TWO HARBORS
Investment Corp.

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Quarterly Letter to Stockholders

August 6, 2012

Dear Fellow Stockholders,

As we have shared before, our mission is to be recognized as the industry-leading hybrid mortgage REIT. Our belief is that we have continued to demonstrate progress towards achieving this goal through the combination of superior portfolio construction, disciplined risk management and leading governance and disclosure practices. Above all else, we strive to deliver stockholder value.

In the second quarter our performance was remarkable, delivering 6.9% in total return. We are pleased to report total stockholder return of 79% since our launch in October 2009. Our book value increased 27 cents to $9.94 per share during the second quarter due primarily to appreciation in our Agency and non-Agency holdings, net of hedges. Finally, we generated Core Earnings of $0.35 per share.

Non-Agency prices rallied in July, causing Two Harbors' book value to rise noticeably since June 30, 2012. As a result of this increase and a flatter yield curve, our belief is that the yields and net interest spreads on Agency and non-Agency RMBS that are currently available for investment are generally lower than what we have historically realized in our portfolio. However, our belief is that the opportunity to produce double-digit returns for stockholders still exists.

In mid-July, we completed a public offering raising approximately $592 million in net proceeds. Our plan is to use the proceeds primarily to purchase Agency bonds and purchase non-Agency securities when prices are attractive. We will also continue to acquire single family residential properties. In addition, during the second quarter, we commenced an At-the-Market Offering program, or ATM, and to date have raised nearly $78 million in proceeds.

Last quarter, I provided some insights on key macroeconomic factors that could impact our business and the mortgage and housing sectors, including home prices, unemployment and interest rates. I'd like to provide an update based upon the changing macroeconomic landscape. Recent economic data indicates a weakening economic recovery; concerns around the fiscal cliff created by potential tax increases and spending cuts at the end of 2012 persist and Europe continues to be a cause for concern. With the upcoming November Presidential election, near-term domestic policy changes seem unlikely. We monitor the macroeconomic factors and continually seek ways to make positive advances for our business and stockholders.

During the second quarter, interest rates again fell due to weak economic numbers and concerns about global growth. Declining rates generally stimulate refinancing activity and home purchases. To put current interest rates into perspective, U.S. 10-year Treasuries fell to an all-time low in June 2012 at a 1.46% yield. We continue to protect our portfolio from significant interest rate movements, as our current belief is that this is not a good time to take interest rate risk. We consider our portfolio to be structured such that changes to interest rates will currently have a minimal impact on our book value.

Home price performance is meaningful both to our non-Agency portfolio and our strategy of buying single family residential properties. Despite uncertainties surrounding the housing market, we are continuing to see signs of stabilization in home prices and even improvements in certain markets. For example, national home prices have risen four consecutive months, according to Zillow, and are up 0.2% year-over-year as of June 30th, the first annual increase since 2007. Importantly, buying single family residential properties gives us real-time data on home pricing in key markets, providing excellent insight for managing our non-Agency portfolio.

We continue to make progress purchasing single family residential properties. As of June 30, 2012, we had acquired roughly $72 million dollars in properties. Since quarter-end, we have continued to purchase homes and have added $48 million, amounting to a total portfolio of approximately $120 million through the end of July. We are purchasing in Arizona, California, Florida, Nevada and Georgia, where we believe current yields are attractive, discount to replacement costs exist and absorption metrics are favorable.

While there appears to be a constant stream of unfavorable economic headlines, our view is that there is great opportunity ahead for our business. Mortgage REITs such as Two Harbors can become key participants in the restructuring and rejuvenation of the housing market as we can provide a new source of capital. This was a fantastic quarter from our investment team and we remain highly optimistic as we look ahead.

In closing, we would like to announce our upcoming Analyst & Investor Day and recently-launched webinar series. Two Harbors' Analyst & Investor Day will be held on October 10, 2012, available via webcast for investors that wish to join. Additional details and registration for the webcast will be forthcoming. Lastly, we launched our first webinar "Investing in Sub-Prime," which is available on our website. We intend to post additional webinars in the future to provide investors with management insights regarding the market and our business.

Sincerely,

Thomas Siering
President and Chief Executive Officer

Forward-Looking Statements
This letter 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.