



May 8, 2017

Dear Fellow Stockholders,

We are off to a terrific start to the year, delivering a 3.9%⁽¹⁾ return on book value and solid increases in Core Earnings and Comprehensive Income. Our Rates⁽²⁾, Credit⁽³⁾ and Commercial⁽⁴⁾ strategies all contributed to our performance during the quarter. In accordance with our previously articulated plan for 2017, we are on track to drive stronger earnings while maintaining focus on our disciplined and refined approach to risk management. In support of this, we are intent on running a leaner business model focused on the allocation of capital to the most attractive market opportunities and by cost containment. As demonstrated by our performance this quarter, we believe this approach will allow us to deliver strong and stable returns for stockholders through a variety of rate environments.

In our Rates⁽²⁾ strategy, we continue to maintain a disciplined and refined approach to risk management that is designed to provide book value stability and that we believe can drive strong returns without taking outsized interest rate exposure. Mortgage servicing rights (MSR) is an important component of this approach. The combination of Agency residential mortgage-backed securities (RMBS) and MSR drives a higher return with less basis risk than Agency RMBS hedged with swaps alone. We think that this is particularly important given the potential spread widening that could occur if the Fed reduces its MBS holdings. In terms of portfolio activity, during the quarter we opportunistically added Agency RMBS, primarily driven by initially deploying proceeds from our capital raises into highly liquid Agency pools, with a plan to redeploy that capital into MSR and commercial real estate assets. In the quarter we added approximately \$7 billion unpaid principal balance (UPB) of new issue, conventional MSR from flow-sale arrangements. Subsequent to quarter-end, we entered into an agreement to purchase approximately \$12 billion UPB of MSR.

Our Credit⁽³⁾ strategy performed very well in the quarter, as residential credit continues to experience fundamental improvement and positive market technicals. Home prices have outperformed expectations, up 7% on a rolling 12-month basis according to CoreLogic⁽⁵⁾, boosted by affordability, low housing supply and strong demand. Additionally, prepayments are higher year-over-year, as exemplified by our three-month constant prepayment rate increasing to 6.7% from 5.3% a year ago. In the quarter, we opportunistically bought about \$340 million of legacy non-Agency RMBS, as we saw bonds with upside potential trading at attractive levels. We believe that future upside for residential credit, and therefore our non-Agency holdings, will be driven by a continued strong economy and housing market. With our portfolio having an average market price of about \$75, we believe we have the ability to realize this future upside.

With respect to our Commercial⁽⁴⁾ strategy, our portfolio grew to \$1.5 billion as of March 31. While the first quarter of the year is seasonally slow for commercial real estate, recently we have seen a tremendous amount of loans come into our purview. Subsequent to quarter-end, we have about \$300 million of new loans in our pipeline that are either closed or under contract. We remain focused on levered first mortgage loans in the top 25 and up to top 50 metropolitan statistical areas in the United States. We believe these markets provide

ample supply of high credit-quality properties to lend against, sufficient number of owners and sponsors with institutional attributes, and adequate market liquidity.

We continue to manage our balance sheet and capital structure to benefit stockholders. Specifically, we recently executed convertible debt and preferred stock offerings that we believe will be accretive to earnings in 2017 and beyond. We are focused on constructing a dynamic and diversified financing profile, including traditional repurchase agreements, the FHLB, revolving credit facilities and convertible senior notes.

Overall, we are off to a great start in 2017. We continue to see attractive investment opportunities in all of our business strategies, which we will pursue while not losing focus on our disciplined and refined approach to risk management. Because our approach leaves us largely insulated to changes in rates, we believe we are well positioned to deliver strong value for stockholders in this environment.

Thank you for your interest in and support of Two Harbors.

Sincerely,



Thomas Siering
President and Chief Executive Officer

- (1) Return on book value for three-month period ended March 31, 2017 is defined as the increase in book value per common share from December 31, 2016 to March 31, 2017 of \$0.13 per common share, plus dividends declared of \$0.25 per common share, divided by December 31, 2016 book value of \$9.78 per common share.
- (2) Assets in "Rates" include Agency RMBS, Agency Derivatives, MSR and Ginnie Mae buyout residential mortgage loans.
- (3) Assets in "Credit" include non-Agency MBS, net economic interests in securitization trusts, prime jumbo residential mortgage loans and credit sensitive residential mortgage loans.
- (4) Commercial consists of senior, mezzanine and B-note commercial real estate debt and related instruments.
- (5) Source: CoreLogic Home Price Index rolling 12-month change as of February 2017.

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, 2016, 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 effectively execute and to realize the benefits of strategic transactions and initiatives we have pursued or may in the future pursue; 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 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 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 refinancing 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.