

April 13, 2011

To our Stockholders:

2010 marked, for Two Harbors, our first full year as a public company. We are proud of the progress we have made to date. In this first annual letter to shareholders, we would like to share with you our key accomplishments for the year and our thoughts on the future.

### ***2010 Key Accomplishments***

In many regards, 2010 was a significant year for our company and our shareholders. Our key accomplishments include:

- Achieving total Comprehensive Income of \$59 million, representing a 28.8% return on average equity on an annualized basis;
- Declaring dividends totaling \$1.48 per share;
- Increasing book value by 4.0% on an annual basis to \$9.44 per share;
- Successfully completing two follow-on equity offerings, which benefits our stockholders in respect of share liquidity and lower expense metrics; and
- Constructing a well-balanced and diversified portfolio.

### ***Seizing Market Opportunity***

Two Harbors was created to capitalize on the \$11 trillion U.S. residential mortgage market, which was left in disrepair following the financial crisis in 2008. Traditional players in the mortgage sector such as Freddie Mac and Fannie Mae as well as commercial banks and proprietary trading desks were forced to reduce their participation in the market to due regulatory and capital constraints. This left a void that created opportunity for mortgage REITS such as Two Harbors. Please let us share with you how we feel we distinguish ourselves in the sector.

### ***Building the Winning Team***

Our Co-Chief Investment Officers, Steve Kuhn and Bill Roth, lead the investment effort at Two Harbors. They are supported by a team of 17 residential mortgage backed securities professionals. Drawing upon experience gained over the last 30 years, this team has managed mortgage portfolios throughout numerous credit and interest rate cycles. This level of experience is unusual and highly valuable. Two Harbors also benefits from its relationship with our external manager, which is a wholly owned affiliate of Pine River Capital Management L.P. As of April 1, 2011, Pine River has over \$4.1 billion assets under management, of which \$2.8 billion is dedicated to mortgage investments.

### ***Leveraging State-of-the-Art Technology***

In today's ephemeral and idiosyncratic mortgage market, our investment decisions are formed by both qualitative and quantitative considerations. We rely heavily on our state-of-the-art proprietary technology. Our systems allow us to analyze the myriad characteristics of available securities with granularity and speed. Our security selection processes are rigorous and structured. Many are called but few are chosen. Our rejection ratio is staggeringly high. We want only the best securities and balance for our portfolio to optimize stockholder value and mitigate risk.

### *Employing a Flexible Strategy*

We are a hybrid REIT in that we invest in both Agency securities (those backed by government sponsored enterprises, or “GSEs,” such as Freddie Mac or Fannie Mae), and non-Agency securities. This affords us the flexibility to invest across the universe of mortgage securities for the benefit of our stockholders.

### *Providing Access to Individual Investors*

Barriers to investment in the residential mortgage backed securities market historically have been high. The market is byzantine by its nature, teams and systems are difficult to build and detailed research on the space is largely absent. Thus, a select few institutional investors heretofore have been the primary investors in this asset class. We created Two Harbors to provide both institutional and retail investors an opportunity to participate in the residential mortgage backed securities sector. Leveraging our people, systems and technology, Two Harbors has constructed a RMBS portfolio that seeks to deliver attractive risk-adjusted returns for our investors. Prevailing favorable market conditions have allowed for substantial dividend streams. For the fourth quarter of 2010, we declared a \$0.40 per common share dividend, or 16.3% based on the stock’s closing price on December 31, 2010.

### *Looking Forward*

We are pleased to report that in the first quarter of 2011, Two Harbors transferred the listing of its common stock to the New York Stock Exchange. We believe this transition will benefit our stockholders in the form of increased liquidity and visibility for our shares.

We expect the evolving roles of the GSEs to have a significant impact on the mortgage and RMBS markets. Whatever the fate of these concerns, the need for private capital in the sector will almost certainly rise. Mortgage REITS are natural conduits to meet the need for this funding. As we contemplate the future, we are reminded of the poet who said “Beware o wanderer, the road is walking too,” which is to say that the mortgage market will inevitably experience significant changes. We are excited for the opportunity that this presents.

We have built Two Harbors thoughtfully and believe we can continue to drive shareholder value while prudently managing risk. We are thankful for our team and their commitment, our Board of Directors for their wisdom and guidance and, most of all, our stockholders for their investment and support.

We would be delighted if you joined us for our 2011 Annual Meeting of Stockholders to be held at the Warwick New York Hotel, 65 West 54th Street, New York, New York 10019, on Tuesday, May 17, 2011, at 1:00 p.m., Eastern Time.

For more information on our company, see our website at [www.twoharborsinvestment.com](http://www.twoharborsinvestment.com).

Thank you for taking the time to read this letter and your interest in Two Harbors.

Sincerely,



Thomas Siering  
*President and Chief Executive Officer*

