TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

First Quarter 2019 Letter to Stockholders

NYSE: TWO

June 12, 2019

Dear Fellow Stockholders,

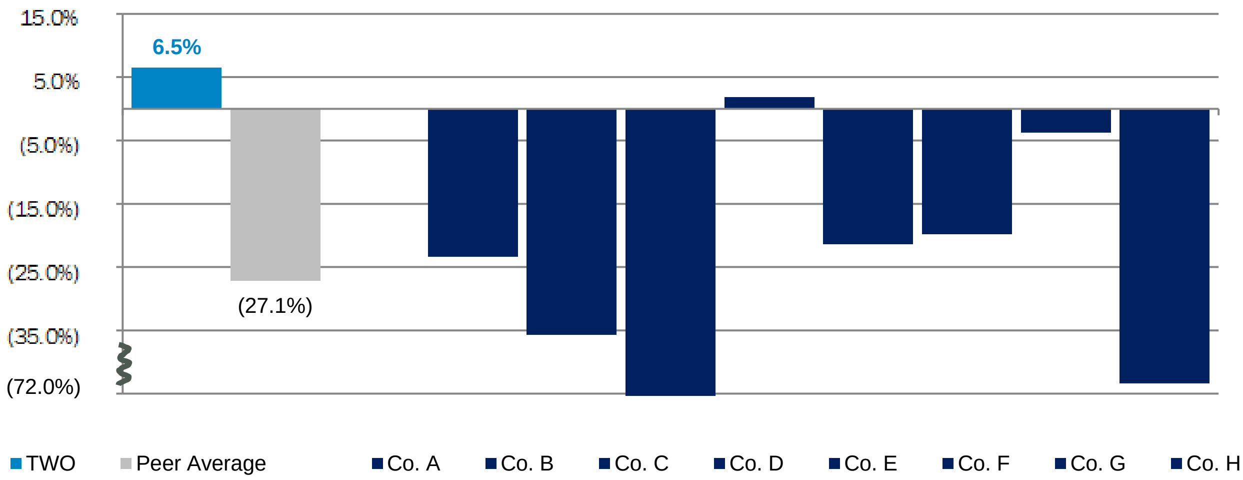
Two Harbors had a very strong first quarter of 2019. Our book value grew to $13.83 per share, representing a total return of 9.1%(1) for the period, we reported Core Earnings(2) of $0.49 per basic common share, and we generated comprehensive income of $1.23 per basic common share. We also completed an underwritten common stock offering and utilized our at-the-market stock issuance program for net proceeds of approximately $335 million, which we deployed into Agency residential mortgage-backed securities (RMBS) and mortgage servicing rights (MSR).

A more balanced Federal Reserve outlook in the first quarter led to the markets stabilizing and shifting expectations from rate increases to stable-to-lower rates. As a result, Agency RMBS spreads tightened modestly, with higher coupons and specified pools outperforming. While the economy remains strong, we think that the combination of low levels of inflation and little-to-no yield to be found in foreign bond markets makes it unlikely that rates will be substantially higher in the near-term. Consequently, we expect to see less volatility in interest rates and the curve to remain relatively flat.

This environment bodes well for our business. Today, we believe that our Rates(3) strategy of pairing Agency RMBS with MSR is the best investment opportunity for long-term returns. Agency RMBS remain attractive due to wider spreads and the more balanced Fed outlook. Additionally, MSR supply is abundant, providing substantial opportunity to participate in purchasing new issue, conventional MSR. We believe that the coupling of these two assets should produce strong risk-adjusted returns in the low-to-mid double digits. In our Credit(4) strategy, we believe that our deeply discounted legacy non-Agency securities still have upside due to the continued tailwinds to housing. As our current non-Agency holdings realize their upside, we expect to sell them and recycle that capital into the best available opportunities at that time.

The key factors that differentiate our business from our peers are (1) our strategy of pairing Agency RMBS with MSR, (2) our use of a variety of instruments to hedge interest rate exposure, and (3) our portfolio of legacy non-Agency securities, which would be difficult to replicate. With respect to our risk profile, in the quarter we continued to maintain low exposures to both interest rate and spread changes, in line with our historical positioning. Importantly, MSR hedges both rate and spread risk, which is one the key reasons why we like pairing it with our Agency RMBS holdings. We think that this approach to investing and risk management will enable us to deliver strong, risk-adjusted returns and book value stability through a variety of market environments. Since inception, we have grown our book value by 6.5%, compared to an average mortgage REIT book value decline of 27% over the same period of time.(5) Notably, we achieved these results with 33% lower book value volatility compared to the mortgage REIT average.(5)

BOOK VALUE GROWTH(5)



We believe the company is positioned to continue to generate strong returns for our stockholders, while also maintaining an emphasis on risk management. In the first quarter, we began to see increased institutional investor interest in our stock, which we believe is partly due to the fact that many investors believe that we are in a late-cycle economic environment. This was evidenced through robust institutional demand in our common stock issuance in the quarter. We have also been active in our marketing efforts through roadshows and conferences, and we are seeing both new players and those who have been on the sidelines during the past few years taking interest in our stock.

As we look forward in 2019, we are very excited about the investment opportunities for Two Harbors. Thank you for your interest in and support of Two Harbors.

Sincerely,

Thomas Siering
President and Chief Executive Officer

(1) Return on book value for the quarter ended March 31, 2019 is defined as the increase in book value per common share from December 31, 2018 to March 31, 2019 of $0.72, plus dividends declared amounting to $0.47 per common share, divided by December 31, 2018 book value of $13.11 per common share.

(2) Core Earnings, including dollar roll income, is a non-U.S. GAAP measure that we define as comprehensive income (loss) 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, non-cash compensation expense related to restricted common stock and restructuring charges) and transaction costs and purchase premium associated with the acquisition of CYS. 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.

(3) Assets in "Rates" include Agency RMBS, MSR and other interest rate sensitive assets.

(4) Assets in "Credit" include non-Agency securities and other credit sensitive assets.

(5) Book value growth and volatility since our inception is measured from December 31, 2009 or the peer company's inception, whichever is later, through March 31, 2019. Two Harbors quarterly book values have been adjusted for each quarter from Q1 2013 forward to include $1.88 of stock distributions associated with the special dividend of Silver Bay Realty Trust and, beginning in Q4 2017, $3.67 of stock distributions associated with the special dividend of Granite Point Mortgage Trust Inc. common stock. Peer mortgage REITs include AGNC, ANH, ARR, CIM, CMO, IVR, MFA and NLY. Peer book value figures are based on publicly reported data and have not been adjusted for the return of capital from dividends, if any, to peer stockholders during the same period. Book value volatility calculated by dividing the standard deviation of book values in the measured period by the average book value from the measured period. Source: Bloomberg