TWO HARBORS Investment Corp.
A Pine River Capital Managed Company

First Quarter 2014 Letter to Stockholders

NYSE: TWO

May 23, 2014

Dear Fellow Stockholders,

We are off to a good start in 2014. We delivered strong results in the first quarter of 2014 with Comprehensive Income of $152.6 million, or $0.42 per diluted weighted average share, which represents a return on average equity of 15.7%. Our book value for the first quarter was $10.71 per diluted common share, representing a 3.9%[(1)] return on book value after accounting for a dividend of $0.26 per share. Over the last two quarters, we have delivered a total return on book value of 8.5%,[(2)] which we are proud of considering the volatility in the interest rate environment. To frame this result, the 10-year treasury has returned only 1.5%[(3)] over the last two quarters. Our performance is a testament to our ability to generate alpha in a variety of interest rate environments.

We continue to monitor the macroeconomic environment and legislative proposals that could impact our business. Unemployment figures remained stable throughout the first quarter and subsequent to quarter-end, fell to 6.3% in April. This metric, coupled with continued positive home price appreciation, creates a good environment for the performance of our credit strategy. The potential impact of the Federal Reserve's reduction of its market participation, or tapering, is perhaps the most impactful event we monitor. The Federal Reserve has cut its monthly purchases of U.S. Treasuries and Agency mortgage-backed securities to $25 billion and $20 billion down from $45 billion and $40 billion, respectively, at the peak. The Federal Reserve remains focused on what they view as the economic "super metrics" of unemployment and inflation. We believe the winding down of asset purchases will continue throughout 2014, although questions regarding the end date of the Federal Reserve's accommodative policy will likely continue to impact the mortgage-backed securities market this year.

Additionally, with the introduction of the Johnson-Crapo Bill and the HOME Forward Act in March, GSE reform remains a popular topic on Capitol Hill. While it is uncertain if any of the proposals will ultimately become legislation, it does appear that significant change to the U.S. mortgage market is likely in the coming years. Over the long term, we expect mortgage REITs like Two Harbors to be part of the solution to the quandary of how to reduce the government footprint in the mortgage market.

With respect to portfolio positioning, both our Rates[(4)] and Credit[(5)] strategies performed well during the first quarter, resulting in an annualized net interest rate spread of 3.5%, which increased 30 basis points from the fourth quarter 2013. We continue to maintain a low overall risk profile. Our present positioning is intended to minimize any book value impact resulting from potentially wider spreads as a consequence of the Federal Reserve ending its asset purchases.

We have made considerable progress on our strategic initiatives. We continue to work with a variety of partners to further develop our investments in mortgage servicing rights (MSR). We have been adding MSR to our portfolio from the previously announced flow arrangement with PHH Corp. and, subsequent to quarter-end, closed on an additional bulk acquisition from Flagstar Bank, FSB. To date, we have invested approximately $500 million in MSR. We are enhancing our MSR platform, adding to our oversight, investor reporting, underwriting and technology capabilities. Going forward, we expect to see opportunities to acquire additional MSR through bulk purchases, flow-sale arrangements and our originator relationships.

As it relates to our mortgage loan conduit business, we have been adding loans to the portfolio and continue to advance relationships with originators. We experienced an increase in loan production during the first quarter and our pipeline for prime jumbo loans at March 31, 2014 was $154 million, which is subject to customary closing conditions. Combined with our holdings of $141 million, we expect to have $300 million or more sometime in the second quarter, which we intend to securitize should market conditions warrant. On an ongoing basis, we are identifying additional candidates for inclusion in our already robust new originator pipeline. From a financing perspective, we expect to utilize funding from the Federal Home Loan Bank of Des Moines to support our conduit activities in the future. This continued diversification of our financing profile allows us to optimize our funding mix.

These new initiatives represent a logical diversification of our legacy businesses while having the potential to increase returns, dampen volatility and build franchise value for our stockholders.

We are pleased with our performance during the first quarter. With a market capitalization of $3.7 billion,(6) we are the largest hybrid residential mortgage REIT. We believe that Two Harbors continues to strive to distinguish itself through its alpha generation, governance practices and business innovation.

Thank you for your interest in Two Harbors. As always, please let us know if you have questions or if we may be helpful in any way.

Thomas Siering
President and Chief Executive Officer

(1) Total return on book value is calculated as the increase in book value, plus dividends declared, for the period from December 31, 2013 to March 31, 2014.
(2) Total return on book value is calculated as the increase in book value, plus dividends declared, for the period from September 30, 2013 to March 31, 2014.
(3) Source: Bloomberg as of March 31, 2014.
(4) Assets in "Rates" include Agency RMBS, Agency Derivatives and MSR.
(5) Assets in "Credit" include non-Agency RMBS, prime jumbo residential mortgage loans, net economic interest in securitization trusts and CSL.
(6) Source: Bloomberg as of May 13, 2014.