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Invesco Mortgage Capital Inc.

Invesco Mortgage Capital Inc.

First Quarter 2024 Earnings Call

May 9, 2024



John Anzalone
Chief Executive Officer

Kevin Collins
President

Lee Phegley
Chief Financial Officer

David Lyle
Chief Operating Officer

Brian Norris
Chief Investment Officer

Cautionary Notice Regarding Forward-Looking Statements

This presentation and comments made in the associated conference call, may include statements and information that constitute “forward-looking statements” within the meaning of the U.S. securities laws as defined in the Private Securities Litigation Reform Act of 1995, and such statements are intended to be covered by the safe harbor provided by the same. Forward-looking statements include our views on the risk positioning of our portfolio, domestic and global market conditions (including the mortgage-backed securities, residential and commercial real estate markets), the market for our target assets, our financial performance, including our earnings available for distribution, economic return, comprehensive income and changes in our book value, our intention and ability to pay dividends, our ability to continue performance trends, the stability of portfolio yields, interest rates, credit spreads, prepayment trends, financing sources, cost of funds, our leverage and equity allocation. In addition, words such as “believes,” “expects,” “anticipates,” “intends,” “plans,” “estimates,” “projects,” “forecasts,” and future or conditional verbs such as “will,” “may,” “could,” “should,” and “would” as well as any other statement that necessarily depends on future events, are intended to identify forward-looking statements.

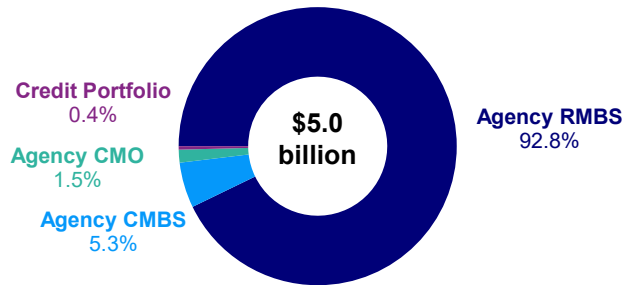
Forward-looking statements are not guarantees, and they involve risks, uncertainties and assumptions. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks identified under the captions “Risk Factors,” “Forward-Looking Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10-K and quarterly reports on Form 10-Q, which are available on the Securities and Exchange Commission’s website at www.sec.gov.

All written or oral forward-looking statements that we make, or that are attributable to us, are expressly qualified by this cautionary notice. We expressly disclaim any obligation to update the information in any public disclosure if any forward-looking statement later turns out to be inaccurate.

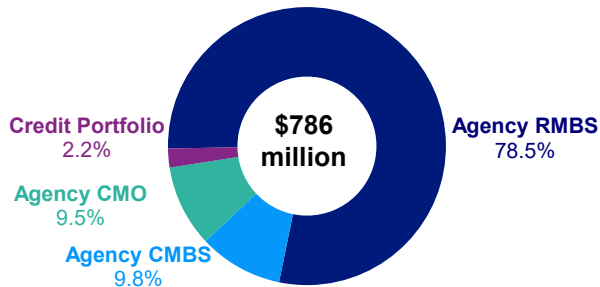
Invesco Mortgage Capital Inc.

Q1 2024 Results

Investment Allocation¹



Equity Allocation



1. Credit portfolio includes non-Agency CMBS and non-Agency RMBS.
2. Earnings available for distribution is a non-GAAP financial measure. Refer to Appendix for additional information
3. Refer to Appendix for additional information

Past performance is not a guarantee of future results

Financial results

- Net income per common share of \$0.49
- Earnings available for distribution per common share² of \$0.86
- Book value per common share of \$10.08³
- Dividend per common share of \$0.40
- Economic return of 4.8%³

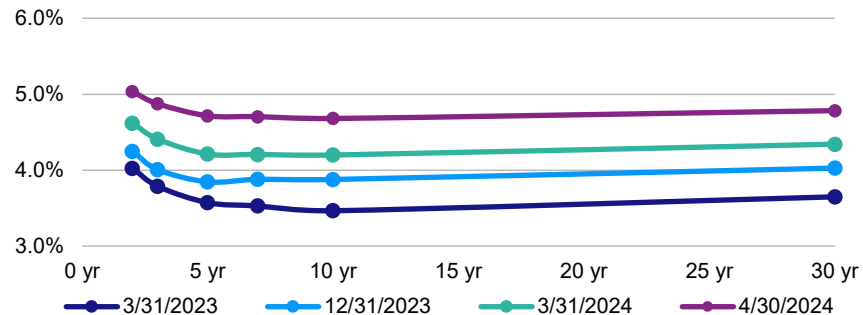
Company activity

- Issued \$3.3 million of our common stock under the at-the-market program
- Repurchased preferred stock with a carrying value of \$4.6 million
- Held \$451 million of unrestricted cash and unencumbered at quarter end

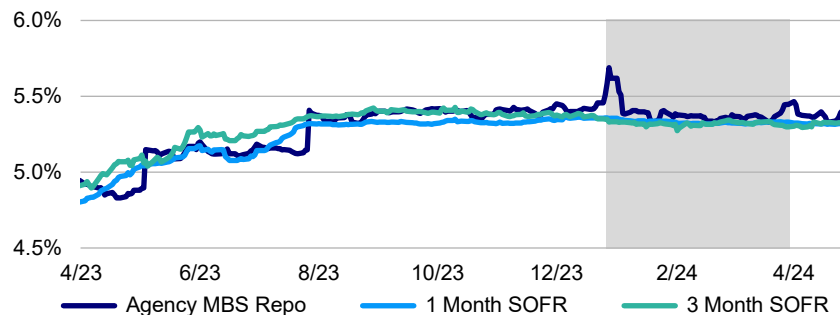
Macro Environment

Interest rates rose across the yield curve as economic growth and inflation remained resilient; Expectations for cuts in the Federal Funds target rate have declined from over six cuts in 2024 to less than two

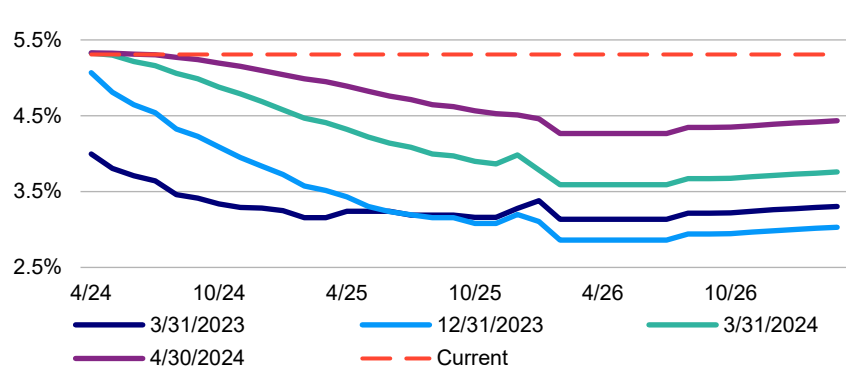
Treasury Yields



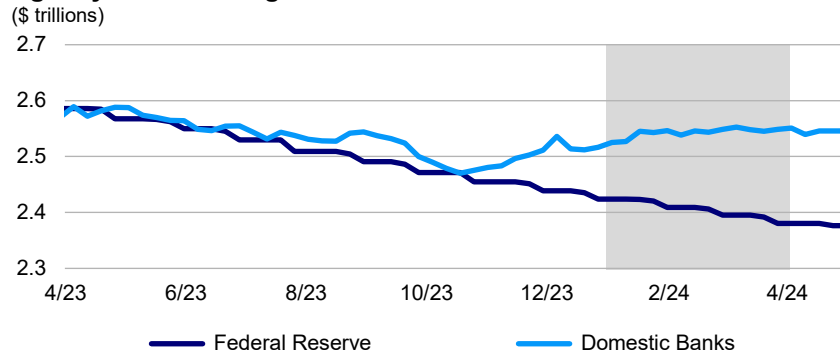
Money Market Rates



Federal Funds Futures



Agency MBS Holdings



Agency RMBS Market

Valuations rebounded from a poor start to the year as interest rate volatility declined, but have been pressured lower in April as inflation data remained elevated

Performance vs. Treasuries¹

(basis points)



Spread to Treasuries²

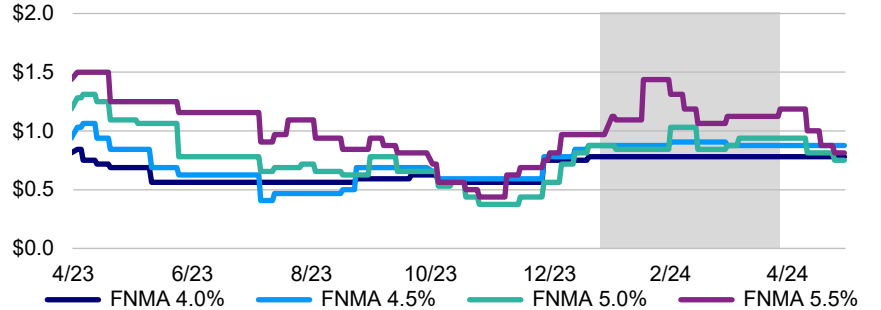
(basis points)



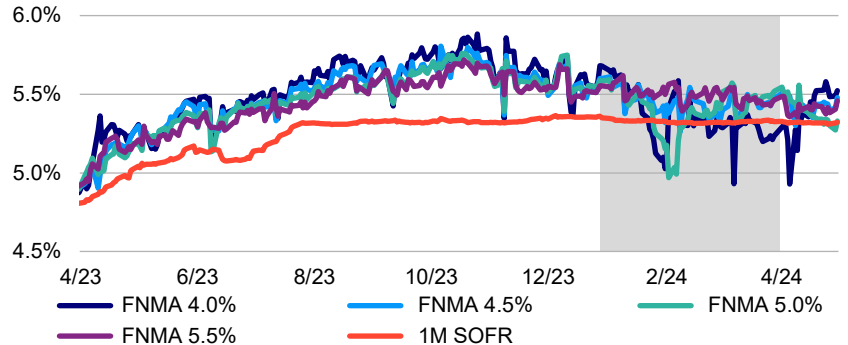
1. 30 year current coupon hedged performance vs. Treasuries
2. 30 year current coupon zero volatility Spread to Treasuries

Specified Pool Pay-ups

(\$200k max, in points)

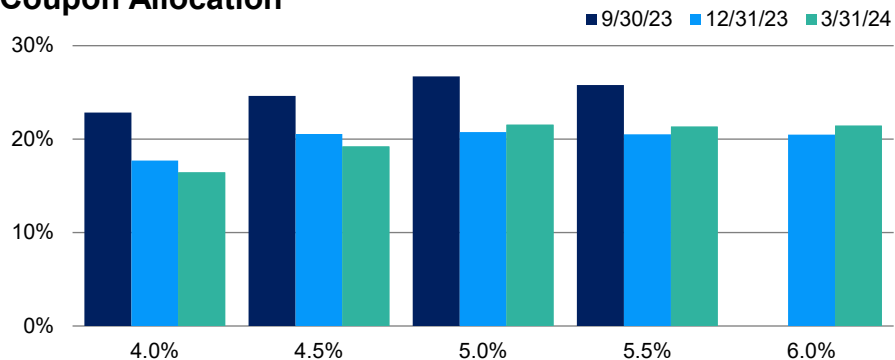


Dollar Roll Implied Financing Rate

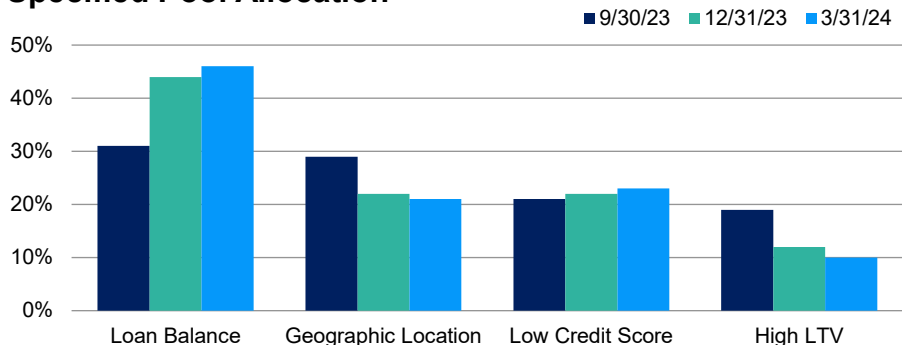


Agency RMBS Investments

Coupon Allocation



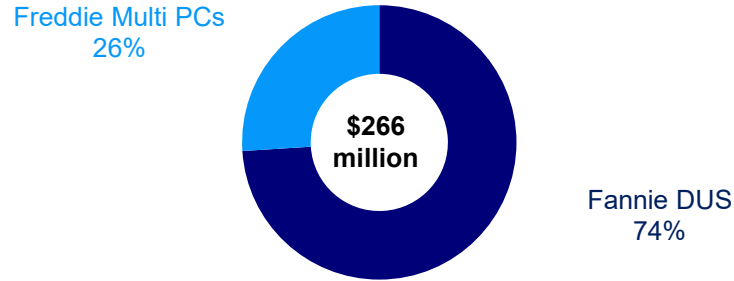
Specified Pool Allocation



- Agency RMBS investment portfolio declined 6% to \$4.6 billion in Q1 2024
 - Sold \$0.2 billion net in specified pools to fund purchases in Agency CMBS
 - Sales concentrated in lower coupon holdings given less attractive valuations lower in the coupon stack
 - Remained focused in higher coupon specified pools which should benefit from a potential decline in interest rate volatility in 2024
 - Maintained diversification across specified pool characteristics, increasing allocation to loan balance given more durable prepayment profile
- Q1 2024 specified pool characteristics
 - 3.9% CPR
 - Weighted average coupon of 5.0%
 - Amortized cost to principal balance ratio of 97.0%
 - Period-end weighted average specified pool pay-up of 0.5 points

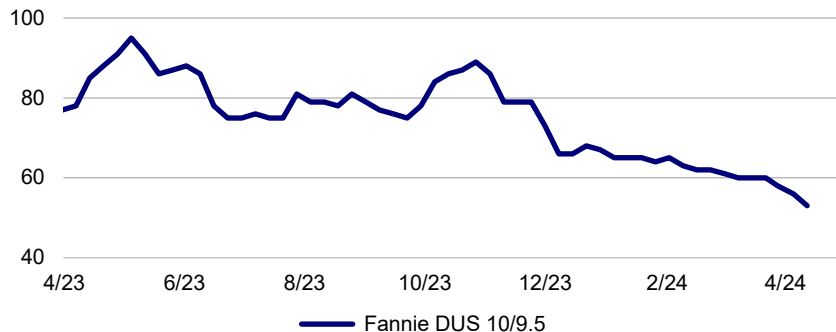
Agency CMBS Investments

Allocation



Spread to Treasuries

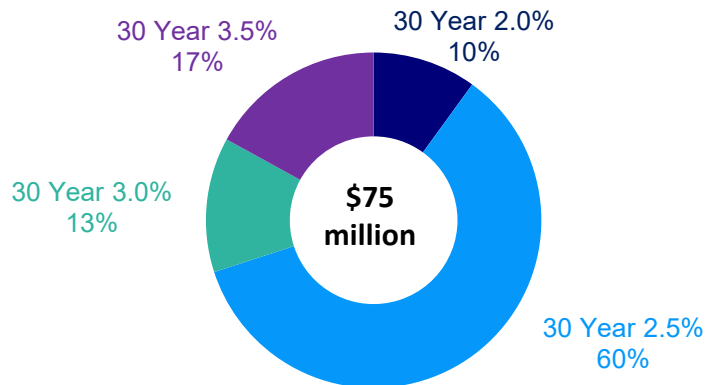
(basis points)



- Added \$264 million of Fannie Mae Delegated Underwriting and Servicing MBS (Fannie DUS) and Freddie Mac Multi-Family Participation Certificates (Freddie Multi PCs)
- Benefit from a guarantee of principal and interest from the issuing agency or federally chartered corporation
- Less sensitive to interest rate risk than Agency RMBS given:
 - Prepayment protection
 - Balloon payments at maturity
- Favorable financing terms with multiple counterparties
- Risk premiums contracted over the quarter given limited new issuance and increased investor demand

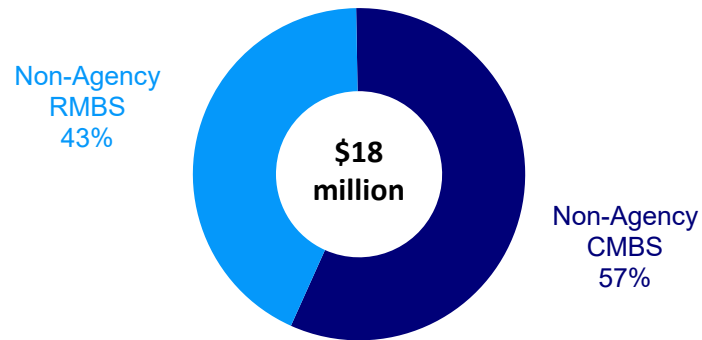
Agency CMO and Credit Investments

Agency CMO Allocation



- Q1 2024 Agency CMO characteristics
 - All investments are interest only securities
 - 3.2% CPR
 - Period-end weighted average yield of 9.64%
 - Period-end weighted average coupon of 2.58%

Credit Allocation



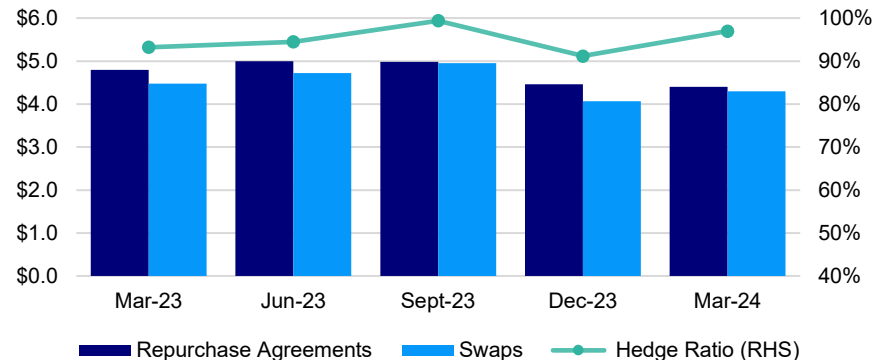
- 70% of credit securities are rated double-A or higher
- Non-Agency CMBS investment is collateralized by loans benefitting from property type diversification
- Favorable subordination levels support credit investment valuations

Ratings source: Bloomberg

Financing & Hedging

Cost of Funds Protection¹

(in billions)



- Financed Agency RMBS investments with repurchase agreements across 21 counterparties
- Increased net notional interest rate swaps by \$0.2 billion to further protect against higher funding costs
- Hedged 97% of borrowing costs with \$4.3 billion notional pay-fixed / receive-floating interest rate swaps at quarter end
- Debt-to-equity and economic debt-to-equity ratio³ of 5.6x

1. Chart reflects carrying value of repurchase agreement borrowings and net notional amount of interest rate swaps

2. Represents period-end weighted average as of March 31, 2024

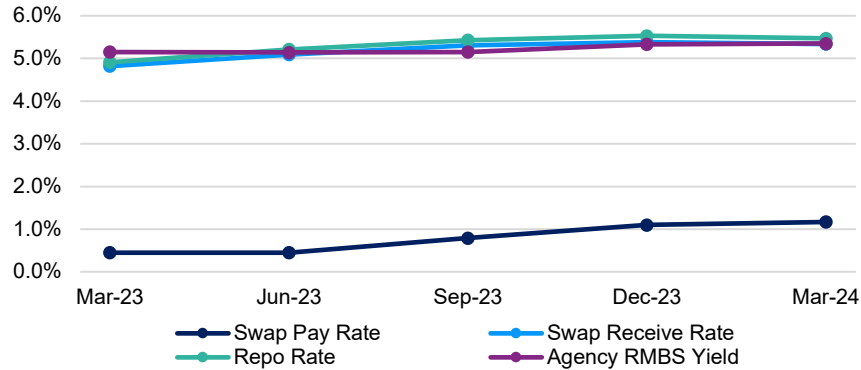
3. Economic debt-to-equity ratio is a non-GAAP financial measure. Refer to Appendix for additional detail

Swap Portfolio Composition

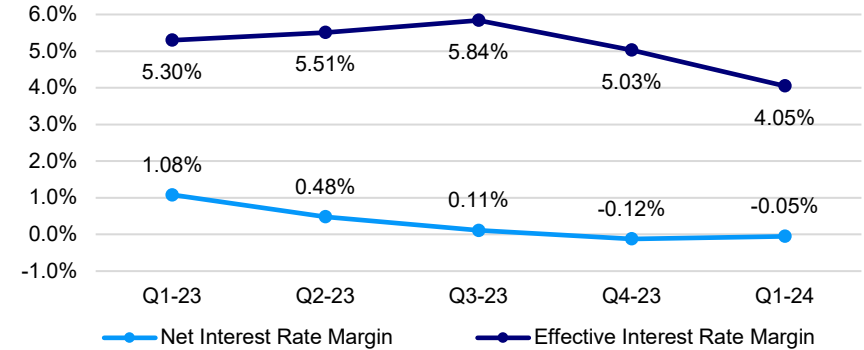
Maturities	Notional Amount (\$ millions)	Fixed Pay Rate ²	Floating Receive Rate ²	Years to Maturity ²
Less than 3 years	740	1.62%	5.34%	2.0
3 to 5 years	1,375	0.29%	5.34%	3.6
5 to 7 years	1,150	0.55%	5.34%	6.3
7 to 10 years	285	3.68%	5.34%	9.8
10+ years	715	2.39%	5.34%	20.1
Total	\$4,265	1.17%	5.34%	7.2

Interest Rate Margin

Asset Yields and Funding Rates¹



Interest Rate Margin²



- Interest rate swaps largely mitigated increased repurchase agreement cost of funds
- Swap pay rate increased due to swap repositioning in connection with rising interest rates and portfolio activity
- Effective interest rate margin² continues to benefit from low cost pay-fixed swaps

1. Agency RMBS Yield and Repo Rate reflect the period-end weighted average asset yields and weighted average cost of funds for Agency RMBS, respectively. The Swap Pay Rate and Swap Receive Rate are the weighted average rate on the pay fixed / receive floating interest rate swaps.

2. Effective Interest Rate Margin is a non-GAAP financial measure. Refer to Appendix for additional detail

Appendix - Non-GAAP Financial Information

The Company's business objective is to provide attractive risk-adjusted returns to its stockholders, primarily through dividends and secondarily through capital appreciation. The Company uses earnings available for distribution as a measure of its investment portfolio's ability to generate income for distribution to common stockholders and to evaluate its progress toward meeting this objective. The Company calculates earnings available for distribution as U.S. GAAP net income (loss) attributable to common stockholders adjusted for (gain) loss on investments, net; realized (gain) loss on derivative instruments, net; unrealized (gain) loss on derivative instruments, net; TBA dollar roll income; gain on repurchase and retirement of preferred stock; foreign currency gains (losses), net and amortization of net deferred (gain) loss on de-designated interest rate swaps.

By excluding the gains and losses discussed above, the Company believes the presentation of earnings available for distribution provides a consistent measure of operating performance that investors can use to evaluate its results over multiple reporting periods and, to a certain extent, compare to its peer companies. However, because not all of the Company's peer companies use identical operating performance measures, the Company's presentation of earnings available for distribution may not be comparable to other similarly titled measures used by its peer companies. The Company excludes the impact of gains and losses when calculating earnings available for distribution because (i) when analyzed in conjunction with its U.S. GAAP results, earnings available for distribution provides additional detail of its investment portfolio's earnings capacity and (ii) gains and losses are not accounted for consistently under U.S. GAAP. Under U.S. GAAP, certain gains and losses are reflected in net income whereas other gains and losses are reflected in other comprehensive income. For example, a portion of the Company's mortgage-backed securities are classified as available-for-sale securities, and changes in the valuation of these securities are recorded in other comprehensive income on its condensed consolidated balance sheets. The Company elected the fair value option for its mortgage-backed securities purchased on or after September 1, 2016, and changes in the valuation of these securities are recorded in other income (loss) in the condensed consolidated statements of operations. In addition, certain gains and losses represent one-time events. The Company may add and has added additional reconciling items to its earnings available for distribution calculation as appropriate.

To maintain qualification as a REIT, U.S. federal income tax law generally requires that the Company distribute at least 90% of its REIT taxable income annually, determined without regard to the deduction for dividends paid and excluding net capital gains. Because the Company views earnings available for distribution as a consistent measure of its investment portfolio's ability to generate income for distribution to common stockholders, earnings available for distribution is one metric, but not the exclusive metric, that the Company's board of directors uses to determine the amount, if any, and the payment date of dividends on common stock. However, earnings available for distribution should not be considered as an indication of the Company's taxable income, a guaranty of its ability to pay dividends or as a proxy for the amount of dividends it may pay, as earnings available for distribution excludes certain items that impact its cash needs.

Earnings available for distribution is an incomplete measure of the Company's financial performance and there are other factors that impact the achievement of the Company's business objective. The Company cautions that earnings available for distribution should not be considered as an alternative to net income (determined in accordance with U.S. GAAP) or as an indication of the Company's cash flow from operating activities (determined in accordance with U.S. GAAP), a measure of the Company's liquidity or as an indication of amounts available to fund its cash needs.

Appendix - Non-GAAP Financial Information

The table below provides a reconciliation of U.S. GAAP net income (loss) attributable to common stockholders to earnings available for distribution for the following periods:

\$ in thousands, except per share data	Three Months Ended		
	March 31, 2024	December 31, 2023	September 30, 2023
Net income (loss) attributable to common stockholders	\$ 23,730	\$ 22,280	\$ (74,024)
Adjustments:			
(Gain) loss on investments, net	66,153	(165,340)	224,897
Realized (gain) loss on derivative instruments, net	(48,682)	199,137	(84,565)
Unrealized (gain) loss on derivative instruments, net	808	(8,576)	5,002
Gain on repurchase and retirement of preferred stock	(193)	(760)	(347)
Amortization of net deferred (gain) loss on de-designated interest rate swaps	-	(900)	(1,810)
Subtotal	<u>18,086</u>	<u>23,561</u>	<u>143,177</u>
Earnings available for distribution	<u>\$ 41,816</u>	<u>\$ 45,841</u>	<u>\$ 69,153</u>
Basic income (loss) per common share	<u>\$ 0.49</u>	<u>\$ 0.46</u>	<u>\$ (1.62)</u>
Earnings available for distribution per common share ¹	<u>\$ 0.86</u>	<u>\$ 0.95</u>	<u>\$ 1.51</u>

1. Earnings available for distribution per common share is equal to earnings available for distribution divided by the basic weighted average number of common shares outstanding.

Appendix - Non-GAAP Financial Information

The table below provides the components of earnings available for distribution for the following periods:

\$ in thousands, except per share data	Three Months Ended		
	March 31, 2024	December 31, 2023	September 30, 2023
Interest income	\$ 68,583	\$ 62,082	\$ 75,132
Interest expense	61,580	53,780	65,701
Net interest income	7,003	8,302	9,431
Less: Amortization of net deferred (gain) loss on de-designated interest rate swaps	-	(900)	(1,810)
Add: Contractual net interest income (expense) on interest rate swaps recorded as gain (loss) on derivative instruments, net	45,287	48,981	72,126
Effective net interest income	52,290	56,383	79,747
Equity in earnings (losses) of unconsolidated ventures	(193)	(5)	2
(Increase) decrease in provision for credit losses	(39)	(108)	(43)
Total expenses	(4,657)	(4,750)	(4,781)
Subtotal	47,401	51,520	74,925
Dividends to preferred stockholders	(5,585)	(5,679)	(5,772)
Earnings available for distribution	\$ 41,816	\$ 45,841	\$ 69,153
Basic income (loss) per common share	\$ 0.49	\$ 0.46	\$ (1.62)
Earnings available for distribution per common share ¹	\$ 0.86	\$ 0.95	\$ 1.51

1. Earnings available for distribution per common share is equal to earnings available for distribution divided by the basic weighted average number of common shares outstanding.

Appendix - Non-GAAP Financial Information

The table below reconciles U.S. GAAP net interest income to effective net interest income and net interest rate margin to effective interest rate margin for the following periods:

	March 31, 2024		December 31, 2023		Three Months Ended September 30, 2023		June 30, 2023		March 31, 2023	
	Reconciliation	Net Interest Rate Margin / Effective Interest Rate	Reconciliation	Net Interest Rate Margin / Effective Interest Rate	Reconciliation	Net Interest Rate Margin / Effective Interest Rate	Reconciliation	Net Interest Rate Margin / Effective Interest Rate	Reconciliation	Net Interest Rate Margin / Effective Interest Rate
\$ in thousands										
Net interest income	7,003	-0.05%	8,302	-0.12%	9,431	0.11%	12,406	0.48%	19,561	1.08%
Less: Amortization of net deferred (gain) loss on de-designated interest rate swaps	-	0.00%	(900)	-0.09%	(1,810)	-0.15%	(3,201)	-0.27%	(4,494)	-0.38%
Add: Contractual net interest income (expense) on interest rate swaps recorded as gain (loss) on derivative instruments, net	45,287	4.10%	48,981	5.24%	72,126	5.88%	63,437	5.30%	54,464	4.60%
Effective net interest income	\$ 52,290	4.05%	\$ 56,383	5.03%	\$ 79,747	5.84%	\$ 72,642	5.51%	\$ 69,531	5.30%

Appendix - Definitions

Agency CMO – Interest Only - An interest only security is created by separating the principal and interest portions of the payments on the underlying loan pool and selling them as distinct products. The investor in the interest only security benefits when the prepayment rate on the underlying debt is low and interest rates are rising.

Agency RMBS – Residential mortgage-backed securities ("RMBS") that are guaranteed by a U.S. government agency such as the Government National Mortgage Association ("Ginnie Mae") or a federally chartered corporation such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac")

Book value per common share – Total stockholders' equity less the liquidation preference of the Company's Series B Preferred Stock (\$107.3 million) and Series C Preferred Stock (\$186.2 million), divided by total common shares outstanding

Credit portfolio – Investments in non-Agency CMBS, non-Agency RMBS, and an unconsolidated joint venture are included in credit portfolio

CPR – The constant prepayment rate is the standard measure of prepayment speeds, also known as the conditional prepayment rate

Dollar Roll Implied Financing Rate – The reinvestment rate at which an investor is indifferent between rolling a TBA contract forward and holding MBS

Economic return – Economic return for quarter ended March 31, 2024 is defined as the change in book value per common share from December 31, 2023 to March 31, 2024 of \$0.08 plus dividends declared of \$0.40 per common share; divided by the December 31, 2023 book value per common share of \$10.00

Economic debt-to-equity ratio – A non-GAAP financial measure calculated as the ratio of total repurchase agreements (\$4.4 billion as of March 31, 2024) and TBAs at implied cost basis (\$0 as of March 31, 2024) to total stockholders' equity (\$785.6 million as of March 31, 2024)

Non-Agency CMBS – Commercial mortgage-backed securities that are not guaranteed by a U.S. government agency or a federally chartered corporation

Non-Agency RMBS – Residential mortgage-backed securities that are not guaranteed by a U.S. government agency or a federally chartered corporation

The Secured Overnight Financing Rate (SOFR) – A broad measure of the cost of borrowing cash overnight collateralized by Treasury securities

1 month and 3 month SOFR – Indices published by the Chicago Mercantile Exchange (CME) that provide an indication of the forward-looking measurement of overnight SOFR, based on market expectations for their respective tenors implied from derivatives markets

TBAs – To-be-announced securities forward contracts