

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ SEE ATTACHED.

Multiple horizontal lines for providing details for question 17.

18 Can any resulting loss be recognized? ▶ SEE ATTACHED.

Multiple horizontal lines for providing details for question 18.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ SEE ATTACHED.

Multiple horizontal lines for providing details for question 19.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here Signature ▶ Brad Farrell Date ▶ 1/19/18

Print your name ▶ BRAD FARRELL Title ▶ CHIEF FINANCIAL OFFICER

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶	Firm's EIN ▶			
	Firm's address ▶	Phone no.			

Two Harbors Investment Corp.
Return of Capital (Nontaxable Distribution) to Common Stock Shareholders

Attachment to Form 8937

CONSULT YOUR TAX ADVISOR

THE FOLLOWING DISCUSSION IS A SUMMARY OF MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE RETURN OF CAPITAL TO COMMON STOCK SHAREHOLDERS UNDER CURRENT LAW AND IS FOR GENERAL INFORMATION ONLY. THE INFORMATION CONTAINED HEREIN DOES NOT CONSTITUTE TAX ADVICE AND DOES NOT PURPORT TO BE COMPLETE OR TO DESCRIBE THE CONSEQUENCES THAT MAY APPLY TO PARTICULAR CATEGORIES OF SHAREHOLDERS.

SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISOR WITH RESPECT TO THE U.S. FEDERAL, STATE AND LOCAL AND FOREIGN TAX CONSEQUENCES OF RETURN OF CAPITAL TO COMMON STOCK SHAREHOLDERS.

Part II – Organizational Action

Line 14. Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action.

Two Harbors Investment Corp. made cash distributions on April 27, 2017, July 27, 2017, October 27, 2017, and December 29, 2017 to each of its common stock shareholders of record on March 31, 2017, June 30, 2017, September 29, 2017, and December 26 2017, respectively. In addition, Two Harbors Investment Corp. made a property distribution on November 01, 2017 to each of its shareholders of record on October 20, 2017.

Line 15: Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis.

A portion of each distribution made by Two Harbors Investment Corp. during the calendar year 2017 is not taxable as a dividend under IRC Section 301(c)(1), but is applied first against stock basis under IRC Section 302 (c)(2) ("return of capital"). To the extent such portion, together with other such distributions made during the taxable year, exceeds the shareholder's basis in the stock, the excess is treated as gain from the sale or exchange of the stock. The portion of each distribution that is not taxable as a dividend under IRC Section 301(c)(1) on a per share basis is as follows:

<u>Distribution Date</u>	<u>Distribution Per Share</u>	<u>Per Share Amount Not Treated as Dividend</u>
4/27/2017	\$0.250000	\$0.159313
7/27/2017	\$0.260000	\$0.165685
10/27/2017	\$0.260000	\$0.165685
11/1/2017	\$1.779688	\$1.134107
12/29/2017	\$0.470000	\$0.299508

As such, each shareholder's tax basis in common stock of Two Harbors Investment Corp. is decreased by the lesser the amount of the shareholder's share of the return of capital distributions or the shareholder's tax basis in such common stock.

Line 16: Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates.

Two Harbors Investment Corp.'s earnings and profits were calculated under IRC Section 312 as modified by IRC Section 857(d) for real estate investment trusts and the regulations thereunder. Distributions in excess of the portion of the earnings and profits allocable to the common shares reduce the shareholder's tax basis in its shares to the extent of such basis.

Total cash distributions to Two Harbors Investment Corp.'s A-Series and B-Series preferred shares were \$7,234,880 and \$5,967,580, respectively. Earnings and profits are first allocated to Two Harbors Investment Corp.'s preferred classes of stockholders. Thus, preferred dividends decrease the amount of earnings and profits allocable to Two Harbors Investment Corp.'s common shares. Two Harbors Investment Corp.'s current and accumulated earnings and profits for the current taxable year totaled \$371,593,873. The preferred A-Series and B-Series dividends reduce the amount of earnings and profits allocable to the common shares to \$358,391,413.

Total cash distributions to the common shares made during the calendar year were \$347,989,780. Conversion rate adjustments to convertible notes during the calendar year resulted in a deemed distribution of \$23,632,993. The fair market value of the property distribution to common shares made during the calendar year was \$616,362,749. The total distributions during the calendar year related to common shares were thus the sum of these three amounts, \$987,985,522.

The earnings and profits allocable to the common shares was \$358,391,413, resulting in a total non-dividend distribution (i.e., return of capital or capital gain) for the 2017 tax year attributable to all shareholders of common stock in the amount of \$629,594,109.

Accordingly, the return of capital percentage allocable to common distributions during the 2017 reporting year was 63.725034% ($\$629,594,109 / \$987,985,522$).

Line 17: List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based.

IRS Sections 301, 312, and 316.

Line 18: Can any resulting loss be recognized?

No.

Line 19: Provide any other information necessary to implement the adjustment, such as the reportable tax year:

The reporting tax year is the 2017 calendar year.