

**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: May 5, 2021

Two Harbors Investment Corp.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

601 Carlson Parkway, Suite 1400

(Address of Principal Executive Offices)

001-34506

(Commission File Number)

Minnetonka, MN

(612) 453-4100

Registrant's telephone number, including area code

27-0312904

(I.R.S. Employer Identification No.)

55305

(Zip 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:

<u>Title of Each Class:</u>	<u>Trading Symbol(s)</u>	<u>Name of Exchange on Which Registered:</u>
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

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 May 5, 2021, Two Harbors Investment Corp. issued a press release announcing its financial results for the fiscal quarter ended March 31, 2021. A copy of the press release and the 2021 First 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 May 5, 2021.
99.2	2021 First 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: May 5, 2021



Two Harbors Investment Corp. Reports First Quarter 2021 Financial Results

Hedge Benefits of MSR Result in Stable Performance During Volatile Quarter

NEW YORK, May 5, 2021 - Two Harbors Investment Corp. (NYSE: TWO), an Agency + MSR mortgage real estate investment trust (REIT), today announced its financial results for the quarter ended March 31, 2021.

Quarterly Summary

- Reported book value of \$7.29 per common share, representing a (2.2)% quarterly return on book value⁽¹⁾
- Generated Comprehensive Income of \$(48.5) million, representing an annualized return on average common equity of (9.3)%
- Reported Core Earnings of \$45.8 million, or \$0.17 per weighted average basic common share⁽²⁾
- Declared a first quarter common stock dividend of \$0.17 per share
- Continued strength in mortgage servicing rights (MSR) flow-sale program; settled \$21.3 billion unpaid principal balance (UPB) of MSR
 - Closed on an additional \$1.1 billion UPB of MSR and executed term sheets on an additional \$7.2 billion of UPB of MSR through bulk purchases
- Executed on actions to optimize liability and capital structure:
 - 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
 - Completed the redemption of \$75 million Series D and \$200 million Series E preferred shares
- Expanded funding capacity with the closing of a \$300 million MSR asset financing facility, of which \$225 million is committed

Post Quarter End Update

- Executed term sheets on \$6.1 billion UPB of MSR through bulk purchases

“With mortgage spreads at historically tight levels, our Agency + MSR strategy, with its lower exposure to mortgage spreads, is especially attractive,” stated Bill Greenberg, Two Harbors’ President and Chief Executive Officer. “As spreads normalize, we expect to increase leverage and deploy excess capital at more attractive levels. In the meantime, we are committed to growing our MSR portfolio and have expanded our funding capacity to execute on that strategy.”

(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 first quarter of 2021 and fourth quarter of 2020:

Two Harbors Investment Corp. Operating Performance (unaudited)

(dollars in thousands, except per common share data)

	Three Months Ended March 31, 2021			Three Months Ended December 31, 2020		
	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
Earnings attributable to common stockholders						
Comprehensive (Loss) Income	\$ (48,512)	\$ (0.18)	(9.3)%	\$ 113,481	\$ 0.41	22.1 %
GAAP Net Income	\$ 222,941	\$ 0.81	42.8 %	\$ 192,220	\$ 0.70	37.4 %
Core Earnings ⁽¹⁾	\$ 45,830	\$ 0.17	8.8 %	\$ 82,007	\$ 0.30	15.9 %

Operating Metrics

Dividend per common share	\$ 0.17	\$ 0.17
Annualized dividend yield ⁽²⁾	9.3 %	10.7 %
Book value per common share at period end	\$ 7.29	\$ 7.63
Return on book value ⁽³⁾	(2.2)%	5.8 %
Operating expenses, excluding non-cash LTIP amortization and nonrecurring expenses ⁽⁴⁾	\$ 11,914	\$ 14,673
Operating expenses, excluding non-cash LTIP amortization and nonrecurring expenses, as a percentage of average equity ⁽⁴⁾	1.6 %	1.9 %

(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 \$1.8 million for the first quarter of 2021 and \$2.2 million for the fourth quarter of 2020 and nonrecurring expenses of \$2.0 million for the first quarter of 2021 and \$1.5 million for the fourth quarter of 2020.

“We grew the MSR portfolio despite high refinance rates, demonstrating the strength of our platform,” stated Matt Koeppen, Two Harbors’ Chief Investment Officer. “The MSR market remains healthy and performance should be well-supported in a higher rate environment. We expect to continue to source new servicing through flow and bulk channels at attractive levels.”

Portfolio Summary

The company's portfolio was comprised of \$13.6 billion of Agency residential mortgage-backed securities (RMBS), Agency Derivatives and MSR as well as their associated notional hedges as of March 31, 2021. Additionally, the company held \$5.0 billion bond equivalent value of net long to-be-announced securities (TBAs).

The following tables summarize the company's investment portfolio as of March 31, 2021 and December 31, 2020:

Two Harbors Investment Corp. Portfolio					
(dollars in thousands)					
Portfolio Composition	As of March 31, 2021		As of December 31, 2020		
	(unaudited)		(unaudited)		
Agency					
Fixed Rate	\$	11,453,989	84.1 %	\$	14,627,097 89.7 %
Other Agency ⁽¹⁾		64,011	0.4 %		72,411 0.4 %
Total Agency		11,518,000	84.5 %		14,699,508 90.1 %
Mortgage servicing rights ⁽²⁾		2,091,761	15.4 %		1,596,153 9.8 %
Other		9,219	0.1 %		13,031 0.1 %
Aggregate Portfolio	\$	13,618,980		\$	16,308,692
Net TBA position ⁽³⁾		5,024,575			5,481,479
Total Portfolio	\$	18,643,555		\$	21,790,171
Portfolio Metrics	Three Months Ended March 31, 2021		Three Months Ended December 31, 2020		
	(unaudited)		(unaudited)		
Annualized portfolio yield during the quarter ⁽⁴⁾			2.25 %		2.26 %
Annualized cost of funds on average borrowing balance during the quarter ⁽⁵⁾			0.60 %		0.50 %
Annualized net yield for aggregate portfolio during the quarter			1.65 %		1.76 %

(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 March 31, 2021		As of December 31, 2020	
	(unaudited)		(unaudited)	
Weighted average cost basis of Agency principal and interest securities ⁽⁶⁾	\$	104.90	\$	104.95
Weighted average three month CPR on Agency RMBS		30.8 %		27.0 %
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 March 31, 2021	As of December 31, 2020
(dollars in thousands)	(unaudited)	(unaudited)
Unpaid principal balance	\$ 179,014,244	\$ 177,861,483
Gross weighted average coupon	3.6 %	3.7 %
Weighted average original FICO score ⁽²⁾	757	756
Weighted average original LTV	73 %	74 %
60+ day delinquencies	2.9 %	3.2 %
Net servicing fee	26.5 basis points	26.8 basis points
	Three Months Ended March 31, 2021	Three Months Ended December 31, 2020
	(unaudited)	(unaudited)
Fair value gains	\$ 327,438	\$ 2,522
Servicing income	\$ 107,119	\$ 100,549
Servicing expenses	\$ 24,221	\$ 22,595
Change in servicing reserves	\$ 661	\$ 1,591

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 March 31, 2021	As of December 31, 2020
(dollars in thousands)	(unaudited)	(unaudited)
Net long TBA notional amount ⁽³⁾	\$ 4,800,000	\$ 5,197,000
Interest rate swaps notional, utilized to economically hedge interest rate exposure (or duration)	15,221,597	12,646,341
Swaptions net notional, utilized as macroeconomic hedges	—	3,750,000
Total interest rate swaps and swaptions notional	\$ 15,221,597	\$ 16,396,341

(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 March 31, 2021 and December 31, 2020:

March 31, 2021	Balance	Weighted Average Borrowing Rate	Weighted Average Months to Maturity	Number of Distinct Counterparties
(dollars in thousands, unaudited)				
Repurchase agreements collateralized by RMBS	\$ 11,676,062	0.24 %	3.29	19
Revolving credit facilities collateralized by MSR and related servicing advance obligations	443,458	3.70 %	10.39	4
Term notes payable collateralized by MSR	395,891	2.91 %	38.86	n/a
Unsecured convertible senior notes	423,337	6.25 %	41.31	n/a
Total borrowings	\$ 12,938,748			

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			

Borrowings by Collateral Type	As of March 31, 2021	As of December 31, 2020
(dollars in thousands)		
	(unaudited)	(unaudited)
Collateral type:		
Agency RMBS and Agency Derivatives	\$ 11,674,486	\$ 15,141,999
Mortgage servicing rights and related servicing advance obligations	839,349	679,439
Other - secured	1,576	1,899
Other - unsecured ⁽¹⁾	423,337	286,183
Total	\$ 12,938,748	\$ 16,109,520
Debt-to-equity ratio at period-end ⁽²⁾	4.8 :1.0	5.2 :1.0
Economic debt-to-equity ratio at period-end ⁽³⁾	6.4 :1.0	6.8 :1.0

Cost of Funds Metrics	Three Months Ended March 31, 2021	Three Months Ended December 31, 2020
	(unaudited)	(unaudited)
Annualized cost of funds on average borrowings during the quarter:	0.6 %	0.6 %
Agency RMBS and Agency Derivatives	0.3 %	0.3 %
Mortgage servicing rights and related servicing advance obligations ⁽⁴⁾	3.9 %	3.9 %
Other - secured	2.1 %	2.4 %
Other - unsecured ⁽¹⁾⁽⁴⁾	6.8 %	6.8 %

(1) 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 May 6, 2021 at 9:00 a.m. EDT to discuss first quarter 2021 financial results and related information. To participate in the teleconference, please call toll-free 800-263-0877, conference code 5273239, 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 Investors section under the Events and Presentations link. For those unable to attend, a telephone playback will be available beginning at 12:00 p.m. EDT on May 6, 2021, through 12:00 a.m. EDT on June 5, 2021. The playback can be accessed by calling 888-203-1112, conference code 5273239. The call will also be archived on the company's website in the Investors 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, 2020, 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; 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 ongoing litigation with PRCM Advisers related to such termination; 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.
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

	March 31, 2021	December 31, 2020
	(unaudited)	
ASSETS		
Available-for-sale securities, at fair value (amortized cost \$11,067,188 and \$14,043,175, respectively; allowance for credit losses \$18,170 and \$22,528, respectively)	\$ 11,473,390	\$ 14,650,922
Mortgage servicing rights, at fair value	2,091,761	1,596,153
Cash and cash equivalents	1,159,306	1,384,764
Restricted cash	812,654	1,261,667
Accrued interest receivable	40,527	47,174
Due from counterparties	60,293	146,433
Derivative assets, at fair value	55,145	95,937
Reverse repurchase agreements	76,000	91,525
Other assets	222,839	241,346
Total Assets	\$ 15,991,915	\$ 19,515,921
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	\$ 11,676,062	\$ 15,143,898
Revolving credit facilities	443,458	283,830
Term notes payable	395,891	395,609
Convertible senior notes	423,337	286,183
Derivative liabilities, at fair value	16,162	11,058
Due to counterparties	144,270	135,838
Dividends payable	60,384	65,480
Accrued interest payable	11,906	21,666
Other liabilities	99,729	83,433
Total Liabilities	13,271,199	16,426,995
Stockholders' Equity:		
Preferred stock, par value \$0.01 per share; 100,000,000 shares authorized and 29,050,000 and 40,050,000 shares issued and outstanding, respectively (\$726,250 and \$1,001,250 liquidation preference, respectively)	702,550	977,501
Common stock, par value \$0.01 per share; 700,000,000 shares authorized and 273,718,537 and 273,703,882 shares issued and outstanding, respectively	2,737	2,737
Additional paid-in capital	5,165,683	5,163,794
Accumulated other comprehensive income	370,148	641,601
Cumulative earnings	1,265,913	1,025,756
Cumulative distributions to stockholders	(4,786,315)	(4,722,463)
Total Stockholders' Equity	2,720,716	3,088,926
Total Liabilities and Stockholders' Equity	\$ 15,991,915	\$ 19,515,921

TWO HARBORS INVESTMENT CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(dollars in thousands)

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

	Three Months Ended March 31,	
	2021	2020
	(unaudited)	
Interest income:		
Available-for-sale securities	\$ 55,652	\$ 248,684
Other	457	6,823
Total interest income	56,109	255,507
Interest expense:		
Repurchase agreements	8,470	152,605
Revolving credit facilities	4,695	3,531
Term notes payable	3,211	4,804
Convertible senior notes	6,350	4,776
Federal Home Loan Bank advances	—	1,592
Total interest expense	22,726	167,308
Net interest income	33,383	88,199
Other income (loss):		
Gain (loss) on investment securities	132,868	(1,081,607)
Servicing income	107,119	130,797
Gain (loss) on servicing asset	327,438	(586,665)
Loss on interest rate swap and swaption agreements	(15,599)	(250,596)
Loss on other derivative instruments	(276,011)	(133,468)
Other (loss) income	(5,742)	798
Total other income (loss)	270,073	(1,920,741)
Expenses:		
Management fees	—	14,550
Servicing expenses	24,947	19,905
Compensation and benefits	8,188	8,277
Other operating expenses	7,487	6,801
Restructuring charges	—	719
Total expenses	40,622	50,252
Income (loss) before income taxes	262,834	(1,882,794)
Provision for (benefit from) income taxes	22,677	(13,138)
Net income (loss)	240,157	(1,869,656)
Dividends on preferred stock	17,216	18,950
Net income (loss) attributable to common stockholders	\$ 222,941	\$ (1,888,606)
Basic earnings (loss) per weighted average common share	\$ 0.81	\$ (6.91)
Diluted earnings (loss) per weighted average common share	\$ 0.74	\$ (6.91)
Dividends declared per common share	\$ 0.17	\$ —
Weighted average number of shares of common stock:		
Basic	273,710,765	273,392,615
Diluted	311,465,060	273,392,615

TWO HARBORS INVESTMENT CORP.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS, CONTINUED

(dollars in thousands)

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

	Three Months Ended March 31,	
	2021	2020
	(unaudited)	
Comprehensive loss:		
Net income (loss)	\$ 240,157	\$ (1,869,656)
Other comprehensive loss, net of tax:		
Unrealized loss on available-for-sale securities	(271,453)	(198,070)
Other comprehensive loss	(271,453)	(198,070)
Comprehensive loss	(31,296)	(2,067,726)
Dividends on preferred stock	17,216	18,950
Comprehensive loss attributable to common stockholders	\$ (48,512)	\$ (2,086,676)

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 March 31,	Three Months Ended December 31,
	2021 (unaudited)	2020 (unaudited)
Reconciliation of Comprehensive (loss) income to Core Earnings:		
Comprehensive (loss) income attributable to common stockholders	\$ (48,512)	\$ 113,481
Adjustment for other comprehensive loss attributable to common stockholders:		
Unrealized loss on available-for-sale securities	271,453	78,739
Net income attributable to common stockholders	<u>\$ 222,941</u>	<u>\$ 192,220</u>
Adjustments for non-Core Earnings:		
Realized gain on securities	(69,194)	(52,082)
Unrealized (gain) loss on securities	(62,539)	10,210
(Reversal of) provision for credit losses	(1,135)	4,509
Realized and unrealized gain on mortgage servicing rights	(390,704)	(61,968)
Realized loss on termination or expiration of swaps and swaptions	6,350	2,546
Unrealized loss on interest rate swaps and swaptions	10,899	14,096
Loss (gain) on other derivative instruments	294,952	(37,752)
Other loss (income)	5,817	(399)
Change in servicing reserves	661	1,591
Non-cash equity compensation expense	1,790	2,243
Other nonrecurring expenses	1,971	1,541
Change in restructuring charges	—	(294)
Net provision for income taxes on non-Core Earnings	24,021	5,546
Core Earnings attributable to common stockholders ⁽¹⁾	<u>\$ 45,830</u>	<u>\$ 82,007</u>
Weighted average basic common shares	273,710,765	273,699,079
Core Earnings attributable to common stockholders per weighted average basic common share	<u>\$ 0.17</u>	<u>\$ 0.30</u>

(1) Core Earnings is a non-U.S. GAAP measure that we define as comprehensive loss 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				
	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
	(unaudited)				
Net Interest Income:					
Interest income	\$ 56.1	\$ 72.5	\$ 89.7	\$ 107.3	\$ 255.5
Interest expense	22.7	22.6	29.2	62.1	167.3
Net interest income	33.4	49.9	60.5	45.2	88.2
Other income:					
Servicing income, net of amortization ⁽¹⁾	43.9	41.1	42.2	51.0	55.2
Interest spread on interest rate swaps	1.7	2.0	0.8	(56.3)	(12.6)
Gain on other derivative instruments	18.9	43.5	32.9	11.9	5.3
Other income	0.1	0.1	0.1	0.1	0.1
Total other income	64.5	86.7	76.0	6.7	48.0
Expenses	36.2	37.3	43.5	46.8	47.0
Core Earnings before income taxes	61.7	99.3	93.0	5.1	89.2
Income tax (benefit) expense	(1.3)	(1.7)	(1.5)	0.6	2.6
Core Earnings	63.0	101.0	94.5	4.5	86.6
Dividends on preferred stock	17.2	19.0	18.9	19.0	19.0
Core Earnings attributable to common stockholders⁽²⁾	\$ 45.8	\$ 82.0	\$ 75.6	\$ (14.5)	\$ 67.6
Weighted average basic Core EPS	<u>0.17</u>	<u>0.30</u>	<u>0.28</u>	<u>(0.05)</u>	<u>0.25</u>
Core earnings return on average common equity	8.8 %	15.9 %	15.7 %	(3.1)%	7.3 %

(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.



First Quarter 2021 Earnings Call

MAY 6, 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, 2020, 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; 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 ongoing litigation with PRCM Advisers related to such termination; 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.



Hedge Benefits of MSR Result in Stable Performance During Volatile Quarter

Quarterly Summary

- Reported book value of \$7.29 per common share, representing a (2.2)% quarterly return on book value⁽¹⁾
- Generated Comprehensive Loss of \$(48.5) million, representing an annualized return on average common equity of (9.3)%
- Reported Core Earnings of \$45.8 million, or \$0.17 per weighted average basic common share⁽²⁾
- Declared a first quarter common stock dividend of \$0.17 per share
- Continued strength in mortgage servicing rights (MSR) flow-sale program; settled \$21.3 billion unpaid principal balance (UPB) of MSR
 - Closed on an additional \$1.1 billion of UPB of MSR and executed term sheets on an additional \$7.2 billion UPB of MSR through bulk purchases
- Executed on actions to optimize liability and capital structure
 - 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
 - Completed the redemption of \$75 million Series D and \$200 million Series E preferred shares
- Expanded funding capacity with the closing of a \$300 million MSR asset financing facility, of which \$225 million is committed

Post-Quarter End Update

- Executed term sheets on \$6.1 billion UPB of MSR through bulk purchases

(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 19 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Special Topic: First Quarter Key Market Highlights



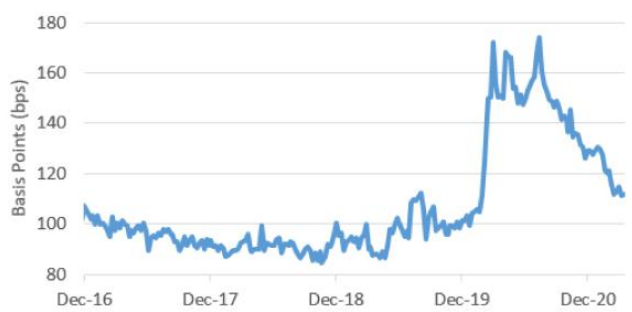
EXPECTATIONS FOR A FAST AND ROBUST RECOVERY LED TO SHARPLY HIGHER RATES AND VOLATILITY

- Combination of a rapid vaccine rollout, the steep drop in COVID cases, fiscal stimulus and supportive monetary policy helped drive long-term interest rates higher
- Normalization of Primary-Secondary spread implies a greater likelihood that higher long-term rates will translate into higher mortgage rates
- With mortgage rates higher, the number of refinancable mortgages have declined and will lead to lower prepayment speeds
- Despite higher rates, RMBS spreads compressed further to historical tightness due to strong demand from the Federal Reserve and large banks

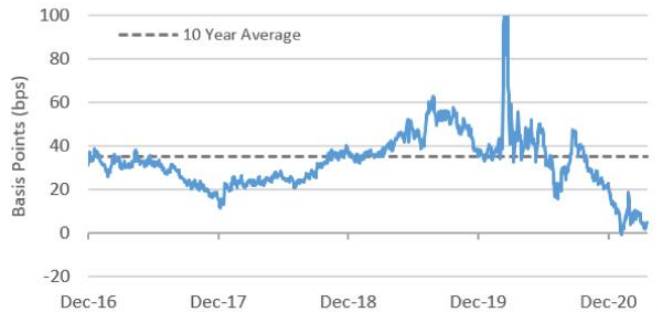
FEWER REFINANCEABLE MORTGAGES ⁽¹⁾



PRIMARY-SECONDARY SPREAD NORMALIZED ⁽²⁾



SPREADS TIGHTENED TO HISTORICAL LOWS ⁽³⁾



(1) Total mortgage loan data from Fannie Mae Loan Level Disclosure data as of March 2021. Mortgage rate data from Freddie Mac Primary Mortgage Market Survey.
 (2) Freddie Mac Primary Mortgage Market Survey.
 (3) JPM MAX Conventional 30 Yr OAS.

Book Value Summary



(Dollars in millions, except per share data)	Q1-2021 Book Value	Q1-2021 Book Value per share
Beginning common stockholders' equity	\$ 2,087.7	\$ 7.63
GAAP Net Income:		
Core Earnings, net of tax ⁽¹⁾	63.0	
Dividend declaration - preferred	(17.2)	
Core Earnings attributable to common stockholders, net of tax ⁽¹⁾	45.8	
Realized and unrealized gains and losses, net of tax	177.1	
Other comprehensive loss, net of tax	(271.4)	
Common stock dividends declared	(46.6)	
Other	1.7	
Issuance of common stock, net of offering costs	0.1	
Ending common stockholders' equity	\$ 1,994.4	\$ 7.29
Total preferred stock liquidation preference	726.3	
Ending total equity	\$ 2,720.7	

- Book value of \$7.29 per common share, resulting in a (2.2)% total economic return on book value⁽²⁾

- Book value decline reflects:

- Flat portfolio performance net of core operating expenses, with increase in MSR valuation offsetting impact of lower RMBS prices
- Higher tax provision driven by MSR mark-to-market in taxable REIT subsidiary
- One-time convertible debt repurchase premium

- Generated Comprehensive Income of \$(48.5) million, representing an annualized return on average common equity of (9.3)%

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 19 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)	Q4-2020	Q1-2021	Variance (\$)
Interest income	\$ 72.5	\$ 56.1	\$ (16.4)
Interest expense	22.6	22.7	0.1
Net interest income	49.9	33.4	(16.5)
Servicing income, net of amortization on MSR	41.1	43.8	2.7
Gain on swaps and swaptions	2.0	1.7	(0.3)
Gain on other derivatives	43.5	18.9	(24.6)
Other	0.1	0.1	—
Total other income	86.7	64.5	(22.2)
Expenses	37.3	36.2	(1.1)
Provision for income taxes	(1.7)	(1.3)	0.4
Core Earnings⁽¹⁾	\$ 101.0	\$ 63.0	\$ (38.0)
Dividends on preferred stock	19.0	17.2	(1.8)
Core Earnings attributable to common stockholders⁽¹⁾	\$ 82.0	\$ 45.8	\$ (36.2)
Basic weighted average Core EPS	\$ 0.30	\$ 0.17	
Core Earnings annualized return on average common equity	15.9 %	8.8 %	
Operating expenses, excluding non-cash LTIP amortization and nonrecurring expenses, as a percentage of average equity	1.9 %	1.6 %	

- First quarter Core Earnings results impacted by:
 - Lower interest income due to the reduction in average RMBS asset balances as a result of prepayments and asset sales
 - Modest increase in interest expense. Decline in repo expense was more than offset by higher expenses related to convertible debt and usage of revolving credit facilities to fund MSR
 - Lower gain on other derivatives due to lower TBA dollar roll income, reflecting reduced positions and roll specialness
 - Lower preferred stock dividends related to redemption of Series D and Series E preferred shares
- Realized portfolio net spread declined by 11 bps due to higher cost of funds
- Higher projected net spread at quarter-end reflects higher yields due to lower prepayment assumptions and greater proportion of MSR in the portfolio

PORTFOLIO YIELD	Realized Q4-2020	Realized Q1-2021	As of Mar. 31, 2021 ⁽²⁾
Annualized portfolio yield ⁽³⁾	2.26 %	2.25 %	2.59 %
Annualized cost of funds ⁽⁴⁾	0.50 %	0.60 %	0.65 %
Annualized net spread for aggregate portfolio	1.76 %	1.65 %	1.94 %

- (1) Core Earnings is a non-GAAP measure. Please see Appendix slide 19 for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.
 (2) Represents yields on the portfolio held as of March 31, 2021 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.
 (3) Includes interest income on RMBS and servicing income net of servicing expenses and amortization on MSR.
 (4) Cost of funds includes interest spread income/expense associated with the portfolio's interest rate swaps and caps.

Financing Profile



BALANCE SHEET AS OF MARCH 31, 2021		CONSERVATIVE LEVERAGE FOR AGENCY + MSR STRATEGY
Agency RMBS \$11.5 billion	Agency Repo \$11.7 billion	<ul style="list-style-type: none"> • Strong capital and liquidity position • \$1.2 billion of unrestricted cash • Economic debt-to-equity of 6.4x at March 31, 2021, compared to 6.8x at December 31, 2020⁽¹⁾ • Average economic debt-to-equity of 6.5x in the first quarter, compared to 7.5x in the fourth quarter⁽¹⁾
MSR \$2.1 billion	MSR financing \$0.8 billion	
Cash & cash equivalents \$1.2 billion	All other liabilities \$0.4 billion	
Restricted cash \$0.8 billion	Convertible debt \$0.4 billion	
All other assets \$0.4 billion	Preferred equity \$0.7 billion	
Total Assets: \$16.0 billion		Common equity \$2.0 billion
		DIVERSE FINANCING PROFILE
		AGENCY RMBS
		<ul style="list-style-type: none"> • Outstanding repurchase agreements of \$11.7 billion with 19 counterparties • Attractive funding available through repo markets: term structure is flat, rates are low
		MORTGAGE SERVICING RIGHTS
		<ul style="list-style-type: none"> • \$423 million of outstanding borrowings under bilateral MSR financing facilities • \$400 million of outstanding 5-year MSR term notes⁽²⁾ • \$392 million of unused, committed MSR asset financing capacity, with \$225 million committed capacity from the new facility closed in the first quarter • \$180 million of committed capacity for servicing advance receivables

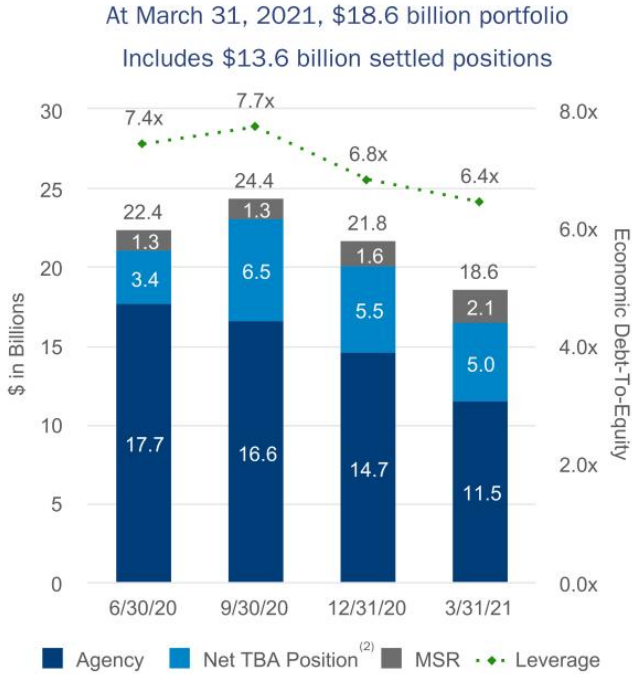
(1) Defined as total borrowings to fund RMBS, MSR and Agency Derivatives, plus the implied debt on net TBA positions, divided by total equity.

(2) Excludes deferred debt issuance costs.

Quarterly Activity and Portfolio Composition



PORTFOLIO COMPOSITION⁽¹⁾



PERFORMANCE COMMENTARY

- Return on book value of (2.2)%⁽³⁾
- Continued to reduce leverage
 - Spreads at the tightest levels in a decade driven by strong demand from the Federal Reserve and money center banks
 - Volatility increased during the quarter as market rates reset higher
- MSR valuations increased by over 30%, reflecting higher rates and a steeper yield curve

PORTFOLIO ACTIVITY

- Sold \$2.1 billion of specified pool positions and opportunistically added \$131 million of interest-only securities (IOs)
- Continued to reduce TBA position. Net TBA position declined \$460 million during the quarter
- Settled \$21.3 billion UPB of MSR through flow-sale arrangements and an additional \$1.1 billion UPB through bulk purchases

(1) For additional detail on the portfolio, see Appendix slides 21-22.

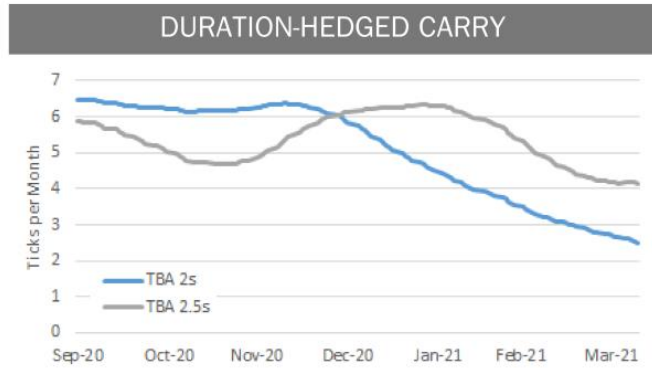
(2) Represents bond equivalent value of TBA position. Bond equivalent value is defined as notional amount multiplied by market price. Accounted for as derivative instruments in accordance with GAAP.

(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.

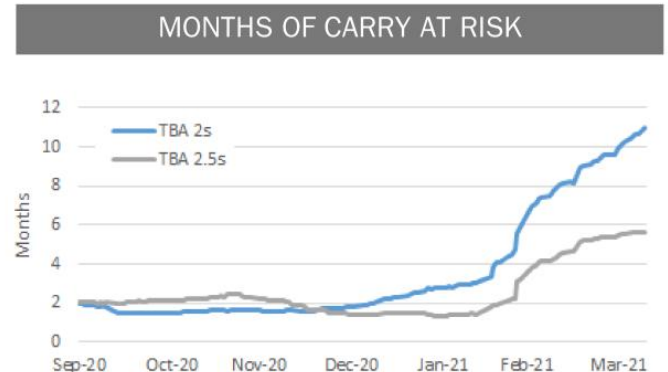
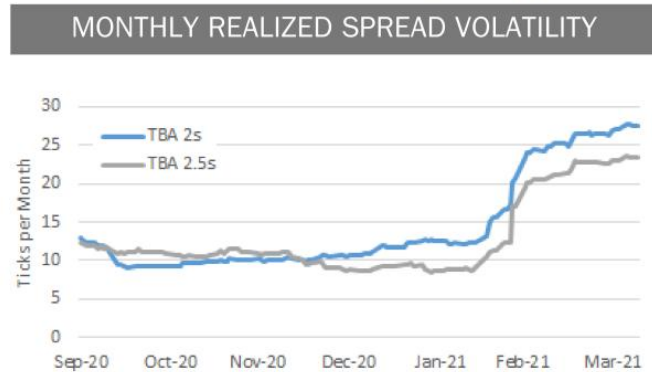
Special Topic: Current Coupon Volatility-Adjusted Returns⁽¹⁾



COMBINATION OF LOWER CARRY AND HEIGHTENED VOLATILITY RESULTS IN UNATTRACTIVE VALUE PROPOSITION FOR TBA 2.0s AND 2.5s



- **DURATION-HEDGED CARRY:** This chart shows how carry has evolved for TBA 2.0 and 2.5. 2.0's in particular have declined due to a decrease in roll specialness
- **SPREAD VOLATILITY:** Volatility has increased significantly, more than doubling during Q1 from quieter months in Q3/Q4 2020
- Together, the combination of significantly higher risk and lower returns results in an unattractive value proposition. For example, volatility in one month in TBA 2.0's could offset 11 months of carry in that coupon



(1) Reported figures are based on the company's internal assessment of market prepayment rates, interest rates, leverage, mortgage prices and other factors.

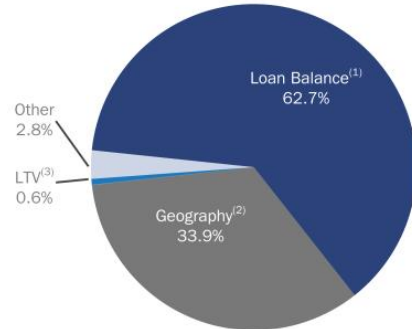


Specified Pools

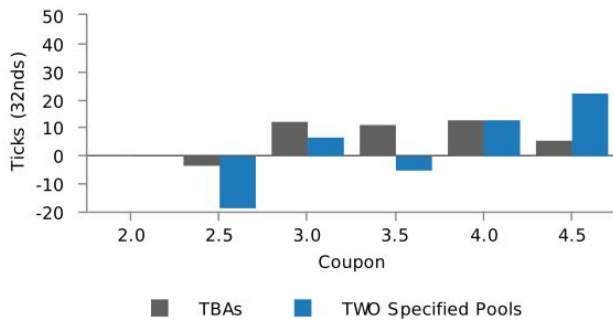
SPECIFIED POOL PERFORMANCE

- Current coupon TBA 2.0's and 2.5's were flat and higher coupon TBAs outperformed slightly
- Specified pools underperformed TBA on a relative basis in the 2.5 coupon and outperformed in 4.0 and 4.5 coupons
- Selectively reduced pools, as spreads tightened, through outright sales, in some cases retaining the IO
- Specified pool prepayment speeds in up-in-coupon securities increased
 - Expect slower speeds in the second quarter as a result of the recent increase in mortgage rates

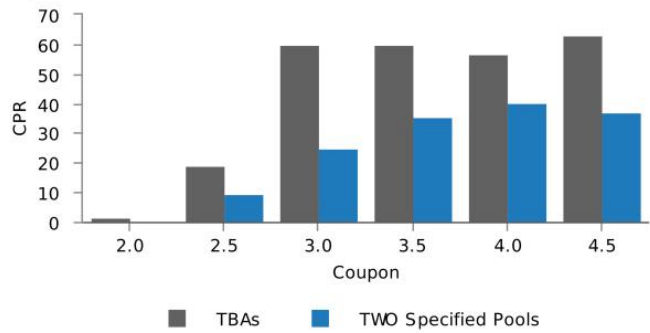
SPECIFIED POOL PORTFOLIO



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 March 31, 2021.
 (5) Three month prepayment speeds of delivered TBA contracts, average of J.P. Morgan, Credit Suisse, and Citi data.

Mortgage Servicing Rights



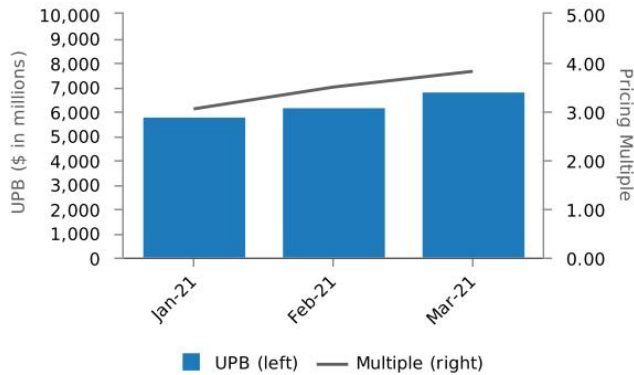
1Q-2021 MSR PORTFOLIO ACTIVITY

- MSR fair value increased by over 30%, benefiting from higher rates and steeper curve
- Maintained portfolio UPB balance despite fast prepayment speeds
- Settled \$21.3 billion UPB of MSR through flow-sale arrangements and \$1.1 billion UPB through bulk purchases
- Forbearance rates continue to decline. At quarter-end:
 - 3.2% of our MSR portfolio by loan count was in forbearance compared to 3.5% in the prior quarter; 2.7% by loan count was in forbearance and not current versus 2.9% in the prior quarter
- Executed term sheets on an additional \$13.3 billion of UPB of MSR through April

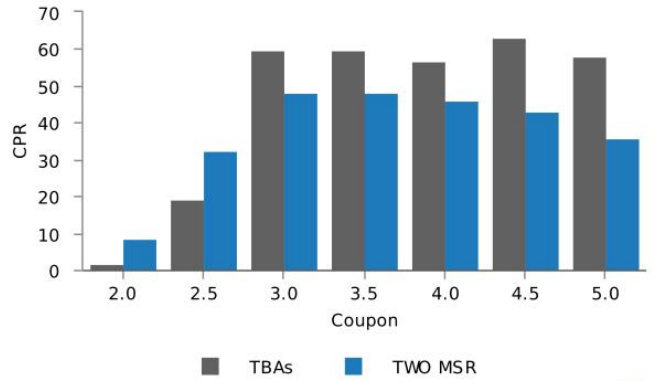
MSR PORTFOLIO⁽¹⁾

	Dec. 31, 2020	Mar. 31, 2021
Fair value (\$ millions)	\$1,596	\$2,092
Pricing Multiple	3.2x	4.2x
UPB (\$ millions)	\$185,687	\$187,069
Gross weighted average coupon rate	3.7%	3.6%
Weighted average original FICO ⁽²⁾	756	757
Weighted average original loan-to-value (LTV)	74%	73%
60+ day delinquencies	3.2%	2.9%
Net servicing fee (basis points)	26.8	26.6
Weighted average loan age (months)	32	30
% Fannie Mae	64%	62%

FLOW PROGRAM LOCK ACTIVITY



MSR PREPAYMENT SPEEDS⁽³⁾

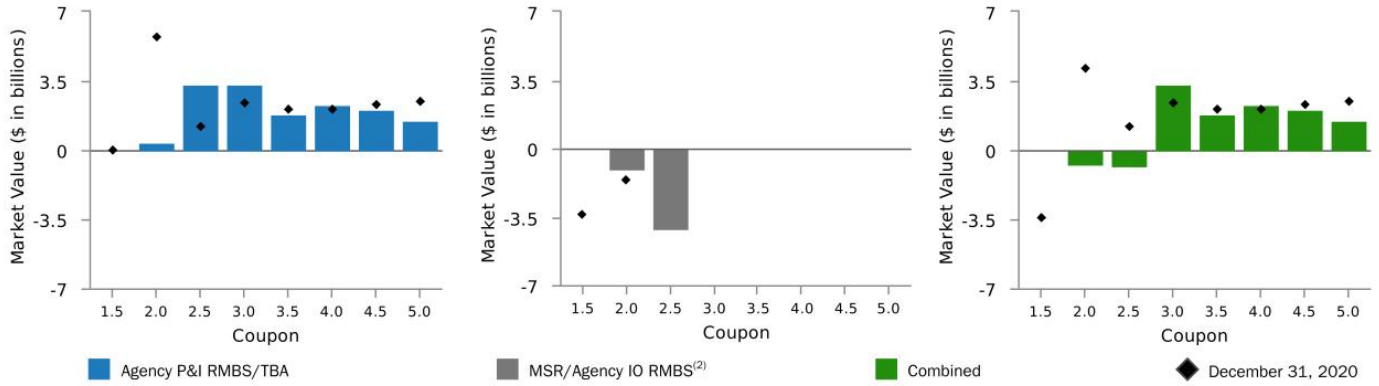


(1) Based on the loans underlying the MSR reported by subservicers on a month lag, adjusted for current month purchases.
 (2) FICO represents a mortgage industry accepted credit score of a borrower.
 (3) Three month prepayment speeds of delivered TBA contracts, average of J.P. Morgan, Credit Suisse, and Citi data.

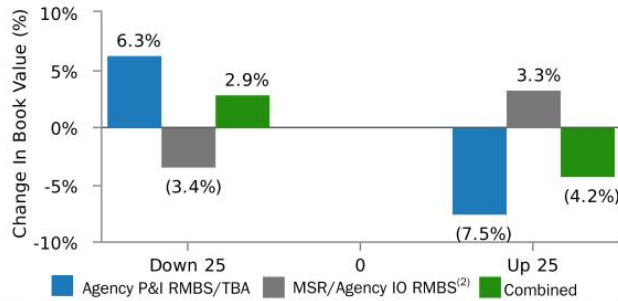
Agency + MSR Advantage



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 2.0 and 2.5 coupons
- Portfolio long in 3.0 through 5.0 coupons, short current coupon
- In a 25 basis point spread widening scenario, estimated book value decrease of (4.2)%

Note: Sensitivity data as of March 31, 2021. 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 March 31, 2021.

(2) Includes the effect of unsettled MSR.

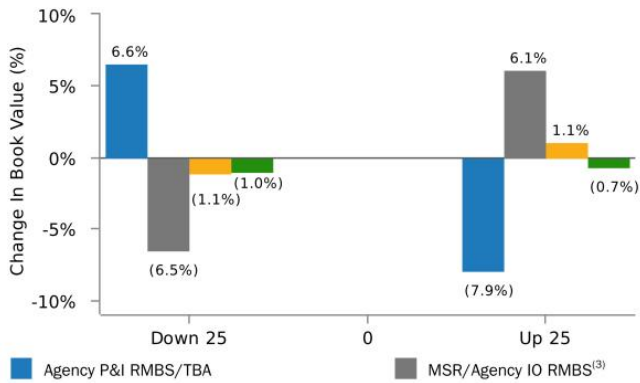
(3) Represents estimated change in common book value for theoretical parallel shifts in spreads.



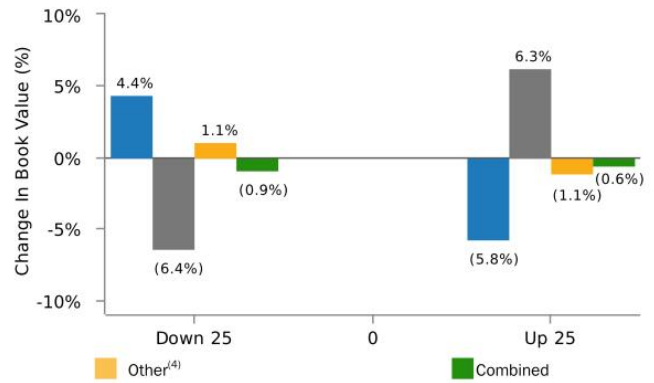
AGENCY + MSR DELIVERS BOOK VALUE STABILITY

- 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, estimated book value decrease of (0.7)%
- In a 25 basis point non-parallel shift up in the yield curve, estimated book value decrease of (0.6)%

BOOK VALUE EXPOSURE TO CHANGES IN RATES⁽¹⁾



BOOK VALUE EXPOSURE TO CHANGES IN YIELD CURVE⁽²⁾



Note: Sensitivity data as of March 31, 2021. 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.

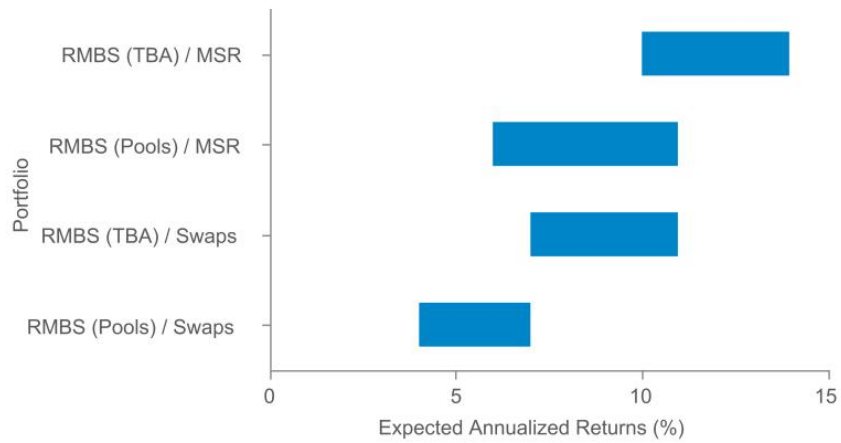
Two Harbors Outlook



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 low teens, in the near term in current coupon TBA
- Estimate returns for Agency RMBS / flow MSR in low teens

MARKET OUTLOOK



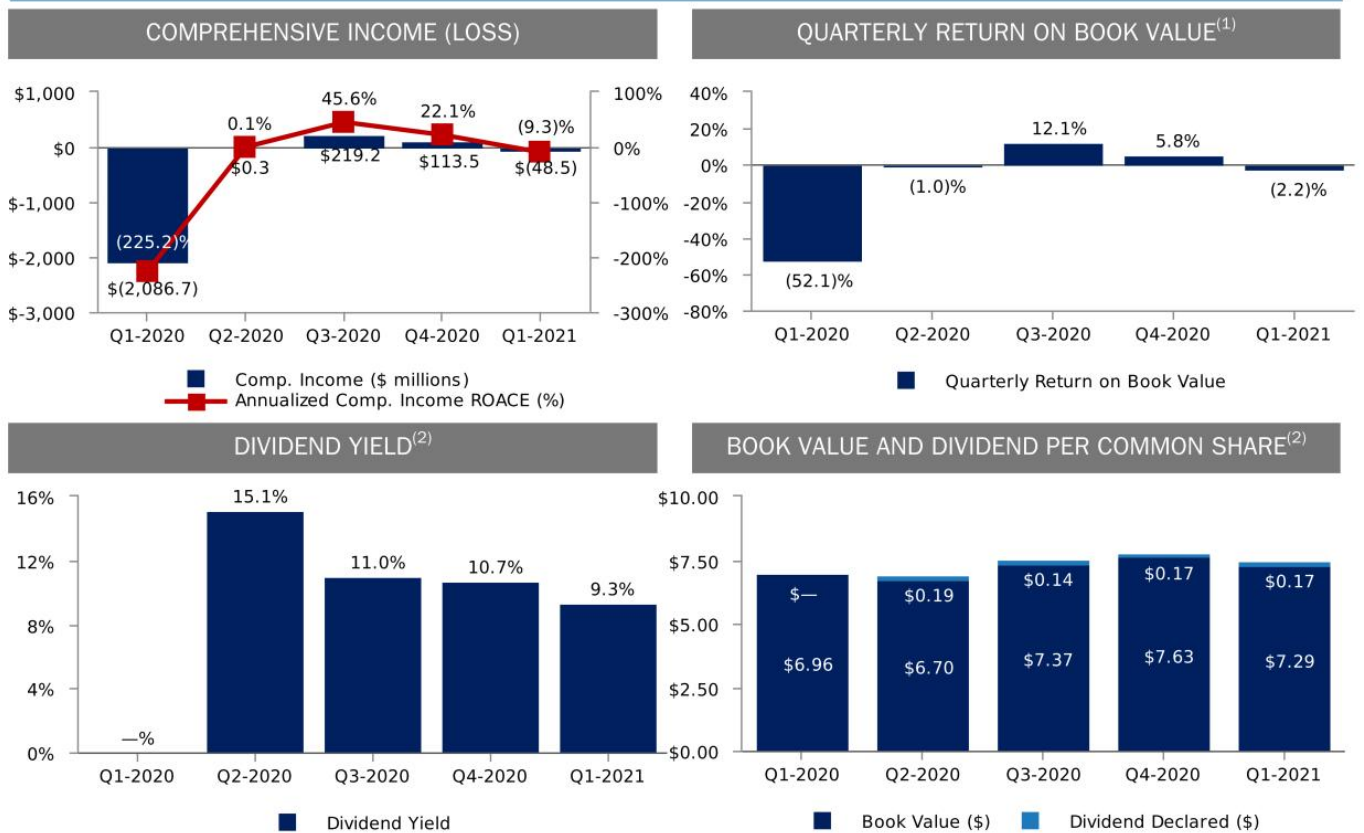
Source: Company's indicative estimates based on portfolio assumptions and market conditions, for illustrative purposes only.



Appendix



Financial Performance



(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.

Q1-2021 Operating Performance



(In millions, except for per common share data)	Q1-2021			
	Core Earnings ⁽¹⁾	Realized Gains (Losses)	Unrealized MTM	Total
Interest income	\$ 56.1	\$ —	\$ —	\$ 56.1
Interest expense	22.7	—	—	22.7
Net interest income	33.4	—	—	33.4
Gain (loss) on investment securities	—	70.3	62.5	132.8
Servicing income	107.1	—	—	107.1
(Loss) gain on servicing asset	(63.3)	—	390.7	327.4
Gain (loss) on interest rate swaps and swaptions	1.7	(6.3)	(10.9)	(15.5)
Gain (loss) on other derivative instruments	18.9	(234.4)	(60.6)	(276.1)
Other income (loss)	0.1	(5.8)	—	(5.7)
Total other income (loss)	64.5	(176.2)	381.7	270.0
Expenses	36.2	4.4	—	40.6
Net income before income taxes	61.7	(180.6)	381.7	262.8
(Benefit from) provision for income taxes	(1.3)	(12.8)	36.8	22.7
Net income (loss)	63.0	(167.8)	344.8	240.1
Dividends on preferred stock	17.2	—	—	17.2
Net income (loss) attributable to common stockholders	\$ 45.8	\$ (167.8)	\$ 344.8	\$ 222.9
Weighted average earnings (loss) per basic common share	\$ 0.17	\$ (0.62)	\$ 1.26	\$ 0.81

(1) Core Earnings is a non-GAAP measure. Please see Appendix slide 19 of this presentation for a definition of Core Earnings and a reconciliation of GAAP to non-GAAP financial information.

Q4-2020 Operating Performance



(In millions, except for per common share data)	Q4-2020			
	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 19 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⁾



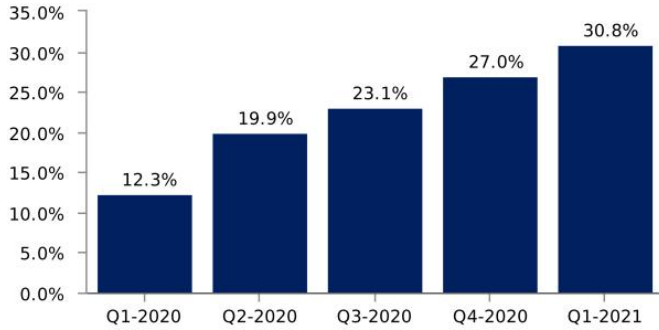
Reconciliation of GAAP to non-GAAP Information (In thousands, except for per common share data)	Three Months Ended December 31, 2020	Three Months Ended March 31, 2021
Reconciliation of Comprehensive income to Core Earnings:		
Comprehensive income (loss) attributable to common stockholders	\$ 113,481	\$ (48,512)
Adjustment for other comprehensive loss attributable to common stockholders:		
Unrealized loss on available-for-sale securities	78,739	271,453
Net income attributable to common stockholders	\$ 192,220	\$ 222,941
Adjustments for non-core earnings:		
Realized gain on securities	(52,082)	(69,194)
Unrealized loss (gain) on securities	10,210	(62,539)
Provision for (reversal of) credit losses	4,509	(1,135)
Realized and unrealized gain on mortgage servicing rights	(61,968)	(390,704)
Realized loss on termination or expiration of swaps and swaptions	2,546	6,350
Unrealized loss on interest rate swaps, caps and swaptions	14,096	10,899
(Gain) loss on other derivative instruments	(37,752)	294,952
Other (income) loss	(399)	5,817
Change in servicing reserves	1,591	661
Non-cash equity compensation expense	2,243	1,790
Other nonrecurring expenses	1,541	1,971
Change in restructuring charges	(294)	—
Net provision for income taxes on non-Core Earnings	5,546	24,021
Core Earnings attributable to common stockholders⁽¹⁾	\$ 82,007	\$ 45,830
Weighted average basic common shares	273,699,079	273,710,765
Core Earnings per weighted average basic common share	\$ 0.30	\$ 0.17

(1) Core Earnings is a non-U.S. GAAP measure that we define as comprehensive loss 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.

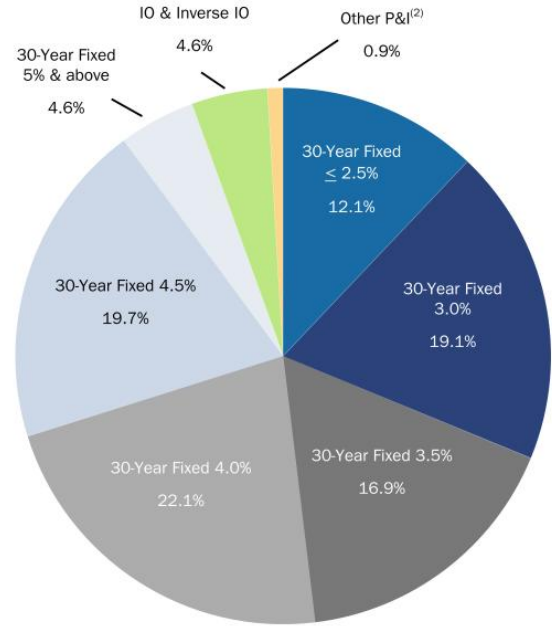
Portfolio Metrics



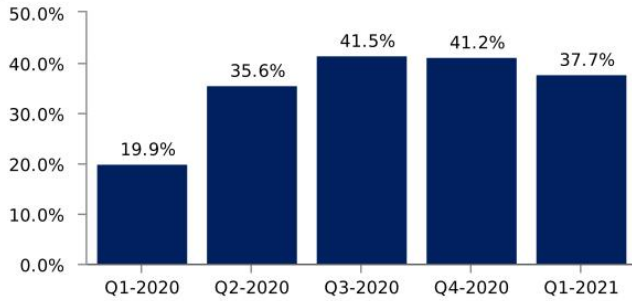
AGENCY RMBS CPR⁽¹⁾



AGENCY PORTFOLIO COMPOSITION



MSR CPR



(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	\$ 1,353	\$ 1,393	9.8 %	100.0 %	\$ 1,425	3.4 %	9
3.0%	2,088	2,204	25.0 %	100.0 %	2,150	3.8 %	17
3.5%	1,809	1,943	35.3 %	100.0 %	1,889	4.3 %	21
4.0%	2,324	2,544	39.9 %	100.0 %	2,419	4.6 %	39
4.5%	2,035	2,267	36.8 %	100.0 %	2,145	5.0 %	39
≥ 5.0%	467	530	33.7 %	98.3 %	495	5.8 %	69
	10,076	10,881	31.6 %	99.9 %	10,523	4.4 %	29
Other P&I⁽²⁾	94	107	10.7 %	— %	104	6.6 %	229
IOs and IIOs⁽³⁾	4,683	530	15.7 %	— %	466	3.9 %	51
Total Agency RMBS	\$ 14,853	\$ 11,518		94.4 %	\$ 11,093		

	Notional Amount (\$ millions)	Bond Equivalent Value (\$ millions) ⁽⁴⁾	Through-the-Box TBA Speeds ⁽⁵⁾
TBA Positions			
2.5% & below	\$ 2,375	\$ 2,423	19.2 %
3.0%	1,275	1,328	59.7 %
3.5%	—	—	59.7 %
4.0%	—	—	56.7 %
4.5%	—	—	63.1 %
5.0%	1,150	1,274	58.0 %
Net TBA position	\$ 4,800	\$ 5,025	

- (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 \$476.9 million of IOs and \$53.8 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) Three month prepayment speeds of delivered TBA contracts, average of J.P. Morgan, Credit Suisse, and Citi data.

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%	132,763	\$ 44,605	48%	2.8%	5	767	73%	0.2%	10.1%	25.4
3.25% - 3.75%	140,014	36,576	67%	3.5%	30	762	73%	1.6%	38.6%	26.3
3.75% - 4.25%	163,680	36,185	64%	3.9%	48	756	76%	4.0%	49.3%	27.5
4.25% - 4.75%	113,561	22,047	66%	4.4%	48	740	78%	6.5%	48.1%	26.5
4.75% - 5.25%	56,897	10,054	67%	4.9%	42	725	79%	8.9%	45.4%	27.7
> 5.25%	22,902	3,439	70%	5.5%	40	706	80%	11.2%	41.7%	30.7
	629,817	152,907	61%	3.7%	31	755	75%	3.2%	39.0%	26.5
15-Year Fixed										
≤ 2.25%	7,189	2,471	91%	2.0%	2	779	59%	—%	6.7%	25.0
2.25% - 2.75%	27,396	7,193	70%	2.4%	7	777	59%	0.1%	17.6%	25.6
2.75% - 3.25%	46,480	8,069	71%	2.9%	38	770	62%	1.0%	29.4%	26.1
3.25% - 3.75%	33,521	4,604	72%	3.4%	49	758	65%	2.2%	35.0%	27.5
3.75% - 4.25%	16,196	1,892	64%	3.9%	46	744	66%	3.3%	35.3%	29.0
> 4.25%	8,313	833	63%	4.5%	37	730	66%	3.6%	39.1%	31.2
	139,095	25,062	72%	2.9%	28	767	62%	1.1%	28.3%	26.5
Total ARMs	4,255	1,046	62%	3.2%	49	762	68%	4.4%	44.9%	25.3
Total Portfolio	773,167	\$ 179,014	62%	3.6%	30	757	73%	2.9%	37.7%	26.5

(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),(3)}	Repurchase Agreements	Revolving Credit Facilities	Term Notes Payable	Convertible Notes	Total Outstanding Borrowings	Percent (%)
Within 30 days	\$ 2,588.8	\$ —	\$ —	\$ —	\$ 2,588.8	20.0 %
30 to 59 days	1,935.5	—	—	—	1,935.5	15.0 %
60 to 89 days	1,498.9	—	—	—	1,498.9	11.6 %
90 to 119 days	1,301.5	118.6	—	—	1,420.1	11.0 %
120 to 364 days	4,351.4	274.8	—	143.3	4,769.5	36.9 %
One to three years	—	50.0	—	—	50.0	0.3 %
Three to five years	—	—	395.9	280.1	676.0	5.2 %
	\$ 11,676.1	\$ 443.4	\$ 395.9	\$ 423.4	\$ 12,938.8	100.0 %
Collateral Pledged for Borrowings ⁽³⁾	Repurchase Agreements	Revolving Credit Facilities ⁽²⁾	Term Notes Payable	Convertible Notes	Total Collateral Pledged	Percent (%)
Available-for-sale securities, at fair value	\$ 11,459.9	\$ —	\$ —	n/a	\$ 11,459.9	86.4 %
Derivative assets, at fair value	53.8	—	—	n/a	53.8	0.4 %
Mortgage servicing rights, at fair value	—	883.9	847.8	n/a	1,731.7	13.0 %
Other assets (includes servicing advances)	—	26.0	—	n/a	26.0	0.2 %
	\$ 11,513.7	\$ 909.9	\$ 847.8	n/a	\$ 13,271.4	100.0 %

(1) Weighted average of 5.9 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	\$ —	— %	— %	—
2022	7.4	0.042 %	0.060 %	1.4
2023	2.3	0.023 %	0.060 %	2.2
2024	—	— %	— %	—
2025 and after	1.7	0.358 %	0.079 %	6.7
	\$ 11.4	0.085 %	0.063 %	2.4
Maturities	Notional Amounts (\$B)	Average Pay Rate	Average Fixed Receive Rate	Average Maturity (Years)
Receivers				
2021	\$ —	— %	— %	—
2022	—	— %	— %	—
2023	2.2	0.060 %	0.118 %	1.9
2024	—	— %	— %	—
2025 and after	\$ 1.6	0.060 %	0.608 %	9.3
	\$ 3.8	0.060 %	0.323 %	5.0



TWO HARBORS
Investment Corp.

