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Quarterly Letter to Stockholders

November 9, 2012

Dear Fellow Stockholders,

The third quarter 2012 has been a truly exceptional period for Two Harbors. We reported comprehensive income of \$524.4 million, which represents a 70.2% return on average equity. To give some context to this metric, it is over four times our total book value when we came to market in 2009. Our book value per share in the second quarter increased 15.1% to \$11.44 per share, compared to \$9.94 per share at the beginning of the quarter. We produced Core Earnings of \$84.4 million, or \$0.31 per diluted weighted average common share. Yields on our portfolio continue to be compelling, even though net interest margins have tightened. We continue to believe we can produce Return on Equity in the low double-digit range, which we believe is attractive in a historic context.

We announced the proposed contribution of our portfolio of single-family residential properties Silver Bay Realty Trust Corp. on September 11, 2012. In exchange for this contribution, Two Harbors would receive shares of common stock of Silver Bay. The contribution is dependent on approval from our board of directors, a special committee of independent directors, and compliance with applicable securities laws. As of October 31, 2012 we had over 2,000 homes, or approximately \$240 million invested in single family residential properties. It is our goal to deliver value to our shareholders through diversification of our portfolio and feel that this move will allow shareholders to benefit from the creation of a stand-alone single-family residential property REIT.

On October 10, 2012 we held our Analyst and Investor Day at the New York Stock Exchange, where approximately 80 analysts and investors attended a luncheon and heard presentations by Ivy Zelman, CEO of Zelman & Associates, Brad Farrell, Bill Roth and myself. At Two Harbors, it is our mission to be the industry-leading mortgage REIT, and we believe events such as our Analyst & Investor Day are critical to enable the analyst and investor community an update on our business and insights into how we think about the portfolio. Should you have interest, I would encourage you to view the webinar available on our website.

We are also pleased to announce that we have made some exciting changes to our management team. Most notably, Bill Roth will assume the role of Chief Investment Officer on January 1, 2013. Steve Kuhn, who has shared the role of Co-Chief Investment Officer with Bill, intends to devote his full attention to his role with Two Harbors' external manager, Pine River Capital Management L.P., where he serves as a Partner and the Head of Fixed Income Trading. We are delighted to congratulate Bill, and we sincerely thank Steve for his invaluable and dedicated service to Two Harbors. We are confident that this bifurcation of duties will best serve all investors, both in Two Harbors and Pine River. Bill and his team will continue to draw upon the extensive capabilities within Pine River, including close collaboration with Steve and the rest of the Pine River mortgage team.

Several senior professionals have recently joined our investment team. Nick Smith, previously the Chief Investment Officer of Capital Markets at Green Tree, joined us in September, and Dan Koch, former Managing Director at Redwood Trust, joined us in October. William Greenberg, former Managing Director at UBS, is our most recent senior management addition as a Managing Director. Matt Koeppen, a former Senior Trader, was promoted to Managing Director. We are delighted to announce these additions to our existing investment team.

In a broader context, the economy has provided a somewhat challenging backdrop to our business despite positive news surrounding the housing market, with the CoreLogic October Home Price Index increasing

6.1% on a rolling 12-month basis. The Eurozone continues to pose a risk to global markets as it has yet to come to agreement on a course of action, concerns regarding the so-called “fiscal cliff” continue to abound.

Another substantial market driver during the third quarter was QE3. Interest rates fell to record lows during the third quarter. The Fed is committed to keeping short-term interest rates low, which gives borrowers incentive to refinance. We continue to monitor this closely and select securities with prepayment-protected characteristics. We believe over 98% of our portfolio has some form of prepayment protection and most of our assets are not eligible for HARP 2.0; therefore, we expect a minimal impact to our portfolio.

Two Harbors has been able to capitalize on the current market given our robust operational and risk management platform, generating sustainable growth. As the largest hybrid mortgage REIT, we have the flexibility to take advantage of opportunities in both Agency and non-Agency sectors. Our progress is achieved through thoughtful portfolio construction, as well as leading governance and disclosure practices.

This was an outstanding quarter for Two Harbors and we are optimistic going into the fourth quarter. Our recent hires deepen our “bench” and our ability to explore diversifying our business model through endeavors such as securitizations, GSE Credit Risk, MSRs and other residential mortgage loans. Our structure as a hybrid REIT puts us in a unique position to be flexible with the securities we select, so that we may in turn optimize shareholder value and provide attractive risk-adjusted returns. On a final note, I would encourage you to consider listening to the first two webinars in our ongoing series, which we launched in June. We have released *Investing in Sub-Prime* and *Primer on Agency Prepayments, Part 1*. We are looking forward to presenting *Primer on Agency Prepayments Part 2* in the future.

Before closing, I would like to note our great sadness at the passing of Annaly’s CEO, Mike Farrell. Mike was a pioneer in the mortgage REIT space. On behalf of everyone at Two Harbors, I extend my deepest condolences to Mike’s family, friends and colleagues. I would also like to address the victims of Hurricane Sandy; our hearts go out to the families who suffered the loss of loved ones and we are hopeful for a speedy cleanup on the East coast.

As always, please do let us know if you have questions or if we may be helpful in any way.

Sincerely,



Thomas Siering
President and Chief Executive Officer

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. Factors that could cause actual results to differ include, but are not limited to, higher than expected operating costs, changes in prepayment speeds of mortgages underlying our RMBS, the rates of default or decreased recovery on the mortgages underlying our non-Agency securities, failure to recover certain losses that are expected to be temporary, changes in interest rates or the availability of financing, the impact of new legislation or regulatory changes on our operations, the impact of any deficiencies in the servicing or foreclosure practices of third parties and related delays in the foreclosure process, the inability to acquire mortgage loans or securitize the mortgage loans we acquire, the inability to acquire residential real properties at attractive prices or lease such properties on a profitable basis, the impact of new or modified government mortgage refinance or principal reduction programs, and unanticipated changes in overall market and economic conditions.

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. 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.