TWO HARBORS Investment Corp.
A Pine River Capital Managed Company

Fourth Quarter 2018 Letter to Stockholders

NYSE: TWO

February 15, 2019

Dear Fellow Stockholders,

2018 was a challenging year to be a mortgage REIT. This was particularly true in the fourth quarter as Agency mortgage spreads widened, interest rate volatility was high and credit assets weakened. Despite these challenges, overall 2018 was a transformative year for our company. We acquired CYS Investments, Inc. (CYS), generated strong Core Earnings, declared dividends above our cohort average, drove our expenses lower, and continued to grow and achieve operating efficiencies in our mortgage servicing rights (MSR) platform, which should help drive returns going forward.

Over the past several years, we have worked hard to position the company to make more money for our stockholders. As you will recall, in 2016 we completed a thorough review of our entire business and decided to discontinue our mortgage loan conduit, which reduced our operating complexity and costs. In 2017, we enhanced our balance sheet through one convertible debt offering and three preferred stock offerings. That year we also formed and spun out Granite Point Mortgage Trust Inc. (NYSE: GPMT) as a stand-alone, publicly-traded, vehicle for our commercial real estate lending business. In 2018, we acquired CYS, which represented a unique opportunity to further grow and expand our business, while driving our expenses lower. As planned, we redeployed the capital from the CYS acquisition into our target assets in the third and fourth quarters. As a result of these strategic initiatives, we have driven our Core Earnings higher and positioned the company to produce strong dividends for our stockholders going forward.

In our Rates[1] strategy, we continue to focus our Agency RMBS holdings in higher coupon 30-years, which we believe will generate attractive returns over time. Further, based on the Fed's more recent balanced outlook on interest rates, we expect lower interest rate volatility going forward, which would be good for mortgages. Given the spread widening of Agency RMBS in the fourth quarter, we believe there are tremendous opportunities in 2019 to take advantage of investing in Agency RMBS. On the MSR front, market opportunities are robust and we were able to grow our portfolio by 60% year-over-year. Due to difficult origination margins and the consolidation of originators, we expect this trend to continue and aim to take advantage of opportunities that arise as a result of this dynamic.

In our Credit[2] strategy, the legacy non-Agency market was active in 2018, and this asset class continues to benefit from strong residential credit tailwinds. In the fourth quarter, we added $266 million of deeply discounted legacy non-Agencies. We also had a non-Agency bond that was called at par during the quarter, which was beneficial to Core Earnings. As the discounted non-Agencies that we hold begin to realize this upside potential we expect to recycle this capital into the best opportunities in the market at that time.

At Two Harbors, we take great pride in our people and communities. We are honored to have been awarded Top Work Places by the Minneapolis Star Tribune and 100 Best Companies to Work For by Minnesota Business Magazine. We promote a diverse and inclusive culture, focused on innovation and collaboration. Our company has a strong commitment to gender equality and has many women in senior leadership positions.

Most recently, Mary Riskey was confirmed as our Chief Financial Officer and Sheila Lichty was appointed to Vice President and Treasurer. We are also committed to strengthening our local communities by supporting charitable organizations, particularly those allied with the housing sector. In the Minneapolis area, some of the largest charities that we support include *Aeon: Homes for Generations*, *Habitat for Humanity* and *Simpson Housing*. Notably, in 2018 we secured a $250,000 Competitive Affordable Housing Program grant for Twin Cities Habitat for Humanity.

Going forward, we aim to continue generating strong earnings while maintaining an emphasis on risk management. We believe that there continue to be attractive opportunities in our Rates and Credit strategies, and we are focused on actively managing our risk with the goal of dampening volatility. Additionally, we believe we can enhance returns and optimize earnings through the construction of our balance sheet. Looking ahead to 2019, as a result of Agency spread widening there are more attractive opportunities to invest in Agency RMBS. Additionally, the MSR market continues to be active and we intend to selectively recycle legacy non-Agencies in our portfolio that have significant total return upside potential. We are very excited about the investment opportunities for our company in 2019.

Thank you for your interest in and support of Two Harbors.

Sincerely,

Thomas Siering
President and Chief Executive Officer

(1) Assets in “Rates” include Agency RMBS, MSR and other interest rate sensitive assets.
(2) Assets in “Credit” include non-Agency securities and other credit sensitive assets.

Forward-Looking Statements
Certain statements in this fact sheet that are neither reported financial results nor other historical information are forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, including those described under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, and any subsequent Quarterly Report on Form 10-Q, as filed with the Securities and Exchange Commission. Our actual results and our plans and objectives may differ materially from those expressed in any forward-looking statements expressed herein, and you are cautioned not to place undue reliance on them.