Two Harbors Investment Corp. Reports First Quarter 2018 Financial Results

Strong Quarter for Core Earnings

Announced Proposed Acquisition of CYS Investments, Inc. Post Quarter End

NEW YORK, May 8, 2018 - 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) and other financial assets, today announced its financial results for the quarter ended March 31, 2018.

Summary

- Reported book value of $15.63 per common share, representing a (1.3%) total quarterly return on book value.(1)
- Incurred a Comprehensive Loss of ($23.7) million, or ($0.14) per weighted average basic common share.
- Reported Core Earnings including dollar roll income of $83.8 million, or $0.48 per weighted average basic common share, representing a return on average common equity of 11.8%.(2)
  - Dollar roll income of $3.4 million, or $0.02 per weighted average basic common share.
- Added $13.6 billion unpaid principal balance (UPB) of MSR through both a bulk purchase and monthly flow-sale arrangements, bringing total holdings to $111.7 billion UPB.
- Increased the capacity of an MSR financing facility by $100 million, to a total of $400 million, and continued to advance discussions with other potential MSR financing counterparties.
- Post quarter end, announced proposed acquisition of CYS Investments, Inc. (NYSE: CYS).

"We delivered strong Core Earnings in the first quarter, driven primarily by growth in our MSR portfolio and additional servicing income," stated Thomas Siering, Two Harbors' President and Chief Executive Officer. "Additionally, post quarter end, we were excited to announce our proposed acquisition of CYS Investments, Inc., which we believe represents a unique opportunity to create value for our stockholders."

(1) Return on book value for the quarter ended March 31, 2018 is defined as the decrease in book value per common share from December 31, 2017 to March 31, 2018 of $0.68, plus the dividend declared of $0.47 per common share, divided by December 31, 2017 book value of $16.31 per common share.

(2) Core Earnings and Core Earnings including dollar roll income are non-GAAP measures. Please see page 13 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Beginning with this reporting period, certain of the company's non-GAAP earnings metrics will include to-be-announced (TBA) dollar roll income. TBA dollar roll income is the economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements. For various liquidity, hedging and leverage benefits, the company's investment team may choose to invest in TBAs versus Agency pools. The ability to invest in more meaningful TBA exposure benefitted from the recent receipt of a tax opinion that will allow the company to hold these investments in the REIT. The company believes that the presentation of Core Earnings including dollar roll income is a meaningful indicator of its earnings power and provides investors with greater transparency into the company's period-over-period financial performance.

Operating Performance

The following table summarizes the company's GAAP and non-GAAP earnings measurements and key metrics for the first quarter of 2018:

Two Harbors Investment Corp. Operating Performance (unaudited)

(dollars in thousands, except per common share data)

	Three Months Ended March 31, 2018		
Earnings attributable to common stockholders	**Earnings**	**Per weighted average basic common share**	**Annualized return on average common equity**
Comprehensive Loss	$ (23,715)	$ (0.14)	(3.3)%
GAAP Net Income	$ 321,062	$ 1.83	45.2 %
Core Earnings[(1)]	$ 80,371	$ 0.46	11.3 %
Core Earnings, including dollar roll income[(1)]	$ 83,825	$ 0.48	11.8 %
Operating Metrics			
Dividend per common share	$ 0.47		
Dividend per Series A preferred share	$ 0.50781		
Dividend per Series B preferred share	$ 0.47656		
Dividend per Series C preferred share	$ 0.45313		
Book value per common share at period end	$ 15.63		
Other operating expenses as a percentage of average equity[(2)]	1.6%		

(1) Please see page 13 for a definition of Core Earnings and Core Earnings including dollar roll income, and a reconciliation of GAAP to non-GAAP financial information. .

(2) Includes non-cash equity compensation expense of $2.3 million.

Earnings Summary

Two Harbors incurred a Comprehensive Loss of ($23.7) million, or ($0.14) per weighted average basic common share, for the quarter ended March 31, 2018, as compared to Comprehensive Income of $65.7 million, or $0.38 per weighted average basic common share, for the quarter ended December 31, 2017. 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 common equity of (3.3%) and 8.5% for the quarters ended March 31, 2018 and December 31, 2017, respectively.

The company reported GAAP Net Income of $321.1 million, or $1.83 per weighted average basic common share, for the quarter ended March 31, 2018, as compared to GAAP Net Income of $154.0 million, or $0.88 per weighted average basic common share, for the quarter ended December 31, 2017. On a GAAP Net Income basis, the company recognized an annualized return on average common equity of 45.2% and 20.0% for the quarters ended March 31, 2018 and December 31, 2017, respectively.

For the first quarter of 2018, the company recognized non-Core Earnings of:

- net realized losses on RMBS and mortgage loans held-for-sale of $19.7 million;
- net unrealized losses on certain RMBS, equity securities and mortgage loans held-for-sale of $1.3 million;
- other-than-temporary impairment loss of $0.1 million;
- net gains of $92.5 million related to swap and swaption terminations and expirations;
- net unrealized gains of $54.3 million associated with interest rate swaps and swaptions economically hedging interest rate exposure (or duration);
- net realized and unrealized gains on other derivative instruments of $5.6 million;
- net realized and unrealized gains on MSR of $114.7 million(1);
- servicing reserve expense of $0.3 million;
- non-cash equity compensation expense of $2.3 million;
- net provision for income taxes on non-Core Earnings of 2.7 million; and
- dollar roll income of $3.4 million.

The company reported Core Earnings for the quarter ended March 31, 2018 of $80.4 million, or $0.46 per weighted average basic common share outstanding. The company reported Core Earnings for the quarter ended December 31, 2017 of $81.3 million, or $0.47 per weighted average basic common share outstanding. On a Core Earnings basis, the company recognized an annualized return on average common equity of 11.3% for both of the quarters ended March 31, 2018 and December 31, 2017. The company reported Core Earnings including dollar roll income for the quarter ended March 31, 2018 of $83.8 million, or $0.48 per weighted average basic common share outstanding. On a Core Earnings including dollar roll income basis, the company recognized an annualized return on average common equity of 11.8% for the quarter ended March 31, 2018.

Other Key Metrics

Two Harbors declared a quarterly cash dividend of $0.47 per common share for the quarter ended March 31, 2018. The annualized dividend yield on the company's common stock for the quarter, based on the March 31, 2018 closing price of $15.37, was 12.2%.

Two Harbors declared quarterly dividends of $0.50781 per share on its 8.125% Series A fixed-to-floating rate cumulative redeemable preferred stock, $0.47656 per share on its 7.625% Series B fixed-to-floating rate cumulative redeemable preferred stock and a dividend of $0.45313 per share of the 7.25% Series C fixed-to-floating rate cumulative redeemable preferred stock. Each of the foregoing preferred dividends were paid on April 27, 2018 to the applicable preferred stockholders of record at the close of business on April 12, 2018.

The company's book value per common share, after taking into account the first quarter 2018 common and preferred stock dividends, was $15.63 as of March 31, 2018, compared to $16.31 as of December 31, 2017, which represented a total return on book value for the quarter of (1.3%).(2)

Other operating expenses for the quarter ended March 31, 2018 were approximately $14.5 million. The company's annualized expense ratio was 1.6% of average equity, compared to expenses from continuing operations of approximately $9.8 million, or 1.1% of average equity, for the quarter ended December 31, 2017. These include non-cash equity compensation expense of $2.3 million and non-cash equity compensation income (negative amortization) of $0.4 million, respectively.

(1) Excludes estimated amortization of $42.9 million included in Core Earnings.

(2) Return on book value for the quarter ended March 31, 2018 is defined as the decrease in book value per common share from December 31, 2017 to March 31, 2018 of $0.68, plus the dividend declared of $0.47 per common share, divided by December 31, 2017 book value of $16.31 per common share.

Portfolio Summary

The company's aggregate portfolio is principally comprised of RMBS available-for-sale securities, inverse interest-only securities (Agency Derivatives) and MSR. As of March 31, 2018, the total value of the company's portfolio was $22.4 billion.

The company's portfolio includes rates and credit strategies. The rates strategy consisted of $19.4 billion of Agency RMBS, Agency Derivatives and MSR as well as their associated notional hedges as of March 31, 2018. The credit strategy consisted of $3.0 billion of non-Agency securities, as well as their associated notional hedges as of March 31, 2018.

For the quarter ended March 31, 2018, the annualized yield on the company's average aggregate portfolio was 3.77% and the annualized cost of funds on the associated average borrowings, which includes net interest rate spread on interest rate swaps, was 1.84%. This resulted in a net interest rate spread of 1.93%.

RMBS and Agency Derivatives

For the quarter ended March 31, 2018, the annualized yield on average RMBS and Agency Derivatives was 3.7%, consisting of an annualized yield of 3.1% in Agency RMBS and Agency Derivatives and 8.0% in non-Agency securities.

The company experienced a three-month average constant prepayment rate (CPR) of 7.0% for Agency RMBS and Agency Derivatives held as of March 31, 2018, compared to 7.6% as of December 31, 2017. The weighted average cost basis of the principal and interest Agency portfolio was 106.4% of par and 106.6% of par as of March 31, 2018 and December 31, 2017, respectively. The net premium amortization was $44.2 million and $43.0 million for the quarters ended March 31, 2018 and December 31, 2017, respectively.

The company experienced a three-month average CPR of 5.7% for legacy non-Agency securities held as of March 31, 2018, compared to 6.4% as of December 31, 2017. The weighted average cost basis of the legacy non-Agency securities was 59.5% of par as of March 31, 2018, compared to 59.9% of par as of December 31, 2017. The discount accretion was $22.2 million for the quarter ended March 31, 2018, compared to $20.8 million for the quarter ended December 31, 2017. The total net discount remaining was $1.3 billion as of both March 31, 2018 and December 31, 2017, with $712.0 million designated as credit reserve as of March 31, 2018.

As of March 31, 2018, fixed-rate investments composed 86.8% and adjustable-rate investments composed 13.2% of the company's RMBS and Agency Derivatives portfolio.

Mortgage Servicing Rights

As of March 31, 2018, the company held MSR on mortgage loans with UPB totaling $111.7 billion.[(1)] The MSR had a fair market value of $1.3 billion, as of March 31, 2018, and the company recognized fair value gains of $71.8 million during the quarter ended March 31, 2018.

The company does not directly service mortgage loans, but instead contracts with fully licensed subservicers to handle substantially all servicing functions in the name of the subservicer for the loans underlying the company's MSR. The company recognized $71.2 million of servicing income, $14.3 million[(1)] of servicing expenses and $0.3 million in servicing reserve expense during the quarter ended March 31, 2018.

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

Other Investments and Risk Management Derivatives

The company held $0.4 billion notional of net long TBAs as of March 31, 2018, which are accounted for as derivative instruments in accordance with GAAP.

As of March 31, 2018, the company was a party to interest rate swaps and swaptions with a notional amount of $29.8 billion. Of this amount, $23.6 billion notional in swaps were utilized to economically hedge interest rate exposure (or duration), and $6.2 billion net notional in swaptions were utilized as macroeconomic hedges.

The following tables summarize the company's investment portfolio as of March 31, 2018 and December 31, 2017:

Two Harbors Investment Corp. Portfolio

(dollars in thousands)

Portfolio Composition	As of March 31, 2018		As of December 31, 2017	
	(unaudited)		(unaudited)	
Rates Strategy				
Agency				
Fixed Rate	$ 18,020,641	80.2%	$ 18,215,505	81.2%
Hybrid ARMs	21,523	0.1%	23,220	0.1%
Total Agency	18,042,164	80.3%	18,238,725	81.3%
Agency Derivatives	81,628	0.4%	90,975	0.4%
Mortgage servicing rights	1,301,023	5.8%	1,086,717	4.8%
Residential mortgage loans held-for-sale	19,679	0.1%	20,766	0.1%
Credit Strategy				
Non-Agency				
Senior	2,026,035	9.0%	1,956,145	8.7%
Mezzanine	916,877	4.1%	960,865	4.3%
Other	74,301	0.3%	65,084	0.3%
Total Non-Agency	3,017,213	13.4%	2,982,094	13.3%
Residential mortgage loans held-for-sale	9,749	—%	9,648	0.1%
Aggregate Portfolio	$ 22,471,456		$ 22,428,925	

Portfolio Metrics	Three Months Ended March 31, 2018	Three Months Ended December 31, 2017
	(unaudited)	(unaudited)
Annualized portfolio yield from continuing operations during the quarter	3.77 %	3.69 %
Rates Strategy		
Agency RMBS, Agency Derivatives and mortgage servicing rights	3.2 %	3.2 %
Credit Strategy		
Non-Agency securities, Legacy(1)	7.5 %	7.8 %
Non-Agency securities, New issue(1)	10.9 %	6.6 %
Net economic interest in securitizations	— %	11.2 %
Residential mortgage loans held-for-sale	4.7 %	3.9 %
Annualized cost of funds from continuing operations on average borrowing balance during the quarter(2)	1.84 %	1.72 %
Annualized interest rate spread for aggregate portfolio during the quarter	1.93 %	1.97 %
Debt-to-equity ratio at period-end(3)	5.9:1.0	5.9:1.0

Portfolio Metrics Specific to RMBS and Agency Derivatives	As of March 31, 2018	As of December 31, 2017
	(unaudited)	(unaudited)
Weighted average cost basis of principal and interest securities		
Agency(4)	$ 106.41	$ 106.56
Non-Agency(5)	$ 59.51	$ 59.89
Weighted average three month CPR		
Agency	7.0 %	7.6 %
Non-Agency	5.7 %	6.4 %
Fixed-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	86.8 %	87.2 %
Adjustable-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	13.2 %	12.8 %

(1) Legacy non-Agency securities includes non-Agency bonds issued up to and including 2009. New issue non-Agency securities 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, 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 legacy non-Agency securities excluding the company's non-Agency interest-only portfolio would be $57.00 at March 31, 2018 and $57.27 at December 31, 2017.

“We are excited about the opportunity to redeploy capital from the proposed acquisition of CYS into our target assets,” stated Bill Roth, Two Harbors’ Chief Investment Officer. “We continue to see abundant opportunity to add MSR and believe that pairing MSR with our Agency RMBS better hedges our interest rate exposure and spread risk. Over time, we expect that approximately 50% of our capital will be allocated to MSR and credit.”

Financing Summary

The company reported a debt-to-equity ratio, defined as total borrowings under repurchase agreements, FHLB advances, revolving credit facilities and convertible senior notes to fund RMBS, Agency Derivatives and MSR divided by total equity, of 5.9:1.0 as of March 31, 2018.

As of March 31, 2018, the company had outstanding $18.9 billion of repurchase agreements funding RMBS and Agency Derivatives with 28 different counterparties. Excluding the effect of the company’s interest rate swaps, the repurchase agreements funding RMBS and Agency Derivatives had a weighted average borrowing rate of 1.94% as of March 31, 2018.

The company’s wholly owned subsidiary, TH Insurance Holdings Company LLC (TH Insurance), is a member of the FHLB. As a member of the FHLB, TH Insurance has access to a variety of products and services offered by the FHLB, including secured advances. As of March 31, 2018, TH Insurance had $0.9 billion in outstanding secured advances funding RMBS, with a weighted average borrowing rate of 2.13%.

As of March 31, 2018, the company had outstanding $20.0 million of short-term borrowings secured by MSR collateral under revolving credit facilities with a weighted average borrowing rate of 5.67% and remaining maturities of 261 days. Additionally, the company had outstanding $250.0 million of long-term repurchase agreements for MSR, with a weighted average borrowing rate of 3.94%, with additional available capacity of $150.0 million.

As of March 31, 2018, the company's aggregate repurchase agreements, FHLB advances, revolving credit facilities and convertible senior notes funding RMBS, Agency Derivatives and MSR had a weighted average of 4.7 months to maturity.

The following table summarizes the company's borrowings by collateral type under repurchase agreements, FHLB advances, revolving credit facilities and convertible senior notes outstanding as of March 31, 2018 and December 31, 2017, and the related cost of funds for the three months ended March 31, 2018 and December 31, 2017:

	As of March 31, 2018	As of December 31, 2017
(in thousands)	(unaudited)	(unaudited)
Collateral type:		
Agency RMBS and Agency Derivatives	$ 17,731,102	$ 18,610,196
Mortgage servicing rights	270,000	132,500
Non-Agency securities	2,032,601	1,943,535
Other[1]	283,054	282,827
	$ 20,316,757	$ 20,969,058

Cost of Funds Metrics	Three Months Ended March 31, 2018	Three Months Ended December 31, 2017
	(unaudited)	(unaudited)
Annualized cost of funds from continuing operations on average borrowings during the quarter:	1.9%	1.8%
Agency RMBS and Agency Derivatives	1.7%	1.5%
Mortgage servicing rights[2]	5.2%	5.9%
Non-Agency securities	3.1%	3.0%
Net economic interests in consolidated securitization trusts[3]	—%	2.7%
Other[1][2]	6.7%	6.8%

(1) Includes unsecured convertible senior notes.
(2) Includes amortization of debt issuance costs.
(3) Includes the retained interests from the company's previous on-balance sheet securitizations, which, prior to December 31, 2017, were eliminated in consolidation in accordance with GAAP. During the fourth quarter of 2017, the company sold all of the retained subordinated securities thereby causing the deconsolidation of the securitization trusts from the company's consolidated balance sheet. As of December 31, 2017, the remaining retained securities were included as non-Agency available-for-sale securities on the company's balance sheet.

Conference Call

Two Harbors Investment Corp. will host a conference call on May 9, 2018 at 9:00 a.m. EDT to discuss first quarter 2018 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 3599717, 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 9, 2018, through 12:00 a.m. EDT on May 16, 2018. The playback can be accessed by calling (855) 859-2056 (or (404) 537-3406 for international callers), conference code 3599717. 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, 2017, 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 proposed acquisition of CYS and our ability to realize the benefits related thereto; 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, Core Earnings including dollar roll income, Core Earnings per basic common share and Core Earnings per basic common share including dollar roll income, 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, 575 Lexington Avenue, Suite 2930, New York, NY 10022, telephone (612) 629-2500.

Contact

Margaret Field, Investor Relations, Two Harbors Investment Corp., (212) 364-3663 or
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TWO HARBORS INVESTMENT CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

	March 31, 2018	December 31, 2017
	(unaudited)	
ASSETS		
Available-for-sale securities, at fair value	$ 21,059,377	$ 21,220,819
Mortgage servicing rights, at fair value	1,301,023	1,086,717
Residential mortgage loans held-for-sale, at fair value	29,428	30,414
Cash and cash equivalents	388,450	419,159
Restricted cash	712,791	635,836
Accrued interest receivable	67,370	68,309
Due from counterparties	85,319	842,303
Derivative assets, at fair value	274,048	309,918
Other assets	159,359	175,838
Total Assets	$ 24,077,165	$ 24,789,313
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Repurchase agreements	$ 19,148,679	$ 19,451,207
Federal Home Loan Bank advances	865,024	1,215,024
Revolving credit facilities	20,000	20,000
Convertible senior notes	283,054	282,827
Derivative liabilities, at fair value	46,074	31,903
Due to counterparties	39,809	88,898
Dividends payable	96,201	12,552
Accrued interest payable	85,405	87,698
Other liabilities	25,234	27,780
Total Liabilities	20,609,480	21,217,889
Stockholders' Equity		
Preferred stock, par value $0.01 per share; 50,000,000 shares authorized:		
8.125% Series A cumulative redeemable: 5,750,000 and 5,750,000 shares issued and outstanding, respectively ($143,750 liquidation preference)	138,872	138,872
7.625% Series B cumulative redeemable: 11,500,000 and 11,500,000 shares issued and outstanding, respectively ($287,500 liquidation preference)	278,094	278,094
7.25% Series C cumulative redeemable: 11,800,000 and 11,800,000 shares issued and outstanding, respectively ($295,000 liquidation preference)	285,584	285,571
Common stock, par value $0.01 per share; 450,000,000 shares authorized and 175,434,778 and 174,496,587 shares issued and outstanding, respectively	1,754	1,745
Additional paid-in capital	3,674,411	3,672,003
Accumulated other comprehensive (loss) income	(46)	334,813
Cumulative earnings	2,711,495	2,386,604
Cumulative distributions to stockholders	(3,622,479)	(3,526,278)
Total Stockholders' Equity	3,467,685	3,571,424
Total Liabilities and Stockholders' Equity	$ 24,077,165	$ 24,789,313

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,	
	2018	**2017**
	(unaudited)	
Interest income:		
Available-for-sale securities	$ 190,716	$ 135,327
Residential mortgage loans held-for-investment in securitization trusts	—	31,628
Residential mortgage loans held-for-sale	307	398
Other	2,996	1,801
Total interest income	194,019	169,154
Interest expense:		
Repurchase agreements	86,580	32,256
Collateralized borrowings in securitization trusts	—	25,386
Federal Home Loan Bank advances	4,458	8,793
Revolving credit facilities	804	429
Convertible senior notes	4,718	3,821
Total interest expense	96,560	70,685
Net interest income	97,459	98,469
Other-than-temporary impairment losses	(94)	—
Other income (loss):		
Loss on investment securities	(20,671)	(52,352)
Servicing income	71,190	39,773
Gain (loss) on servicing asset	71,807	(14,565)
Gain on interest rate swap and swaption agreements	150,545	9,927
Gain (loss) on other derivative instruments	8,053	(27,864)
Other income	1,058	9,496
Total other income (loss)	281,982	(35,585)
Expenses:		
Management fees	11,708	9,808
Servicing expenses	14,554	5,298
Other operating expenses	14,492	13,764
Total expenses	40,754	28,870
Income from continuing operations before income taxes	338,593	34,014
Provision for (benefit from) income taxes	3,784	(24,517)
Net income from continuing operations	334,809	58,531
Income from discontinued operations, net of tax	—	13,454
Net income	334,809	71,985
Dividends on preferred stock	13,747	—
Net income attributable to common stockholders	$ 321,062	$ 71,985

TWO HARBORS INVESTMENT CORP.

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, 2018	Three Months Ended March 31, 2017
	(unaudited)	
Basic earnings per weighted average common share:		
Continuing operations	$ 1.83	$ 0.33
Discontinued operations	—	0.08
Net income	$ 1.83	$ 0.41
Diluted earnings per weighted average common share:		
Continuing operations	$ 1.69	$ 0.33
Discontinued operations	—	0.08
Net income	$ 1.69	$ 0.41
Dividends declared per common share	$ 0.47	$ 0.50
Weighted average number of shares of common stock:		
Basic	175,145,964	174,281,965
Diluted	192,818,531	174,281,965
Comprehensive (loss) income:		
Net income	$ 334,809	$ 71,985
Other comprehensive (loss) income, net of tax:		
Unrealized (loss) gain on available-for-sale securities	(344,777)	73,762
Other comprehensive (loss) income	(344,777)	73,762
Comprehensive (loss) income	(9,968)	145,747
Dividends on preferred stock	13,747	—
Comprehensive (loss) income attributable to common stockholders	$ (23,715)	$ 145,747

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,	
	2018	**2017**
	(unaudited)	
Reconciliation of Comprehensive (loss) income to Core Earnings:		
Comprehensive (loss) income attributable to common stockholders	$ (23,715)	$ 145,747
Adjustment for other comprehensive loss (income) attributable to common stockholders:		
Unrealized loss (gain) on available-for-sale securities attributable to common stockholders	344,777	(73,762)
Net income attributable to common stockholders	$ 321,062	$ 71,985
Adjustments for non-Core Earnings:		
Realized losses on securities and residential mortgage loans held-for-sale	19,731	49,049
Unrealized losses on securities and residential mortgage loans held-for-sale	1,253	1,842
Other-than-temporary impairment loss	94	—
Realized gains on termination or expiration of swaps and swaptions	(92,479)	(66,031)
Unrealized (gain) loss on interest rate swaps and swaptions economically hedging interest rate exposure (or duration)	(54,257)	48,200
(Gain) loss on other derivative instruments	(5,599)	31,689
Realized and unrealized gains on financing securitizations	—	(6,577)
Realized and unrealized gains on mortgage servicing rights	(114,692)	(11,996)
Change in servicing reserves	265	(2,823)
Non-cash equity compensation expense	2,341	3,955
Net provision for (benefit from) income taxes on non-Core Earnings	2,652	(24,335)
Core Earnings attributable to common stockholders[(1)]	80,371	$ 94,958
Dollar roll income	3,454	
Core Earnings attributable to common stockholders, including dollar roll income[(1)]	$ 83,825	
Weighted average basic common shares outstanding	175,145,964	174,281,965
Core Earnings attributable to common stockholders per weighted average basic common share outstanding	$ 0.46	$ 0.54
Dollar roll income per weighted average basic common share outstanding	0.02	
Core Earnings, including dollar roll income, attributable to common stockholders per weighted average basic common share outstanding	$ 0.48	

(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, realized and unrealized gains and losses on the aggregate portfolio, reserve expense for representation and warranty obligations on MSR and non-cash compensation expense related to restricted common stock). 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. Dollar roll income is the economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements. We believe the presentation of Core Earnings, including dollar roll income, provides investors greater transparency into our period-over-period financial performance and facilitates comparisons to peer REITs.

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, 2018	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**
			(unaudited)		
Net Interest Income:					
Interest income	$ 194.0	$ 195.1	$ 195.6	$ 184.7	$ 169.2
Interest expense	96.6	94.8	99.0	85.3	70.7
Net interest income	97.4	100.3	96.6	99.4	98.5
Other income:					
Gain on investment securities	0.6	0.7	—	—	—
Servicing income, net of amortization[(1)]	28.3	19.8	18.0	19.4	13.2
Interest spread on interest rate swaps	3.8	2.0	(0.4)	(2.6)	(7.9)
Gain on other derivative instruments	2.5	2.8	2.8	3.3	3.8
Other income	0.7	1.1	1.2	1.4	1.4
Total other income	35.9	26.4	21.6	21.5	10.5
Expenses	38.1	31.1	28.8	32.7	27.7
Core Earnings before income taxes	95.2	95.6	89.4	88.2	81.3
Income tax expense (benefit)	1.1	2.4	2.0	0.6	(0.2)
Core Earnings from continuing operations	94.1	93.2	87.4	87.6	81.5
Core Earnings attributable to discontinued operations[(2)]	—	—	10.7	14.2	13.5
Core Earnings	94.1	93.2	98.1	101.8	95.0
Dividends on preferred stock	13.7	11.9	8.9	4.3	—
Core Earnings attributable to common stockholders[(3)]	80.4	$ 81.3	$ 89.2	$ 97.5	$ 95.0
Dollar roll income	3.4				
Core Earnings, including dollar roll income, attributable to common stockholders[(3)]	$ 83.8				
Weighted average basic Core EPS	$ 0.46	$ 0.47	$ 0.51	$ 0.56	$ 0.54
Weighted average basic Core EPS, including dollar roll income	$ 0.48				
Core earnings return on average common equity	11.3%	11.3% [(4)]	10.2%	11.2%	11.0%
Core earnings return on average common equity, including dollar roll income	11.8%				

(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) For the six months ended December 31, 2017, Core Earnings excludes our controlling interest in Granite Point's Core Earnings and, for the three months ended September 30, 2017, includes our share of Granite Point's declared dividend. We believe this presentation is the most accurate reflection of our incoming cash associated with holding shares of Granite Point common stock and assists with the understanding of the forward-looking financial presentation of the company.
(3) Please see page 13 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.
(4) Core Earnings return on average common equity for the quarter ended December 31, 2017 excludes the company's controlling interest in Granite Point equity.