



## Two Harbors Investment Corp. Reports Second Quarter 2023 Financial Results

*Benefitted From Attractive Spreads and Volatility Trending Lower*

**NEW YORK, July 31, 2023** - Two Harbors Investment Corp. (NYSE: TWO), an Agency RMBS + MSR real estate investment trust (REIT), today announced its financial results for the quarter ended June 30, 2023.

### ***Quarterly Summary***

- Reported book value of \$16.39 per common share, and declared a second quarter common stock dividend of \$0.45 per share, representing a 2.2% quarterly economic return on book value.<sup>(1)</sup>
- Generated Comprehensive Income of \$31.5 million, or \$0.31 per weighted average basic common share.
- Generated Income Excluding Market-Driven Value Changes (IXM) of \$0.60 per weighted average basic common share.<sup>(2)</sup>
- Reported Earnings Available for Distribution (EAD) of \$(3.7) million, or \$(0.04) per weighted average basic common share.<sup>(3)</sup>
- Repurchased 593,453 shares of common stock at an average price of \$11.89 per share.
- Repurchased 513,818 shares of preferred stock at an average price of \$19.39 per share.<sup>(4)</sup>
- Settled \$14.8 billion unpaid principal balance (UPB) of MSR through flow-sale acquisitions and three bulk purchases.

“In the second quarter, many of the unknown variables in the market were resolved. Congress passed a resolution on the debt ceiling, inflation expectations and the Fed path of rate hikes appeared well contained, and the market readily absorbed the supply of RMBS being auctioned by the FDIC,” stated Bill Greenberg, Two Harbors’ President and CEO. “This led to lower volatility, which supported positive performance in our portfolio, while spreads remained at historically attractive levels. Further, with mortgage rates still around 7%, prepayment speeds should remain slow which is very accretive to our MSR asset. We believe that this is a terrific environment for investing in our Agency and MSR strategy.”

“After an initial bout of spread widening in the beginning of the quarter, volatility subsided and spreads tightened across the coupon stack leading to positive returns for RMBS. Low realized volatility in June improved hedge-adjusted returns for RMBS. We opportunistically added lower coupon RMBS to our portfolio mix early in the quarter which performed well as the fear of supply from FDIC sales diminished,” stated Nick Letica, Two Harbors’ Chief Investment Officer. “MSR packages remain well bid with notable strong demand, even with historically high supply this year. We settled \$14.7 billion UPB of MSR in the quarter. Our investments in MSR also positively contributed to our performance as prepayment speeds remained slow.”

(1) Economic 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) Income Excluding Market-Driven Value Changes, or IXM, is a non-GAAP measure. Please see page 11 for a definition of IXM and a reconciliation of GAAP to non-GAAP financial information.

(3) Earnings Available for Distribution, or EAD, is a non-GAAP measure. Please see page 12 for a definition of EAD and a reconciliation of GAAP to non-GAAP financial information.

(4) Includes 225,886 Series A, 215,072 Series B and 72,860 Series C preferred shares.

## Operating Performance

The following table summarizes the company's GAAP and non-GAAP earnings measurements and key metrics for the second quarter of 2023 and first quarter of 2023:

Two Harbors Investment Corp. Operating Performance (unaudited)						
(dollars in thousands, except per common share data)						
	Three Months Ended June 30, 2023			Three Months Ended March 31, 2023		
	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
<b>Earnings attributable to common stockholders</b>						
Comprehensive Income (Loss)	\$ 31,478	\$ 0.31	8.1 %	\$ (63,242)	\$ (0.69)	(15.5)%
GAAP Net Income (Loss)	\$ 187,784	\$ 1.94	48.3 %	\$ (189,173)	\$ (2.05)	(46.3)%
Income Excluding Market-Driven Value Changes <sup>(1)</sup>	\$ 57,501	\$ 0.60	14.8 %	\$ 54,393	\$ 0.59	13.3 %
Earnings Available for Distribution <sup>(2)</sup>	\$ (3,716)	\$ (0.04)	(1.0)%	\$ 8,273	\$ 0.09	2.0 %
<b>Operating Metrics</b>						
Dividend per common share	\$ 0.45			\$ 0.60		
Annualized dividend yield <sup>(3)</sup>	13.0 %			16.3 %		
Book value per common share at period end	\$ 16.39			\$ 16.48		
Economic return on book value <sup>(4)</sup>	2.2 %			(3.6)%		
Operating expenses, excluding non-cash LTIP amortization and nonrecurring expenses <sup>(5)</sup>	\$ 11,885			\$ 13,097		
Operating expenses, excluding non-cash LTIP amortization and nonrecurring expenses, as a percentage of average equity <sup>(5)</sup>	2.2 %			2.3 %		

(1) Income Excluding Market-Driven Value Changes, or IXM, is a non-GAAP measure. Please see page 11 for a definition of IXM and a reconciliation of GAAP to non-GAAP financial information.

(2) Earnings Available for Distribution, or EAD, is a non-GAAP measure. Please see page 12 for a definition of EAD and a reconciliation of GAAP to non-GAAP financial information.

(3) 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.

(4) Economic return on book value is defined as the (decrease) increase 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.

(5) Excludes non-cash equity compensation expense of \$1.7 million for the second quarter of 2023 and \$6.1 million for the first quarter of 2023 and nonrecurring expenses of \$7.1 million for the second quarter of 2023 and \$5.4 million for the first quarter of 2023.

## Portfolio Summary

As of June 30, 2023, the company's portfolio was comprised of \$12.3 billion of Agency RMBS, MSR and other investment securities as well as their associated notional debt hedges. Additionally, the company held \$2.9 billion bond equivalent value of net long to-be-announced securities (TBAs).

The following tables summarize the company's investment portfolio as of June 30, 2023 and March 31, 2023:

Two Harbors Investment Corp. Portfolio				
(dollars in thousands)				
Portfolio Composition	As of June 30, 2023		As of March 31, 2023	
	(unaudited)		(unaudited)	
Agency RMBS	\$ 8,887,839	72.6 %	\$ 8,676,453	72.0 %
Mortgage servicing rights <sup>(1)</sup>	3,273,956	26.7 %	3,072,445	25.5 %
Other	87,808	0.7 %	300,126	2.5 %
Aggregate Portfolio	12,249,603		12,049,024	
Net TBA position <sup>(2)</sup>	2,894,560		3,692,956	
Total Portfolio	\$ 15,144,163		\$ 15,741,980	
Portfolio Metrics	Three Months Ended June 30, 2023		Three Months Ended March 31, 2023	
	(unaudited)		(unaudited)	
Average portfolio yield <sup>(3)</sup>		5.24 %		5.09 %
Average cost of financing <sup>(4)</sup>		5.08 %		4.57 %
Net spread		0.16 %		0.52 %

(1) Based on the loans underlying the MSR reported by subservicers on a month lag, adjusted for current month purchases.

(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) Average portfolio yield includes interest income on Agency and non-Agency investment securities, MSR servicing income, net of estimated amortization, and servicing expenses, and the implied asset yield portion of TBA dollar roll income on TBAs. MSR estimated 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, which is deemed a non-GAAP measure due to the company's decision to account for MSR at fair value. TBA dollar roll income is the non-GAAP economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements.

(4) Average cost of financing includes interest expense and amortization of deferred debt issuance costs on borrowings under repurchase agreements (excluding those collateralized by U.S. Treasuries), revolving credit facilities, term notes payable and convertible senior notes, interest spread income/expense and amortization of upfront payments made or received upon entering into interest rate swap agreements, U.S. Treasury futures income, and the implied financing benefit/cost portion of dollar roll income on TBAs. TBA dollar roll income is the non-GAAP economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements. U.S. Treasury futures income is the economic equivalent to holding and financing a relevant cheapest-to-deliver U.S. Treasury note or bond using short-term repurchase agreements.

Portfolio Metrics Specific to Agency RMBS	As of June 30, 2023		As of March 31, 2023	
	(unaudited)		(unaudited)	
Weighted average cost basis <sup>(1)</sup>	\$	101.41	\$	102.05
Weighted average experienced three-month CPR		6.5 %		5.3 %
Gross weighted average coupon rate		5.6 %		5.7 %
Weighted average loan age (months)		22		19

(1) Weighted average cost basis includes Agency principal and interest RMBS only and utilizes carrying value for weighting purposes.

Portfolio Metrics Specific to MSR <sup>(1)</sup>		As of June 30, 2023	As of March 31, 2023
(dollars in thousands)		(unaudited)	(unaudited)
Unpaid principal balance	\$	222,622,177	\$ 212,444,503
Gross coupon rate		3.4 %	3.4 %
Current loan size	\$	340	\$ 337
Original FICO <sup>(2)</sup>		759	760
Original LTV		72 %	72 %
60+ day delinquencies		0.6 %	0.7 %
Net servicing fee		26.4 basis points	26.5 basis points
		Three Months Ended June 30, 2023	Three Months Ended March 31, 2023
		(unaudited)	(unaudited)
Fair value gains (losses)	\$	21,679	\$ (28,079)
Servicing income	\$	175,223	\$ 153,320
Servicing expenses	\$	25,477	\$ 26,772
Change in servicing reserves	\$	(301)	\$ 1,564

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. Portfolio metrics, other than UPB, represent averages weighted by UPB.
- (2) FICO represents a mortgage industry accepted credit score of a borrower.

Other Investments and Risk Management Metrics		As of June 30, 2023	As of March 31, 2023
(dollars in thousands)		(unaudited)	(unaudited)
Net long TBA notional amount <sup>(1)</sup>	\$	3,051,000	\$ 3,718,000
Futures notional	\$	(6,624,550)	\$ (6,945,550)
Interest rate swaps notional	\$	8,977,714	\$ 8,404,872
Swaptions net notional	\$	(200,000)	\$ (200,000)

(1) 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 June 30, 2023 and March 31, 2023:

June 30, 2023	Balance	Weighted Average Borrowing Rate	Weighted Average Months to Maturity	Number of Distinct Counterparties
(dollars in thousands, unaudited)				
Repurchase agreements collateralized by securities	\$ 8,807,824	5.23 %	2.19	18
Repurchase agreements collateralized by MSR	260,000	8.67 %	5.98	1
Repurchase agreements collateralized by U.S. Treasuries <sup>(1)</sup>	—	— %	—	—
Total repurchase agreements	9,067,824	5.33 %	2.30	19
Revolving credit facilities collateralized by MSR and related servicing advance obligations	1,455,421	8.46 %	18.71	4
Term notes payable collateralized by MSR	398,653	8.00 %	11.87	n/a
Unsecured convertible senior notes	267,791	6.25 %	30.58	n/a
<b>Total borrowings</b>	<b>\$ 11,189,689</b>			

<b>March 31, 2023</b>	<b>Balance</b>	<b>Weighted Average Borrowing Rate</b>	<b>Weighted Average Months to Maturity</b>	<b>Number of Distinct Counterparties</b>
(dollars in thousands, unaudited)				
Repurchase agreements collateralized by securities	\$ 8,633,946	5.01 %	2.67	19
Repurchase agreements collateralized by MSR	250,000	8.43 %	8.98	1
Repurchase agreements collateralized by U.S. Treasuries <sup>(1)</sup>	200,766	4.68 %	0.10	2
Total repurchase agreements	9,084,712	5.11 %	2.84	20
Revolving credit facilities collateralized by MSR and related servicing advance obligations	1,292,831	8.09 %	18.35	4
Term notes payable collateralized by MSR	398,326	7.65 %	14.86	n/a
Unsecured convertible senior notes	282,840	6.25 %	33.57	n/a
<b>Total borrowings</b>	<b>\$ 11,058,709</b>			

<b>Borrowings by Collateral Type<sup>(2)</sup></b>	<b>As of June 30, 2023</b>	<b>As of March 31, 2023</b>
(dollars in thousands)	(unaudited)	(unaudited)
Agency RMBS	\$ 8,760,221	\$ 8,394,999
Mortgage servicing rights and related servicing advance obligations	2,114,074	1,941,157
Other - secured	47,603	238,947
Other - unsecured <sup>(3)</sup>	267,791	282,840
Total	11,189,689	10,857,943
TBA cost basis	2,905,852	3,644,540
Net payable (receivable) for unsettled RMBS	54,739	—
Total, including TBAs and net payable (receivable) for unsettled RMBS	\$ 14,150,280	\$ 14,502,483
Debt-to-equity ratio at period-end <sup>(4)</sup>	5.0 :1.0	4.8 :1.0
Economic debt-to-equity ratio at period-end <sup>(5)</sup>	6.4 :1.0	6.5 :1.0

<b>Cost of Financing by Collateral Type<sup>(2)</sup></b>	<b>Three Months Ended June 30, 2023</b>	<b>Three Months Ended March 31, 2023</b>
	(unaudited)	(unaudited)
Agency RMBS	5.20 %	4.49 %
Mortgage servicing rights and related servicing advance obligations <sup>(6)</sup>	8.70 %	8.28 %
Other - secured	5.89 %	5.02 %
Other - unsecured <sup>(3)(6)</sup>	6.88 %	6.84 %
Annualized cost of financing	5.89 %	5.21 %
Interest rate swaps <sup>(7)</sup>	(0.13) %	(0.13) %
U.S. Treasury futures <sup>(8)</sup>	(0.21) %	(0.01) %
TBAs <sup>(9)</sup>	3.49 %	3.23 %
Annualized cost of financing, including swaps, U.S. Treasury futures and TBAs	5.08 %	4.57 %

(1) U.S. Treasury securities effectively borrowed under reverse repurchase agreements.

(2) Excludes repurchase agreements collateralized by U.S. Treasuries.

(3) Unsecured convertible senior notes.

(4) Defined as total borrowings to fund Agency and non-Agency investment securities and MSR, divided by total equity.

(5) Defined as total borrowings to fund Agency and non-Agency investment securities and MSR, plus the implied debt on net TBA cost basis and net payable (receivable) for unsettled RMBS, divided by total equity.

(6) Includes amortization of debt issuance costs.

(7) The cost of financing on interest rate swaps held to mitigate interest rate risk associated with the company's outstanding borrowings includes interest spread income/expense and amortization of upfront payments made or received upon entering into interest rate swap agreements and is calculated using average borrowings balance as the denominator.

(8) The cost of financing on U.S. Treasury futures held to mitigate interest rate risk associated with the company's outstanding borrowings is calculated using average borrowings balance as the denominator. U.S. Treasury futures income is the economic equivalent to holding and financing a relevant cheapest-to-deliver U.S. Treasury note or bond using short-term repurchase agreements.

(9) The implied financing benefit/cost of dollar roll income on TBAs is calculated using the average cost basis of TBAs as the denominator. TBA dollar roll income is the non-GAAP economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements. TBAs are accounted for as derivative instruments in accordance with GAAP.

## **Conference Call**

Two Harbors Investment Corp. will host a conference call on August 1, 2023 at 9:00 a.m. ET to discuss second quarter 2023 financial results and related information. The conference call will be webcast live and accessible in the Investors section of the company's website at [www.twoharborsinvestment.com/investors](http://www.twoharborsinvestment.com/investors). To participate in the teleconference, please call toll-free (877) 502-7185, approximately 10 minutes prior to the above start time. For those unable to attend, a telephone playback will be available beginning at 12:00 p.m. ET on August 1, 2023, through 12:00 p.m. ET on August 15, 2023. The playback can be accessed by calling (877) 660-6853, conference code 13737269. The call will also be archived on the company's website in the News & Events section.

## **Two Harbors Investment Corp.**

Two Harbors Investment Corp., a Maryland corporation, is a real estate investment trust that invests in residential mortgage-backed securities, mortgage servicing rights and other financial assets. Two Harbors is headquartered in St. Louis Park, MN.

## **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, 2022, 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; 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 ability to recognize the benefits of our pending acquisition of RoundPoint Mortgage Servicing LLC; our decision to terminate our management agreement with PRCM Advisers LLC and the ongoing litigation 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 income excluding market-driven value changes, earnings available for distribution and related per basic common share measures. 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 tables on pages 11 and 12 of this release.

### **Additional Information**

Stockholders of Two Harbors and other interested persons may find additional information regarding the company at [www.twoharborsinvestment.com](http://www.twoharborsinvestment.com), at the Securities and Exchange Commission's Internet site at [www.sec.gov](http://www.sec.gov) or by directing requests to: Two Harbors Investment Corp., Attn: Investor Relations, 1601 Utica Avenue South, Suite 900, St. Louis Park, MN, 55416, telephone (612) 453-4100.

### **Contact**

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<b>TWO HARBORS INVESTMENT CORP.</b>		
<b>CONDENSED CONSOLIDATED BALANCE SHEETS</b>		
(dollars in thousands, except share data)		
	<b>June 30, 2023</b>	<b>December 31, 2022</b>
	(unaudited)	
<b>ASSETS</b>		
Available-for-sale securities, at fair value (amortized cost \$9,278,950 and \$8,114,627, respectively; allowance for credit losses \$5,360 and \$6,958, respectively)	\$ 8,963,203	\$ 7,778,734
Mortgage servicing rights, at fair value	3,273,956	2,984,937
Cash and cash equivalents	699,081	683,479
Restricted cash	322,603	443,026
Accrued interest receivable	39,700	36,018
Due from counterparties	248,607	253,374
Derivative assets, at fair value	16,469	26,438
Reverse repurchase agreements	289,288	1,066,935
Other assets	157,092	193,219
<b>Total Assets</b>	<b>\$ 14,009,999</b>	<b>\$ 13,466,160</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Repurchase agreements	\$ 9,067,824	\$ 8,603,011
Revolving credit facilities	1,455,421	1,118,831
Term notes payable	398,653	398,011
Convertible senior notes	267,791	282,496
Derivative liabilities, at fair value	14,976	34,048
Due to counterparties	267,050	541,709
Dividends payable	55,675	64,504
Accrued interest payable	120,504	94,034
Other liabilities	146,096	145,991
<b>Total Liabilities</b>	<b>11,793,990</b>	<b>11,282,635</b>
<b>Stockholders' Equity:</b>		
Preferred stock, par value \$0.01 per share; 100,000,000 shares authorized and 25,578,232 and 26,092,050 shares issued and outstanding, respectively (\$639,456 and \$652,301 liquidation preference, respectively)	618,579	630,999
Common stock, par value \$0.01 per share; 175,000,000 shares authorized and 96,165,535 and 86,428,845 shares issued and outstanding, respectively	962	864
Additional paid-in capital	5,824,509	5,645,998
Accumulated other comprehensive loss	(309,086)	(278,711)
Cumulative earnings	1,476,462	1,453,371
Cumulative distributions to stockholders	(5,395,417)	(5,268,996)
<b>Total Stockholders' Equity</b>	<b>2,216,009</b>	<b>2,183,525</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 14,009,999</b>	<b>\$ 13,466,160</b>



**TWO HARBORS INVESTMENT CORP.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(dollars in thousands, except share data)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(unaudited)		(unaudited)	
<b>Interest income:</b>				
Available-for-sale securities	\$ 104,195	\$ 55,399	\$ 201,233	\$ 100,046
Other	13,567	1,604	33,122	1,803
Total interest income	117,762	57,003	234,355	101,849
<b>Interest expense:</b>				
Repurchase agreements	116,946	19,269	221,301	27,612
Revolving credit facilities	29,684	9,106	55,340	14,782
Term notes payable	8,239	3,925	15,882	7,181
Convertible senior notes	4,692	4,801	9,528	9,843
Total interest expense	159,561	37,101	302,051	59,418
Net interest (expense) income	(41,799)	19,902	(67,696)	42,431
<b>Other income (loss):</b>				
Gain (loss) on investment securities	2,172	(197,719)	12,970	(250,061)
Servicing income	175,223	157,526	328,543	294,152
Gain (loss) on servicing asset	21,679	85,557	(6,400)	496,181
Gain (loss) on interest rate swap and swaption agreements	56,533	32,734	(25,621)	(5,307)
Gain (loss) on other derivative instruments	47,161	(101,273)	(108,610)	(203,035)
Other income (loss)	2,200	(73)	2,200	(117)
Total other income (loss)	304,968	(23,248)	203,082	331,813
<b>Expenses:</b>				
Servicing expenses	25,190	22,991	53,556	47,695
Compensation and benefits	8,868	11,019	22,951	23,212
Other operating expenses	11,886	9,152	22,370	15,777
Total expenses	45,944	43,162	98,877	86,684
<b>Income (loss) before income taxes</b>	217,225	(46,508)	36,509	287,560
Provision for income taxes	19,780	25,912	15,872	74,710
<b>Net income (loss)</b>	197,445	(72,420)	20,637	212,850
Dividends on preferred stock	(12,115)	(13,748)	(24,480)	(27,495)
Gain on repurchase and retirement of preferred stock	2,454	—	2,454	—
<b>Net income (loss) attributable to common stockholders</b>	\$ 187,784	\$ (86,168)	\$ (1,389)	\$ 185,355
Basic earnings (loss) per weighted average common share	\$ 1.94	\$ (1.00)	\$ (0.02)	\$ 2.14
Diluted earnings (loss) per weighted average common share	\$ 1.80	\$ (1.00)	\$ (0.02)	\$ 2.02
Dividends declared per common share	\$ 0.45	\$ 0.68	\$ 1.05	\$ 1.36
<b>Weighted average number of shares of common stock:</b>				
Basic	96,387,877	86,069,431	94,492,389	86,034,722
Diluted	106,062,378	86,069,431	94,492,389	96,085,473

**TWO HARBORS INVESTMENT CORP.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS), CONTINUED**

(dollars in thousands)

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	(unaudited)		(unaudited)	
<b>Comprehensive income (loss):</b>				
<b>Net income (loss)</b>	\$ 197,445	\$ (72,420)	\$ 20,637	\$ 212,850
<b>Other comprehensive loss:</b>				
Unrealized loss on available-for-sale securities	(156,306)	(4,211)	(30,375)	(336,056)
Other comprehensive loss	(156,306)	(4,211)	(30,375)	(336,056)
<b>Comprehensive income (loss)</b>	41,139	(76,631)	(9,738)	(123,206)
Dividends on preferred stock	(12,115)	(13,748)	(24,480)	(27,495)
Gain on repurchase and retirement of preferred stock	2,454	—	2,454	—
<b>Comprehensive income (loss) attributable to common stockholders</b>	<u>\$ 31,478</u>	<u>\$ (90,379)</u>	<u>\$ (31,764)</u>	<u>\$ (150,701)</u>

**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*

	<b>Three Months Ended</b>	
	<b>June 30, 2023</b>	<b>March 31, 2023</b>
	(unaudited)	(unaudited)
Reconciliation of Comprehensive income (loss) to Income Excluding Market-Driven Value Changes:		
Comprehensive income (loss) attributable to common stockholders	\$ 31,478	\$ (63,242)
Adjustments to exclude market-driven value changes and nonrecurring operating expenses:		
RMBS and other Agency securities market-driven value changes <sup>(1)</sup>	195,343	(107,556)
MSR market-driven value changes <sup>(2)</sup>	(94,172)	(34,469)
Swap and swaption market-driven value changes <sup>(3)</sup>	(57,085)	82,174
TBA market-driven value changes <sup>(4)</sup>	87,800	33,764
Realized and unrealized (gains) losses on futures	(126,923)	140,087
Other realized gains	(2,201)	—
Change in servicing reserves	(301)	1,564
Nonrecurring deboarding fees <sup>(5)</sup>	2,368	2,582
Other nonrecurring expenses	7,134	5,418
Gain on repurchase and retirement of preferred stock	(2,454)	—
Net provision for (benefit from) income taxes associated with market-driven value changes	16,514	(5,929)
Income Excluding Market-Driven Value Changes <sup>(6)</sup>	<u>\$ 57,501</u>	<u>\$ 54,393</u>
Weighted average basic common shares	96,387,877	92,575,840
Income Excluding Market-Driven Value Changes per weighted average basic common share	\$ 0.60	\$ 0.59

- (1) RMBS and other Agency securities market-driven value changes refers to the sum of interest income, realized and unrealized gains and losses on RMBS and other Agency securities, less the sum of the realization of RMBS and other Agency securities cash flows which incorporates actual prepayments, changes in RMBS and other Agency securities accrued interest, and modeled price changes. Modeled price changes are measured daily based on a “Realized Forwards” methodology, which includes the assumption that spreads, forward interest rates and volatility factored into the previous day ending fair value are unchanged. RMBS and other Agency securities includes inverse interest-only Agency RMBS which are accounted for as derivative instruments in accordance with GAAP.
- (2) MSR market-driven value changes refers to the sum of servicing income, servicing expenses, realized and unrealized gains and losses on MSR, less the sum of the realization of MSR cash flows which incorporates actual prepayments, recurring servicing income and servicing expenses, and modeled price changes. Modeled price changes are measured daily based on a “Realized Forwards” methodology, which includes the assumption that spreads, forward interest rates and volatility factored into the previous day ending fair value are unchanged.
- (3) Swap and swaption market-driven value changes refers to the net interest spread and realized and unrealized gains and losses on interest rate swap and swaption agreements, less the swaps daily IXM that is equal to the previous day ending fair value multiplied by the overnight SOFR and swaptions daily IXM that is equal to the previous day ending fair value multiplied by the realized forward rate.
- (4) TBA market-driven value changes refers to the total realized and unrealized gains and losses, less the daily zero-volatility OAS less the implied repo spread, multiplied by the previous day ending fair value.
- (5) Nonrecurring deboarding fees are associated with one-time transfers of MSR.
- (6) Income Excluding Market-Driven Value Changes, or IXM, is a non-GAAP measure defined as total comprehensive income attributable to common stockholders, excluding market-driven value changes on the aggregate portfolio, provision for income taxes associated with market-driven value changes, nonrecurring operating expenses and gains on the repurchase and retirement of preferred stock and convertible senior notes. As defined, IXM includes the realization of portfolio cash flows which incorporates actual prepayments, changes in portfolio accrued interest, recurring servicing income and servicing expenses, and certain modeled price changes. These modeled price changes are measured daily based on a “Realized Forwards” methodology, which includes the assumption that spreads, forward interest rates and volatility factored into the previous day ending fair value are unchanged. Assumptions for spreads, forward interest rates, volatility and the previous day ending fair value include applicable market data, data from third-party brokers and pricing vendors and management’s assessment. This applies to RMBS, MSR and derivatives, as applicable, and is net of all recurring operating expenses and provision for income taxes associated with IXM. IXM provides supplemental information to assist investors in analyzing the company’s results of operations and helps facilitate comparisons to industry peers. IXM is one of several measures the company’s board of directors considers to determine the amount of dividends to declare on the company’s common stock and should not be considered an indication of taxable income or as a proxy for the amount of dividends the company may declare.

**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	
	June 30, 2023	March 31, 2023
	(unaudited)	(unaudited)
Reconciliation of Comprehensive income (loss) to Earnings Available for Distribution:		
Comprehensive income (loss) attributable to common stockholders	\$ 31,478	\$ (63,242)
Adjustment for other comprehensive loss (income) attributable to common stockholders:		
Unrealized loss (gain) on available-for-sale securities	156,306	(125,931)
Net income (loss) attributable to common stockholders	<u>\$ 187,784</u>	<u>\$ (189,173)</u>
Adjustments to exclude reported realized and unrealized (gains) losses:		
Realized loss on securities	2,640	31,909
Unrealized gain on securities	(4,834)	(42,565)
Provision (reversal of provision) for credit losses	22	(142)
Realized and unrealized (gain) loss on mortgage servicing rights	(21,679)	28,079
Realized loss on termination or expiration of interest rate swaps and swaptions	—	18,580
Unrealized (gain) loss on interest rate swaps and swaptions	(53,080)	67,184
Realized and unrealized (gain) loss on other derivative instruments	(47,063)	155,836
Gain on repurchase and retirement of preferred stock	(2,454)	—
Other realized and unrealized gains	(2,200)	—
Other adjustments:		
MSR amortization <sup>(1)</sup>	(91,836)	(76,558)
TBA dollar roll (losses) income <sup>(2)</sup>	(3,526)	6,341
U.S. Treasury futures income <sup>(3)</sup>	5,652	403
Change in servicing reserves	(301)	1,564
Non-cash equity compensation expense	1,735	6,052
Other nonrecurring expenses	7,134	5,418
Net provision for (benefit from) income taxes on non-EAD	18,290	(4,655)
Earnings available for distribution to common stockholders <sup>(4)</sup>	<u>\$ (3,716)</u>	<u>\$ 8,273</u>
Weighted average basic common shares	96,387,877	92,575,840
Earnings available for distribution to common stockholders per weighted average basic common share	\$ (0.04)	\$ 0.09

(1) MSR 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, which is deemed a non-GAAP measure due to the company's decision to account for MSR at fair value.

(2) TBA dollar roll income is the economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements.

(3) U.S. Treasury futures income is the economic equivalent to holding and financing a relevant cheapest-to-deliver U.S. Treasury note or bond using short-term repurchase agreements.

(4) EAD is a non-GAAP measure that we define as comprehensive income (loss) attributable to common stockholders, excluding realized and unrealized gains and losses on the aggregate portfolio, gains and losses on repurchases of preferred stock, provision for (reversal of) credit losses, reserve expense for representation and warranty obligations on MSR, non-cash compensation expense related to restricted common stock and other nonrecurring expenses. As defined, EAD includes net interest income, accrual and settlement of interest on derivatives, dollar roll income on TBAs, U.S. Treasury futures income, servicing income, net of estimated amortization on MSR and recurring cash related operating expenses. EAD provides supplemental information to assist investors in analyzing the Company's results of operations and helps facilitate comparisons to industry peers. EAD is one of several measures our board of directors considers to determine the amount of dividends to declare on our common stock and should not be considered an indication of our taxable income or as a proxy for the amount of dividends we may declare.