TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

Third Quarter 2013 Letter to Stockholders

NYSE: TWO

November 25, 2013

Dear Fellow Stockholders,

During the third quarter, the mortgage market moved slightly higher after the Federal Reserve announced the intent to hold off on tapering their monthly bond purchases. We remained defensively positioned with a low leverage profile. As a result, we did not see dramatic movement in our Rates or Credit portfolios. We are pleased to report that as of September 30, we had generated comprehensive income of $156 million, representing a return on average equity of 5.4%. We believe that this result is commendable given the performance of the mortgage REIT sector during the same timeframe. During the third quarter, we generated comprehensive income of $54 million, or $0.15 per diluted weighted average common share.

Our book value was $10.35 per diluted common share at September 30, 2013, representing a total return of 1.5% when combined with our third quarter cash dividend of $0.28. For the nine months ended September 30, 2013, our total return on book value was 6.3%. We believe this is a testament to our sophisticated approach to risk management and hedging given our peer group's performance, which had a median return on book value of negative 11.6%(1) during the same period.

During the quarter, we repurchased approximately 1.5 million shares of common stock under our share repurchase program. The share repurchases were accretive to book value. We evaluate share repurchases based on other available investment opportunities in an effort to deliver value to our stockholders. As a reminder, an additional 22.5 million shares are authorized under our existing program.

The mortgage market remains sensitive to macroeconomic events. Interest rates experienced significant volatility during the quarter but were ultimately relatively unchanged on a quarter-over-quarter basis. Mortgage rates were also higher than earlier this year, which may dampen refinancings and mortgage originations. Unemployment metrics in the third quarter have shown signs of strength and monthly jobs reports continue to demonstrate progress. Improving employment metrics are good for our non-Agency portfolio, as it should indicate a decline in delinquencies and defaults.

From a policy perspective, last quarter we mentioned two proposed bills that would aid in the wind-down of the GSEs. Neither of these bills have made much headway to-date, and we anticipate that there will be continued debate prior to any vote in Congress. Additionally, Janet Yellen was nominated as the new Federal Reserve Chair. The market is generally expecting that her nomination will be confirmed and that she will follow retiring Chairman Bernanke's policies rather consistently. Uncertainty reigns around the future of Fed tapering. However, assuming Ms. Yellen is confirmed as the new Fed Chair, she will not take over until early 2014, which may mean tapering is on hold until the new year. We are optimistic that this development, as well as others relating to the mortgage market, could create opportunities for the private sector and companies like Two Harbors to provide capital to the U.S mortgage market over the long term.

We are pleased to report progress related to one of our new initiatives. On November 4, we announced that we had entered into a flow sale agreement with PHH Mortgage Corporation to acquire Mortgage Servicing Rights (MSRs). Under the flow sale agreement, we may acquire MSRs on newly-originated residential mortgage loans. This agreement has an initial term of two years and represents significant progress related to our MSR initiative. As a reminder, MSRs are a natural hedge to our Agency portfolio, hedging both interest rate and mortgage spreads. We are also on-track to complete other substantial investments in MSRs in the near-term.

Separately, we have also been working on our mortgage loan conduit and securitization business. During the third quarter, we completed our first securitization using our own depositor. The transaction involved the sale of approximately $434 million in senior securities and the underlying collateral consisted of prime jumbo 30-year fixed residential mortgage loans. Our goal is to develop an industry leading prime jumbo mortgage conduit and we continue to advance our aggregation capabilities for prime jumbo residential loans. Developing further relationships with originators, as well as growing our middle and back office functionality to support increasing loan activity, are critical to robustly building this platform.

This is a very exciting time for Two Harbors. Our new business initiatives have the potential to create substantial franchise value. There is an evolving landscape for our legacy portfolios of Agency and non-Agency securities and there will be an increasing need for private capital within the mortgage market. Two Harbors continues to distinguish itself. We are proud of our alpha generation and returns over the past four years, which we were able to accomplish by preserving book value, dampening volatility and broadening our business model. Our current portfolio positioning gives us the ability to be opportunistic going forward. As always, our main priority is to optimize stockholder value over the long term.

Please let us know if you have questions or if we may be helpful in any way.

Sincerely,

Thomas Siering
President and Chief Executive Officer

[1] Median return on book value for the peer group includes: NLY, AGNC, HTS, CYS, ARR, CMO, MFA, IVR and ANH

Forward-Looking Statements
This letter 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, 2012, 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, 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.

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.