



February 26, 2016

Dear Fellow Stockholders,

We are proud of our accomplishments in 2015. During the year, we significantly reallocated capital to our mortgage loan conduit, mortgage servicing rights (MSR) and commercial real estate initiatives, increasing the total capital allocation to these initiatives to 38% at year-end as compared to 22% at December 31, 2014. We actively sponsored prime jumbo securitizations, added MSR through both flow-sale and bulk purchases, and completed the build out of the commercial real estate team and began deploying capital thusly. Despite the challenging market environment, our book value at December 31, 2015 was \$10.11, representing a quarterly return on book value of 0.7%⁽¹⁾ and an annual return on book value of 0.5%⁽²⁾.

We repurchased 13.7 million shares in 2015, representing 3.7% of our common stock outstanding at December 31, 2014. Subsequent to year-end, we announced that our Board authorized an additional 50 million shares available for repurchase. We have continued to repurchase stock in the first quarter of 2016 and are committed to repurchasing shares when it makes economic sense for our stockholders. As always, we evaluate share repurchases with consideration to a number of factors, not the least of which is our prevailing share price relative to book value in the spectrum of investment alternatives.

Given the recent market volatility, we believe it is prudent to continue to maintain a conservative risk profile. Our leverage, interest rate and duration exposures remain low and our debt-to-equity ratio was 2.5x at December 31, 2015, down from 3.1x at September 30, 2015. Meanwhile, we are focused on delivering stockholder returns through exceptional portfolio management and sophisticated approach to minimizing risk.

It is our goal to be a capital solutions provider to the U.S. real estate market and in this regard, we had a successful year of accomplishments with our mortgage loan conduit and MSR initiatives. We sponsored our seventh securitization of 2015 in the fourth quarter, fulfilling our stated goal of sponsoring six-to-ten securitizations during the year. Our Agate Bay brand has developed meaningful traction and, according to our research, Agate Bay was a leading issuer in the private label securities market, accounting for roughly 16% of the total new prime jumbo issuance in 2015. Investor interest and participation in our program has been broad, with over 50⁽³⁾ unique participants since the program's inception, many of whom have invested in multiple deals. As a reminder, we retain some credit pieces from each deal, which generate attractive expected returns for our portfolio. Importantly, we have also expanded our originator partner network to 44 active partners.

We intend to continue to increase our MSR holdings relative to our total portfolio. Over the long-term, we believe the success of this platform will be driven by the expansion of our flow-sale arrangements within our originator partner network. We are investing in primarily new issue, high credit quality MSR which has attractive yields and provides a good interest rate and mortgage basis hedge to our Agency residential mortgage-backed securities (RMBS) portfolio.

We made tremendous progress with respect to our commercial real estate initiative in 2015. While the first half of the year was predominantly spent building out the team, we put significant capital to work in the second half of the year. At December 31, 2015, we held twelve senior and six mezzanine commercial real estate

assets with an aggregate carrying value of \$661.0 million. These assets are secured by a diverse mix of property types throughout the U.S., including office, retail, multifamily and hotel properties. The risk-adjusted returns in the low-to-mid double digits are attractive and, importantly, the majority of these assets are floating rate, which provides potential upside to higher rates. We believe there is a significant opportunity for future investments in commercial real estate; the current market size exceeds \$3.0 trillion, with over \$1.5 trillion maturing in the next several years. In addition, traditional lenders are constrained by onerous regulatory and capital requirements, allowing for new capital providers to expand their market share. Fundamentally, the commercial real estate market is very strong. There has been limited new supply of properties in many markets since 2007 and, as a result, we've seen absorption and rent growth, which bodes well for vacancy statistics. We are very excited about the growth of this effort going forward.

We are disappointed with the Federal Housing Finance Agency's final ruling on Federal Home Loan Bank (FHLB) membership, which will preclude captive insurers from ongoing membership eligibility. We believe our interests align directly with the mission of the FHLB system and that our secured financings are consistent with their safety and soundness mantra. It is important to note given our captive mortgage insurer gained FHLB membership prior to the proposed rulemaking, we will have a 5-year grace period on our membership. Therefore, we do not believe the ruling will have an impact on our business in the near or intermediate term.

In 2016, we intend to continue to reallocate capital to our conduit, MSR and commercial real estate initiatives. We expect to accomplish this by keeping our Agency RMBS exposure low, unless market conditions change, and by selectively harvesting positions from our legacy non-Agency RMBS portfolio. We believe this diversification of our portfolio will allow us to deliver high-quality stockholder returns over the long-term while dampening volatility and minimizing risk. On our fourth quarter 2015 earnings call, we also announced that we anticipate issuing a quarterly dividend of \$0.23 per share in the first quarter of 2016, subject to Board approval, and that we expect this quarterly dividend amount to be sustainable throughout the year. Given recent market dislocation, we felt it important to communicate this anticipated change. We are excited to build upon our 2015 accomplishments and look forward to updating you on our progress. Thank you for the confidence demonstrated by your investment in Two Harbors. As always, please let us know if you have any questions.

Sincerely,



Thomas Siering
President and Chief Executive Officer

- (1) Return on book value for the quarter ended December 31, 2015 is defined as the decrease in book value from September 30, 2015 to December 31, 2015 of \$0.19, plus the dividend declared of \$0.26 per share, divided by September 30, 2015 book value of \$10.30 per share.
- (2) Return on book value for the year ended December 31, 2015 is defined as the decrease in book value from December 31, 2014 to December 31, 2015 of \$0.99, plus dividends declared of \$1.04, divided by the December 31, 2014 book value of \$11.10 per share.
- (3) As of January 31, 2016

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, 2015, 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 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.