Third Quarter 2015 Letter to Stockholders

NYSE: TWO

November 30, 2015

Dear Fellow Stockholders,

During the third quarter we achieved several key stated goals with respect to our operational businesses, including meaningfully increasing our capital allocation to these franchises. We believe these new initiatives represent the most compelling use of capital today as they offer high-quality returns, scalability and investment "runway." From an investment perspective, the third quarter was challenging given widespread market volatility. At September 30, 2015 our book value was $10.30 per share, and during the quarter we incurred a Comprehensive Loss of $92.8 million, or ($0.25) per weighted average share.

We are quite pleased with the progress we have made on our commercial real estate initiative, both in the quarter and year-to-date. While the first half of the year was predominantly spent building the necessary infrastructure, we began putting capital to work in a more meaningful way in the third quarter. We closed eight loans with an initial loan carrying value of $245 million, exceeding our expectations. At September 30, we held a total of nine loans on office, retail, multifamily and hotel properties throughout the United States with a total carrying value of $291 million. As a reminder, the majority of these loans are floating rate in nature, which is desirous in a rising rate environment. We continue to see excellent opportunities in the marketplace today and are on track to deploy the remainder of the initial $500 million of capital to this business throughout the remainder of 2015 and into 2016.

In the quarter we sponsored two prime jumbo securitizations, bringing our total securitization count through the first nine months of 2015 to six. A seventh deal was also sponsored subsequent to quarter-end. Since the beginning of our Agate Bay program, we have completed eleven securitizations and have attracted over 45 unique investors. We believe this is the result of our Agate Bay brand's growing acceptance in the marketplace. Importantly, we are retaining credit pieces from each of these deals to replace our legacy non-Agency residential mortgage-backed securities (RMBS) as that portfolio naturally pays down over time. We have also been retaining some higher pieces of the capital structure when it is compelling.

Concurrent with our announcement of earnings for the third quarter, we launched the eighth webinar in our ongoing series titled Mortgage Loan Conduit and Securitization. This introductory webinar explains the securitization structure and process. It can be found on our website at www.twoharborsinvestment.com under the Investor Relations tab. We hope that you find it instructive.

With respect to mortgage servicing rights (MSR), we closed two bulk acquisitions and added three flow sellers in the third quarter. MSR is an excellent asset for our portfolio, providing positive returns and a natural interest rate hedge to our investments in Agency RMBS. We believe the long-term success of our MSR business will be driven by the expansion of flow-sale arrangements within our originator partner network and we have concentrated our resources on cultivating these relationships.

From a macroeconomic perspective, the decision by the Federal Reserve (Fed) not to raise interest rates contributed to volatility in the market in the third quarter. It remains possible that the Fed will raise rates in late 2015 or early 2016. Unemployment at 5.1% in September remains relatively low, but it is clear that traditional benchmarks are becoming less of a determinant as the Fed evaluates rate decisions. The job and housing markets have been stable and we anticipate them remaining so for the foreseeable future. Home price appreciation was up 6.4% on a rolling 12-month basis according to CoreLogic(1) and they expect pricing gains of approximately 4.7% over the next 12 months. That being said, given the recent volatility in the markets, we believe it is prudent to remain conservatively positioned with repsect to interest rate exposure and continue to focus on transitioning capital to our new business initiatives.

The expansion of our operational businesses in the third quarter highlights our ambition to be an industry leader, bringing innovative capital solutions to the U.S. real estate market. As of quarter-end, we had approximately 30% of our capital invested in these franchises, up from 23% at June 30. We expect to further increase capital allocation in the coming quarters. Our aim is to maintain a low risk profile as we transition our capital to what we believe are opportunities for higher-quality returns. The evolution of these businesses should drive franchise value and long-term stockholder returns. As always, thank you for your interest in and support of Two Harbors.

Sincerely,

Thomas Siering
President and Chief Executive Officer

(1) Source: CoreLogic Home Price Index rolling 12-month change as of September 30, 2015.

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.