UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

Current Report
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: August 6, 2019

Two Harbors Investment Corp.

(Exact name of registrant as specified in its charter)

Maryland	**001-34506**	**27-0312904**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)
575 Lexington Avenue, Suite 2930	**New York, NY**	**10022**
(Address of Principal Executive Offices)		(Zip Code)

(612) 629-2500
Registrant's telephone number, including area code

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class:	Trading Symbol(s)	Name of Exchange on Which Registered:
Common Stock, par value $0.01 per share	TWO	New York Stock Exchange
8.125% Series A Cumulative Redeemable Preferred Stock	TWO PRA	New York Stock Exchange
7.625% Series B Cumulative Redeemable Preferred Stock	TWO PRB	New York Stock Exchange
7.25% Series C Cumulative Redeemable Preferred Stock	TWO PRC	New York Stock Exchange
7.75% Series D Cumulative Redeemable Preferred Stock	TWO PRD	New York Stock Exchange
7.50% Series E Cumulative Redeemable Preferred Stock	TWO PRE	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

☐

Item 2.02 Results of Operations and Financial Condition.

On August 6, 2019, Two Harbors Investment Corp. (the "Company") issued a press release announcing its financial results for the fiscal quarter ended June 30, 2019. A copy of the press release and the 2019 Second Quarter Earnings Call Presentation are attached hereto as Exhibits 99.1 and 99.2, respectively, and are incorporated herein by reference.

The information in this Current Report, including Exhibits 99.1 and 99.2 attached hereto, is furnished pursuant to Item 2.02 of Form 8-K and shall not be deemed to be “filed” for any other purpose, including for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in Item 2.02 of this Current Report, including Exhibits 99.1 and 99.2, shall not be deemed incorporated by reference into any filing of the registrant under the Securities Act of 1933 or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filings (unless the registrant specifically states that the information or exhibit in this Item 2.02 is incorporated by reference).

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Press Release of Two Harbors Investment Corp., dated August 6, 2019.
99.2	2019 Second Quarter Earnings Call Presentation.
104	Cover Page Interactive Data File, formatted in Inline XBRL.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TWO HARBORS INVESTMENT CORP.

By: /s/ REBECCA B. SANDBERG
Rebecca B. Sandberg
General Counsel and Secretary

Date: August 6, 2019

TWO HARBORS Investment Corp.
A Pine River Capital Managed Company

Two Harbors Investment Corp. Reports Second Quarter 2019 Financial Results

Generated Strong 14.7% Return on Book Value for the First Half of 2019[(1)]

NEW YORK, August 6, 2019 - 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 June 30, 2019.

Quarterly Summary

- Grew book value to $14.17 per common share, representing a 5.4% quarterly total return on book value.[(1)]
- Generated Comprehensive Income of $201.0 million, or $0.74 per weighted average basic common share.
- Reported Core Earnings, including dollar roll income, of $106.0 million, or $0.39 per weighted average basic common share, representing a return on average common equity of 11.1%.[(2)]
- Closed first MSR securitization of $400 million 5-year term notes with attractive terms.

"Our strong return on book value was driven by our acute focus on portfolio positioning and hedging," stated Thomas Siering, Two Harbors' President and Chief Executive Officer. "Additionally, improvements in financing continue to present a long-term opportunity for our business. This quarter we completed our first MSR securitization, which has attractive terms and is scalable."

(1) Return on book value is defined as the increase (decrease) in book value per common share from the beginning to the end of the given period, plus dividends declared in the period, divided by the book value as of the beginning of the period.
(2) Core Earnings, including dollar roll income, is a non-GAAP measure. Please see page 11 for a definition of Core Earnings, including dollar roll income, and a reconciliation of GAAP to non-GAAP financial information.

Operating Performance

The following table summarizes the company's GAAP and non-GAAP earnings measurements, and key metrics for the first and second quarters of 2019:

Two Harbors Investment Corp. Operating Performance (unaudited)

(dollars in thousands, except per common share data)

	Three Months Ended June 30, 2019			Three Months Ended March 31, 2019		
Earnings attributable to common stockholders	**Earnings**	**Per weighted average basic common share**	**Annualized return on average common equity**	**Earnings**	**Per weighted average basic common share**	**Annualized return on average common equity**
Comprehensive Income	$ 201,042	$ 0.74	21.0 %	$ 311,267	$ 1.23	36.2 %
GAAP Net Loss	$ (109,507)	$ (0.40)	(11.4)%	$ (44,885)	$ (0.18)	(5.2)%
Core Earnings, including dollar roll income[1]	$ 106,034	$ 0.39	11.1 %	$ 122,683	$ 0.49	14.3 %
Operating Metrics						
Dividend per common share	$ 0.40			$ 0.47		
Annualized dividend yield[2]	12.6%			13.9%		
Book value per common share at period end	$ 14.17			$ 13.83		
Return on book value[3]	5.4%			9.1%		
Other operating expenses, excluding non-cash LTIP amortization[4]	$ 11,617			$ 13,695		
Other operating expenses, excluding non-cash LTIP amortization, as a percentage of average equity[4]	1.0%			1.2%		

(1) Please see page 11 for a definition of Core Earnings, including dollar roll income, and a reconciliation of GAAP to non-GAAP financial information. A description of the updated MSR amortization method utilized by the company to calculate Core Earnings, including dollar roll income, is also provided.
(2) Dividend yield is calculated based on annualizing the dividends declared in the given period, divided by the closing share price as of the end of the period.
(3) Return on book value is defined as the increase (decrease) in book value per common share from the beginning to the end of the given period, plus dividends declared in the period, divided by the book value as of the beginning of the period.
(4) Excludes non-cash equity compensation expense of $2.4 million for the second quarter 2019 and $1.9 million for the first quarter 2019.

"The second quarter was marked by lower rates, a flatter curve and wider spreads in the Agency RMBS market," stated Bill Roth, Two Harbors' Chief Investment Officer. "Given this backdrop, pairing Agencies with MSR remains particularly attractive, as we believe it generates a more stable risk-adjusted return throughout market cycles. Additionally, the lower rate environment is beneficial to our portfolio of discounted legacy non-Agencies."

Portfolio Summary

The company's portfolio is comprised of a Rates strategy and a Credit strategy. The Rates strategy consisted of $28.2 billion of Agency RMBS, Agency Derivatives and MSR as well as their associated notional hedges as of June 30, 2019. Additionally, the company held $9.4 billion notional of net long to-be-announced securities (TBAs) as part of the Rates strategy. The Credit strategy consisted of $3.9 billion of non-Agency securities, as well as their associated notional hedges as of June 30, 2019.

The following tables summarize the company's investment portfolio as of June 30, 2019 and March 31, 2019:

Two Harbors Investment Corp. Portfolio

(dollars in thousands)

Portfolio Composition	As of June 30, 2019		As of March 31, 2019	
	(unaudited)		(unaudited)	
Rates Strategy				
Agency				
Fixed Rate	$ 26,291,937	82.0%	$ 21,515,529	79.2%
Other Agency[1]	92,712	0.3%	89,433	0.3%
Total Agency	26,384,649	82.3%	21,604,962	79.5%
Mortgage servicing rights	1,800,826	5.6%	2,014,370	7.4%
Credit Strategy				
Non-Agency				
Senior	3,211,099	10.0%	2,885,449	10.7%
Mezzanine	575,246	1.8%	576,130	2.1%
Other	91,291	0.3%	82,933	0.3%
Total Non-Agency	3,877,636	12.1%	3,544,512	13.1%
Aggregate Portfolio	32,063,111		27,163,844	
Net TBA position	9,422,000		10,168,000	
Total Portfolio	$ 41,485,111		$ 37,331,844	

Portfolio Metrics	Three Months Ended June 30, 2019	Three Months Ended March 31, 2019
	(unaudited)	(unaudited)
Annualized portfolio yield during the quarter	3.93%	4.25%
Rates Strategy		
Agency RMBS, Agency Derivatives and mortgage servicing rights	3.67%	3.89%
Credit Strategy		
Non-Agency securities	6.00%	6.72%
Annualized cost of funds on average borrowing balance during the quarter[2]	2.55%	2.47%
Annualized interest rate spread for aggregate portfolio during the quarter	1.38%	1.78%

(1) Other Agency includes hybrid ARMs and Agency derivatives.
(2) Cost of funds includes interest spread income/expense associated with the portfolio's interest rate swaps and caps.

Portfolio Metrics Specific to RMBS and Agency Derivatives	As of June 30, 2019	As of March 31, 2019
	(unaudited)	(unaudited)
Weighted average cost basis of principal and interest securities		
Agency[3]	$ 104.31	$ 104.87
Non-Agency[4]	$ 61.70	$ 62.04
Weighted average three month CPR		
Agency	10.1%	6.5%
Non-Agency	5.3%	4.9%
Fixed-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	87.8%	86.7%
Adjustable-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	12.2%	13.3%

(3) Weighted average cost basis includes RMBS principal and interest securities only. Average purchase price utilized carrying value for weighting purposes.
(4) Average purchase price utilized carrying value for weighting purposes. If current face were utilized for weighting purposes, the average purchase price for total non-Agency securities excluding the company's non-Agency interest-only portfolio, would be $58.50 at June 30, 2019 and $58.95 at March 31, 2019.

Portfolio Metrics Specific to MSR[1]	As of June 30, 2019	As of March 31, 2019
(dollars in thousands)	(unaudited)	(unaudited)
Unpaid principal balance	$ 169,643,681	$ 174,147,259
Fair market value	$ 1,800,826	$ 2,014,370
Weighted average coupon	4.1%	4.1%
Weighted average original FICO score[2]	751	751
Original LTV	75%	75%
60+ day delinquencies	0.3%	0.3%
Net servicing spread	26.3 basis points	26.1 basis points

	Three Months Ended June 30, 2019	Three Months Ended March 31, 2019
	(unaudited)	(unaudited)
Fair value losses	$ (252,432)	$ (188,974)
Servicing income	$ 130,949	$ 116,948
Servicing expenses	$ 17,629	$ 19,349
Servicing reserve (income) expense	$ (910)	$ 481

Note: The company does not directly service mortgage loans, but instead contracts with appropriately licensed subservicers to handle substantially all servicing functions in the name of the subservicer for the loans underlying the company's MSR.
(1) Metrics exclude residential mortgage loans in securitization trusts for which the company is the named servicing administrator.
(2) FICO represents a mortgage industry accepted credit score of a borrower.

Other Investments and Risk Management Metrics	As of June 30, 2019	As of March 31, 2019
(dollars in thousands)	(unaudited)	(unaudited)
Net long TBA notional amount[3]	$ 9,422,000	$ 10,168,000
Interest rate swaps and caps notional, utilized to economically hedge interest rate exposure (or duration)	$ 40,470,277	$ 40,896,277
Swaptions net notional, utilized as macroeconomic hedges	3,875,000	5,900,000
Total interest rate swaps, caps and swaptions notional	$ 44,345,277	$ 46,796,277

(3) Accounted for as derivative instruments in accordance with GAAP.

Financing Summary

The following tables summarize the company's financing metrics and outstanding repurchase agreements, FHLB advances, revolving credit facilities and convertible senior notes as of June 30, 2019 and March 31, 2019:

June 30, 2019	Balance	Weighted Average Borrowing Rate	Weighted Average Months to Maturity	Number of Distinct Counterparties
(dollars in thousands, unaudited)				
Repurchase agreements collateralized by RMBS	$ 27,868,044	2.70%	2.76	
Repurchase agreements collateralized by MSR	300,000	4.15%	17.10	
Total repurchase agreements	28,168,044	2.70%	2.90	26
FHLB advances collateralized by RMBS[4]	50,000	3.20%	183.68	1
Revolving credit facilities collateralized by MSR	—	—%	—	—
Term notes payable collateralized by MSR	394,061	5.20%	59.90	n/a
Unsecured convertible senior notes	284,331	6.25%	30.53	n/a
Total borrowings	$ 28,896,436			

(4) 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.

March 31, 2019		Balance	Weighted Average Borrowing Rate	Weighted Average Months to Maturity	Number of Distinct Counterparties
(dollars in thousands, unaudited)					
Repurchase agreements collateralized by RMBS	$	19,429,691	2.83%	2.18	
Repurchase agreements collateralized by MSR		300,000	4.25%	20.09	
Total repurchase agreements		19,729,691	2.85%	2.46	30
FHLB advances collateralized by RMBS(1)		865,024	2.80%	12.83	1
Revolving credit facilities collateralized by MSR		375,294	5.50%	44.00	3
Unsecured convertible senior notes		284,099	6.25%	33.53	n/a
Total borrowings	$	21,254,108			

(1) 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.

Borrowings by Collateral Type		As of June 30, 2019		As of March 31, 2019
(dollars in thousands)		(unaudited)		(unaudited)
Collateral type:				
Agency RMBS and Agency Derivatives	$	25,854,494	$	18,112,621
Mortgage servicing rights		694,061		675,294
Non-Agency securities		2,063,550		2,182,094
Other(2)		284,331		284,099
Total/Annualized cost of funds on average borrowings during the quarter	$	28,896,436	$	21,254,108
Debt-to-equity ratio at period-end(3)		5.9:1.0		4.5:1.0
Economic debt-to-equity ratio at period-end(4)		7.8:1.0		6.5:1.0

Cost of Funds Metrics	Three Months Ended June 30, 2019	Three Months Ended March 31, 2019
	(unaudited)	(unaudited)
Annualized cost of funds on average borrowings during the quarter:	2.9%	2.9%
Agency RMBS and Agency Derivatives	2.7%	2.6%
Mortgage servicing rights(5)	5.5%	5.5%
Non-Agency securities	3.7%	3.7%
Other(2)(5)	6.6%	6.7%

(2) Includes unsecured convertible senior notes.
(3) Defined as total borrowings to fund RMBS, MSR and Agency Derivatives, divided by total equity.
(4) Defined as total borrowings to fund RMBS, MSR and Agency Derivatives, plus the implied debt on net TBA positions, divided by total equity.
(5) Includes amortization of debt issuance costs.

Conference Call

Two Harbors Investment Corp. will host a conference call on August 7, 2019 at 9:00 a.m. EDT to discuss second quarter 2019 financial results and related information. To participate in the teleconference, please call toll-free 800-239-9838, conference code 4399018, 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 August 7, 2019, through 12:00 a.m. EDT on August 14, 2019. The playback can be accessed by calling (888) 203-1112 , conference code 4399018. 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, 2018, 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 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, including dollar roll income 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 12 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
margaret.field@twoharborsinvestment.com

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TWO HARBORS INVESTMENT CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	June 30, 2019	December 31, 2018
	(unaudited)	
ASSETS		
Available-for-sale securities, at fair value	$ 30,186,079	$ 25,552,604
Mortgage servicing rights, at fair value	1,800,826	1,993,440
Cash and cash equivalents	433,579	409,758
Restricted cash	358,109	688,006
Accrued interest receivable	97,631	86,589
Due from counterparties	983,429	154,626
Derivative assets, at fair value	246,995	319,981
Reverse repurchase agreements	109,500	761,815
Other assets	124,088	165,660
Total Assets	$ 34,340,236	$ 30,132,479
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Repurchase agreements	$ 28,168,044	$ 23,133,476
Federal Home Loan Bank advances	50,000	865,024
Revolving credit facilities	—	310,000
Term notes payable	394,061	—
Convertible senior notes	284,331	283,856
Derivative liabilities, at fair value	255	820,590
Due to counterparties	255,281	130,210
Dividends payable	128,110	135,551
Accrued interest payable	145,850	160,005
Other liabilities	45,530	39,278
Total Liabilities	29,471,462	25,877,990
Stockholders' Equity		
Preferred stock, par value $0.01 per share; 50,000,000 shares authorized and 40,050,000 and 40,050,000 shares issued and outstanding, respectively ($1,001,250 and $1,001,250 liquidation preference, respectively)	977,501	977,501
Common stock, par value $0.01 per share; 450,000,000 shares authorized and 272,899,638 and 248,085,721 shares issued and outstanding, respectively	2,729	2,481
Additional paid-in capital	5,149,175	4,809,616
Accumulated other comprehensive income	777,518	110,817
Cumulative earnings	2,215,437	2,332,371
Cumulative distributions to stockholders	(4,253,586)	(3,978,297)
Total Stockholders' Equity	4,868,774	4,254,489
Total Liabilities and Stockholders' Equity	$ 34,340,236	$ 30,132,479

TWO HARBORS INVESTMENT CORP.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

Certain prior period amounts have been reclassified to conform to the current period presentation

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
	(unaudited)		(unaudited)	
Interest income:				
Available-for-sale securities	$ 253,807	$ 183,467	$ 489,693	$ 374,183
Other	7,222	3,893	16,819	7,196
Total interest income	261,029	187,360	506,512	381,379
Interest expense:				
Repurchase agreements	177,351	97,812	324,911	184,392
Federal Home Loan Bank advances	3,941	4,896	10,015	9,354
Revolving credit facilities	6,196	999	11,352	1,803
Term notes payable	231	—	231	—
Convertible senior notes	4,724	4,707	9,459	9,425
Total interest expense	192,443	108,414	355,968	204,974
Net interest income	68,586	78,946	150,544	176,405
Other-than-temporary impairment losses	(4,848)	(174)	(5,054)	(268)
Other (loss) income:				
Gain (loss) on investment securities	22,441	(31,882)	3,149	(52,553)
Servicing income	130,949	77,665	247,897	148,855
(Loss) gain on servicing asset	(252,432)	9,853	(441,406)	81,660
(Loss) gain on interest rate swap, cap and swaption agreements	(88,775)	29,133	(172,034)	179,678
Gain on other derivative instruments	80,664	7,675	184,942	15,728
Other (loss) income	(341)	730	(218)	1,788
Total other (loss) income	(107,494)	93,174	(177,670)	375,156
Expenses:				
Management fees	13,635	11,453	25,717	23,161
Servicing expenses	16,746	11,539	36,658	26,093
Other operating expenses	14,013	15,515	29,569	30,007
Total expenses	44,394	38,507	91,944	79,261
(Loss) income before income taxes	(88,150)	133,439	(124,124)	472,032
Provision for (benefit from) income taxes	2,407	(6,051)	(7,632)	(2,267)
Net (loss) income	(90,557)	139,490	(116,492)	474,299
Dividends on preferred stock	18,950	13,747	37,900	27,494
Net (loss) income attributable to common stockholders	$ (109,507)	$ 125,743	$ (154,392)	$ 446,805
Basic (loss) earnings per weighted average common share	$ (0.40)	$ 0.72	$ (0.59)	$ 2.55
Diluted (loss) earnings per weighted average common share	$ (0.40)	$ 0.68	$ (0.59)	$ 2.36
Dividends declared per common share	$ 0.40	$ 0.47	$ 0.87	$ 0.94
Weighted average number of shares of common stock:				
Basic	272,863,153	175,451,989	262,667,160	175,299,822
Diluted	272,863,153	193,212,877	262,667,160	193,016,793

TWO HARBORS INVESTMENT CORP.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME, CONTINUED

(dollars in thousands)

Certain prior period amounts have been reclassified to conform to the current period presentation

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(unaudited)		(unaudited)	
Comprehensive income:				
Net (loss) income	$ (90,557)	$ 139,490	$ (116,492)	$ 474,299
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on available-for-sale securities	310,549	(34,887)	666,701	(379,664)
Other comprehensive income (loss)	310,549	(34,887)	666,701	(379,664)
Comprehensive income	219,992	104,603	550,209	94,635
Dividends on preferred stock	18,950	13,747	37,900	27,494
Comprehensive income attributable to common stockholders	$ 201,042	$ 90,856	$ 512,309	$ 67,141

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 June 30,	Three Months Ended March 31,
	2019	2019
	(unaudited)	(unaudited)
Reconciliation of Comprehensive income to Core Earnings:		
Comprehensive income attributable to common stockholders	$ 201,042	$ 311,267
Adjustment for other comprehensive income attributable to common stockholders:		
Unrealized gains on available-for-sale securities attributable to common stockholders	(310,549)	(356,152)
Net loss attributable to common stockholders	$ (109,507)	$ (44,885)
Adjustments for non-Core Earnings:		
Other-than-temporary impairments and loss recovery adjustments	12,895	206
Realized (gain) loss on securities	(23,589)	17,457
Unrealized losses on securities	1,148	1,835
Realized and unrealized losses on mortgage servicing rights	174,212	124,569
Realized (gain) loss on termination or expiration of swaps, caps and swaptions	(55,513)	34,499
Unrealized losses on interest rate swaps, caps and swaptions	167,174	72,469
Gains on other derivative instruments	(63,953)	(75,605)
Other loss	899	439
Change in servicing reserves	(910)	481
Non-cash equity compensation expense	2,396	1,861
Net provision for (benefit from) income taxes on non-Core Earnings	782	(10,643)
Core Earnings attributable to common stockholders, including dollar roll income[1]	$ 106,034 [2]	$ 122,683
Weighted average basic common shares	272,863,153	252,357,878
Core Earnings, including dollar roll income, attributable to common stockholders per weighted average basic common share	$ 0.39	$ 0.49

(1) Core Earnings, including dollar roll income, is a non-U.S. GAAP measure that we define as comprehensive 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, non-cash compensation expense related to restricted common stock and restructuring charges) and transaction costs 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.

(2) Beginning with this reporting period, the company has refined the MSR amortization method utilized in the calculation of Core Earnings, including dollar roll income. The new method includes an adjustment for any gain or loss on the capital used to purchase the MSR and allows Core Earnings to better reflect how the carry earned on MSR varies as a function of prepayment rates. If the updated method was applied retroactively to the period ended March 31, 2019, it would have resulted in an additional $0.1 million expense, net of tax, which would have resulted in no change to Core Earnings, including dollar roll income, per weighted average share for that period.

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				
	June 30, 2019	**March 31, 2019**	**December 31, 2018**	**September 30, 2018**	**June 30, 2018**
			(unaudited)		
Net Interest Income:					
Interest income	$ 269.1	$ 245.5	$ 252.0	$ 236.7	$ 187.3
Interest expense	192.4	163.5	162.3	152.4	108.4
Net interest income	76.7	82.0	89.7	84.3	78.9
Other income:					
Gain on investment securities	—	—	—	—	0.7
Servicing income, net of amortization(1)	52.7	52.5	46.9	37.1	31.7
Interest spread on interest rate swaps and caps	22.9	23.7	15.3	16.2	13.8
Gain on other derivative instruments	16.7	28.7	29.8	30.2	18.2
Other income	0.5	0.5	0.6	0.6	0.5
Total other income	92.8	105.4	92.6	84.1	64.9
Expenses	42.9	45.2	42.3	42.5	35.1
Core Earnings, including dollar roll income before income taxes	126.6	142.2	140.0	125.9	108.7
Income tax expense (benefit)	1.6	0.6	0.3	(0.1)	1.1
Core Earnings, including dollar roll income	125.0	141.6	139.7	126.0	107.6
Dividends on preferred stock	19.0	18.9	19.0	19.0	13.7
Core Earnings, including dollar roll income, attributable to common stockholders(2)	$ 106.0	$ 122.7	$ 120.7	$ 107.0	$ 93.9
Weighted average basic Core EPS, including dollar roll income	$ 0.39	$ 0.49	$ 0.49	$ 0.48	$ 0.53
Core earnings return on average common equity, including dollar roll income	11.1%	14.3%	13.8%	12.4%	13.5%

(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, including dollar roll income. Amortization of MSR is deemed a non-GAAP measure due to the company's decision to account for MSR at fair value. As discussed on page 11, the company has refined the MSR amortization method utilized in the calculation of Core Earnings beginning with the period ended June 30, 2019. MSR amortization amounts for periods ending prior to June 30, 2019 have not be adjusted.

(2) Please see page 11 for a definition of Core Earnings, including dollar roll income, and a reconciliation of GAAP to non-GAAP financial information.


Second Quarter 2019
Earnings Call
AUGUST 7, 2019
TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

Safe Harbor Statement

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, 2018, 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 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 mortgage servicing rights (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.

This presentation may include industry and market data obtained through research, surveys, and studies conducted by third parties and industry publications. We have not independently verified any such market and industry data from third-party sources. This presentation is provided for discussion purposes only and may not be relied upon as legal or investment advice, nor is it intended to be inclusive of all the risks and uncertainties that should be considered. This presentation does not constitute an offer to purchase or sell any securities, nor shall it be construed to be indicative of the terms of an offer that the parties or their respective affiliates would accept.

Readers are advised that the financial information in this presentation is based on company data available at the time of this presentation and, in certain circumstances, may not have been audited by the company's independent auditors.

Quarterly Summary

Generated Strong 14.7% Return on Book Value for the First Half of 2019[(1)]

- Grew book value to $14.17 per common share, representing a 5.4% total quarterly return on book value.[(1)]

- Generated Comprehensive Income of $201.0 million, or $0.74 per weighted average basic common share.

- Reported Core Earnings, including dollar roll income, of $106.0 million, or $0.39 per weighted average basic common share, representing a return on average common equity of 11.1%.[(2)]

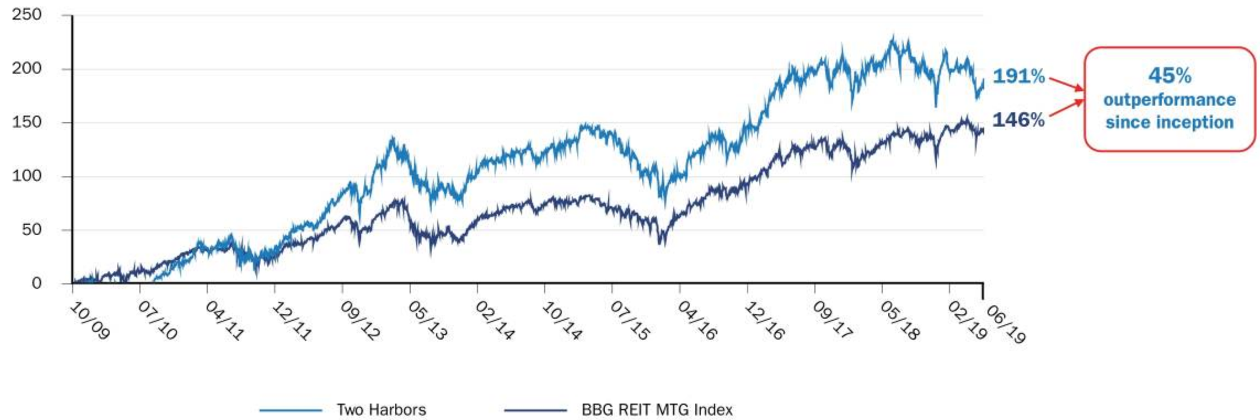
- Closed first MSR securitization of $400 million 5-year term notes with attractive terms.

(1) Return on book value is defined as the increase (decrease) in book value per common share from the beginning to the end of the given period, plus dividends declared in the period, divided by the book value as of the beginning of the period.

(2) Core Earnings, including dollar roll income, is a non-GAAP measure. Please see Appendix slide 18 of this presentation for a definition of Core Earnings, including dollar roll income, and a reconciliation of GAAP to non-GAAP financial information. A description of the updated MSR amortization method utilized by the company to calculate Core Earnings, including dollar roll income, is also provided.

Long-Term Stockholder Value Focus

DELIVERED TOTAL STOCKHOLDER RETURN OF 191% SINCE INCEPTION[1]



KEY DIFFERENTIATING FACTORS

1. Strategy of pairing MSR with Agency RMBS
2. Utilize a variety of instruments to hedge interest rate exposure
3. Unique portfolio of legacy non-Agency securities

✓ **Goal is to deliver strong results and book value stability through a variety of market environments**

(1) Two Harbors' total stockholder return is calculated for the period October 29, 2009 through June 30, 2019. Total stockholder return is defined as stock price appreciation including dividends. Source: Bloomberg. Bloomberg REIT Mortgage Index total stockholder return for the period October 29, 2009 through June 30, 2019. The Bloomberg REIT Mortgage Index tracks publicly traded REITs whose principal business consists of originating, servicing or investing in residential mortgage interests. The index uses a modified market capitalization weighted methodology, and components are reviewed quarterly for eligibility. Source: Bloomberg.

Book Value

(Dollars in millions, except per share data)	Q2-2019 Book Value	Q2-2019 Book Value per share	YTD-2019 Book Value	YTD-2019 Book Value per share
Beginning common stockholders' equity	**$ 3,773.0**	**$ 13.83**	**$ 3,253.2**	**$ 13.11**
GAAP Net Income:				
Core Earnings, including dollar roll income, net of tax(1)	125.0		266.6	
Dividend declaration - preferred	(19.0)		(37.9)	
Core Earnings attributable to common stockholders, including dollar roll income, net of tax(1)	106.0		228.7	
Realized and unrealized gains and losses, net of tax	(215.5)		(383.1)	
Other comprehensive loss, net of tax	310.5		666.7	
Dividend declaration - common	(109.2)		(237.4)	
Other	2.5		3.9	
Issuance of common stock, net of offering costs	0.2		335.5	
Ending common stockholders' equity	**$ 3,867.5**	**$ 14.17**	**$ 3,867.5**	**$ 14.17**
Total preferred stock liquidation preference	1,001.3		1,001.3	
Ending total equity	**$ 4,868.8**		**$ 4,868.8**	

Comprehensive Income (GAAP)

Generated Q2-2019 Comprehensive Income of $201.0 million.

(1) Core Earnings, including dollar roll income, is a non-GAAP measure. Please see Appendix slide 18 for a definition of Core Earnings, including dollar roll income, and a reconciliation of GAAP to non-GAAP financial information.

Core Earnings Summary[1]

(Dollars in millions, except per share data)	Q1-2019	Q2-2019	Variance ($)
Interest income	$ 245.5	$ 269.1	$ 23.6
Interest expense	163.5	192.4	(28.9)
Net interest income	82.0	76.7	(5.3)
Servicing income, net of amortization on MSR	52.5	52.7	0.2
Gain on swaps, caps and swaptions	23.7	22.9	(0.8)
Gain on other derivatives	28.7	16.7	(12.0)
Other	0.5	0.5	—
Total other income	105.4	92.8	(12.6)
Expenses	45.2	42.9	2.3
Provision for income taxes	0.6	1.6	(1.0)
Core Earnings, including dollar roll income[1]	**141.6**	**125.0**	**(16.6)**
Dividends on preferred stock	18.9	19.0	(0.1)
Core Earnings, including dollar roll income attributable to common stockholders[1]	**$ 122.7**	**$ 106.0** [2]	**$ (16.7)**
Basic weighted average Core EPS, including dollar roll income	**$ 0.49**	**$ 0.39**	
Core Earnings as a % of average common equity, including dollar roll income	**14.3%**	**11.1%**	

- Core Earnings, including dollar roll income, was $0.39 per weighted average basic common share, representing a return on average common equity of 11.1%[2]
- Second quarter Core Earnings, including dollar roll income, reflects a modified approach used to calculate MSR amortization, which the company believes allows Core Earnings to better reflect the carry earned on MSR; further details are located in the Appendix on slide 19
- Other operating expense ratio, excluding non-cash LTIP amortization, of 1.0%; anticipate expenses should remain stable in the low 1's in 2019

(1) Core Earnings, including dollar roll income, is a non-GAAP measure. Please see Appendix slide 18 for a definition of Core Earnings, including dollar roll income, and a reconciliation of GAAP to non-GAAP financial information.

(2) Beginning with this reporting period, the company has refined the MSR amortization method utilized in the calculation of Core Earnings, including dollar roll income. The new method includes an adjustment for any gain or loss on the capital used to purchase the MSR and allows Core Earnings to better reflect how the carry earned on MSR varies as a function of prepayment rates. If the updated method was applied retroactively to the period ended March 31, 2019, it would have resulted in an additional $0.1 million expense, net of tax, which would have resulted in no change to Core Earnings, including dollar roll income, per weighted average share for that period.

Performance Summary

- Lower Agency yield consistent with lower rate environment
- Added non-Agency securities at lower base yields

Three Months Ended	March 31, 2019	June 30, 2019
Annualized portfolio yield during the quarter	**4.25%**	**3.93%**
Rates		
Agency RMBS, Agency Derivatives and MSR	3.89%	3.67%
Credit		
Non-Agency securities	6.72%	6.00%
Annualized cost of funds on average borrowings during the quarter[1]	**2.47%**	**2.55%**
Annualized interest rate spread for aggregate portfolio during the quarter	**1.78%**	**1.38%**

(1) Cost of funds includes interest spread income/expense associated with the portfolio's interest rate swaps and caps.

Financing Profile and Capital Structure

DEBT-TO-EQUITY

- Economic debt-to-equity, which includes the implied debt on net to-be-announced (TBA) positions[(1)]
  - 7.8x at June 30, 2019, compared to 6.5x at March 31, 2019
  - Average of 7.2x in the second quarter 2019 compared to 7.0x in the first quarter 2019

RATES – AGENCY RMBS

- Outstanding repurchase agreements of $25.8 billion with 25 counterparties
- Outstanding secured FHLB advances of $50.0 million
- Repo markets functioning efficiently for RMBS

RATES – MSR

- Closed first MSR financing securitization of $400 million 5-year MSR term notes
- Outstanding borrowings of $300.0 million under bilateral MSR financing facilities
- Total bilateral facilities financing capacity of $790.0 million

CREDIT – NON-AGENCY SECURITIES

- Outstanding repurchase agreements of $2.1 billion with 12 counterparties
- Haircuts and spreads remain stable quarter-over-quarter

(1) Defined as total borrowings to fund RMBS, MSR and Agency Derivatives, plus the implied debt on net TBA positions, divided by total equity.

Market Landscape and Outlook

ECONOMIC UNCERTAINTY AND GLOBAL TRADE CONCERNS FUELED RALLY IN INTEREST RATES IN THE SECOND QUARTER

RATES MARKET

- Second quarter environment consisted of lower rates, a flatter yield curve and 3-month LIBOR above most long-term rates
- Agency basis widened in the quarter, with current coupons widening by ~1 point and higher coupons widening by ~3/8 point
- Specified pools performed well in the rally, roughly offsetting basis widening
- MSR declined in value in line with duration and current coupon spreads

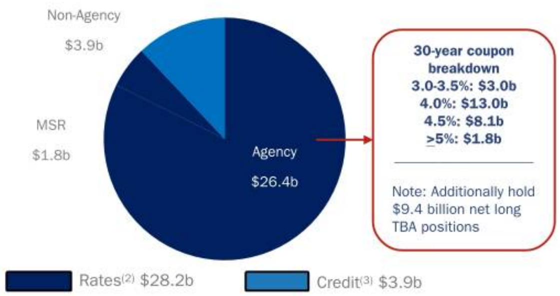
CREDIT MARKET

- Residential credit assets continued to perform well, supported by strong tailwinds to housing and solid investor demand for residential credit exposure
- Legacy discount bonds benefitted from lower expected LIBOR

Portfolio Composition and Quarterly Activity

PORTFOLIO COMPOSITION(1)

$32.1 BILLION PORTFOLIO AS OF JUNE 30, 2019



CAPITAL ALLOCATION(4)

	June 30, 2018	December 31, 2018	June 30, 2019
Rates(2)	**68%**	**74%**	**76%**
Credit(3)	**32%**	**26%**	**24%**

PORTFOLIO ACTIVITY

- Added Agency mortgages, in both pool and TBA form, to manage duration and mortgage spread risk during the interest rate rally
- Sold higher payup specified pools and added lower coupon specified pools, which we believe have excellent prepayment and convexity characteristics
- Added approximately $370 million market value of legacy non-Agency securities at an average price of $58

(1) For additional detail on the portfolio, see Appendix slides 20-24.
(2) Assets in "Rates" include Agency RMBS, MSR and other interest rate sensitive assets.
(3) Assets in "Credit" include non-Agency securities and other credit sensitive assets.
(4) Capital allocation percentages reflect management's assessment regarding the extent to which each asset class contributes to total portfolio risk. Does not represent funding allocation or balance sheet financing of such assets. Please refer to Appendix slide 24 for more information on financing.

Risk Profile

HEDGING ACROSS THE CURVE

Common book value exposure to changes in rates[1]		Net interest income exposure to changes in rates[2]	
+50 basis points	(4.6%)	**+50 basis points**	1.6%
+25 basis points	(1.4%)	**+25 basis points**	0.8%
-25 basis points	0.5%	**-25 basis points**	(0.8%)
-50 basis points	1.8%	**-50 basis points**	(1.6%)

COMMON BOOK VALUE SENSITIVITY TO MORTGAGE SPREADS[3]

Mortgage spreads	Change in Agency RMBS and mortgage derivatives	Change in MSR	Total overall Rates strategy change
25 basis points increase	($218)	$141	($77) / **(1.6%)**
15 basis points increase	($125)	$85	($40) / **(0.8%)**
15 basis points decrease	$118	($85)	$33 / **0.7%**
25 basis points decrease	$189	($141)	$48 / **1.0%**

Note: The above scenario is provided for illustration purposes only and is not necessarily indicative of Two Harbors' financial condition and operating results, nor is it necessarily indicative of the financial condition or results of operations that may be expected for any future period or date.
(1) Represents estimated change in common book value for theoretical parallel shift in interest rates.
(2) Represents estimated percentage change in net interest income for theoretical parallel shifts in interest rates. Amounts include the effect of interest spread from our interest rate swaps and float income from custodial accounts associated with our MSR, but do not reflect any potential changes to dollar roll income associated with our TBA positions, which are accounted for as derivative instruments in accordance with GAAP.
(3) Dollars in millions. The information presented in this table projects the potential impact on common book value of instantaneous changes in current coupon mortgage spreads. Spread sensitivity is based on results from third party models in conjunction with inputs from our internal investment professionals. Actual results could differ materially from these estimates.

Strategic Opportunities

MANAGE PORTFOLIO TO GENERATE STRONG RISK-ADJUSTED RETURNS

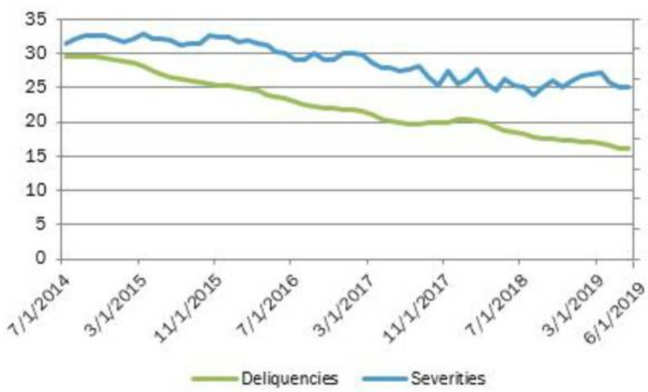
RATES STRATEGY - Combination of Agency RMBS and MSR

- Current expected returns in low double digits for Agency RMBS paired with MSR
- Believe the combination of these two assets results in an attractive return with a lower risk quotient

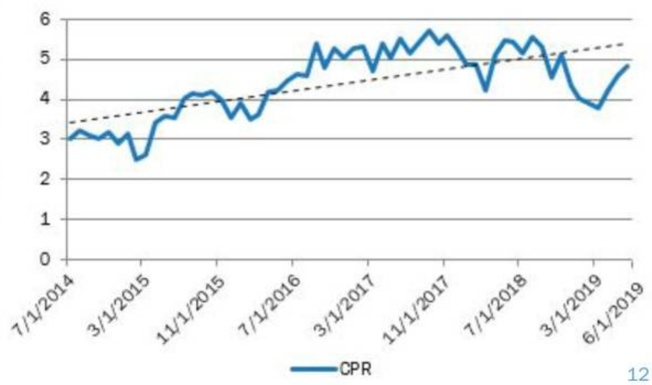
CREDIT STRATEGY - Legacy non-Agency securities

- Low rate environment beneficial to residential credit assets; baseline returns for lower priced bonds in high single digits but upside price appreciation can drive much higher total returns
- Discounted legacy non-Agencies continue to benefit from residential tailwinds that support strong total returns

SUBPRIME DELINQUENCIES AND SEVERITIES DOWN(1)



SUBPRIME PREPAYMENTS INCREASING(1)



(1) Source: Loan-level data from CoreLogic.

Appendix


TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

Return on Book Value[1]

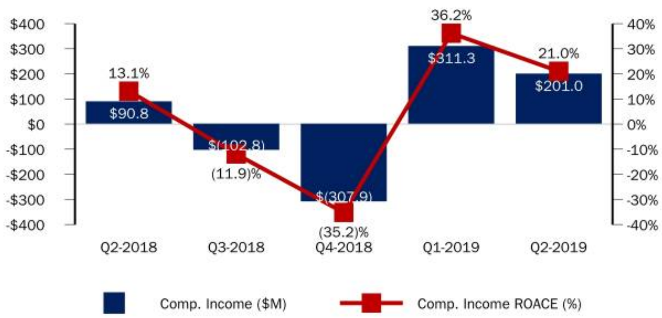
Return on common book value Q2-2019 (Per common share amounts, except for percentage)	
Book value at March 31, 2019	$ 13.83
Book value at June 30, 2019	14.17
Increase in book value	0.34
Dividend declared in Q4-2018	0.40
Return on book value Q2-2019	$ 0.74
Percent return on book value Q2-2019	5.4%

Return on common book value YTD-2019 (Per common share amounts, except for percentage)	
Book value at December 31, 2018	$ 13.11
Book value at June 30, 2019	14.17
Increase in book value	1.06
Dividends declared YTD-2019	0.87
Return on book value YTD-2019	$ 1.93
Percent return on book value YTD-2019	14.7%

(1) Return on book value is defined as the increase (decrease) in book value per common share from the beginning to the end of the given period, plus dividends declared in the period, divided by the book value as of the beginning of the period.

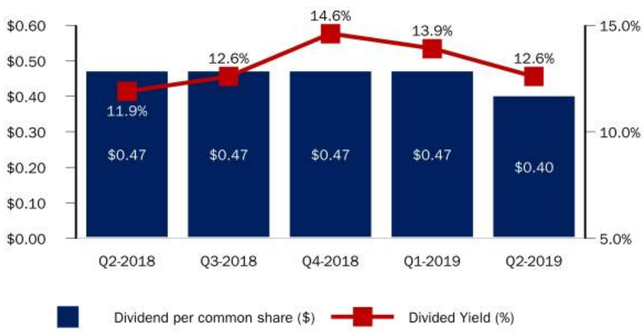
Financial Performance

COMPREHENSIVE INCOME (LOSS)

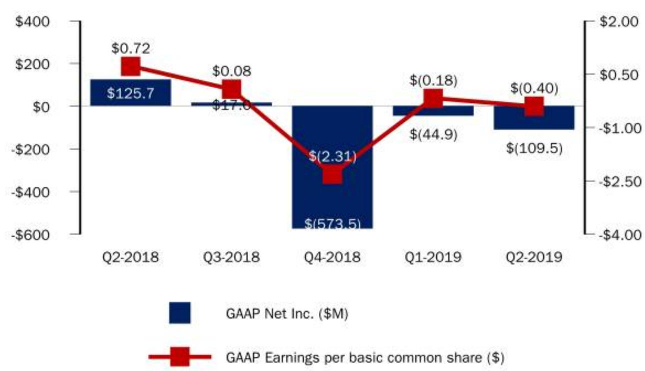


BOOK VALUE AND DIVIDEND PER COMMON SHARE(1)

DIVIDENDS(1)



GAAP NET INCOME (LOSS)



(1) Historical dividends may not be indicative of future dividend distributions. The company ultimately distributes dividends based on its taxable income per common share, not GAAP earnings. The annualized dividend yield on the company's common stock is calculated based on the closing price of the last trading day of the relevant quarter.

Q2-2019 Operating Performance

	Q2-2019			
(In millions, except for per common share data)	Core Earnings, including dollar roll income[(1)]	Realized Gains (Losses)	Unrealized MTM	Total
Interest income	$ 269.1	$—	($8.1)	$ 261.0
Interest expense	192.4	—	—	192.4
Net interest income	76.7	—	(8.1)	68.6
Total other-than-temporary impairments and loss recovery adjustments	—	—	(4.8)	(4.8)
Gain (loss) on investment securities	—	23.6	(1.1)	22.5
Servicing income	130.9	—	—	130.9
Loss on servicing asset	(78.2)	—	(174.2)	(252.4)
Gain (loss) on interest rate swaps, caps and swaptions	22.9	55.5	(167.2)	(88.8)
Gain (loss) on other derivative instruments	16.7	97.3	(33.3)	80.7
Other income (loss)	0.5	(2.1)	1.2	(0.4)
Total other income (loss)	92.8	174.3	(374.6)	(107.5)
Management fees & other expenses	42.9	1.5	—	44.4
Net income (loss) before income taxes	126.6	172.8	(387.5)	(88.1)
Income tax expense (benefit)	1.6	(0.2)	1.0	2.4
Net income (loss)	**125.0**	**173.0**	**(388.5)**	**(90.5)**
Dividends on preferred stock	19.0	—	—	19.0
Net income (loss) attributable to common stockholders	**$ 106.0**	**$ 173.0**	**($388.5)**	**($109.5)**
Weighted average earnings (loss) per basic common share	$ 0.39	$ 0.63	($1.42)	($0.40)

(1) Core Earnings, including dollar roll income, is a non-GAAP measure. Please see Appendix slide 18 of this presentation for a definition of Core Earnings, including dollar roll income, and a reconciliation of GAAP to non-GAAP financial information.

Q1-2019 Operating Performance

(In millions, except for per common share data)	Q1-2019 Core Earnings, including dollar roll income(1)	Realized Gains (Losses)	Unrealized MTM	Total
Interest income	$ 245.5	$—	$—	$ 245.5
Interest expense	163.5	—	—	163.5
Net interest income	82.0	—	—	82.0
Total other-than-temporary impairment losses	—	—	(0.2)	(0.2)
Loss on investment securities	—	(17.5)	(1.8)	(19.3)
Servicing income	116.9	—	—	116.9
(Loss) gain on servicing asset	(64.4)	0.3	(124.9)	(189.0)
Gain (loss) on interest rate swaps, caps and swaptions	23.7	(34.5)	(72.4)	(83.2)
Gain on other derivative instruments	28.7	14.0	61.6	104.3
Other income (loss)	0.5	0.2	(0.6)	0.1
Total other income (loss)	105.4	(37.5)	(138.1)	(70.2)
Management fees & other expenses	45.2	2.4	—	47.6
Net income (loss) before income taxes	142.2	(39.9)	(138.3)	(36.0)
Income tax expense (benefit)	0.6	—	(10.6)	(10.0)
Net income (loss)	**141.6**	**(39.9)**	**(127.7)**	**(26.0)**
Dividends on preferred stock	18.9	—	—	18.9
Net income (loss) attributable to common stockholders	**$ 122.7**	**($39.9)**	**($127.7)**	**($44.9)**
Weighted average earnings (loss) per basic common share	$ 0.49	($0.16)	($0.51)	($0.18)

(1) Core Earnings, including dollar roll income, is a non-GAAP measure. Please see Appendix slide 18 of this presentation for a definition of Core Earnings, including dollar roll income, and a reconciliation of GAAP to non-GAAP financial information.

GAAP to Core Earnings Reconciliation[1]

Reconciliation of GAAP to non-GAAP Information (In thousands, except for per common share data)	Three Months Ended March 31, 2019	Three Months Ended June 30, 2019
Reconciliation of Comprehensive income to Core Earnings:		
Comprehensive income attributable to common stockholders	**$ 311,267**	**$ 201,042**
Adjustment for other comprehensive income attributable to common stockholders:		
Unrealized gains on available-for-sale securities attributable to common stockholders	(356,152)	(310,549)
Net loss attributable to common stockholders	**($44,885)**	**($109,507)**
Adjustments for non-core earnings:		
Other-than-temporary impairments and loss recovery adjustments	206	12,895
Realized loss (gain) on securities	17,457	(23,589)
Unrealized losses on securities	1,835	1,148
Realized and unrealized losses on mortgage servicing rights	124,569	174,212
Realized loss (gain) on termination or expiration of swaps, caps and swaptions	34,499	(55,513)
Unrealized losses on interest rate swaps, caps and swaptions	72,469	167,174
Gains on other derivative instruments	(75,605)	(63,953)
Other losses	439	899
Change in servicing reserves	481	(910)
Non-cash equity compensation expense	1,861	2,396
Net (benefit from) provision for income taxes on non-Core Earnings	(10,643)	782
Core Earnings attributable to common stockholders, including dollar roll income[1]	**$ 122,683**	**$ 106,034** [2]
Weighted average basic common shares	252,357,878	272,863,153
Core Earnings, including dollar roll income, per weighted average basic common share	$ 0.49	$ 0.39

(1) Core Earnings, including dollar roll income, is a non-U.S. GAAP measure that we define as comprehensive 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, 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.

(2) Beginning with this reporting period, the company has refined the MSR amortization method utilized in the calculation of Core Earnings, including dollar roll income. The new method includes an adjustment for any gain or loss on the capital used to purchase the MSR and allows Core Earnings to better reflect how the carry earned on MSR varies as a function of prepayment rates. If the updated method was applied retroactively to the period ended March 31, 2019, it would have resulted in an additional $0.1 million expense, net of tax, which would have resulted in no change to Core Earnings, including dollar roll income, per weighted average share for that period.

Modified MSR Amortization for Core Earnings

Effective April 1, 2019, the company refined the MSR amortization(1) method utilized for Core Earnings, including dollar roll income(2)

Previous method
Core MSR Amortization = amortized cost(3) at end of period less amortized cost at beginning of period

New method
Core MSR Amortization = previous method plus an adjustment for any gain or loss on the capital used to purchase the MSR

The adoption of this new method allows MSR Core Income to be computed as:

MSR Core Income = amortized cost at the beginning of the period x original pricing yield(3)

The new amortization method allows Core Earnings to better reflect how the carry earned on MSR varies as a function of prepayment rates. Management believes this approach is a much improved and more accurate reflection of our ongoing earnings power and the economic returns that the company can generate in its portfolio. The following table shows Core Earnings, including dollar roll income(2) per share for Q1 and Q2 of 2019 based on the new and previous methods:

	New	Previous
Q1	$ 0.49	$ 0.49
Q2	$ 0.39	$ 0.34

(1) MSR 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. The amortization has been deducted from Core Earnings, including dollar roll income. Amortization of MSR is deemed a non-GAAP measure due to the company's decision to account for MSR at fair value.

(2) Core Earnings, including dollar roll income, is a non-GAAP measure. Please see Appendix slide 18 for a definition of Core Earnings, including dollar roll income, and a reconciliation of GAAP to non-GAAP financial information.

(3) Amortized cost for a given period equals the net present value of remaining future cash flows (obtained by applying original prepayment assumptions to actual UPB at start of period) using a discount rate equal to the original pricing yield. Original pricing yield is the discount rate which makes the net present value of the cash flows projected at purchase equal to the purchase price.

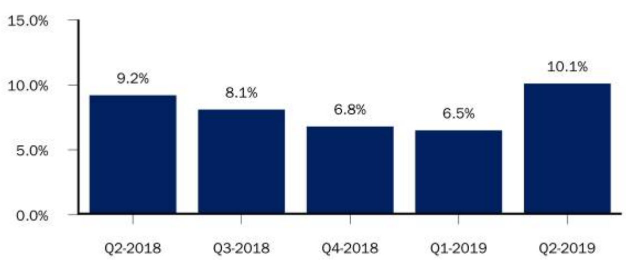
Rates: Agency RMBS Metrics

AGENCY PORTFOLIO YIELDS AND METRICS

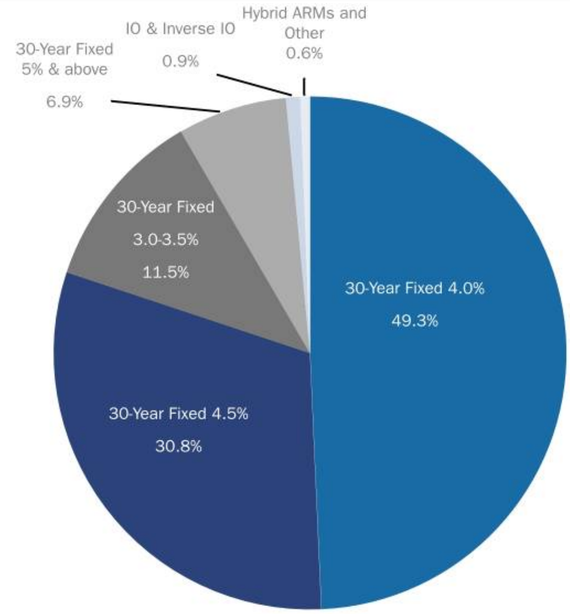
Portfolio Yield	Realized Q1-2019	At March 31, 2019	Realized Q2-2019	At June 30, 2019
Agency yield	3.6%	3.4%	3.4%	3.3%
Repo and FHLB costs	(2.6%)	(2.7%)	(2.7%)	(2.6%)
Swap and cap income	0.5%	0.8%	0.4%	0.5%
Net interest spread	1.5%	1.5%	1.1%	1.2%

Portfolio Metrics	Q1-2019	Q2-2019
Weighted average 3-month CPR[1]	6.5%	10.1%
Weighted average cost basis[2]	$104.9	$104.3

AGENCY RMBS CPR[1]



AGENCY PORTFOLIO COMPOSITION



(1) Agency weighted average 3-month Constant Prepayment Rate (CPR) includes IIOs (or Agency Derivatives).
(2) Weighted average cost basis includes RMBS principal and interest securities only. Average purchase price utilized carrying value for weighting purposes.

Rates: Agency RMBS

As of June 30, 2019	Par Value ($M)	Market Value ($M)	% Prepay Protected[1]	Amortized Cost Basis ($M)	Weighted Average Coupon	Weighted Average Age (Months)
30-Year fixed						
3.0-3.5%	$2,943	$3,033	94.7%	$3,001	3.5%	3
4.0%	12,374	13,012	90.2%	12,865	4.0%	19
4.5%	7,620	8,128	100.0%	7,971	4.5%	15
≥ 5.0%	1,693	1,821	77.9%	1,791	5.1%	24
	24,630	25,994	92.9%	25,628	4.2%	16
Other Agencies[2]	138	155	0.4%	154	6.3%	204
IOs and IIOs	3,325	236 [3]	—%	251	2.7%	124
Total Agency holdings	**$28,093**	**$26,385**	**91.5%**	**$26,033**		
Net TBA notional	9,422					
Total	**$37,515**					

(1) Includes securities with implicit or explicit protection including lower loan balances (securities collateralized by loans less than or equal to $175K of initial principal balance), higher LTVs (securities collateralized by loans with greater than or equal to 80% LTV), certain geographic concentrations and lower FICO scores.

(2) Includes 15-year fixed, Hybrid ARMs, CMO and DUS pools.

(3) Represents market value of $159.8 million of IOs and $76.2 million of Agency Derivatives.

Rates: Mortgage Servicing Rights(1)

	As of March 31, 2019	As of June 30, 2019
Fair value ($M)	$2,014.4	$1,800.8
Unpaid principal balance ($M)	$174,147.3	$169,643.7
Weighted average coupon	4.1%	4.1%
Average original FICO score(2)	751	751
Average original LTV	75%	75%
60+ day delinquencies	0.3%	0.3%
Net servicing spread	26.1 basis points	26.3 basis points
Vintage:		
Pre-2013	6.7%	6.7%
2013-2016	18.5%	18.2%
Post-2016	74.8%	75.1%

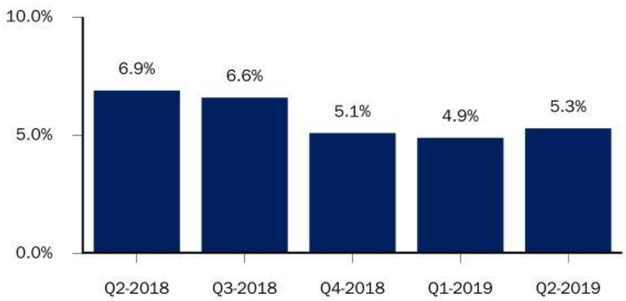
(1) Excludes residential mortgage loans for which the company is the named servicing administrator.
(2) FICO represents a mortgage industry accepted credit score of a borrower.

Credit: Non-Agency Securities Metrics

NON-AGENCY PORTFOLIO YIELDS AND METRICS

Portfolio Yield	Realized Q1-2019	At March 31, 2019	Realized Q2-2019	At June 30, 2019
Non-Agency yield	6.7%	6.6%	6.0%	6.0%
Repo and FHLB costs	(3.7%)	(3.7%)	(3.7%)	(3.6%)
Swap and cap income	—%	0.1%	0.1%	0.1%
Net interest spread	3.0%	3.0%	2.4%	2.5%

NON-AGENCY CPR



NON-AGENCY PORTFOLIO COMPOSITION

Non-Agency: Loan Type	March 31, 2019	June 30, 2019
Sub-prime	75%	77%
Option-ARM	11%	10%
Prime	1%	1%
Alt-A	13%	12%

Portfolio Metrics	Q1-2019	Q2-2019
Weighted average 3-month CPR	4.9%	5.3%
Weighted average cost basis[1]	$62.0	$61.7

(1) Weighted average cost basis includes non-Agency principal and interest securities only. Average purchase price utilized carrying value for weighting purposes. If current face were utilized for weighting purposes, total non-Agency securities excluding the company's non-Agency interest-only portfolio would have been $58.50 at June 30, 2019 and $58.95 at March 31, 2019.

Credit: Non-Agency Securities

As of June 30, 2019	Senior Bonds	Mezzanine Bonds	Total P&I
Portfolio characteristics:			
Carrying value ($M)	$3,211.1	$575.2	3,786.3
% of non-Agency portfolio	84.8%	15.2%	100.0%
Average purchase price[1]	$61.12	$64.95	$61.70
Average coupon	3.2%	3.1%	3.2%
Weighted average market price[2]	$66.24	$79.96	$68.02
Collateral attributes:			
Average loan age (months)	154	162	155
Average loan size ($K)	$372	$426	$380
Average original Loan-to-Value	66.7%	64.8%	66.4%
Average original FICO[3]	578	597	581
Current performance:			
60+ day delinquencies	18.3%	16.2%	18.1%
Average credit enhancement[4]	3.8%	10.6%	4.8%
3-Month CPR[5]	5.0%	7.6%	5.3%

(1) Average purchase price utilized carrying value for weighting purposes. If current face were utilized for weighting purposes, the average purchase price for senior, mezzanine and total non-Agency securities, excluding our non-Agency interest-only portfolio, would have been $58.07, $61.38 and $58.50, respectively.
(2) Weighted average market price utilized current face for weighting purposes.
(3) FICO represents a mortgage industry accepted credit score of a borrower.
(4) Average credit enhancement remaining on our non-Agency portfolio, which is the average amount of protection available to absorb future credit losses due to defaults on the underlying collateral.
(5) 3-Month CPR is reflective of the prepayment speed on the underlying securitization; however, it does not necessarily indicate the proceeds received on our investment tranche. Proceeds received for each security are dependent on the position of the individual security within the structure of each deal.

Financing

$ in millions							
Outstanding Borrowings and Maturities[1]	Repurchase Agreements	FHLB Advances	Revolving Credit Facilities	Term Notes Payable	Convertible Notes	Total Outstanding Borrowings	Percent (%)
Within 30 days	$ 5,902.9	$ —	$ —	$ —	$ —	$ 5,902.9	20.4%
30 to 59 days	4,412.7	—	—	—	—	4,412.7	15.3%
60 to 89 days	5,683.3	—	—	—	—	5,683.3	19.7%
90 to 119 days	4,088.5	—	—	—	—	4,088.5	14.1%
120 to 364 days	7,780.6	—	—	—	—	7,780.6	26.9%
One to three years	300.0	—	—	—	284.3	584.3	2.0%
Three to five years	—	—	—	394.1	—	394.1	1.4%
Five to ten years	—	—	—	—	—	—	—%
Ten years and over[2]	—	50.0	—	—	—	50.0	0.2%
	$ 28,168.0	$ 50.0	$ —	$ 394.1	$ 284.3	$ 28,896.4	100.0%
Collateral Pledged for Borrowings[3]	Repurchase Agreements[4]	FHLB Advances	Revolving Credit Facilities[4]	Term Notes Payable	Convertible Notes	Total Collateral Pledged	Percent (%)
Available-for-sale securities, at fair value	$ 28,731.2	$ 45.1	$ —	$ —	n/a	$ 28,776.3	95.2%
Derivative assets, at fair value	76.1	—	—	—	n/a	76.1	0.2%
Mortgage servicing rights, at fair value	609.4	—	199.6	581.0	n/a	1,390.0	4.6%
	$ 29,416.7	$ 45.1	$ 199.6	$ 581.0	n/a	$ 30,242.4	100.0%

(1) Weighted average of 4.3 months to maturity.
(2) Includes FHLB advances of $50 million with original maturities of 20 years.
(3) Excludes FHLB membership and activity stock totaling $6.1 million.
(4) Repurchase agreements and/or revolving credit facilities secured by MSR may be over-collateralized due to operational considerations.

Interest Rate Swaps

INTEREST RATE SWAPS

Maturities	Notional Amounts ($B)	Average Fixed Pay Rate	Average Receive Rate	Average Maturity Years
Payers				
2019	$4.2	1.781%	2.569%	0.3
2020	3.6	1.806%	2.502%	1.3
2021	10.5	2.104%	2.484%	1.9
2022	2.5	2.002%	2.430%	3.2
2023 and after	8.5	2.532%	2.536%	6.5
	$29.3	2.136%	2.509%	3.1

Maturities	Notional Amounts ($B)	Average Pay Rate	Average Fixed Receive Rate	Average Maturity (Years)
Receivers				
2020	$0.2	2.581%	2.258%	0.6
2021	2.5	2.575%	2.736%	1.7
2022	0.8	2.523%	2.975%	2.9
2023 and after	7.6	2.505%	2.648%	8.0
	$11.1	2.524%	2.682%	6.1

Interest Rate Swaptions

Option					Underlying Swap			
Swaption	**Expiration**	**Cost ($M)**	**Fair Value ($M)**	**Average Months to Expiration**	**Notional Amount ($M)**	**Average Pay Rate**	**Average Receive Rate**	**Average Term (Years)**
Purchase Contracts:								
Payer	<6 Months	$1.9	$0.9	4.9	$1,250	2.28%	3M LIBOR	5.2
Total Payer		$1.9	$0.9	4.9	$1,250	2.28%	3M LIBOR	5.2
Receiver	<6 Months	$23.3	$29.1	4.7	$2,625	3M LIBOR	1.87%	10.0
Total Receiver		$23.3	$29.1	4.7	$2,625	3M LIBOR	1.87%	10.0


TWO HARBORS
Investment Corp.
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