TWO HARBORS Investment Corp.
A Pine River Capital Managed Company

601 Carlson Parkway, Suite 1400
Minnetonka, MN 55305
Tel: (612) 629-2500

Quarterly Letter to Stockholders

June 3, 2013

Dear Fellow Stockholders,

The first quarter certainly proved to be a busy start to the year. We recorded $248 million of comprehensive income during the quarter. This was remarkable given the performance of the mortgage REIT sector as Agency securities were pressured and interest rates experienced some volatility. Our comprehensive income was driven by the performance of our non-Agency securities, which we believe speaks to the benefit of our hybrid REIT model. There was also a minor impact from the appreciation of Silver Bay common stock, which we have now distributed to Two Harbors' stockholders.

Our book value was $11.19 per share at March 31, 2013, representing a total return of 8.5%[1] when combined with our first quarter cash dividend of $0.32 and special dividend of Silver Bay common stock, which amounted to $1.01[2] per share. The distribution of Silver Bay common stock to Two Harbors' stockholders, which was completed on or about April 24, 2013, was an important accomplishment. As you may recall, in late 2012 we announced that, concurrent with Silver Bay's initial public offering, we would contribute our portfolio of single family homes in exchange for approximately 17.8 million shares of Silver Bay common stock. At the same time, we announced that, subject to the approval of our Board of Directors and following the expiry of a 90-day lock-up, it was our intention to distribute the Silver Bay common stock to our stockholders by means of a special dividend. We are pleased to have met this goal.

Late in the quarter we completed an accretive public offering, raising approximately $763 million in net proceeds. We expect to use the proceeds to purchase Agency bonds, non-Agency bonds and credit sensitive loans. We also hope to deploy capital into mortgage servicing rights and prime jumbo whole loans for securitization.

The macroeconomic landscape continues to yield mixed results. Home price performance continues to improve, which is important to our non-Agency portfolio and credit sensitive loans, one of our new investment initiatives. According to CoreLogic, home prices increased 10% as of February 28, 2013, on a rolling 12-month basis. Most forecasts call for a continuation of home price appreciation.

Unemployment metrics, on the other hand, continue to languish. However, signs of strengthening GDP and other economic indicators led to a modest increase in interest rates during the first quarter. We continue to hedge against a potential rise in interest rates as we believe that is a prudent way to manage our exposure. Preservation of book value through risk mitigation is a paramount objective.

From a policy perspective, the Home Affordable Refinance Program, or HARP, has been extended through 2015, which was announced in mid-April. We had been expecting an announcement of this nature for some time. It is important to note that we have very little exposure to HARP pools in our portfolio, and therefore, we do not view this as a meaningful development in terms of managing our existing portfolio.

In prior quarters, we outlined a variety of new investment opportunities that we are pursuing, which we believe dovetail nicely with our existing strategies and our core competencies of credit and prepayment analysis. We have made progress related to a variety of these investments in the first quarter. For example, we participated in a $400 million prime jumbo securitization, and we are pleased with this development given the attractive economics and risk-return profile. We continue to build our originator platform for aggregating loans. During the quarter, we continued to make progress on purchasing credit sensitive loans, and we anticipate securitizing them at some point. As a reminder, these are portfolios of whole loans that often have been modified and commonly have high loan-to-value ratios.

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On May 2, 2013, we announced that one of our wholly-owned subsidiaries had acquired a company, Matrix Financial Services Corporation, that has approvals from the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Government National Mortgage Association (Ginnie Mae), to hold and manage mortgage servicing rights. Importantly, Matrix Financial Services Corporation has all the necessary Agency approvals that will position us to own and acquire mortgage servicing rights. Additionally, we recently received a Private Letter Ruling from the IRS advising that we can treat the beneficial ownership of an excess servicing spread as good income for REIT compliance purposes.

As you know, our main priority continues to be optimizing value for our stockholders and providing attractive risk-adjusted returns over the long-term. As a hybrid mortgage REIT, we have the flexibility to take advantage of opportunities in the Agency and non-Agency market, as well as related investments within the residential securities market. Several of the initiatives we are evaluating have the potential to diversify our business and provide returns uncorrelated to our existing Agency and non-Agency securities portfolios. Importantly, we believe each of these opportunities is grounded in our current core competencies. We are excited about our ability to continue to drive stockholder value over the long-term.

On a final note, I would like to encourage you to listen to our ongoing webinar series. We have most recently released a webinar titled "*Mortgage REIT Primer,"* which is available on our website. This webinar provides general information about REITs, mortgage REITs, and Two Harbors' business model. We are looking forward to introducing additional webinars in the future to provide our stockholders with insights regarding our business and the markets.

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

Sincerely,

Thomas Siering
President and Chief Executive Officer

(1) Decrease in book value per diluted share from December 31, 2012 to March 31, 2013 of $0.35 plus cash dividend of $0.32 per share and Silver Bay common stock distribution amounting to $1.01[2] per share divided by December 31, 2012 diluted book value of $11.54.

(2) The per share calculation utilized the closing price of Silver Bay common stock on March 28, 2013, which was $20.70, multiplied by 17,824,647 shares of Silver Bay common stock, divided by Two Harbors' shares outstanding of 365,065,756 on the record date, April 2, 2013. The dividend per share received by a stockholder for tax purposes was approximately $0.95 per share, which utilized the closing share price of Silver Bay common stock on the payable date, April 24, 2013, adjusted for the shares sold in open market and converted to cash proceeds which were distributed in lieu of fractional shares.

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 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.