

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,	
	2016	2015
	(unaudited)	
Reconciliation of net (loss) income to Core Earnings:		
Net (loss) income	\$ (88,930)	\$ 94,793
Adjustments for non-core earnings:		
Gain on sale of securities and residential mortgage loans held-for-sale, net of tax	(16,749)	(122,527)
Unrealized gain on securities and residential mortgage loans held-for-sale, net of tax	(14,103)	(8,644)
Other-than-temporary impairment loss, net of tax	717	127
Realized gain on termination or expiration of swaps and swaptions, net of tax	(9,586)	(7,279)
Unrealized loss on interest rate swaps and swaptions economically hedging investment portfolio, repurchase agreements and FHLB advances, net of tax	134,942	97,469
Gain on other derivative instruments, net of tax	(9,393)	(824)
Realized and unrealized (gain) loss on financing securitizations, net of tax	(1,478)	2,902
Realized and unrealized loss on mortgage servicing rights, net of tax	73,661	36,318
Securitization deal costs, net of tax	2,426	1,697
Change in representation and warranty reserve, net of tax	337	43
Core Earnings ⁽¹⁾	<u>\$ 71,844</u>	<u>\$ 94,075</u>
Weighted average shares outstanding	349,436,015	366,507,657
Core Earnings per weighted average share outstanding	\$ 0.21	\$ 0.26

(1) Core Earnings is a non-GAAP measure that we define as GAAP net income, excluding impairment losses, realized and unrealized gains or losses on the aggregate portfolio, amortization of business combination intangible assets, reserve expense for representation and warranty obligations on MSR and certain upfront costs related to securitization transactions. 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. Core Earnings is provided for purposes of comparability to other peer issuers.

TWO HARBORS INVESTMENT CORP.
SUMMARY OF QUARTERLY CORE EARNINGS

(dollars in millions, except per share data)

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	Three Months Ended				
	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	(unaudited)				
Net Interest Income:					
Interest income	\$ 130.8	\$ 133.6	\$ 152.8	\$ 152.5	\$ 163.0
Interest expense	41.4	36.6	37.0	35.0	33.5
Net interest income	89.4	97.0	115.8	117.5	129.5
Other income:					
Interest spread on interest rate swaps	(6.2)	(12.6)	(19.4)	(26.2)	(27.5)
Interest spread on other derivative instruments	5.4	6.0	5.6	6.4	7.7
Servicing income, net of amortization ⁽¹⁾	17.9	16.8	10.8	17.2	19.1
Other income	1.3	1.4	1.1	1.0	1.0
Total other (loss) income	18.4	11.6	(1.9)	(1.6)	0.3
Expenses	34.3	35.8	35.6	35.3	35.4
Core Earnings before income taxes	73.5	72.8	78.3	80.6	94.4
Income tax (benefit) expense	1.7	0.7	(1.1)	0.4	0.3
Core Earnings	\$ 71.8	\$ 72.1	\$ 79.4	\$ 80.2	\$ 94.1
Basic and diluted weighted average Core EPS	\$ 0.21	\$ 0.20	\$ 0.22	\$ 0.22	\$ 0.26

(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.