TWO HARBORS
Investment Corp.

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Quarterly Letter to Stockholders

May 31, 2012

Dear Fellow Stockholders,

I am proud to report that we had truly exceptional performance during the first quarter of 2012, delivering a record total return on book value of 11.5%. Our economic return of $1.05 per share was driven by strong portfolio performance and the favorable impact of unrealized fair value gains, primarily in our non-Agency holdings. Our book value increased 64 cents to $9.67 per share during the period, for the same reasons.

We raised nearly $700 million in net proceeds from two public offerings this quarter and are pleased to report that these proceeds were fully invested by late April, focusing on the non-Agency sector for deploying capital from the January offering and a more diversified mix for the February offering. While the timing of our two 2012 capital raises did cause Core Earnings to come in lower than prior quarters, these offerings enabled us to purchase securities that we believe will greatly enhance book value and the company's earnings power. Core Earnings were consistent with our internal estimates as we set the first quarter dividend. We believe this minor near-term trade-off for longer term gains is highly beneficial to our stockholders.

I often get asked --what are the key external drivers that could impact the business? While there are many, I'd like to share some insights on three critical factors that, in our view, have demonstrated an undeniable correlation to the mortgage and housing sectors.

The first critical factor to consider is employment. Since the 2008 economic crisis, maintaining employment and a steady income has been tough for many. Next to loan-to-value ratios, employment is the most meaningful determinant of probability of default on a mortgage.

A second factor is interest rates, which dictate funding costs as well as influence prepayment speeds in our Agency portfolio. The Federal Reserve stated that it anticipates keeping the target federal funds rate low until at least late 2014, and we believe this will benefit financing costs for the next few years. Generally low interest rates, all other things being equal, will stimulate refinancing activity and home purchases. We look to position our Agency portfolio with securities that have embedded prepayment protection.

Finally, a third factor that influences our business is home prices, meaningful both to our non-Agency portfolio and also in regard to our announced strategy of buying residential properties. The U.S. housing market has not yet recovered from the 2008 meltdown, with price declines on average in the mid-30 percent range. This has left some homeowners with high loan-to-value ratios limiting their refinancing ability, despite low rates and government policy programs. Others are unable to move or relocate because they will incur a substantial loss on their home sale. Currently, home affordability is at an all-time high, and while concerns remain on the macro front, we see opportunity for our business. There is a high inventory of foreclosed homes held by the government and banks and there is a great need for new sources of capital in this key sector of the American economy. Mortgage REITs, like Two Harbors, can play a key role in the restructuring and rejuvenation of these markets. Despite all the uncertainty, we are starting to see signs of stabilization of home prices. This is encouraging for our non-Agency book and provides a perfect segue to discuss our most recent business diversification initiative.

We've made significant progress purchasing single family residential properties, including establishing the necessary infrastructure to purchase, own and manage the properties. We acquired over six million dollars in properties as of March 31, 2012. However, as of early May we have more than quadrupled our holdings to over 300 homes, subject to closing, targeting properties at significant discounts to replacement cost and working to create scale in selected markets. We plan to hold these properties for investment and rent them for income, potentially increasing rents over time. We believe this is an attractive asset class given its long duration, financability, current yield and the potential for home price appreciation. One of our strengths lies in data analysis, and property selection will be a key component. The amount of property we acquire for our portfolio will depend on two factors: available supply and its expected economic return in comparison to other available alternatives. Optimization of stockholder value is our highest objective. The formation of Pine River's affiliate, Silver Bay, creates the opportunity to bring an institutional excellence to this sector which heretofore has largely been a cottage industry. Near-term, we expect this business to have little or no impact on our dividend.

While first quarter 2012 had fantastic performance from our investment team, we are even more enthusiastic as we look ahead. We believe there is a compelling opportunity set in the housing and mortgage sectors and we will take a measured approach as we diversify, building upon our core competencies for the benefit of stockholders.

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.