



February 23, 2015

Dear Fellow Stockholders,

Two Harbors had an excellent year in 2014. We achieved tremendous growth with respect to our operational businesses and announced our intent to further diversify our business model into commercial mortgage loans. Our book value at quarter end was \$11.10 per diluted common share, representing a 1.0%⁽¹⁾ return on book value for the quarter after accounting for a dividend of \$0.26 per share. This brought our total annual return on book value to 15.0%⁽⁴⁾. We delivered comprehensive income of \$42.2 million and \$578.2 million for the quarter and the year ended December 31, 2014, respectively. This was achieved despite a volatile interest rate environment and is a testament to the investment team's excellent portfolio management and risk mitigation strategies. This is particularly impressive given our low leverage profile during the year.

We are especially proud of the development of our mortgage loan conduit business in 2014. We meaningfully increased the number of sellers in our network and completed three securitizations, representing mortgage loans with unpaid principal balance of approximately \$1 billion. Our pipeline volumes are strong and we intend to be a regular issuer in 2015, subject to market conditions. We are also proud to have announced the launch of high-loan-to-value (LTV) and non-Prime programs during the quarter. The high-LTV program is focused on high credit quality borrowers who prefer or require a lower down payment. The non-Prime program is geared toward borrowers of average credit quality who have the financial wherewithal to buy a home, but haven't been able to get a mortgage due to exceptionally tight credit standards. Both of these programs are in their nascency and we expect that it will take some time to drive volumes. However, we believe these borrowers represent large and underserved cohorts.

Our mortgage servicing rights (MSR) business also continues to progress. We aim to add more sellers throughout 2015, particularly where we can leverage existing relationships with sellers for our conduit business. MSR provides several benefits across our portfolio and is an excellent asset on a yield basis and as a hedge to mitigate interest rate and spread risk.

In the fourth quarter, we were pleased to announce our expansion into commercial real estate, with the addition of a seasoned commercial real estate team. We intend to initially allocate \$500 million in equity capital, further diversifying our portfolio. The commercial real estate loan market is greater than \$3.0 trillion in size, with over \$1.5 trillion in loans expected to mature in the next several years.⁽²⁾ Given the large market size and attractive available returns, we believe this initiative meets the criteria we desire in regards to opportunity, scale and investment runway and will help drive the creation of stockholder value.

Our Rates⁽³⁾ and Credit⁽⁴⁾ strategies both performed well during the fourth quarter. Within the Rates⁽³⁾ strategy, Agency RMBS and MSR capital allocation remained relatively flat quarter-over-quarter and we continue to keep our leverage low. The Credit⁽⁴⁾ strategy remains predominantly weighted toward legacy non-Agency RMBS; however, capital allocation to these assets declined as we increased our allocation to new issue mortgage credit through our conduit business. During the fourth quarter, we added some government sponsored entity (GSE) credit risk sharing bonds, as the spreads on these bonds widened dramatically, and we viewed the risk-return as favorable at these wider spreads.

From a macroeconomic perspective the Federal Reserve made its final reduction in asset purchases in the quarter, which was expected, and plans to continue to make significant reinvestments of mortgage-backed securities paydowns for the foreseeable future. The interest rate curve continued to flatten in the quarter, as the 10-year interest rate fell to 2.2%, near the lows of 2013.

Employment, consumer tailwinds and housing price appreciation are important indicators of an improving foundation for the performance of our Credit⁽⁴⁾ strategy. Unemployment metrics improved throughout 2014, falling from 6.6% in January 2014 to 5.6% in December 2014. Additionally, according to CoreLogic, national home prices increased 5.0% on a rolling 12-month basis as of December 31, 2014.

From a policy perspective, the Federal Housing Finance Association's (FHFA) proposed rulemaking regarding membership in the Federal Home Loan Bank (FHLB) system is certainly topical to our business. If adopted, this proposal could have an impact on our FHLB membership. We consider ourselves members in good standing with the FHLB Des Moines and believe that our interests align directly with the mission of the FHLB system. Additionally, our secured financings are consistent with their safety and soundness mantra. We submitted a comment letter to the FHFA in response to the proposed rulemaking, a copy of which can be found under Executive Insights in the Investor Relations section of our website.

Two Harbors is a thought leader within the industry and, as such, we have increased our engagement on regulatory and policy-related topics that directly impact our business, including conforming loan limits, guarantee fees and the private label securities market.

In closing, 2014 was a transformational year for Two Harbors with respect to our operational businesses. We are quite pleased with the growth of our mortgage loan conduit business and are also excited about our intent to further expand into commercial mortgage loans. We believe our diversified portfolio will enable us to continue to generate stockholder returns and build franchise value in the years ahead. Thank you for the confidence and enthusiasm as demonstrated by your investment in Two Harbors Investment Corp. Please do 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 December 31, 2014.
- (2) Based on Trepp LLC and Goldman Sachs Global Investment Research estimates published May 2014.
- (3) Assets in "Rates" include Agency RMBS, Agency Derivatives (inverse interest-only securities) and MSR.
- (4) Assets in "Credit" include non-Agency RMBS, prime jumbo residential mortgage loans, net economic interest in securitization trusts and credit sensitive 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, 2013, 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, higher than expected operating costs, changes in prepayment speeds of mortgages underlying our residential mortgage-backed securities (RMBS), the rates of default or decreased recovery on the mortgages underlying our non-Agency securities, failure to recover credit losses in our portfolio, changes in interest rates and the market value of our assets, the availability of financing, the availability of target assets at attractive prices, our ability to manage various operational risks associated with our business, our ability to maintain our REIT qualification, limitations imposed on our business due to our REIT status and our exempt status under the Investment Company Act of 1940, 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, our ability to acquire mortgage loans or securitize the mortgage loans we acquire, our involvement in securitization transactions, the timing and profitability of our securitization transactions, the risks associated with our securitization transactions, our ability to acquire mortgage servicing rights, the impact of new or modified government mortgage refinance or principal reduction programs, unanticipated changes in overall market and economic conditions, and our exposure to claims and litigation, including litigation arising from our involvement in securitization transactions and investments in mortgage servicing rights.

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.