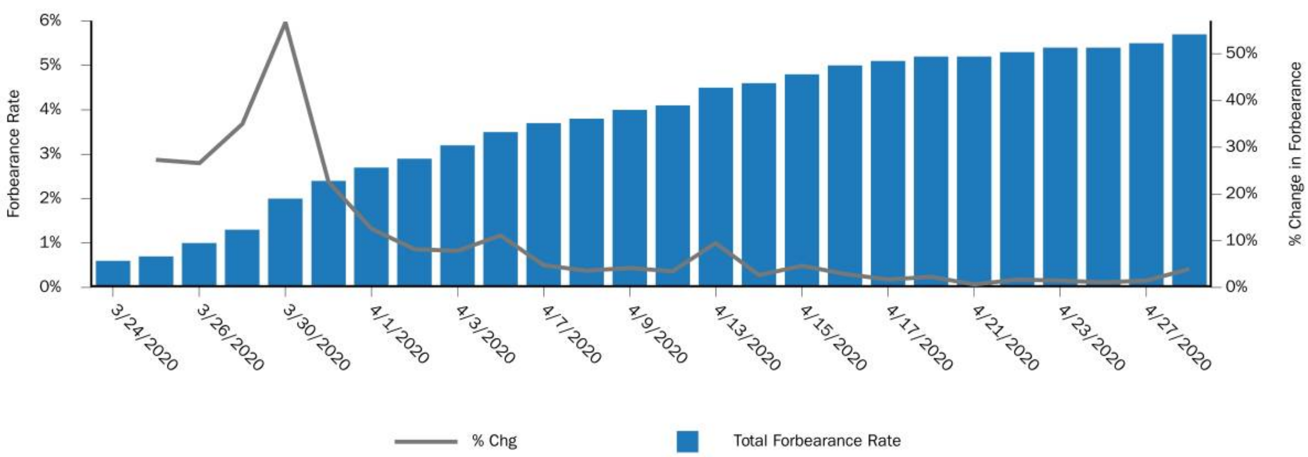
(3) All hedges includes derivative assets and liabilities and all borrowings. All Hedges excludes Agency derivatives, which are included in the RMBS category.

Special Topic - Mortgage Loan Forbearance(1)

MORTGAGE FORBEARANCE RATE ANTICIPATED TO BE MANAGEABLE

- As of April 28, 2020, 5.7% of our loans, by count, were in forbearance; 6.3% by UPB
- Blue bars are cumulative forbearance rate, by number of loans, and shown on the left hand axis
- Gray line (right axis) is the daily change in forbearance requests; daily changes are bouncing around the 2% area
- Believe that base case is roughly a 15% ultimate take-up rate

LOANS IN FORBEARANCE - AS OF 4/24/2020

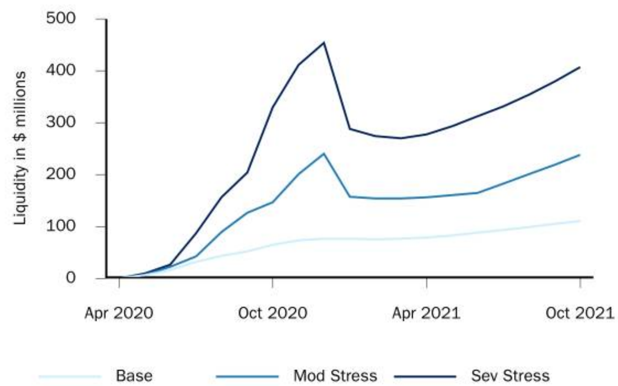


Special Topic - Forbearance Scenario Analysis(1)

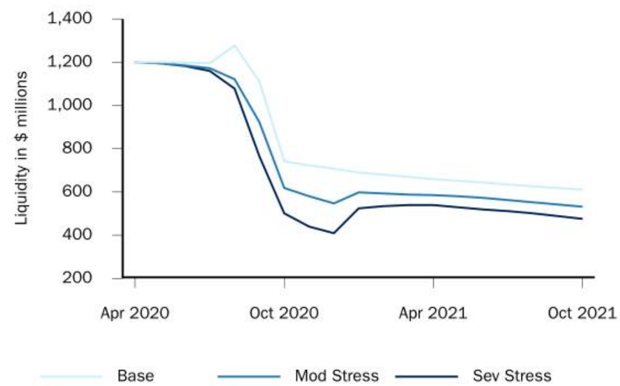
CONFIDENT IN LIQUIDITY POSITION AND ABILITY TO MAKE FUTURE SERVICING ADVANCES

- Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
  - Provides up to 180 days of forbearance for borrowers with federally backed mortgages who experience financial hardship related to the pandemic
  - If needed, borrowers can extend forbearance for another 180 days
  - Prohibits foreclosures for 60 days
- Forbearance modeling is shown below in three scenarios: base case, moderate stress, severe stress
  - Base case: 15% peak forbearance, 25 CPR
  - Moderate stress: 20% peak forbearance, 20 CPR
  - Severe stress: 25% peak forbearance, 15 CPR

FORBEARANCE PROJECTION



LIQUIDITY PROJECTION



(1) The above forbearance and liquidity projections are provided for illustration purposes only and are not necessarily indicative of Two Harbors' financial condition and operating results, nor are these projections necessarily indicative of the financial condition or results of operations that may be expected for any future period or date. These scenarios include as assumptions: prepay speeds start at 25 CPR and ramp down to 10 CPR over 4 months; P&I advancing stops after 4 months, and is reimbursed at loan resolution, assumed to be 15 months from now; interim T&I reimbursement for Fannie. Based on model assumptions as of April 24, 2020.

Outlook - Return Expectations

OPPORTUNITY SET IN OUR TARGET ASSETS IS VERY ATTRACTIVE TODAY

- There are multiple near-term potential drags on earnings, including but not limited to:
  - Sub-optimal capital allocation
  - High cash balances
  - Servicing advance facilities costs
  - Higher sub-servicing costs on delinquent loans
  - Uncertainty in MSR pricing
- Estimate that returns on Agency RMBS are in the mid-to-high teens
- Estimate that forward-looking returns for current book of MSR (paired with Agency RMBS) are in the low-to-mid teens
- Estimate that forward-looking returns for new flow MSR (paired with Agency RMBS) are north of 25%

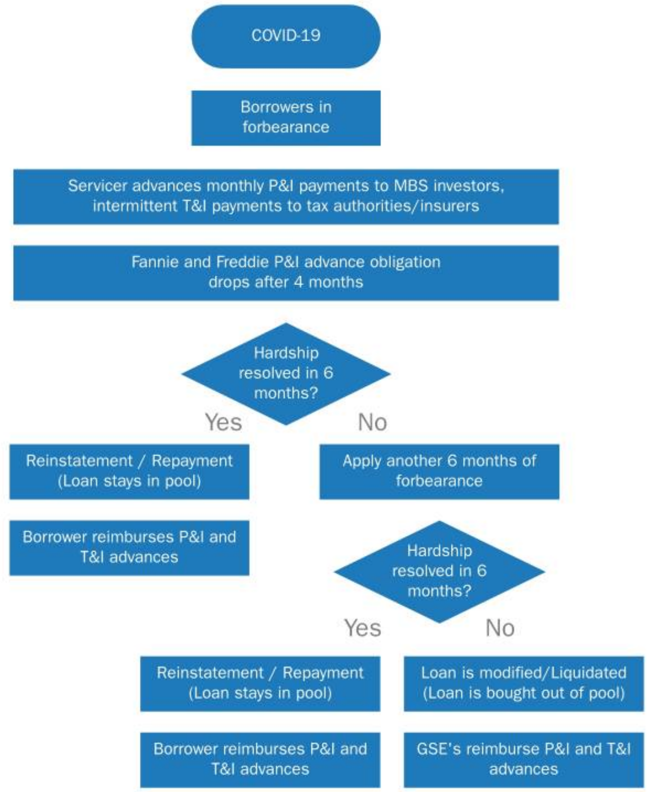
Appendix


TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

Special Topic - Servicing Advances

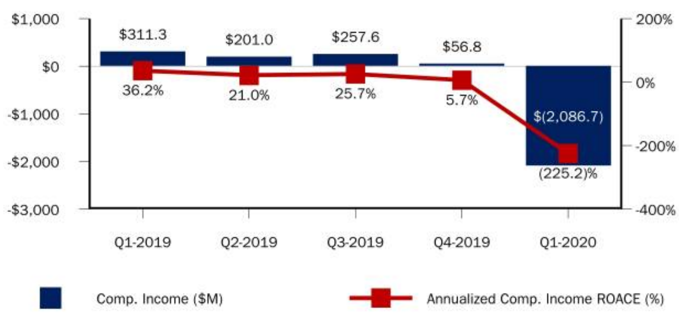
ADVANCING OBLIGATIONS HAVE CHANGED

- Under the CARES Act, a borrower can request initial forbearance relief of up to 180 days
- Servicer is required to advance months of:
  - 4 months of scheduled principal and interest, for Fannie loans
  - 4 months of scheduled interest, for Freddie loans
  - Advances of taxes and insurance
- Prior to the end of the initial forbearance period, the servicer checks in with the borrower:
  - If the borrower can begin to make payments again either through reinstatement (lump sum) or a repayment plan; then principal and interest, and taxes and insurance are repaid to the servicer over the course of the plan
  - If the borrower cannot make payments, another 6 months of forbearance can be requested
- At the end of 12 months:
  - If the borrower can make his payments either through reinstatement (lump sum) or a repayment plan, then principal and interest, and taxes and insurance are repaid to the servicer over the course of the plan
  - If the borrower cannot make the payments, then there are several potential options:
    - Payment deferral (add payments to the end), or
    - Modification or liquidation
  - In the case of modification or liquidation, the loan is bought out of the pool and principal and interest, and taxes and insurance are repaid to the servicer



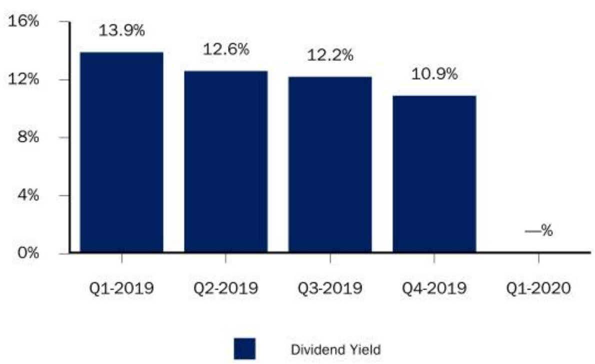
Financial Performance

COMPREHENSIVE INCOME (LOSS)



QUARTERLY RETURN ON BOOK VALUE(1)

DIVIDEND YIELD(2)



BOOK VALUE AND DIVIDEND PER COMMON SHARE(2)

(1) Return on book value is defined as the increase (decrease) in book value per common share from the beginning to the end of the given period, plus dividends declared in the period, divided by the book value as of the beginning of the period.

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

Q1-2020 Operating Performance

(In millions, except for per common share data)	Q1-2020 Core Earnings[1]	Q1-2020 Realized Gains (Losses)	Q1-2020 Unrealized MTM	Q1-2020 Total
Interest income	$ 255.5	$ —	$ —	$ 255.5
Interest expense	167.3	—	—	167.3
Net interest income	88.2	—	—	88.2
Loss on investment securities	—	(1,080.7)	(0.9)	(1,081.6)
Servicing income	130.8	—	—	130.8
Loss on servicing asset	(75.6)	(3.4)	(507.6)	(586.6)
(Loss) gain on interest rate swaps and swaptions	(12.6)	361.8	(599.8)	(250.6)
Gain (loss) on other derivative instruments	5.3	(70.7)	(68.1)	(133.5)
Other income	0.1	0.1	0.6	0.8
Total other Income (loss)	48.0	(792.9)	(1,175.8)	(1,920.7)
Management fees & other expenses	47.0	3.3	—	50.3
Net income (loss) before income taxes	89.2	(796.2)	(1,175.8)	(1,882.8)
Income tax expense (benefit)	2.6	85.4	(101.2)	(13.2)
Net income (loss)	**86.6**	**(881.6)**	**(1,074.6)**	**(1,869.6)**
Dividends on preferred stock	19.0	—	—	19.0
Net income (loss) attributable to common stockholders	**$ 67.6**	**$ (881.6)**	**$ (1,074.6)**	**$ (1,888.6)**
Weighted average earnings (loss) per basic common share	$ 0.25	$ (3.22)	$ (3.94)	$ (6.91)

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 24 of this presentation for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Q4-2019 Operating Performance

	Q4-2019			
(In millions, except for per common share data)	Core Earnings[(1)]	Realized Gains (Losses)	Unrealized MTM	Total
Interest income	$ 237.3	$ —	$ 1.1	$ 238.4
Interest expense	167.3	—	—	167.3
Net interest income	70.0	—	1.1	71.1
Total other-than-temporary impairments and loss recovery adjustments	—	—	(3.3)	(3.3)
Gain on investment securities	—	27.6	0.5	28.1
Servicing income	127.7	—	—	127.7
(Loss) gain on servicing asset	(73.1)	(3.4)	54.7	(21.8)
Gain (loss) on interest rate swaps, caps and swaptions	4.8	(1.5)	(10.1)	(6.8)
Gain (loss) on other derivative instruments	9.0	(10.8)	(9.0)	(10.8)
Other income (loss)	0.1	—	(0.1)	—
Total other income	68.5	11.9	36.0	116.4
Management fees & other expenses	49.4	2.5	—	51.9
Net income before income taxes	89.1	9.4	33.8	132.3
Income tax expense (benefit)	2.5	(1.5)	(3.4)	(2.4)
Net income	**86.6**	**10.9**	**37.2**	**134.7**
Dividends on preferred stock	19.0	—	—	19.0
Net income attributable to common stockholders	**$ 67.6**	**$ 10.9**	**$ 37.2**	**$ 115.8**
Weighted average earnings per basic common share	$ 0.25	$ 0.04	$ 0.13	$ 0.42

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 24 of this presentation for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

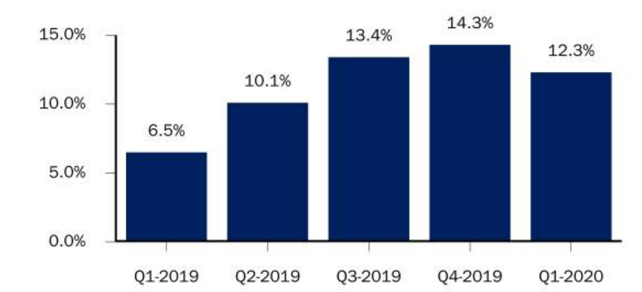
GAAP to Core Earnings Reconciliation(1)

Reconciliation of GAAP to non-GAAP Information (In thousands, except for per common share data)	Three Months Ended December 31, 2019	Three Months Ended March 31, 2020
Reconciliation of Comprehensive income (loss) to Core Earnings:		
Comprehensive income (loss) attributable to common stockholders	**$ 56,850**	**$ (2,086,676)**
Adjustment for other comprehensive loss attributable to common stockholders:		
Unrealized loss on available-for-sale securities	58,954	198,070
Net income (loss) attributable to common stockholders	**$ 115,804**	**$ (1,888,606)**
Adjustments for non-core earnings:		
Other-than-temporary impairments and loss recovery adjustments	2,198	—
Realized (gain) loss on securities	(27,615)	1,035,038
Unrealized (gain) loss on securities	(526)	931
Provision for credit losses	—	45,638
Realized and unrealized (gain) loss on mortgage servicing rights	(51,387)	511,059
Realized loss (gain) on termination or expiration of swaps and swaptions	1,495	(361,853)
Unrealized losses on interest rate swaps, caps and swaptions	10,148	599,834
Losses on other derivative instruments	19,833	138,819
Other loss (income)	73	(735)
Change in servicing reserves	72	232
Non-cash equity compensation expense	2,423	2,315
Other nonrecurring expenses	—	719
Net benefit from income taxes on non-Core Earnings	(4,847)	(15,774)
Core Earnings attributable to common stockholders(1)	**$ 67,671**	**$ 67,617**
Weighted average basic common shares	272,906,815	273,392,615
Core Earnings per weighted average basic common share	$ 0.25	$ 0.25

(1) Core Earnings is a non-U.S. GAAP measure that we define as comprehensive (loss) income attributable to common stockholders, excluding "realized and unrealized gains and losses" (impairment losses, provision for credit losses, realized and unrealized gains and losses on the aggregate portfolio, reserve expense for representation and warranty obligations on MSR, non-cash compensation expense related to restricted common stock and other nonrecurring expenses). As defined, Core Earnings includes net interest income, accrual and settlement of interest on derivatives, dollar roll income on TBAs, servicing income, net of estimated amortization on MSR, management fees and recurring cash related operating expenses. Dollar roll income is the economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements. Core Earnings provides supplemental information to assist investors in analyzing the Company's results of operations and helps facilitate comparisons to industry peers.

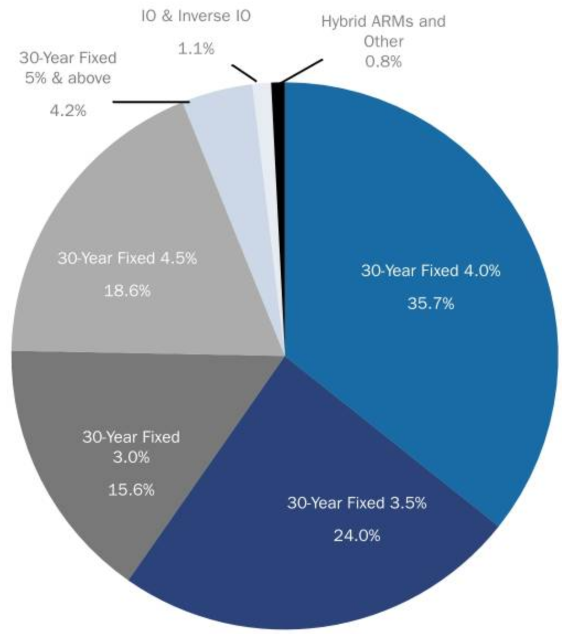
Portfolio Metrics

AGENCY RMBS CPR(1)



MSR CPR

AGENCY PORTFOLIO COMPOSITION



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

Agency RMBS Portfolio

As of March 31, 2020	Par Value ($M)	Market Value ($M)	Weighted Average CPR	% Prepay Protected[1]	Amortized Cost Basis ($M)	Gross Weighted Average Coupon	Weighted Average Age (Months)
30-Year fixed							
3.0%	$ 2,636	$ 2,778	3.0%	100.0%	$ 2,720	3.7%	5
3.5%	3,991	4,267	6.7%	100.0%	4,184	4.2%	8
4.0%	5,858	6,351	15.8%	100.0%	6,124	4.5%	33
4.5%	3,030	3,303	17.9%	100.0%	3,196	5.0%	26
≥ 5.0%	687	754	23.4%	98.6%	729	5.8%	52
	16,202	17,453	12.4%	99.9%	16,953	4.5%	22
Other P&I[2]	114	132	7.8%	—%	128	6.7%	216
IOs and IIOs[3]	2,841	195	10.3%	—%	212	5.2%	138
Total Agency RMBS	**$ 19,157**	**$ 17,780**		**98.1%**	**$ 17,293**		

As of March 31, 2020	Notional Amount ($M)	Bond Equivalent Value ($M)[4]	Implied CPR[5]
TBA Positions			
2.5%	$ 2,565	$ 2,657	3.4%
3.0%	(1,753)	(1,854)	25.9%
3.5%	—	—	35.1%
4.0%	(1,750)	(1,868)	44.4%
4.5%	—	—	45.4%
5.0%	2,699	2,912	44.6%
Net TBA position	**$ 1,761**	**$ 1,847**	

(1) Includes securities with implicit or explicit protection including lower loan balances (securities collateralized by loans less than or equal to $200K 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) Includes 15-year fixed, Hybrid ARMs, CMO and DUS pools.
(3) Represents market value of $121.7 million of IOs and $73.3 million of Agency Derivatives.
(4) Bond equivalent value is defined as the notional amount multiplied by market price. Accounted for as derivative instruments in accordance with GAAP.
(5) Implied TBA speeds from J.P. Morgan Data Query.

Mortgage Servicing Rights Portfolio(1)

(dollars in millions)	Number of Loans	Unpaid Principal Balance	Fair Value	% Fannie Mae	Gross Weighted Average Coupon Rate	Weighted Average Loan Age (months)	Weighted Average Original FICO(2)	Weighted Average Original LTV	60+ Day Delinquencies	3-Month CPR	Net Servicing Fee (bps)
30-Year Fixed											
≤ 3.75%	116,156	$ 31,109	$ 273	70%	3.5%	43	771	70%	0.1%	11.4%	26.7
3.75% - 4.25%	253,260	62,353	531	64%	3.9%	38	760	76%	0.2%	16.4%	27.5
4.25% - 4.75%	189,552	41,814	344	65%	4.4%	35	745	79%	0.3%	26.0%	26.7
4.75% - 5.25%	90,724	18,305	157	66%	4.9%	28	731	80%	0.5%	29.8%	28.0
> 5.25%	33,733	5,702	50	70%	5.5%	26	709	80%	1.0%	26.6%	31.0
	683,425	159,283	1,355	66%	4.1%	37	753	76%	0.3%	21.4%	27.3
15-Year Fixed											
≤ 2.75%	2,336	465	3	80%	2.6%	47	778	60%	—%	8.1%	26.1
2.75% - 3.25%	41,584	7,378	53	77%	3.0%	45	772	62%	—%	10.1%	25.9
3.25% - 3.75%	41,510	6,607	50	72%	3.4%	39	760	65%	0.1%	13.5%	27.8
3.75% - 4.25%	21,363	2,988	24	63%	3.9%	33	747	66%	0.3%	20.0%	29.7
> 4.25%	11,471	1,377	11	62%	4.5%	25	734	66%	0.3%	24.5%	31.4
	118,264	18,815	141	72%	3.4%	39	734	64%	0.1%	14.2%	27.6
Total ARMs	6,286	1,616	9	68%	3.6%	44	762	66%	0.3%	27.8%	25.2
Total Portfolio	807,975	$ 179,714	$ 1,505	66%	4.1%	37	754	75%	0.3%	19.9%	27.3

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

Financing

$ in millions							
Outstanding Borrowings and Maturities[1]	Repurchase Agreements	FHLB Advances	Revolving Credit Facilities	Term Notes Payable	Convertible Notes	Total Outstanding Borrowings	Percent (%)
Within 30 days	$ 6,138.2	$ —	$ —	$ —	$ —	$ 6,138.2	32.7%
30 to 59 days	6,034.5	—	—	—	—	6,034.5	32.1%
60 to 89 days	2,046.5	—	—	—	—	2,046.5	10.9%
90 to 119 days	1,722.9	—	—	—	—	1,722.9	9.2%
120 to 364 days	1,853.4	—	252.1	—	—	2,105.5	11.2%
One to three years	—	—	—	—	285.2	285.2	1.5%
Three to five years	—	—	—	394.8	—	394.8	2.1%
Five to ten years	—	—	—	—	—	—	—%
Ten years and over[2]	—	50.0	—	—	—	50.0	0.3%
	$ 17,795.5	$ 50.0	$ 252.1	$ 394.8	$ 285.2	$ 18,777.6	100.0%
Collateral Pledged for Borrowings[3]	Repurchase Agreements[4]	FHLB Advances	Revolving Credit Facilities[4]	Term Notes Payable	Convertible Notes	Total Collateral Pledged	Percent (%)
Available-for-sale securities, at fair value	$ 17,661.4	$ 52.2	$ —	$ —	n/a	$ 17,713.6	92.8%
Derivative assets, at fair value	73.2	—	—	—	n/a	73.2	0.4%
Mortgage servicing rights, at fair value	368.8	—	372.4	566.8	n/a	1,308.0	6.8%
	$ 18,103.4	$ 52.2	$ 372.4	$ 566.8	n/a	$ 19,094.8	100.0%

(1) Weighted average of 3.7 months to maturity.
(2) Includes FHLB advances of $50 million with original maturities of 20 years.
(3) Excludes FHLB membership and activity stock totaling $12.0 million.
(4) Repurchase agreements and/or revolving credit facilities secured by MSR may be over-collateralized due to operational considerations.

Interest Rate Swaps

INTEREST RATE SWAPS

Maturities	Notional Amounts ($B)	Average Fixed Pay Rate	Average Receive Rate	Average Maturity Years
Payers				
2020	$ 3.6	1.806%	1.352%	0.6
2021	15.8	1.681%	1.685%	1.2
2022	2.6	1.911%	1.176%	2.5
2023	0.2	3.057%	1.683%	3.6
2024 and after	8.7	2.224%	1.555%	7.0
	$ 30.9	1.878%	1.580%	2.9

Maturities	Notional Amounts ($B)	Average Pay Rate	Average Fixed Receive Rate	Average Maturity (Years)
Receivers				
2020	$ —	—%	—%	—
2021	9.2	1.188%	0.799%	1.0
2022	6.1	1.152%	0.527%	2.0
2023	—	—%	—%	—
2024 and after	9.9	1.319%	1.418%	8.4
	$ 25.2	1.255%	0.943%	3.1

Interest Rate Swaptions

Option					Underlying Swap			
Swaption	Expiration	Cost ($M)	Fair Value ($M)	Average Months to Expiration	Notional Amount ($M)	Average Pay Rate	Average Receive Rate	Average Term (Years)
Purchase Contracts:								
Payer	<6 Months	$ 9.0	$ —	0.9	$ 2,550	2.27%	3M LIBOR	10.0
Total Payer		$ 9.0	$ —	0.9	$ 2,550	2.27%	3M LIBOR	10.0
Sale Contracts:								
Receiver	<6 Months	$ (4.5)	$ (62.7)	0.9	$ (1,174)	3M LIBOR	1.26%	10.0
Total Receiver		$ (4.5)	$ (62.7)	0.9	$ (1,174)	3M LIBOR	1.26%	10.0


TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company