



August 20, 2015

Dear Fellow Stockholders,

In the second quarter, we were focused on protecting book value while advancing our operational businesses. At June 30, 2015 our book value was \$10.81 per share, representing a total return on book value of 2.1%⁽¹⁾ for the first six months of the year. During the quarter, we delivered comprehensive income of \$2.7 million, or \$0.01 per weighted average share. From a strategic perspective, we continue to shift capital from our legacy Agency and non-Agency residential mortgage-backed securities (RMBS) portfolios into our operational businesses, which include our mortgage loan conduit, mortgage servicing rights (MSR) and commercial real estate.

Our mortgage loan conduit continues to gain momentum. We completed two securitizations during the second quarter, totaling approximately \$493 million unpaid principal balance (UPB). This brings our total securitizations through the first half of the year to four and we remain on track to complete 6-10 transactions by year-end. Our Agate Bay brand accounted for roughly 19% of the total private label RMBS issuance in the first six months of the year, according to Credit Suisse mortgage research. We are proud of this strong market share and we continue to see increased investor interest and participation. Importantly, with each securitization we are creating new subordinate and interest-only credit assets for our portfolio at attractive returns. Our prime jumbo pipeline, which includes loans and interest rate locks, was approximately \$1.3 billion UPB at June 30th, providing a solid foundation to be a reliable and consistent issuer.

Subsequent to quarter-end, we launched an Expanded Credit Program that targets a broader cohort of borrowers, particularly those who are unable to get a mortgage due to the tight credit standards that exist in the market today. This program allows for borrowers with lower FICOs and higher LTVs than our standard prime jumbo program. These will be fully underwritten mortgages, meeting Ability-to-Repay requirements. We believe the expansion of credit in the market place can benefit both homeowners and the housing market generally.

We continue to focus on growing MSR as a core holding in our Rates⁽²⁾ portfolio. MSR represents an excellent fit within our portfolio as it provides positive yield and negative duration, and hedges basis risk. The longer a mortgage is outstanding, which happens when interest rates increase, the more value there is to the MSR. We are focused on building MSR flow-sale relationships, especially where we can leverage relationships with existing conduit seller partners. We have made good progress and anticipate adding 5-10 of these relationships by year-end. In addition, subsequent to quarter-end, we closed a \$5.0 billion bulk purchase of Fannie Mae MSR.

We believe our operational businesses will be instrumental in driving our company forward. There are many operating efficiencies and infrastructure overlap between MSR and our mortgage loan conduit. From a product development perspective, we continue to evaluate avenues that are rooted in our core competencies of prepayment and credit risk analysis and, importantly, have the potential to benefit U.S. homeowners and our stockholders alike.

We are in the early stages of deploying capital to our commercial real estate strategy. The personnel and infrastructure requirements necessary to support the program have been substantially formed. We are beginning to develop a healthy pipeline and are excited about the deal flow in the marketplace today. As we have articulated in the past, there is a large amount of refinancing that needs to be done within the next several years, and many of the traditional lenders in the commercial space are retreating. Moreover, many commercial loans are floating rate in nature, which is desirous in a rising interest rate environment.

From a macroeconomic perspective, interest rate volatility remains elevated, as the market generally expects that the Fed will raise rates later this year. Accordingly, we continue to be positioned conservatively with respect to interest rate exposure. Unemployment metrics improved year-over-year as of June 2015, falling to 5.3%. National home prices increased on a rolling 12-month basis in June to 6.5%, according to CoreLogic.

From a policy standpoint, we are in active dialogue with parties in Washington on a number of industry topics, including private label securitization, servicing standards and capital requirements, government sponsored entity risk sharing and housing finance reform. With respect to the Federal Housing Finance Agency proposed rulemaking regarding Federal Home Loan Bank membership, we have not heard anything further after submitting our response letter. It is our belief that it is still under review.

Our primary objective is to deliver total return for our stockholders over the long term. We accomplish that through dividend distributions and book value preservation and growth. We have made tremendous progress on our operational businesses and believe we are poised for growth in these segments over the next several quarters. Each of these initiatives has the potential to offer attractive expected returns, build franchise value, increase valuation and, most importantly, drive stockholder returns. Thank you for your interest in Two Harbors.

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 June 30, 2015.
- (2) Assets in "Rates" include Agency RMBS, Agency Derivatives (inverse interest-only securities), MSR and Ginne Mae buyout residential mortgage loans.

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; the state of the commercial real estate markets and our ability to acquire or originate commercial real estate loans or related assets; 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.