TWO HARBORS
Investment Corp.
A Pine River Capital Managed Company

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Second Quarter Letter to Stockholders

August 28, 2013

Dear Fellow Stockholders,

The second quarter was a challenging period for the mortgage market, and we were focused on protecting our book value by mitigating our risk profile during this time. Early in the quarter, we took measures to position our portfolio defensively, as we believed the potential existed for increased volatility and rising interest rates. Despite these market conditions, we are pleased to report that year-to-date, we have generated comprehensive income of $102 million, representing a return on average equity of 5.2%. We believe that this result is remarkable given the performance of the mortgage REIT sector during the same timeframe. In the second quarter, we incurred a comprehensive loss of $146 million, or $0.40 per diluted weighted average common share, largely due to a widening of spreads in the Agency sector.

Our book value was $10.47 per share at June 30, 2013, representing a total return of -3.7% when combined with our second quarter cash dividend of $0.31. Given our group's performance, which had a median return on book value of -12%(1) during the quarter, we believe this is a testament to our sophisticated approach to risk management and hedging.

In the quarter, we repurchased one million shares of common stock under our share repurchase program. The share repurchase was accretive to book value, and we believe, in the best interest of our stockholders. As a reminder, an additional 24 million shares are authorized under the existing program.

The macroeconomic environment during the quarter was mixed. Interest rates moved higher as employment strengthened and concern increased around the Federal Reserve tapering RMBS purchases. Unemployment metrics showed signs of improvement, as did home price performance. According to CoreLogic, home prices increased 12% as of June 30, 2013, on a rolling 12-month basis. Improving home prices and employment should result in a decline in delinquencies and defaults, which is good for our non-Agency portfolio.

From a policy perspective, several competing GSE reform bills have been recently introduced. While we do not believe that these bills are likely to be passed any time soon, they imply less government involvement in the mortgage market, creating opportunities for the private sector and companies like Two Harbors to provide capital to the U.S. mortgage market over the long term.

As we have outlined in prior quarters, we are working on new investment initiatives, which we believe dovetail nicely with our existing strategies and our core competencies of understanding and managing prepayment, interest rate and credit risk within the mortgage and housing finance markets.

First, we have been building out the infrastructure required to support our Mortgage Servicing Rights (MSR) initiative. MSRs are a natural hedge to our Agency portfolio, hedging both interest rate and mortgage spreads. As we previously reported, in early July we closed on the purchase of Matrix Financial Services, a small servicing company that has approvals from the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Government National Mortgage Association (Ginnie Mae) to hold and manage MSRs. This acquisition came with a small servicing portfolio and several servicing oversight professionals. Additionally, we closed on two small bulk transactions in July and are in advanced discussions with potential MSR sellers. While there is no assurance that such investments will close, we anticipate these discussions are likely to result in significant additional investments in MSR later this year, subject to GSE approval and closing conditions.

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We have also been working on our mortgage loan conduit and securitization business. We continue to advance our aggregation capabilities for prime jumbo residential loans. Developing expanded relationships with originators and growing our middle and back office functionality to support increasing loan activity are critical to robustly building this platform.

Credit Sensitive Loans (CSLs) are a nice complement to our non-Agency holdings as they are similar to the performing loans in non-Agency deals. In the second quarter, we continued to purchase CSLs, bringing our holdings to approximately $440 million in market value. As a reminder, these are portfolios of whole loans that often have been modified and commonly have high loan-to-value ratios. We intend to take an opportunistic approach in adding to our current holdings. We view this sector as an alternative to investing in our legacy non-Agency securities, which presents a multi-year, but not a long-term, opportunity.

This is a very exciting time for Two Harbors. In the context of the sector's returns this quarter, we believe our performance was noteworthy. Importantly, we were able to preserve book value and continue to make progress on our new investment initiatives, which we believe will increase EPS, dampen volatility, broaden our business model and create franchise value.

Our current portfolio positioning gives us the ability to be opportunistic going forward and, as always, our main priority is to optimize stockholder value over the long- term.

As always, 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 Pine River Mortgage REIT Index includes: NLY, AGNC, CIM, MFA, IVR, HTS, ARR, CYS, RWT, MTGE, PMT, CMO, ANH, MITT, DX, AMTG, WMC and NYMT

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. 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 certain losses that are expected to be temporary, changes in interest rates or the availability of financing, 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, the inability to acquire mortgage loans or securitize the mortgage loans we acquire, the impact of new or modified government mortgage refinance or principal reduction programs, and unanticipated changes in overall market and economic conditions.

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.