UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

Current Report
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: February 9, 2021

Two Harbors Investment Corp.
(Exact name of registrant as specified in its charter)

Maryland	**001-34506**	**27-0312904**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)
601 Carlson Parkway, Suite 1400	**Minnetonka, MN**	**55305**
(Address of Principal Executive Offices)		(Zip Code)

(612) 453-4100
Registrant's telephone number, including area code

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class:	Trading Symbol(s)	Name of Exchange on Which Registered:
Common Stock, par value $0.01 per share	TWO	New York Stock Exchange
8.125% Series A Cumulative Redeemable Preferred Stock	TWO PRA	New York Stock Exchange
7.625% Series B Cumulative Redeemable Preferred Stock	TWO PRB	New York Stock Exchange
7.25% Series C Cumulative Redeemable Preferred Stock	TWO PRC	New York Stock Exchange
7.75% Series D Cumulative Redeemable Preferred Stock	TWO PRD	New York Stock Exchange
7.50% Series E Cumulative Redeemable Preferred Stock	TWO PRE	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

☐

Item 2.02 Results of Operations and Financial Condition.

On February 9, 2021, Two Harbors Investment Corp. (the "Company") issued a press release announcing its financial results for the fiscal quarter ended December 31, 2020. A copy of the press release and the 2020 Fourth Quarter Earnings Call Presentation are attached hereto as Exhibits 99.1 and 99.2, respectively, and are incorporated herein by reference.

The information in this Current Report, including Exhibits 99.1 and 99.2 attached hereto, is furnished pursuant to Item 2.02 of Form 8-K and shall not be deemed to be “filed” for any other purpose, including for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in Item 2.02 of this Current Report, including Exhibits 99.1 and 99.2, shall not be deemed incorporated by reference into any filing of the registrant under the Securities Act of 1933 or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filings (unless the registrant specifically states that the information or exhibit in this Item 2.02 is incorporated by reference).

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Press Release of Two Harbors Investment Corp., dated February 9, 2021.
99.2	2020 Fourth Quarter Earnings Call Presentation.
104	Cover Page Interactive Data File, formatted in Inline XBRL.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TWO HARBORS INVESTMENT CORP.

By: /s/ REBECCA B. SANDBERG
Rebecca B. Sandberg
General Counsel and Secretary

Date: February 9, 2021

Two Harbors Investment Corp. Reports Fourth Quarter 2020 Financial Results

Strong Performance in a Repositioned Portfolio

NEW YORK, February 9, 2021 - Two Harbors Investment Corp. (NYSE: TWO), a mortgage real estate investment trust (REIT) that pairs investments in Agency residential mortgage-backed securities (RMBS) with mortgage servicing rights (MSR), today announced its financial results for the quarter ended December 31, 2020.

Quarterly Summary

- Reported book value of $7.63 per common share, representing a 5.8% quarterly return on book value(1)
- Generated Comprehensive Income of $113.5 million, representing an annualized return on average common equity of 22.1%
- Reported Core Earnings of $82.0 million, or $0.30 per weighted average basic common share(2)
- Declared a fourth quarter common stock dividend of $0.17 per share, a 21% increase from the prior quarter
- Continued strength in MSR flow-sale program; settled $23.0 billion unpaid principal balance (UPB) of MSR
- Closed on an additional $20.4 billion UPB of MSR bulk purchases

Annual Summary

- Completed transition to self-management and repositioned portfolio to Agency + MSR strategy
- Reported book value of $7.63 per common share compared to $14.54 at December 31, 2019, representing a (44%) return on book value. Return on book value was 16.8% from March 31, 2020 through year end(1)
- Grew MSR flow program purchases by 136% year-over-year
- Diversified and increased access to MSR financing; closed a $200 million financing facility for servicing advances

Post Quarter End Update

- Issued $287.5 million principal amount of 5-year convertible senior notes due 2026
- Repurchased and retired $143.7 million principal amount of convertible senior notes due 2022
- Announced redemption of $75 million Series D and $200 million Series E preferred shares

"We are pleased with our fourth quarter performance, which includes a 5.8% economic return on book value. Subsequent to the quarter end, we took steps to optimize our capital structure with the benefits accruing to our common shareholders over time," stated Bill Greenberg, Two Harbors' President and Chief Executive Officer. "We are excited about our outlook as an Agency plus MSR REIT for 2021 and beyond."

(1) Return on book value is defined as the increase (decrease) in book value per common share from the beginning to the end of the given period, plus dividends declared in the period, divided by book value as of the beginning of the period.
(2) Core Earnings is a non-GAAP measure. Please see page 11 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Operating Performance

The following table summarizes the company's GAAP and non-GAAP earnings measurements and key metrics for the third and fourth quarter of 2020:

Two Harbors Investment Corp. Operating Performance (unaudited)

(dollars in thousands, except per common share data)

	Three Months Ended December 31, 2020			Three Months Ended September 30, 2020		
Earnings attributable to common stockholders	**Earnings**	**Per weighted average basic common share**	**Annualized return on average common equity**	**Earnings**	**Per weighted average basic common share**	**Annualized return on average common equity**
Comprehensive Income	$ 113,481	$ 0.41	22.1 %	$ 219,180	$ 0.80	45.6 %
GAAP Net Income (Loss)	$ 192,220	$ 0.70	37.4 %	$ 182,964	$ 0.67	38.0 %
Core Earnings[1]	$ 82,007	$ 0.30	15.9 %	$ 75,571	$ 0.28	15.7 %
Operating Metrics						
Dividend per common share	$ 0.17			$ 0.14		
Annualized dividend yield[2]	10.7 %			11.0 %		
Book value per common share at period end	$ 7.63			$ 7.37		
Return on book value[3]	5.8 %			12.1 %		
Operating expenses, excluding non-cash LTIP amortization and nonrecurring expenses[4]	$ 14,673			$ 12,455		
Operating expenses, excluding non-cash LTIP amortization and nonrecurring expenses, as a percentage of average equity[4]	1.9 %			1.7 %		

(1) Please see page 11 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.
(2) Dividend yield is calculated based on annualizing the dividends declared in the given period, divided by the closing share price as of the end of the period.
(3) Return on book value is defined as the increase (decrease) in book value per common share from the beginning to the end of the given period, plus dividends declared in the period, divided by the book value as of the beginning of the period.
(4) Excludes non-cash equity compensation expense of $2.2 million for the fourth quarter of 2020 and $2.9 million for the third quarter of 2020 and nonrecurring expenses of $1.5 million for the fourth quarter of 2020 and $3.7 million for the third quarter of 2020.

"We continue to see good momentum in our MSR purchase program and settled on over $40 billion UPB during the quarter," stated Matt Koeppen, Two Harbors' Chief Investment Officer. "Purchases in our MSR flow program grew by 136% year over year, reflecting the strength of the platform and the relationships we've built to source and manage these assets."

Portfolio Summary

The company's portfolio was comprised of $16.3 billion of Agency RMBS, Agency Derivatives and MSR as well as their associated notional hedges as of December 31, 2020. Additionally, the company held $5.5 billion bond equivalent value of net long to-be-announced securities (TBAs).

The following tables summarize the company's investment portfolio as of December 31, 2020 and September 30, 2020:

Two Harbors Investment Corp. Portfolio
(dollars in thousands)

Portfolio Composition	As of December 31, 2020		As of September 30, 2020	
	(unaudited)		(unaudited)	
Agency				
Fixed Rate	$ 14,627,097	89.7 %	$ 16,544,530	92.4 %
Other Agency[1]	72,411	0.4 %	78,646	0.5 %
Total Agency	14,699,508	90.1 %	16,623,176	92.9 %
Mortgage servicing rights[2]	1,596,153	9.8 %	1,257,503	7.0 %
Other	13,031	0.1 %	17,993	0.1 %
Aggregate Portfolio	$ 16,308,692		$ 17,898,672	
Net TBA position[3]	5,481,479		6,510,938	
Total Portfolio	$ 21,790,171		$ 24,409,610	

Portfolio Metrics	Three Months Ended December 31, 2020	Three Months Ended September 30, 2020
	(unaudited)	(unaudited)
Annualized portfolio yield during the quarter[4]	2.26 %	2.42 %
Annualized cost of funds on average borrowing balance during the quarter[5]	0.50 %	0.64 %
Annualized net yield for aggregate portfolio during the quarter	1.76 %	1.78 %

(1) Other Agency includes hybrid ARMs and Agency derivatives.
(2) Based on the loans underlying the MSR reported by subservicers on a month lag, adjusted for current month purchases.
(3) Represents bond equivalent value of TBA position. Bond equivalent value is defined as notional amount multiplied by market price. Accounted for as derivative instruments in accordance with GAAP.
(4) Includes interest income on RMBS and servicing income net of servicing expenses and amortization on MSR.
(5) Cost of funds includes interest spread income/expense associated with the portfolio's interest rate swaps.

Portfolio Metrics Specific to RMBS and Agency Derivatives	As of December 31, 2020	As of September 30, 2020
	(unaudited)	(unaudited)
Weighted average cost basis of Agency principal and interest securities[6]	$ 104.95	$ 104.88
Weighted average three month CPR on Agency RMBS	27.0 %	23.1 %
Fixed-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	99.4 %	99.4 %
Adjustable-rate investments as a percentage of aggregate RMBS and Agency Derivatives portfolio	0.6 %	0.6 %

(6) Weighted average cost basis includes RMBS principal and interest securities only. Average purchase price utilized carrying value for weighting purposes.

Portfolio Metrics Specific to MSR[1]	As of December 31, 2020	As of September 30, 2020
(dollars in thousands)	(unaudited)	(unaudited)
Unpaid principal balance	$ 177,861,483	$ 156,444,362
Gross weighted average coupon	3.7 %	3.9 %
Weighted average original FICO score[2]	756	754
Weighted average original LTV	74 %	74 %
60+ day delinquencies	3.2 %	4.1 %
Net servicing fee	26.8 basis points	27.2 basis points
	Three Months Ended December 31, 2020	**Three Months Ended September 30, 2020**
	(unaudited)	(unaudited)
Fair value gains (losses)	$ 2,522	$ (112,763)
Servicing income	$ 100,549	$ 99,114
Servicing expenses	$ 22,595	$ 25,264
Change in servicing reserves	$ 1,591	$ 898

Note: The company does not directly service mortgage loans, but instead contracts with appropriately licensed subservicers to handle substantially all servicing functions in the name of the subservicer for the loans underlying the company's MSR.
(1) Metrics exclude residential mortgage loans in securitization trusts for which the company is the named servicing administrator.
(2) FICO represents a mortgage industry accepted credit score of a borrower.

Other Investments and Risk Management Metrics	As of December 31, 2020	As of September 30, 2020
(dollars in thousands)	(unaudited)	(unaudited)
Net long TBA notional amount[3]	$ 5,197,000	$ 6,236,000
Interest rate swaps notional, utilized to economically hedge interest rate exposure (or duration)	12,646,341	12,394,818
Swaptions net notional, utilized as macroeconomic hedges	3,750,000	6,000,000
Total interest rate swaps and swaptions notional	$ 16,396,341	$ 18,394,818

(3) Accounted for as derivative instruments in accordance with GAAP.

Financing Summary

The following tables summarize the company's financing metrics and outstanding repurchase agreements, revolving credit facilities, term notes and convertible senior notes as of December 31, 2020 and September 30, 2020:

December 31, 2020	Balance	Weighted Average Borrowing Rate	Weighted Average Months to Maturity	Number of Distinct Counterparties
(dollars in thousands, unaudited)				
Repurchase agreements collateralized by RMBS	$ 15,143,898	0.28 %	1.91	20
Revolving credit facilities collateralized by MSR and related servicing advance obligations	283,830	2.95 %	12.89	3
Term notes payable collateralized by MSR	395,609	2.95 %	41.82	n/a
Unsecured convertible senior notes	286,183	6.25 %	12.53	n/a
Total borrowings	$ 16,109,520			

September 30, 2020	Balance	Weighted Average Borrowing Rate	Weighted Average Months to Maturity	Number of Distinct Counterparties
(dollars in thousands, unaudited)				
Repurchase agreements collateralized by RMBS	$ 16,376,696	0.29 %	2.74	20
Revolving credit facilities collateralized by MSR	274,830	2.94 %	39.65	2
Term notes payable collateralized by MSR	395,328	2.95 %	44.84	n/a
Unsecured convertible senior notes	285,843	6.25 %	15.53	n/a
Total borrowings	$ 17,332,697			

Borrowings by Collateral Type	As of December 31, 2020	As of September 30, 2020
(dollars in thousands)	(unaudited)	(unaudited)
Collateral type:		
Agency RMBS and Agency Derivatives	$ 15,141,999	$ 16,374,325
Mortgage servicing rights and related servicing advance obligations	679,439	670,158
Other - secured	1,899	2,371
Other - unsecured[(1)]	286,183	285,843
Total	$ 16,109,520	$ 17,332,697
Debt-to-equity ratio at period-end[(2)]	5.2 :1.0	5.7 :1.0
Economic debt-to-equity ratio at period-end[(3)]	6.8 :1.0	7.7 :1.0

Cost of Funds Metrics	Three Months Ended December 31, 2020	Three Months Ended September 30, 2020
	(unaudited)	(unaudited)
Annualized cost of funds on average borrowings during the quarter:	0.6 %	0.7 %
Agency RMBS and Agency Derivatives	0.3 %	0.4 %
Mortgage servicing rights and related servicing advance obligations[(4)]	3.9 %	3.6 %
Other - secured	2.4 %	2.5 %
Other - unsecured[(1)(4)]	6.8 %	6.7 %

(1) Includes unsecured convertible senior notes.
(2) Defined as total borrowings to fund RMBS, MSR and Agency Derivatives, divided by total equity.
(3) Defined as total borrowings to fund RMBS, MSR and Agency Derivatives, plus the implied debt on net TBA positions, divided by total equity.
(4) Includes amortization of debt issuance costs.

Conference Call

Two Harbors Investment Corp. will host a conference call on February 10, 2021 at 9:00 a.m. EST to discuss fourth quarter 2020 financial results and related information. To participate in the teleconference, please call toll-free (888) 394-8218, conference code 1666797, approximately 10 minutes prior to the above start time. You may also listen to the teleconference live via the Internet on the company's website at www.twoharborsinvestment.com in the Investor Relations section under the Events and Presentations link. For those unable to attend, a telephone playback will be available beginning at 12:00 p.m. EST on February 10, 2021, through 12:00 a.m. EST on March 12, 2021. The playback can be accessed by calling (719) 457-0820, conference code 1666797. The call will also be archived on the company's website in the Investor Relations section under the Events and Presentations link.

Two Harbors Investment Corp.

Two Harbors Investment Corp., a Maryland corporation, is an internally managed real estate investment trust that invests in residential mortgage-backed securities, mortgage servicing rights and other financial assets. Two Harbors is headquartered in Minnetonka, MN. Additional information is available at www.twoharborsinvestment.com.

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, 2019, 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; the ongoing impact of the COVID-19 pandemic, and the actions taken by federal and state authorities and GSEs response, on the U.S. economy, financial markets and our target assets; 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 effectively execute and to realize the benefits of strategic transactions and initiatives we have pursued or may in the future pursue; our decision to terminate our management agreement with PRCM Advisers LLC and the pending litigation related thereto; 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 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; 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.

Non-GAAP Financial Measures

In addition to disclosing financial results calculated in accordance with United States generally accepted accounting principles (GAAP), this press release and the accompanying investor presentation present non-GAAP financial measures, such as Core Earnings and Core Earnings per basic common share that exclude certain items. The non-GAAP financial measures presented by the company provide supplemental information to assist investors in analyzing the company's results of operations and help facilitate comparisons to industry peers. However, because these measures are not calculated in accordance with GAAP, they should not be considered a substitute for, or superior to, the financial measures calculated in accordance with GAAP. The company's GAAP financial results and the reconciliations from these results should be carefully evaluated. See the GAAP to non-GAAP reconciliation table on page 11 of this release.

Additional Information

Stockholders of Two Harbors and other interested persons may find additional information regarding the company at the SEC's Internet site at www.sec.gov or by directing requests to: Two Harbors Investment Corp., Attn: Investor Relations, 601 Carlson Parkway, Suite 1400, Minnetonka, MN, 55305, telephone (612) 453-4100.

Contact

Paulina Sims, Senior Director, Investor Relations, Two Harbors Investment Corp., 612-446-5431, Paulina.Sims@twoharborsinvestment.com

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TWO HARBORS INVESTMENT CORP.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

	December 31, 2020 (unaudited)	December 31, 2019
ASSETS		
Available-for-sale securities, at fair value (amortized cost $14,043,175; allowance for credit losses $22,528)	$ 14,650,922	$ 31,406,328
Mortgage servicing rights, at fair value	1,596,153	1,909,444
Cash and cash equivalents	1,384,764	558,136
Restricted cash	1,261,667	1,058,690
Accrued interest receivable	47,174	92,634
Due from counterparties	146,433	318,963
Derivative assets, at fair value	95,937	188,051
Reverse repurchase agreements	91,525	220,000
Other assets	241,346	169,376
Total Assets	$ 19,515,921	$ 35,921,622
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Repurchase agreements	$ 15,143,898	$ 29,147,463
Federal Home Loan Bank advances	—	210,000
Revolving credit facilities	283,830	300,000
Term notes payable	395,609	394,502
Convertible senior notes	286,183	284,954
Derivative liabilities, at fair value	11,058	6,740
Due to counterparties	135,838	259,447
Dividends payable	65,480	128,125
Accrued interest payable	21,666	149,626
Other liabilities	83,433	70,299
Total Liabilities	16,426,995	30,951,156
Stockholders' Equity		
Preferred stock, par value $0.01 per share; 100,000,000 and 50,000,000 shares authorized and 40,050,000 and 40,050,000 shares issued and outstanding, respectively ($1,001,250 and $1,001,250 liquidation preference, respectively)	977,501	977,501
Common stock, par value $0.01 per share; 700,000,000 and 450,000,000 shares authorized and 273,703,882 and 272,935,731 shares issued and outstanding, respectively	2,737	2,729
Additional paid-in capital	5,163,794	5,154,764
Accumulated other comprehensive income	641,601	689,400
Cumulative earnings	1,025,756	2,655,891
Cumulative distributions to stockholders	(4,722,463)	(4,509,819)
Total Stockholders' Equity	3,088,926	4,970,466
Total Liabilities and Stockholders' Equity	$ 19,515,921	$ 35,921,622

TWO HARBORS INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(dollars in thousands)

Certain prior period amounts have been reclassified to conform to the current period presentation

	Three Months Ended December 31,		Year Ended December 31,	
	2020	**2019**	**2020**	**2019**
	(unaudited)		(unaudited)	
Interest income:				
Available-for-sale securities	$ 72,071	$ 230,567	$ 515,685	$ 962,283
Other	429	7,871	9,365	32,407
Total interest income	72,500	238,438	525,050	994,690
Interest expense:				
Repurchase agreements	11,001	152,919	233,069	654,280
Federal Home Loan Bank advances	—	514	1,747	10,920
Revolving credit facilities	3,513	4,038	12,261	19,354
Term notes payable	3,296	5,002	14,974	10,708
Convertible senior notes	4,831	4,811	19,197	19,067
Total interest expense	22,641	167,284	281,248	714,329
Net interest income	49,859	71,154	243,802	280,361
Other-than-temporary impairment losses	—	(3,308)	—	(14,312)
Other income (loss):				
Gain (loss) on investment securities	37,363	28,141	(999,859)	280,118
Servicing income	100,549	127,690	443,351	501,612
Gain (loss) on servicing asset	2,522	(21,739)	(935,697)	(697,659)
Loss on interest rate swap, cap and swaption agreements	(14,689)	(6,875)	(310,806)	(108,289)
Gain (loss) on other derivative instruments	81,289	(10,800)	90,023	259,998
Other income	474	60	1,422	337
Total other income (loss)	207,508	116,477	(1,711,566)	236,117
Expenses:				
Management fees	—	17,546	31,738	60,102
Servicing expenses	24,217	20,253	94,266	74,607
Compensation and benefits	11,220	7,965	37,723	33,229
Other operating expenses	7,237	6,177	28,626	23,826
Restructuring charges	(294)	—	5,706	—
Total expenses	42,380	51,941	198,059	191,764
Income (loss) before income taxes	214,987	132,382	(1,665,823)	310,402
Provision for (benefit from) income taxes	3,816	(2,372)	(35,688)	(13,560)
Net income (loss)	211,171	134,754	(1,630,135)	323,962
Dividends on preferred stock	18,951	18,950	75,802	75,801
Net income (loss) attributable to common stockholders	$ 192,220	$ 115,804	$ (1,705,937)	$ 248,161
Basic earnings (loss) per weighted average common share	$ 0.70	$ 0.42	$ (6.24)	$ 0.93
Diluted earnings (loss) per weighted average common share	$ 0.68	$ 0.41	$ (6.24)	$ 0.93
Dividends declared per common share	$ 0.17	$ 0.40	$ 0.50	$ 1.67
Weighted average number of shares of common stock:				
Basic	273,699,079	272,906,815	273,600,947	267,826,739
Diluted	291,870,229	291,070,864	273,600,947	267,826,739

TWO HARBORS INVESTMENT CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS), CONTINUED
(dollars in thousands)
Certain prior period amounts have been reclassified to conform to the current period presentation

	Three Months Ended December 31,		Year Ended December 31,	
	2020	**2019**	**2020**	**2019**
	(unaudited)		(unaudited)	
Comprehensive income (loss):				
Net income (loss)	$ 211,171	$ 134,754	$ (1,630,135)	$ 323,962
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on available-for-sale securities	(78,739)	(58,954)	(47,799)	578,583
Other comprehensive (loss) income	(78,739)	(58,954)	(47,799)	578,583
Comprehensive income (loss)	132,432	75,800	(1,677,934)	902,545
Dividends on preferred stock	18,951	18,950	75,802	75,801
Comprehensive income (loss) attributable to common stockholders	$ 113,481	$ 56,850	$ (1,753,736)	$ 826,744

TWO HARBORS INVESTMENT CORP.

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION

(dollars in thousands, except share data)

Certain prior period amounts have been reclassified to conform to the current period presentation

	Three Months Ended December 31, 2020	Three Months Ended September 30, 2020
	(unaudited)	(unaudited)
Reconciliation of Comprehensive income to Core Earnings:		
Comprehensive income attributable to common stockholders	$ 113,481	$ 219,180
Adjustment for other comprehensive loss (income) attributable to common stockholders:		
Unrealized loss (gain) on available-for-sale securities	78,739	(36,216)
Net income (loss) attributable to common stockholders	$ 192,220	$ 182,964
Adjustments for non-Core Earnings:		
Realized (gain) loss on securities	(52,082)	1,725
Unrealized loss on securities	10,210	281
Provision for credit losses	4,509	7,101
Realized and unrealized (gain) loss on mortgage servicing rights	(61,968)	55,858
Realized loss on termination or expiration of swaps and swaptions	2,546	—
Unrealized loss (gain) on interest rate swaps and swaptions	14,096	(583)
Gain on other derivative instruments	(37,752)	(32,696)
Other (income) loss	(399)	5
Change in servicing reserves	1,591	898
Non-cash equity compensation expense	2,243	2,857
Other nonrecurring expenses	1,541	3,664
Change in restructuring charges	(294)	(139,788)
Net provision for (benefit from) income taxes on non-Core Earnings	5,546	(6,715)
Core Earnings attributable to common stockholders[(1)]	$ 82,007	$ 75,571
Weighted average basic common shares	273,699,079	273,705,785
Core Earnings attributable to common stockholders per weighted average basic common share	$ 0.30	$ 0.28

(1) Core Earnings is a non-U.S. GAAP measure that we define as comprehensive (loss) income attributable to common stockholders, excluding "realized and unrealized gains and losses" (impairment losses, provision for credit losses, realized and unrealized gains and losses on the aggregate portfolio, reserve expense for representation and warranty obligations on MSR, non-cash compensation expense related to restricted common stock, other nonrecurring expenses and restructuring charges). As defined, Core Earnings includes net interest income, accrual and settlement of interest on derivatives, dollar roll income on TBAs, servicing income, net of estimated amortization on MSR, management fees and recurring cash related operating expenses. Dollar roll income is the economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements. Core Earnings provides supplemental information to assist investors in analyzing the Company's results of operations and helps facilitate comparisons to industry peers.

TWO HARBORS INVESTMENT CORP.

SUMMARY OF QUARTERLY CORE EARNINGS

(dollars in millions, except per share data)

Certain prior period amounts have been reclassified to conform to the current period presentation

	Three Months Ended				
	December 31, 2020	**September 30, 2020**	**June 30, 2020**	**March 31, 2020**	**December 31, 2019**
			(unaudited)		
Net Interest Income:					
Interest income	$ 72.5	$ 89.7	$ 107.3	$ 255.5	$ 237.3
Interest expense	22.6	29.2	62.1	167.3	167.3
Net interest income	49.9	60.5	45.2	88.2	70.0
Other income:					
Servicing income, net of amortization(1)	41.1	42.2	51.0	55.2	54.6
Interest spread on interest rate swaps	2.0	0.8	(56.3)	(12.6)	4.8
Gain on other derivative instruments	43.5	32.9	11.9	5.3	9.0
Other income	0.1	0.1	0.1	0.1	0.1
Total other income	86.7	76.0	6.7	48.0	68.5
Expenses	37.3	43.5	46.8	47.0	49.4
Core Earnings before income taxes	99.3	93.0	5.1	89.2	89.1
Income tax expense	(1.7)	(1.5)	0.6	2.6	2.5
Core Earnings	101.0	94.5	4.5	86.6	86.6
Dividends on preferred stock	19.0	18.9	19.0	19.0	18.9
Core Earnings attributable to common stockholders(2)	$ 82.0	$ 75.6	$ (14.5)	$ 67.6	$ 67.7
Weighted average basic Core EPS	$ 0.30	$ 0.28	$ (0.05)	$ 0.25	$ 0.25
Core earnings return on average common equity	15.9 %	15.7 %	(3.1)%	7.3 %	6.8 %

(1) Amortization refers to the portion of change in fair value of MSR primarily attributed to the realization of expected cash flows (runoff) of the portfolio. This amortization has been deducted from Core Earnings. Amortization of MSR is deemed a non-GAAP measure due to the company's decision to account for MSR at fair value.

(2) Please see page 11 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.


Fourth Quarter 2020
Earnings Call
FEBRUARY 10, 2021
TWO HARBORS
Investment Corp.

Safe Harbor Statement

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, 2019, 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; the ongoing impact of the COVID-19 pandemic, and the actions taken by federal and state governmental authorities and GSEs in response, on the U.S. economy, financial markets and our target assets; 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 effectively execute and to realize the benefits of strategic transactions and initiatives we have pursued or may in the future pursue; our decision to terminate our management agreement with PRCM Advisers LLC and the pending litigation related thereto; 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 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; 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.

This presentation may include industry and market data obtained through research, surveys, and studies conducted by third parties and industry publications. We have not independently verified any such market and industry data from third-party sources. This presentation is provided for discussion purposes only and may not be relied upon as legal or investment advice, nor is it intended to be inclusive of all the risks and uncertainties that should be considered. This presentation does not constitute an offer to purchase or sell any securities, nor shall it be construed to be indicative of the terms of an offer that the parties or their respective affiliates would accept.

Readers are advised that the financial information in this presentation is based on company data available at the time of this presentation and, in certain circumstances, may not have been audited by the company's independent auditors.

Executive Overview

Strong Performance in a Repositioned Portfolio

Quarterly Summary

- Reported book value of $7.63 per common share, representing a 5.8% quarterly return on book value[(1)]
- Generated Comprehensive Income of $113.5 million, representing an annualized return on average common equity of 22.1%
- Reported Core Earnings of $82.0 million, or $0.30 per weighted average basic common share[(2)]
- Declared a fourth quarter common stock dividend of $0.17 per share, a 21% increase from the prior quarter
- Continued strength in MSR flow-sale program; settled $23.0 billion unpaid principal balance (UPB) of MSR
- Closed on an additional $20.4 billion of bulk purchases

Annual Summary

- Completed transition to self-management and repositioned portfolio to Agency + MSR strategy
- Reported book value of $7.63 per common share compared to $14.54 at December 31, 2019, representing a (44%) return on book value. Return on book value was 16.8% from March 31, 2020[(1)] through year end
- Grew MSR flow program purchases by over 136% year-over-year
- Diversified and increased access to MSR financing; closed a $200 million financing facility for servicing advances

Post-Quarter End Update

- Issued $287.5 million principal amount of 5-year convertible senior notes due 2026
- Repurchased and retired $143.7 million principal amount of convertible senior notes due 2022
- Announced redemption of $75 million Series D and $200 million Series E preferred shares

(1) Return on book value is defined as the increase (decrease) in book value per common share from the beginning to the end of the given period, plus dividends declared in the period, divided by book value as of the beginning of the period.

(2) Core Earnings is a non-GAAP measure. Please see Appendix slide 20 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Book Value Summary

(Dollars in millions, except per share data)	Q4-2020 Book Value	Q4-2020 Book Value per share	YTD-2020 Book Value	YTD-2020 Book Value per share
Beginning common stockholders' equity	**$ 2,018.4**	**$ 7.37**	**$ 3,969.2**	**$ 14.54**
GAAP Net Income (Loss):				
Core Earnings, net of tax(1)	101.0		286.6	
Dividend declaration - preferred	(19.0)		(75.9)	
Core Earnings attributable to common stockholders, net of tax(1)	82.0		210.7	
Realized and unrealized gains and losses, net of tax	110.2		(1,916.6)	
Other comprehensive loss, net of tax	(78.7)		(47.8)	
Common stock dividends declared	(46.5)		(136.8)	
Other	2.2		9.7	
Repurchases of common stock	—		(1.1)	
Issuance of common stock, net of offering costs	0.1		0.4	
Ending common stockholders' equity	$ 2,087.7	$ 7.63	$ 2,087.7	$ 7.63
Total preferred stock liquidation preference	1,001.3		1,001.3	
Ending total equity	$ 3,089.0		$ 3,089.0	

- Book value of $7.63 per common share, represented a 5.8% total economic return on book value(2)
- Generated Comprehensive Income of $113.5 million, representing an annualized return on average common equity of 22.1%
- Book value growth was driven by outperformance of lower coupon TBAs, improvement in specified pool payups, marginal tightening in MSR spreads, and lower expenses

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 20 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.
(2) Return on book value is defined as the increase (decrease) in book value per common share from the beginning to the end of the given period, plus dividends declared in the period, divided by book value as of the beginning of the period.

Core Earnings Review[(1)]

($ in millions, except per share data)	Q3-2020	Q4-2020	Variance ($)
Interest income	89.7	72.5	$ (17.2)
Interest expense	29.2	22.6	6.6
Net interest income	60.5	49.9	(10.6)
Servicing income, net of amortization on MSR	42.2	41.1	(1.1)
Gain on swaps and swaptions	0.8	2.0	1.2
Gain on other derivatives	32.9	43.5	10.6
Other	0.1	0.1	—
Total other income	76.0	86.7	10.7
Expenses	43.5	37.3	6.2
Provision for income taxes	(1.5)	(1.7)	0.2
Core Earnings[(1)]	**94.5**	**101.0**	**6.5**
Dividends on preferred stock	18.9	19.0	(0.1)
Core Earnings attributable to common stockholders[(1)]	**$ 75.6**	**$ 82.0**	**$ 6.4**
Basic weighted average Core EPS	**$ 0.28**	**$ 0.30**	
Core Earnings annualized return on average common equity	**15.7 %**	**15.9 %**	

- Fourth quarter Core Earnings results impacted by:
  - Interest income decreased from $89.7 million to $72.5 million due to lower average balance and coupon and higher Agency amortization due to prepays
  - Interest expense decreased from $29.2 million to $22.6 million due to lower borrowing rates and lower average balance
  - Gain on other derivatives increased from $32.9 million to $43.5 million due to higher TBA dollar roll income driven by higher average balance and continued roll specialness. Roll specialness contributed $0.06 to Core Earnings per weighted average basic common share in the fourth quarter compared to $0.04 in the third quarter
  - Expenses were favorable by $6.2 million primarily due to transition to self-management and lower servicing costs

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 20 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Portfolio Yield

LOWER PORTFOLIO YIELD OFFSET BY LOWER COST OF FUNDS

- Lower portfolio yield due to higher Agency RMBS prepayments
- Lower cost of funds due to favorable repo rolls

	Realized Q3-2020	Realized Q4-2020	As of Dec. 31, 2020[1]
Annualized portfolio yield[2]	2.42 %	2.26 %	2.23 %
Annualized cost of funds[3]	0.64 %	0.50 %	0.50 %
Annualized net spread for aggregate portfolio	1.78 %	1.76 %	1.73 %

- Yields shown in the table exclude the impact of net TBA dollar roll income[4]
- Including TBA implied asset yields and TBA implied cost of funds:
  - Realized Q4-2020 annualized portfolio yield was 2.10%, cost of funds was 0.14%, and net spread for aggregate portfolio was 1.96%
  - Realized Q3-2020 annualized portfolio yield was 2.41%, cost of funds was 0.47%, and net spread for aggregate portfolio was 1.94%

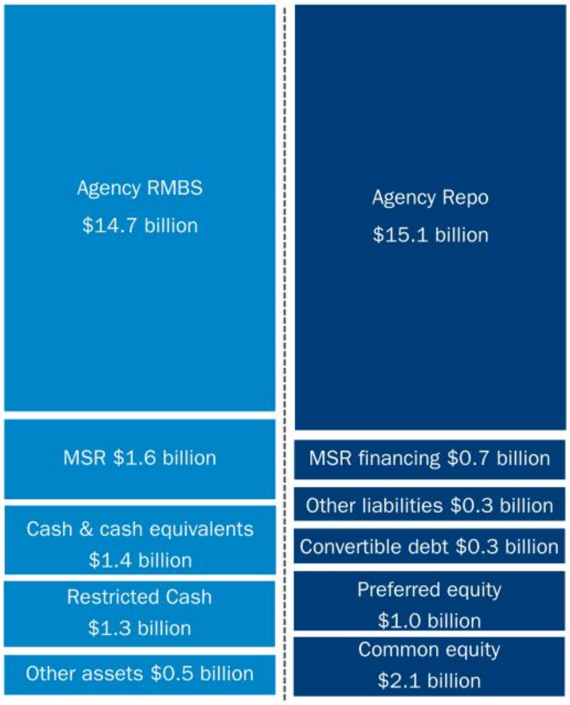
CORE EARNINGS AND PORTFOLIO YIELDS EXCEED EXPECTED RETURNS IN THE NEAR TERM

- Expect annualized net yield for the aggregate portfolio to decline to market yields over time

(1) Represents yields on the portfolio held as of December 31, 2020 and projected over the remaining life of the investments. Assumes a static portfolio and, as a result, does not represent a projection of future yields due to excluding portfolio reinvestment.
(2) Includes interest income on RMBS and servicing income net of servicing expenses and amortization on MSR.
(3) Cost of funds includes interest spread income/expense associated with the portfolio's interest rate swaps and caps.
(4) Net TBA dollar roll income represents the price differential, or price "drop," between the TBA price for current month settlement versus the TBA price for forward month settlement. Net TBA dollar roll income is then divided by the TBA notional balance to determine the net dollar roll yield. TBA implied cost of funds derived from the Company's executed TBA roll levels and TBA delivery assumptions sourced from J.P. Morgan for the associated weighted average coupon, weighted average maturity and 1 month projected CPR. Net TBA dollar roll income includes impact from implied asset yields derived from the implied funding costs and gross executed TBA levels.

Financing Profile

BALANCE SHEET AS OF 12/31/2020



Total Assets: $19.5 billion

CONSERVATIVE LEVERAGE FOR AGENCY + MSR STRATEGY

- Strong capital and liquidity position
- $1.4 billion of unrestricted cash
- Economic debt-to-equty of 6.8x at December 31, 2020, compared to 7.7x at September 30, 2020[(1)]
- Average economic debt-to-equity of 7.5x in the fourth quarter, compared to 7.6x in the third quarter[(1)]

DIVERSE FINANCING PROFILE

AGENCY RMBS

- Outstanding repurchase agreements of $15.1 billion with 20 counterparties
- Repo markets have been stable and orderly throughout 2020

MORTGAGE SERVICING RIGHTS

- $284 million of outstanding borrowings under bilateral MSR financing facilities
- $400 million of outstanding 5-year MSR term notes[(2)]
- $215 million of unused, committed MSR asset financing capacity
- $200 million of committed capacity for servicing advance receivables

(1) Defined as total borrowings to fund RMBS, MSR and Agency Derivatives, plus the implied debt on net TBA positions, divided by total equity.
(2) Excludes deferred debt issuance costs.

Special Topic: Capital Optimization

ACTIONS TO OPTIMIZE LIABILITY STRUCTURE AND CAPITAL STRUCTURE POST-QUARTER END

BALANCE SHEET COMPARISON

	$ in millions	12/31/2020	Pro Forma 1/31/2022(1)	Change
Assets	Available-for-sale securities	$ 14,651	$ 14,651	$ —
	Mortgage servicing rights	1,596	1,596	—
	Cash and cash equivalents	1,385	1,363	(22)
	All other assets	1,884	1,884	—
	Total Assets	$ 19,516	$ 19,494	$ (22)
Liabilities	Repurchase agreements	$ 15,144	$ 15,144	$ —
	Revolving credit facilities	284	542	258
	Term notes payable	396	396	—
	Convertible senior notes	286	281	(5)
	All other liabilities	317	317	—
	Total Liabilities	$ 16,427	$ 16,680	$ 253
Equity	Preferred equity(2)	$ 1,001	$ 726	$ (275)
	Common equity	2,088	2,088	—
	Total Equity	$ 3,089	$ 2,814	$ (275)
Ratios	Debt-to-equity	5.2x	5.8x	0.6x
	Economic debt-to-equity(3)	6.8x	7.6x	0.8x
	Preferred ratio(4)	32 %	26 %	(6)%

- Issued $287.5 million of 5-year convertible notes
  - 6.25% coupon, 20.0% conversion premium
  - Initial strike price of $7.38, minimal potential dilution of $0.03 to current book value if converted
  - Repurchased $143.7 million of convertible notes due 2022
- Planned optimization of MSR financing
- Announced redemption of $275 million of preferred stock
  - $75 million of 7.75% Series D
  - $200 million of 7.5% Series E
- Benefits
  - Provides certainty of maturity obligation on convertible notes due January 2022, extended maturity on newly issued notes
  - Reduces ratio of preferred stock to Total Shareholders' Equity from 32% to 26%
  - Expect annual net benefit of ~$0.04 per share starting in 2022 from reduction in preferred dividends offset by issuance and interest cost of convertible debt, incremental MSR financing costs

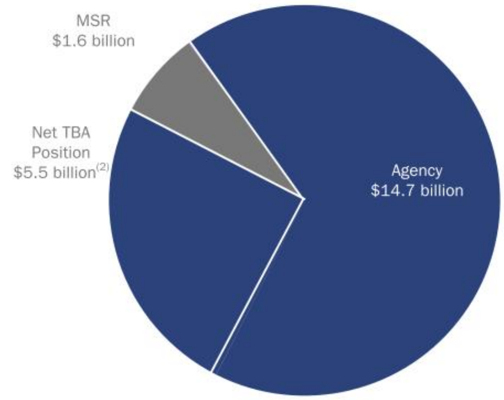
(1) Pro forma 1/31/2022 balance sheet is shown is for illustrative purposes only to show the effect of the 5-year convertible notes issuance, repurchase of convertible notes due in 2022, MSR financing optimization and call of Series D and Series E preferred stock on our capital structure. It does not take into account, for example, any expected revenue from operations, changes to our portfolio construction, or market factors and is not intended as a forecast of our expected financial condition or operating results. Actual results may differ materially.
(2) Represents the $25.00 per share liquidation preference of preferred stock.
(3) Defined as total borrowings to fund RMBS, MSR and Agency Derivatives, plus the implied debt on net TBA positions, divided by total equity.
(4) Preferred ratio is preferred equity value divided by total shareholders' equity

Quarterly Activity and Portfolio Composition

PORTFOLIO COMPOSITION[1]

$21.8 billion portfolio

Includes $16.3 billion settled positions



PERFORMANCE COMMENTARY

- Return on book value of 5.8%[3]
- Spreads tightened in MBS as the Federal Reserve continued its purchases
- Current coupon mortgages continue to be the focus of the fourth round of quantitative easing
- MSR pricing was favorable due to marginal tightening in MSR spreads

PORTFOLIO ACTIVITY

- Reduced specified pool positions by $2.1 billion
- Average TBA position was $6.7 billion during the quarter
  - Reduced position near the end of the quarter
- Settled $23.0 billion UPB of MSR through flow-sale arrangements and an additional $20.4 billion UPB through bulk purchases
- Opportunistically added $195 million Agency interest-only (IO) RMBS
  - Offers similar characteristics to MSR

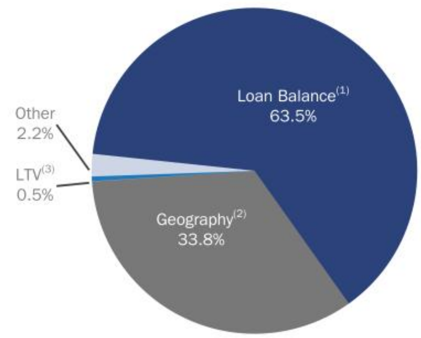
(1) For additional detail on the portfolio, see Appendix slides 22-23.
(2) Represents bond equivalent value of TBA position. Bond equivalent value is defined as notional amount multiplied by market price. Accounted for as derivative instruments in accordance with GAAP.
(3) Return on book value is defined as the increase (decrease) in book value per common share from the beginning to the end of the given period, plus dividends declared in the period, divided by book value as of the beginning of the period.

Specified Pools

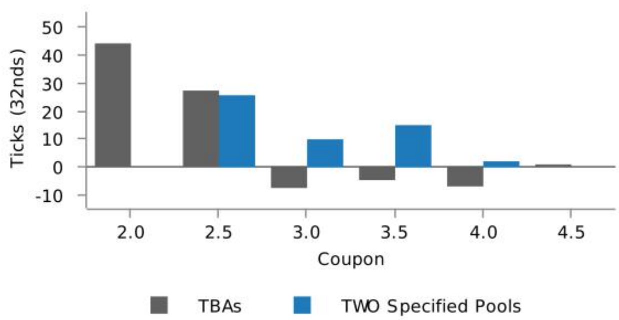
SPECIFIED POOL PERFORMANCE

- Specified pools outperformed TBA on a relative basis in 3.0 through 4.0 coupons
- Specified pool prepayment speeds continue to be slower and more stable than TBA speeds
- Expect that while prepayments may remain elevated in specified pools, any increase may be modest compared to generic collateral
- Selectively reduced pools as spreads tightened, others sold while retaining the IO

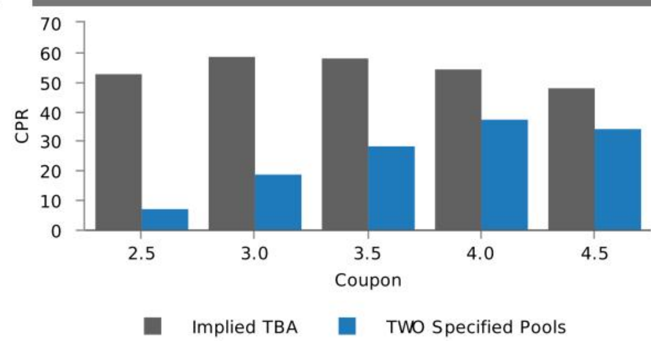
SPECIFIED POOL PORTFOLIO



QUARTERLY PERFORMANCE(4)



SPECIFIED POOL PREPAYMENT SPEEDS(5)



(1) Securities collateralized by loans less than or equal to $200 thousand of initial principal balance.
(2) Securities collateralized by loans from certain geographic concentrations.
(3) Securities collateralized by loans with greater than or equal to 80% LTV.
(4) J.P. Morgan Beta MBS Pricing and Analytics Package, as of December 31, 2020.
(5) Non-specified pool speeds from J.P. Morgan Beta MBS Pricing and Analytics Package, as of December 31, 2020.

Mortgage Servicing Rights

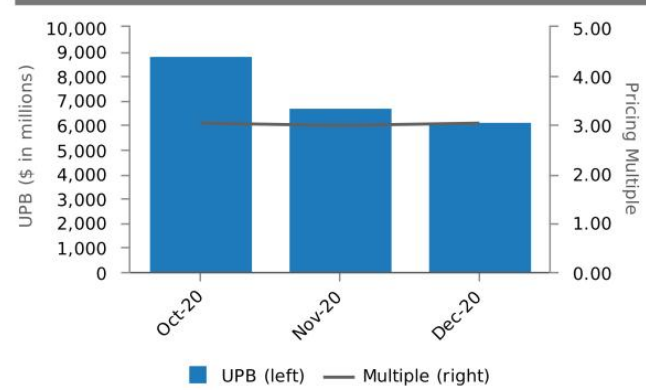
4Q-2020 MSR PORTFOLIO ACTIVITY

- Settled $23.0 billion UPB of MSR through flow-sale arrangements and an additional $20.4 billion UPB through bulk purchases
- Experienced $22.5 billion UPB runoff in the fourth quarter
- Grew portfolio UPB balance year-over-year in the face of high prepayment speeds
- MSR speeds slower than generic speeds due to a majority of portfolio having some form of seasoning or prepayment protection
- Forbearance rates declined. 3.5% of our MSR portfolio by loan count was in forbearance, and 2.9% by loan count was in forbearance and not current at December 31, 2020

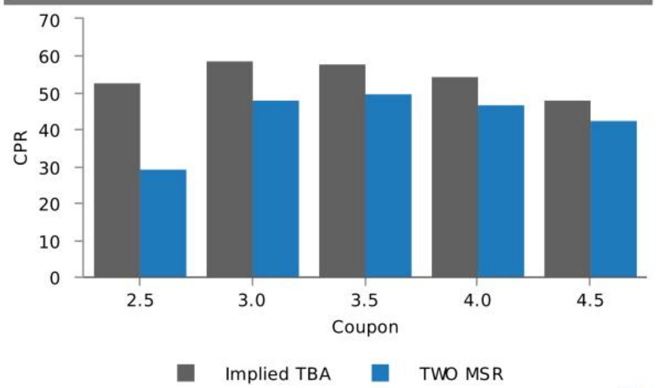
MSR PORTFOLIO[1]

	12/31/2019	12/31/2020
Fair value ($ millions)	$1,909	$1,596
Pricing Multiple	3.9x	3.2x
UPB ($ millions)	$179,333	$185,687
Gross weighted average coupon rate	4.1%	3.7%
Weighted average original FICO[2]	754	756
Weighted average original loan-to-value (LTV)	75%	74%
60+ day delinquencies	0.2%	3.2%
Net servicing fee (basis points)	27.0	26.8
Weighted average loan age (months)	36	32
% Fannie Mae	67%	64%

FLOW PROGRAM LOCK ACTIVITY



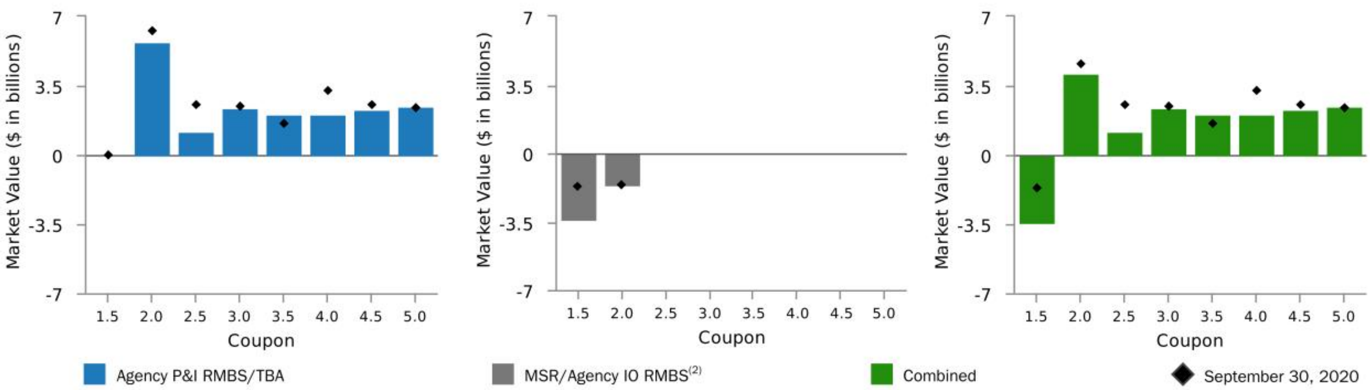
MSR PREPAYMENT SPEEDS[3]



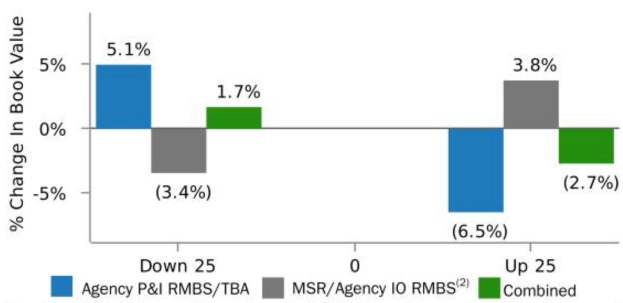
(1) Based on the loans underlying the MSR reported by subservicers on a month lag, adjusted for current month purchases.
(2) FICO represents a mortgage industry accepted credit score of a borrower.
(3) J.P. Morgan Beta MBS Pricing and Analytics Package and Two Harbors portfolio, as of December 31, 2020.

Agency + MSR Advantage

EFFECTIVE COUPON POSITIONING(1)



BOOK VALUE EXPOSURE TO CHANGES IN SPREAD(3)



PRESENCE OF MSR REDUCES MORTGAGE SPREAD RISK

- MSR and Agency IO RMBS have similar risks to a short pools/TBA position in 1.5% and 2.0% coupons
- Portfolio long 2.0% through 5.0% coupons
- In a 25 basis point spread widening scenario, potential book value decrease of (2.7%)

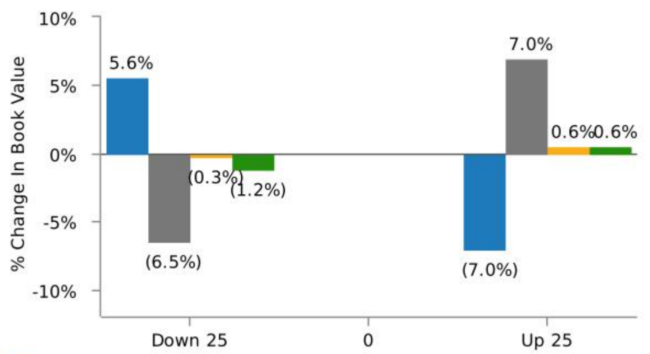
Note: Sensitivity data as of December 31, 2020. The above spread scenario is provided for illustration purposes only and is not necessarily indicative of Two Harbors' financial condition and operating results, nor is it necessarily indicative of the financial condition or results of operations that may be expected for any future period or date.
(1) The effective coupon positioning for MSR is an internally calculated exposure that represents the current coupon equivalents of our MSR assets. Data as of December 31, 2020.
(2) Includes the effect of unsettled MSR.
(3) Represents estimated change in common book value for theoretical parallel shifts in spreads.

Risk Positioning

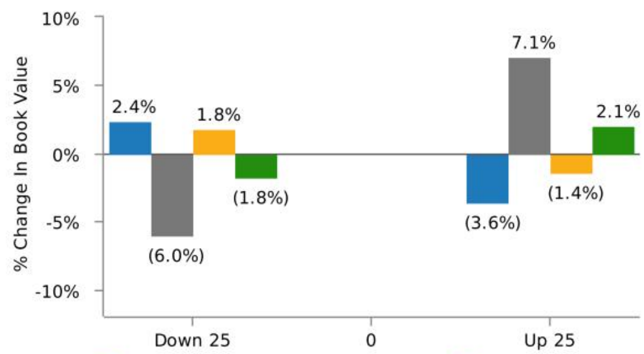
AGENCY + MSR DELIVERS BOOK VALUE STABILITY

- Interest rate and curve exposure remains low and in line with historical positioning
- MSR/IO position duration offsets RMBS/TBA duration
- In a 25 basis point parallel shift up in rates, potential book value increase of 0.6%
- In a 25 basis point non-parallel shift up in the yield curve, potential book value increase of 2.1%

BOOK VALUE EXPOSURE TO CHANGES IN RATES(1)



BOOK VALUE EXPOSURE TO CHANGES IN YIELD CURVE(2)



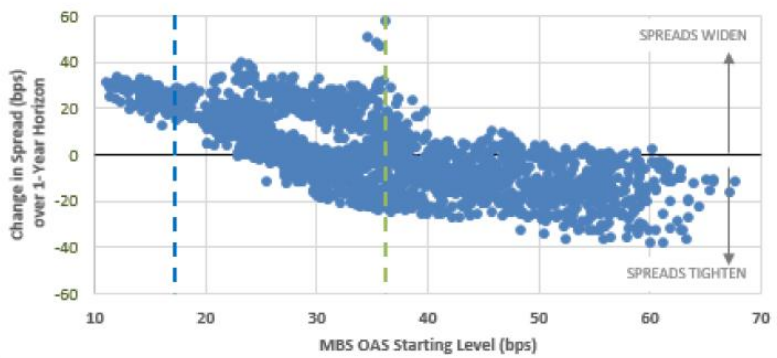
Agency P&I RMBS/TBA | MSR/Agency IO RMBS(3) | Other(4) | Combined

Note: Sensitivity data as of December 31, 2020. The above scenarios are provided for illustration purposes only and is not necessarily indicative of Two Harbors' financial condition and operating results, nor is it necessarily indicative of the financial condition or results of operations that may be expected for any future period or date.
(1) Represents estimated change in common book value for theoretical parallel shift in interest rates.
(2) Represents estimated change in common book value for theoretical non-parallel shifts in the yield curve. Analysis uses a +/- 25 basis point shift in 10 year rates while holding near term rates constant.
(3) Includes the effect of unsettled MSR.
(4) Other includes all other derivative assets and liabilities and borrowings. Other excludes TBAs, which are included in the Agency P&I RMBS/TBA category.

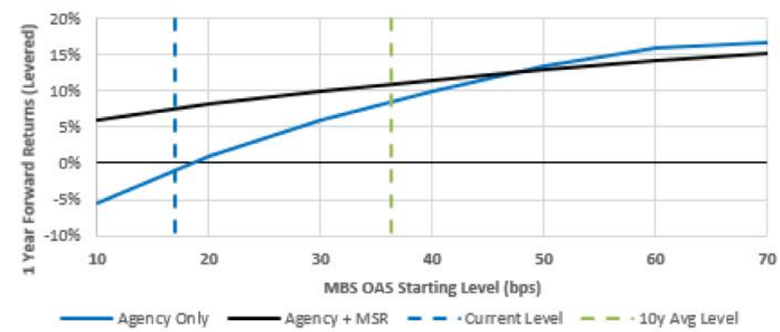
Special Topic: Stability of Agency + MSR Returns

AGENCY + MSR IS ESPECIALLY ATTRACTIVE VERSUS AGENCY-ONLY DURING TIGHT SPREAD ENVIRONMENTS

HISTORICAL CHANGE IN SPREAD FOR A GIVEN STARTING SPREAD[1]



PROJECTED RETURNS GIVEN HISTORICAL SPREAD CHANGE[2]



- Historical returns of Agency MBS show a correlation between the initial spread level and ending spread level over a 1-year horizon
  - When spreads are very low, they tend to widen
  - When spreads are very high, they tend to tighten
- Current option-adjusted spread is near the low end of the historical range
  - Data suggests spreads may widen, however, magnitude and timing are unclear
- Agency + MSR is constructed to deliver returns while reducing MBS spread risk, leading to a more stable return profile
  - Return profile suggests significant advantage to Agency Only in low spread environments, and similar profile in high spread environments

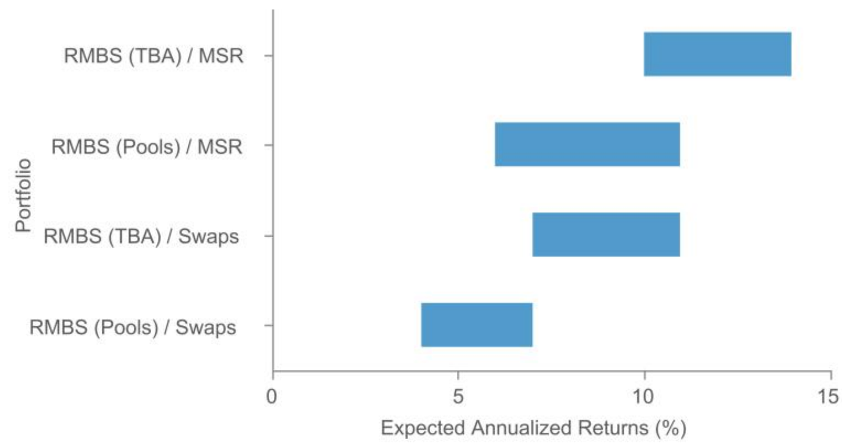
(1) Source: JPM MBS MAX Conventional 30-year Composite OAS to swaps. As of January 4, 2021.
(2) Projected one-year returns are based on an internal assessment of prepayment rates, interest rates, leverage, mortgage and MSR prices, and other factors. Actual results may differ materially from our estimates.

Two Harbors Outlook

OPPORTUNITY SET IN OUR TARGET ASSETS REMAINS ATTRACTIVE TODAY

- Estimate returns for Agency RMBS / swaps in mid-to-high single digits
- Higher returns available in the near term in current coupon TBA in the low teens
- Estimate returns for Agency RMBS / flow MSR in low teens

MARKET OUTLOOK

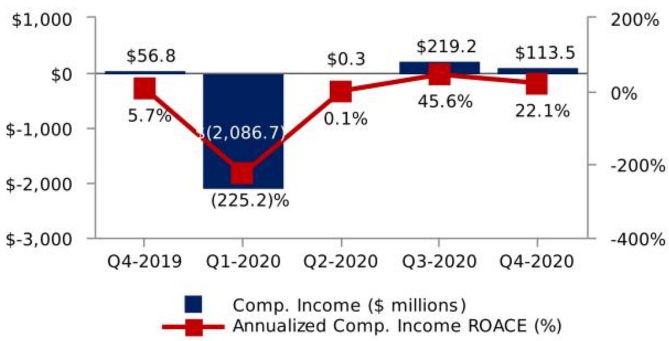


Source: Company's indicative estimates based on portfolio assumptions and market conditions, for illustrative purposes only.

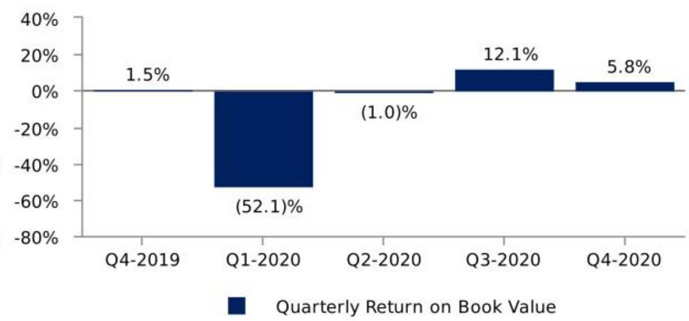
Appendix

Financial Performance

COMPREHENSIVE INCOME (LOSS)



QUARTERLY RETURN ON BOOK VALUE[1]



DIVIDEND YIELD[2]

BOOK VALUE AND DIVIDEND PER COMMON SHARE[2]

(1) Return on book value is defined as the increase (decrease) in book value per common share from the beginning to the end of the given period, plus dividends declared in the period, divided by the book value as of the beginning of the period.

(2) Historical dividends may not be indicative of future dividend distributions. The company ultimately distributes dividends based on its taxable income per common share, not GAAP earnings. The annualized dividend yield on the company's common stock is calculated based on the closing price of the last trading day of the relevant quarter.

Q4-2020 Operating Performance

	Q4-2020			
(In millions, except for per common share data)	Core Earnings[1]	Realized Gains (Losses)	Unrealized MTM	Total
Interest income	$ 72.5	$ —	$ —	$ 72.5
Interest expense	22.6	—	—	22.6
Net interest income	49.9	—	—	49.9
Gain (loss) on investment securities	—	47.6	(10.2)	37.4
Servicing income	100.5	—	—	100.5
(Loss) gain on servicing asset	(59.4)	(0.5)	62.4	2.5
Gain (loss) on interest rate swaps and swaptions	2.0	(2.6)	(14.1)	(14.7)
Gain (loss) on other derivative instruments	43.5	74.1	(36.3)	81.3
Other income	0.1	0.4	—	0.5
Total other income	86.7	119.0	1.8	207.5
Expenses	37.3	5.1	—	42.4
Net income before income taxes	99.3	113.9	1.8	215.0
(Benefit from) provision for Income taxes	(1.7)	(0.9)	6.4	3.8
Net income (loss)	**101.0**	**114.8**	**(4.6)**	**211.2**
Dividends on preferred stock	19.0	—	—	19.0
Net income (loss) attributable to common stockholders	**$ 82.0**	**$ 114.8**	**$ (4.6)**	**$ 192.2**
Weighted average earnings (loss) per basic common share	$ 0.30	$ 0.42	$ (0.02)	$ 0.70

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 20 of this presentation for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Q3-2020 Operating Performance

(In millions, except for per common share data)	Q3-2020 Core Earnings(1)	Realized Gains (Losses)	Unrealized MTM	Total
Interest income	$ 89.7	$ —	$ —	$ 89.7
Interest expense	29.2	—	—	29.2
Net interest income	60.5	—	—	60.5
Loss on investment securities	—	(8.9)	(0.2)	(9.1)
Servicing income	99.1	—	—	99.1
Loss on servicing asset	(56.9)	—	(55.9)	(112.8)
Gain on interest rate swaps and swaptions	0.8	—	0.6	1.4
Gain (loss) on other derivative instruments	32.9	85.8	(53.1)	65.6
Other income	0.1	—	—	0.1
Total other income (loss)	76.0	76.9	(108.6)	44.3
Management fees & other expenses	43.5	(132.4)	—	(88.9)
Net income (loss) before income taxes	93.0	209.3	(108.6)	193.7
Benefit from Income taxes	(1.5)	(0.2)	(6.5)	(8.2)
Net income (loss)	**94.5**	**209.5**	**(102.1)**	**201.9**
Dividends on preferred stock	18.9	—	—	18.9
Net income (loss) attributable to common stockholders	**$ 75.6**	**$ 209.5**	**$ (102.1)**	**$ 183.0**
Weighted average earnings (loss) per basic common share	$ 0.28	$ 0.77	$ (0.38)	$ 0.67

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 20 of this presentation for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

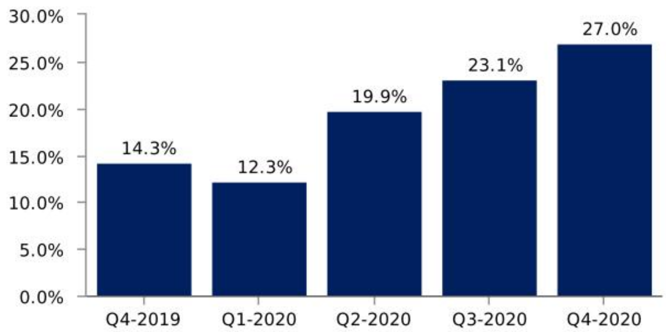
GAAP to Core Earnings Reconciliation[1]

Reconciliation of GAAP to non-GAAP Information (In thousands, except for per common share data)	Three Months Ended September 30, 2020	Three Months Ended December 31, 2020
Reconciliation of Comprehensive income to Core Earnings:		
Comprehensive income attributable to common stockholders	**$ 219,180**	**$ 113,481**
Adjustment for other comprehensive (income) loss attributable to common stockholders:		
Unrealized (gain) loss on available-for-sale securities	(36,216)	78,739
Net income attributable to common stockholders	**$ 182,964**	**$ 192,220**
Adjustments for non-core earnings:		
Realized loss (gain) on securities	1,725	(52,082)
Unrealized loss on securities	281	10,210
Provision for credit losses	7,101	4,509
Realized and unrealized losses (gains) on mortgage servicing rights	55,858	(61,968)
Realized loss on termination or expiration of swaps and swaptions	—	2,546
Unrealized (gain) loss on interest rate swaps, caps and swaptions	(583)	14,096
Gain on other derivative instruments	(32,696)	(37,752)
Other loss (income)	5	(399)
Change in servicing reserves	898	1,591
Non-cash equity compensation expense	2,857	2,243
Other nonrecurring expenses	3,664	1,541
Change in restructuring charges	(139,788)	(294)
Net (benefit from) provision for income taxes on non-Core Earnings	(6,715)	5,546
Core Earnings attributable to common stockholders[1]	$ 75,571	$ 82,007
Weighted average basic common shares	273,705,785	273,699,079
Core Earnings per weighted average basic common share	$ 0.28	$ 0.30

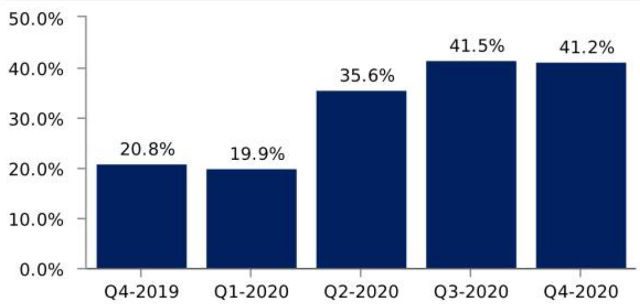
(1) Core Earnings is a non-U.S. GAAP measure that we define as comprehensive (loss) income attributable to common stockholders, excluding "realized and unrealized gains and losses" (impairment losses, provision for credit losses, realized and unrealized gains and losses on the aggregate portfolio, reserve expense for representation and warranty obligations on MSR, non-cash compensation expense related to restricted common stock, other nonrecurring expenses and restructuring charges). As defined, Core Earnings includes net interest income, accrual and settlement of interest on derivatives, dollar roll income on TBAs, servicing income, net of estimated amortization on MSR, management fees and recurring cash related operating expenses. Dollar roll income is the economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements. Core Earnings provides supplemental information to assist investors in analyzing the Company's results of operations and helps facilitate comparisons to industry peers.

Portfolio Metrics

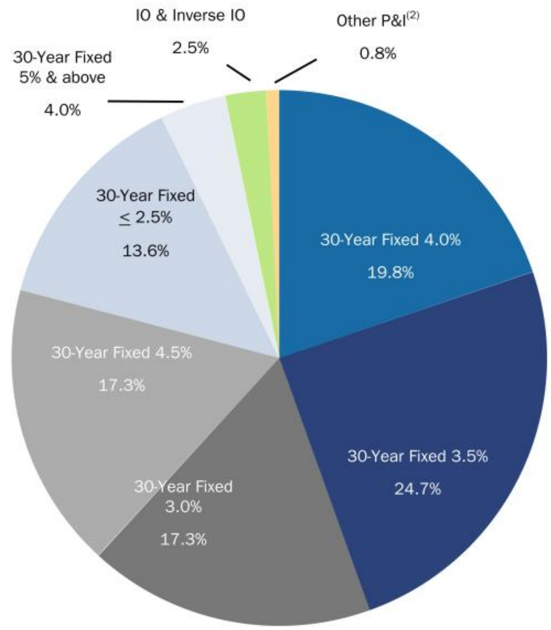
AGENCY RMBS CPR[1]



MSR CPR



AGENCY PORTFOLIO COMPOSITION



(1) Agency weighted average 3-month Constant Prepayment Rate (CPR) includes IIOs (or Agency Derivatives).
(2) Includes 15-year fixed, Hybrid ARMs, CMO and DUS pools.

Agency RMBS Portfolio

		Par Value ($ millions)		Market Value ($ millions)	Weighted Average CPR	% Prepay Protected(1)		Amortized Cost Basis ($ millions)	Gross Weighted Average Coupon	Weighted Average Age (Months)
30-Year fixed										
2.5% & below	$	1,878	$	2,005	7.7 %	100.0 %	$	1,977	3.4 %	7
3.0%		2,360		2,542	19.3 %	100.0 %		2,434	3.7 %	14
3.5%		3,327		3,637	28.5 %	100.0 %		3,485	4.2 %	17
4.0%		2,643		2,912	37.5 %	100.0 %		2,751	4.6 %	36
4.5%		2,276		2,538	34.3 %	100.0 %		2,400	5.0 %	35
≥ 5.0%		520		590	33.6 %	98.4 %		551	5.8 %	65
		13,004		14,224	27.4 %	99.9 %		13,598	4.3 %	24
Other P&I(2)		99		113	9.6 %	— %		110	6.6 %	226
IOs and IIOs(3)		3,968		362	14.3 %	— %		362	4.1 %	73
Total Agency RMBS	$	17,071	$	14,699		96.7 %	$	14,070		

		Notional Amount ($ millions)		Bond Equivalent Value ($ millions)(4)	Implied CPR(5)
TBA Positions					
2.5% & below	$	5,050	$	5,236	52.9 %
3.0%		—		—	58.9 %
3.5%		(1,253)		(1,325)	58.1 %
4.0%		(550)		(588)	54.5 %
4.5%		—		—	48.4 %
5.0%		1,950		2,158	43.6 %
Net TBA position	$	5,197	$	5,481	

(1) Includes securities with implicit or explicit protection including lower loan balances (securities collateralized by loans less than or equal to $200K of initial principal balance), higher LTVs (securities collateralized by loans with greater than or equal to 80% LTV), certain geographic concentrations and lower FICO scores.
(2) Includes 15-year fixed, Hybrid ARMs, CMO and DUS pools.
(3) Represents market value of $300.6 million of IOs and $61.6 million of Agency Derivatives.
(4) Bond equivalent value is defined as the notional amount multiplied by market price. Accounted for as derivative instruments in accordance with GAAP.
(5) Implied TBA speeds from J.P. Morgan Beta MBS Pricing and Analytics Package, as of December 31, 2020.

Mortgage Servicing Rights Portfolio[1]

	Number of Loans	Unpaid Principal Balance ($ in millions)	% Fannie Mae	Gross Weighted Average Coupon Rate	Weighted Average Loan Age (months)	Weighted Average Original FICO[2]	Weighted Average Original LTV	60+ Day Delinquencies	3-Month CPR	Net Servicing Fee (bps)
30-Year Fixed										
≤ 3.25%	87,561	$ 29,305	50%	2.9%	4	769	72%	0.1%	9.0%	25.5
3.25% - 3.75%	148,065	39,634	68%	3.5%	30	764	73%	1.6%	38.2%	26.3
3.75% - 4.25%	188,805	43,124	64%	3.9%	44	757	76%	3.8%	49.1%	27.5
4.25% - 4.75%	130,598	26,096	66%	4.4%	45	741	78%	6.2%	49.2%	26.6
4.75% - 5.25%	64,424	11,727	67%	4.9%	39	727	80%	8.5%	46.5%	27.8
> 5.25%	25,637	3,958	70%	5.5%	36	707	80%	10.8%	41.2%	30.8
	645,090	153,844	63%	3.8%	32	755	75%	3.5%	42.7%	26.8
15-Year Fixed										
≤ 2.25%	1,996	665	88%	2.0%	2	780	60%	—%	7.8%	25.0
2.25% - 2.75%	19,260	5,257	71%	2.5%	7	778	60%	0.1%	12.4%	25.8
2.75% - 3.25%	47,710	8,571	72%	2.9%	37	771	62%	1.1%	27.6%	26.1
3.25% - 3.75%	36,327	5,224	72%	3.4%	45	759	65%	2.2%	33.7%	27.6
3.75% - 4.25%	17,611	2,148	64%	3.9%	43	745	66%	3.4%	35.1%	29.2
> 4.25%	9,149	959	63%	4.5%	34	731	66%	3.6%	37.0%	31.2
	132,053	22,824	71%	3.1%	32	766	63%	1.4%	28.8%	26.8
Total ARMs	4,762	1,193	62%	3.3%	47	762	67%	4.3%	45.4%	25.2
Total Portfolio	781,905	$ 177,861	64%	3.7%	32	756	74%	3.2%	41.2%	26.8

(1) Excludes residential mortgage loans for which the company is the named servicing administrator.
(2) FICO represents a mortgage industry accepted credit score of a borrower.

Financing

$ in millions						
Outstanding Borrowings and Maturities[1]	Repurchase Agreements	Revolving Credit Facilities	Term Notes Payable	Convertible Notes	Total Outstanding Borrowings	Percent (%)
Within 30 days	$ 5,370.5	$ —	$ —	$ —	$ 5,370.5	33.3 %
30 to 59 days	4,292.9	—	—	—	4,292.9	26.6 %
60 to 89 days	2,062.2	—	—	—	2,062.2	12.8 %
90 to 119 days	1,610.2	—	—	—	1,610.2	10.0 %
120 to 364 days	1,808.1	60.0	—	—	1,868.1	11.6 %
One to three years	—	223.8	—	286.2	510.0	3.2 %
Three to five years	—	—	395.6	—	395.6	2.5 %
	$ 15,143.9	$ 283.8	$ 395.6	$ 286.2	$ 16,109.5	100.0 %
Collateral Pledged for Borrowings	Repurchase Agreements	Revolving Credit Facilities(2)	Term Notes Payable	Convertible Notes	Total Collateral Pledged	Percent (%)
Available-for-sale securities, at fair value	$ 14,633.2	$ —	$ —	n/a	$ 14,633.2	92.3 %
Derivative assets, at fair value	61.6	—	—	n/a	61.6	0.4 %
Mortgage servicing rights, at fair value	—	608.8	537.9	n/a	1,146.7	7.2 %
Other assets (includes servicing advances)	—	20.1	—	n/a	20.1	0.1 %
	$ 14,694.8	$ 628.9	$ 537.9	n/a	$ 15,861.6	100.0 %

(1) Weighted average of 3.3 months to maturity.
(2) Revolving credit facilities secured by MSR and other assets may be over-collateralized due to operational considerations.

Interest Rate Swaps

INTEREST RATE SWAPS				
Maturities	Notional Amounts ($B)	Average Fixed Pay Rate	Average Receive Rate	Average Maturity Years
Payers				
2021	$ —	— %	— %	0.0
2022	7.4	0.042 %	0.090 %	1.7
2023	2.3	0.023 %	0.090 %	2.5
2024	—	— %	— %	—
2025 and after	1.5	0.257 %	0.090 %	6.5
	$ 11.2	0.067 %	0.090 %	2.5
Maturities	Notional Amounts ($B)	Average Pay Rate	Average Fixed Receive Rate	Average Maturity (Years)
Receivers				
2025 and after	$ 1.5	0.090 %	0.468 %	9.5
	$ 1.5	0.090 %	0.468 %	9.5

Interest Rate Swaptions

Option					Underlying Swap			
Swaption	**Expiration**	**Cost ($M)**	**Fair Value ($M)**	**Average Months to Expiration**	**Notional Amount ($M)**	**Average Pay Rate**	**Average Receive Rate**	**Average Term (Years)**
Purchase Contracts:								
Payer	<6 Months	$ 7.2	$ 2.4	4.2	$ 2,800	1.32 %	SOFR	10.0
Receiver	<6 Months	3.0	—	1.0	2,000	SOFR	0.23 %	10.0
Sale Contracts:								
Receiver	<6 Months	(2.6)	$ (3.0)	5.1	(1,050)	SOFR	0.55 %	10.0

Tax Characterization of Dividends in 2020

FULL YEAR 2020 DIVIDEND SUMMARY

- Generated estimated REIT taxable loss of $640.5 million in 2020 largely resulting from the realized losses on the termination of swap positions designated as debt hedges for tax purposes.
- 2020 distribution declarations for tax purposes totaled $139.2 million[1]
  - $139.2 million consists of distributions to common shares of $89.9 million ($0.33 per common share) and distributions to preferred shares of $75.8 million, less carryover dividend obligation from 2019 REIT taxable income of $26.5 million
  - Q4 common stock distribution payable to shareholders on January 29, 2021 with a record date of December 30, 2020 is treated as a 2021 distribution for tax purposes(2)
  - No convertible note conversion rate adjustments or deemed distributions occurred in 2020
- 2020 preferred distributions are characterized as $26.5 million of ordinary dividends and $49.3 million of non-dividend distributions (return of capital). The tax characterization of ordinary dividends versus non-dividend distributions is unique to the distribution date and can be found on Form 1099-DIV
- 2020 common distributions are characterized as 100% non-dividend distributions (return of capital)[3]

(1) Net of 2019 carryover dividend obligation of $26.5 million.
(2) Pursuant to IRC Section 857(b)(9), cash distributions made on January 29, 2021 with a record date of December 30, 2020 are treated as received by stockholders on December 31, 2020 to the extent of 2020 earnings and profits. As Two Harbors' aggregate 2020 cash distributions exceeded its 2020 earnings and profits, the January 2021 cash distribution declared in the fourth quarter of 2020 is treated as a 2021 distribution for federal income tax purposes and is not included on the 2020 Form 1099-DIV.
(3) The U.S. federal income tax treatment of holding Two Harbors common stock to any particular stockholder will depend on the stockholder's particular tax circumstances. You are urged to consult your tax advisor regarding the U.S. federal, state, local and foreign income and other tax consequences to you, in light of your particular investment or tax circumstances, of acquiring, holding and disposing of Two Harbors common stock. Two Harbors does not provide tax, accounting or legal advice. Any tax statements contained herein were not intended or written to be used, and cannot be used for the purpose of avoiding U.S., federal, state or local tax penalties. Please consult your advisor as to any tax, accounting or legal statements made herein.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