TWO HARBORS Investment Corp.
A Pine River Capital Managed Company

First Quarter 2015 Letter to Stockholders

NYSE: TWO

May 19, 2015

Dear Fellow Stockholders,

The first quarter was highlighted by the ongoing growth of our operational businesses and our initial investment in commercial real estate. At March 31, 2015 our book value was $11.08 per share, representing a quarterly total return on book value of 2.2%[1], when combined with the first quarter dividend of $0.26 per share. During the quarter, we delivered comprehensive income of $88.9 million, or $0.24 per weighted average share. From an overall portfolio perspective, we continue to be positioned conservatively with low spread duration and interest rate exposure, as the overall interest rate environment remains volatile and we believe that interest rates could move higher in 2015. Our performance in the first quarter exemplifies our commitment to long-term book value preservation and growth, which we aim to achieve through thoughtful diversification, asset selection and risk management.

We are focused on building franchise value through our operational businesses. In the quarter we closed two securitizations, issuing securities backed by approximately $575 million unpaid principal balanace (UPB) in residential mortgage loans. Subsequent to quarter-end, we also closed our third securitization of 2015. Importantly, we have seen broader investor interest in our deals, as evidenced by the increasing number of investors purchasing bonds. We believe this is a result of becoming a more consistent issuer and having developed some brand recognition in the market. The prime jumbo pipeline remains robust; at March 31, 2015, we had approximately $1.2 billion UPB in locks and loans, which puts us on track to be a consistent issuer over the long term. We are committed to growing the conduit business by building a high-quality network of seller partners, both for prime jumbo loans and for a variety of additional products that may be developed over time. We continue to work on an Expanded Credit program that reaches average credit quality borrowers who haven't been able to get a mortgage due to tight credit standards. While in the near term we project slow volume growth, we believe this program is important to the housing market and could become a meaningful part of Two Harbors over time.

With respect to mortgage servicing rights (MSR), market dynamics have changed over last several months and both flow and bulk MSR opportunities have become more attractive. Given this, it remains a top priority to add flow sellers during the course of this year. Our goal is to work in tandem with our current seller partners to develop a full suite of products that addresses voids in the market. We will also continue to evaluate bulk MSR deals as they become available. MSR is an excellent asset for our portfolio and we are focused on growing it as a core holding in our Rates[2] strategy.

Another significant accomplishment in the first quarter was our initial investment in commercial real estate, which occurred late in the quarter. Specifically, this was a $46 million dollar senior floating rate mezzanine loan on a diversified portfolio of hotel assets. We expect the returns on this investment to be within our targeted range of low-to-mid double digits using a small amount of leverage. More importantly, we continue to develop the personnel and infrastructure necessary to ramp the program. We expect to more fully deploy the initial $500 million equity investment in the latter half of 2015. The majority of the assets we are targeting are floating rate, which can be pleasing in a rising interest rate environment. We are excited about the long-term opportunity that commercial real estate offers our stockholders.

Our legacy portfolios of Agency and non-Agency residential mortgage-backed securities performed well in the quarter. We added some specified pools in our Agency portfolio, increasing our leverage slightly while improving our overall convexity profile. In our non-Agency portfolio, we continued to sell certain legacy non-Agency bonds that we believed were fully valued. Notably, we have added certain assets created from our Agate Bay securitizations. Consistent with what we have previously discussed, capital allocation in our portfolio is shifting towards assets created by our operational businesses.

On the economic front, data in the first quarter was generally weaker and the Federal Reserve continued to make dovish commentary about when, and if, they will raise interest rates. Consistent with our expectation, the market generally expects a modest increase in rates sometime in 2015. While macroeconomic conditions in the U.S. appear to be improving, the global backdrop has been less certain and, as such, interest rate volatility remained elevated. National home prices increased 5.9% on a rolling 12-month basis in March 2015, according to CoreLogic. We expect housing price appreciation to continue in 2015, albeit at a softer pace than the last few years. Despite recent disappointments, unemployment metrics have improved year-over-year, falling to 5.5% in March 2015 from 6.6% in March 2014. In this macroeconomic environment, we believe having a diversified portfolio and utilizing a sophisticated approach to hedging allows us to dampen volatility and generate returns for our stockholders.

As we strive to be a thought leader in the real estate investment trust industry, we continue to engage in Washington on regulatory and policy-related topics that impact our business. This includes the private label securities market, servicing standards, government sponsored entity risk sharing and housing finance reform. We have not heard anything further from the Federal Housing Finance Association regarding their proposed rulemaking on the membership in the Federal Home Loan Bank (FHLB) system. We understand that many letters were submitted, so we expect that the decision process could take time. Importantly, we believe our secured financings are consistent with their safety and soundness mantra. Our business is directly aligned with the FHLB's mission and allows us to provide consistent and stable mortgage pricing to our seller partners and the market, which is helpful to homeowners.

The first quarter was a solid start to the year. It was marked by the advances of our operational businesses and diversification into commercial real estate. These initiatives demonstrate our commitment to building franchise value and driving returns for stockholders through thoughtful portfolio diversification and hedging. Thank you for your investment in Two Harbors Investment Corp. As always, please let us know if you have any questions.

Sincerely,

Thomas Siering
President and Chief Executive Officer

(1) Total return on book value is the increase in book value, plus dividends declared, for the indicated time period as measured from March 31, 2015.
(2) Assets in "Rates" include Agency RMBS, Agency Derivatives (inverse interest-only securities) and MSR.

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, including, among other things, those described in our Annual Report on Form 10-K for the year ended December 31, 2014, and any subsequent Quarterly Reports on form 10-Q, under the caption "Risk Factors." Factors that could cause actual results to differ include, but are not limited to: the state of credit markets and general economic conditions; changes in interest rates and the market value of our assets; changes in prepayment rates of mortgages underlying our target assets; the rates of default or decreased recovery on the mortgages underlying our target assets; the occurrence, extent and timing of credit losses within our portfolio; the concentration of credit risks we are exposed to; declines in home prices; our ability to establish, adjust and maintain appropriate hedges for the risks in our portfolio; the availability and cost of our target assets; the availability and cost of financing; changes in the competitive landscape within our industry; our ability to successfully implement new strategies and to diversify our business into new asset classes; our ability to manage various operational risks and costs associated with our business; interruptions in or impairments to our communications and information technology systems; our ability to acquire mortgage loans and successfully securitize the mortgage loans we acquire; our ability to acquire mortgage servicing rights (MSR) and successfully operate our seller-servicer subsidiary and oversee our subservicers; the impact of any deficiencies in the servicing or foreclosure practices of third parties and related delays in the foreclosure process; our exposure to legal and regulatory claims; legislative and regulatory actions affecting our business; the impact of new or modified government mortgage refinance or principal reduction programs; our ability to maintain our REIT qualification; and limitations imposed on our business due to our REIT status and our exempt status under the Investment Company Act of 1940.

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 (SEC). 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.