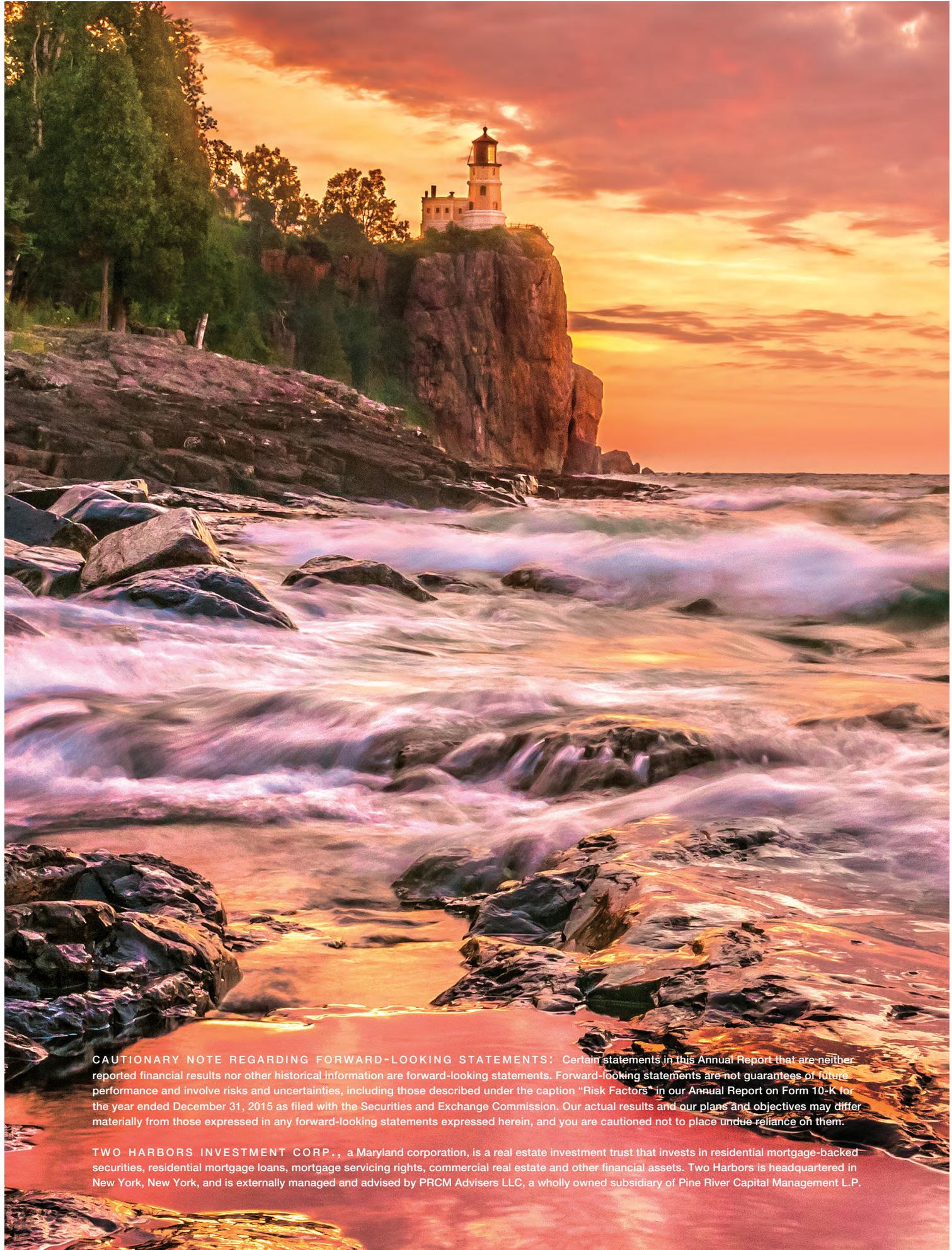
A wide-angle photograph of a rugged coastline at sunset. The sky is filled with intense orange and red hues, with the sun low on the horizon. Two lighthouses are visible: one on a rocky outcrop to the left and another further out at sea. The ocean is dark and choppy, with white-capped waves crashing against the dark, jagged rocks in the foreground.

Two Harbors Investment Corp.

2015 ANNUAL REPORT





CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS: Certain statements in this Annual Report that are neither reported financial results nor other historical information are forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, including those described under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission. Our actual results and our plans and objectives may differ materially from those expressed in any forward-looking statements expressed herein, and you are cautioned not to place undue reliance on them.

TWO HARBORS INVESTMENT CORP., a Maryland corporation, is a real estate investment trust that invests in residential mortgage-backed securities, residential mortgage loans, mortgage servicing rights, commercial real estate and other financial assets. Two Harbors is headquartered in New York, New York, and is externally managed and advised by PRCM Advisers LLC, a wholly owned subsidiary of Pine River Capital Management L.P.

Dear Fellow Stockholders



2015 was a significant year with respect to the continued operational growth and evolution of our business. We achieved many key milestones relating to our mortgage loan conduit, mortgage servicing rights (MSR) and commercial real estate initiatives, including significantly reallocating capital to these three asset classes. We also sponsored seven prime jumbo securitizations, added MSR through both flow-sale and bulk purchases, and completed the build out of our commercial real estate team. We have established a strong track record of identifying and pursuing new opportunities to reflect dynamic market conditions, and we believe these initiatives have the potential to drive greater stockholder returns in the long term.

Since our inception, we have generated sector-leading returns through superior asset selection, sophisticated hedging and by leveraging our core competencies to effectively manage mortgage prepayment and credit risk. We are proud that over the past six years we have returned 103%⁽¹⁾ to our stockholders compared to the Bloomberg Mortgage REIT Index return of 58%⁽²⁾ over the same period. These results were achieved while we maintained a more conservative risk profile than our peer group.

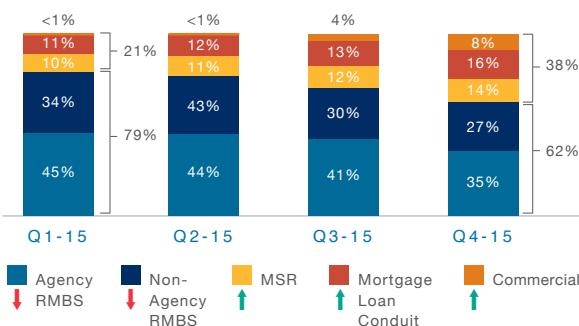




CAPITAL REALLOCATION

In 2015, we reallocated a significant amount of capital to our mortgage loan conduit, MSR and commercial real estate initiatives. This was an exceptional accomplishment and a demonstration of our commitment to pursuing opportunities that will drive the highest-quality risk-adjusted returns for our stockholders over the long-term. At year-end, approximately 38% of our capital was dedicated to retained interests from our securitizations, our mortgage loan pipeline, MSR and commercial real estate assets, versus 21% at the end of 2014. To accomplish this reallocation and construct a strong foundation for the future, we have built the team and infrastructure required to manage these initiatives. We also reduced our capital allocation to Agency and non-Agency RMBS to make capital available for deployment into more attractive opportunities. We expect to continue to transition capital to these initiatives accordingly in 2016 as we endeavor to deliver attractive risk-adjusted returns for our stockholders.

CAPITAL REALLOCATION (BY QUARTER)



In determining how to best utilize our capital, we consider all of the available investment opportunities and their potential risk-adjusted returns, which may include the repurchase of our own stock. We remain

committed to repurchasing shares when it makes economic sense for our stockholders. As always, we evaluate share repurchases in the context of our overall capital allocation strategy, which takes into consideration a number of factors, not the least of which is our prevailing share price relative to book value. 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 of Directors authorized us to repurchase up to an additional 50 million shares under our repurchase plan, which provides us with the flexibility to continue to repurchase shares when deemed appropriate.

MISSION-BASED STRATEGY

Our mission is to be recognized as the industry-leading mortgage REIT. As a source of permanent capital dedicated to the U.S. residential and commercial real estate markets, and as the largest publicly-traded hybrid mortgage REIT, we strive to be a thought leader and innovator. In order to achieve this, we utilize our superior asset selection and portfolio management capabilities, apply a rigorous approach to risk management, maintain a strong administrative infrastructure and endeavor to be a leader in transparent disclosure and corporate governance. Opportunities within the residential mortgage and commercial real estate markets are dynamic and our diversified, multi-sector investment approach enables us to be flexible with capital allocation. Additionally, we remain engaged on regulatory and policy topics that directly impact our business, including credit risk transfer, the private label securities market and the role of private capital in the mortgage market.

EXPERIENCED MANAGEMENT TEAM

We devote significant time and effort to attracting the best possible talent and are quite proud of the team