

Invesco Mortgage Capital Inc. Fourth Quarter 2020 Earnings Call

February 23, 2021

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

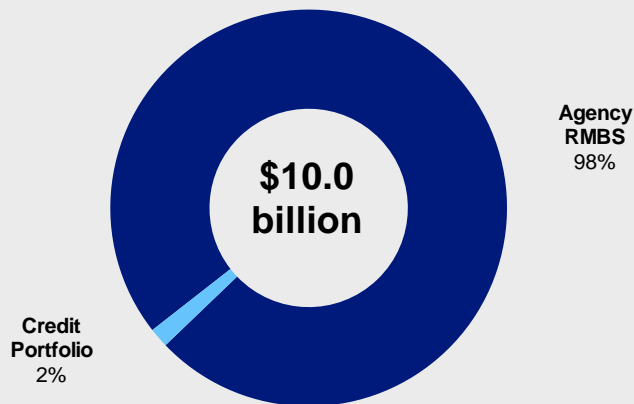
This presentation and comments made in the associated conference call may include statements and information that constitute “forward-looking statements” within the meaning of the U.S. securities laws as defined in the Private Securities Litigation Reform Act of 1995, and such statements are intended 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 residential and commercial real estate market), the ongoing spread and the economic and operational impact of the COVID-19 pandemic, the market for our target assets, our financial performance, including our core earnings, 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.

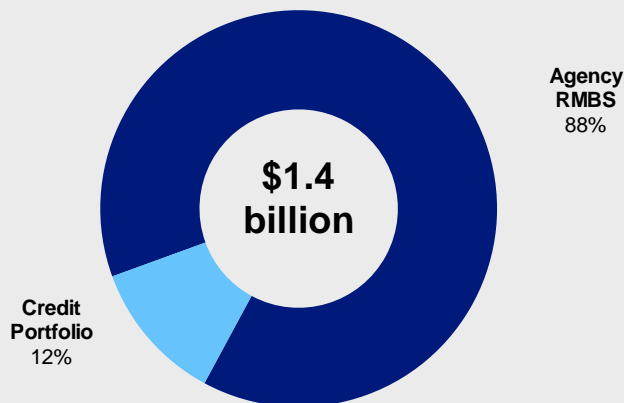
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Invesco Mortgage Capital Inc.

Investment Allocation⁽¹⁾



Equity Allocation



- Financial results
 - Net income per common share of \$0.59
 - Core earnings per common share⁽²⁾ of \$0.10
 - Book value per common share of \$3.86
 - Dividend per common share of \$0.08
 - Economic return of 13.5%
- Investment activity
 - Largely completed portfolio reallocation to Agency RMBS
 - Held \$745 million of unrestricted cash and unencumbered investments at year end
 - Increased investment in Agency RMBS specified pools by \$2.6 billion to \$8.1 billion
 - Increased investment in TBAs by a notional amount of \$800 million to \$1.7 billion
 - Sold \$336 million of credit investments reducing credit portfolio to \$161 million

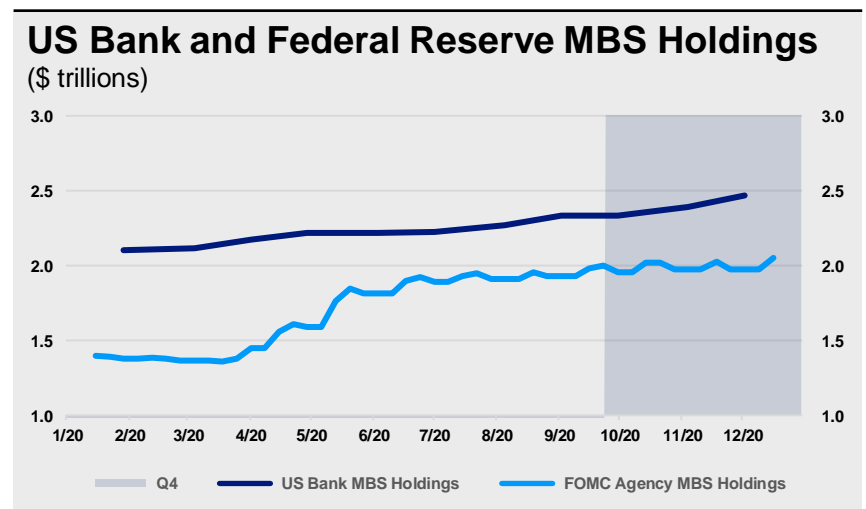
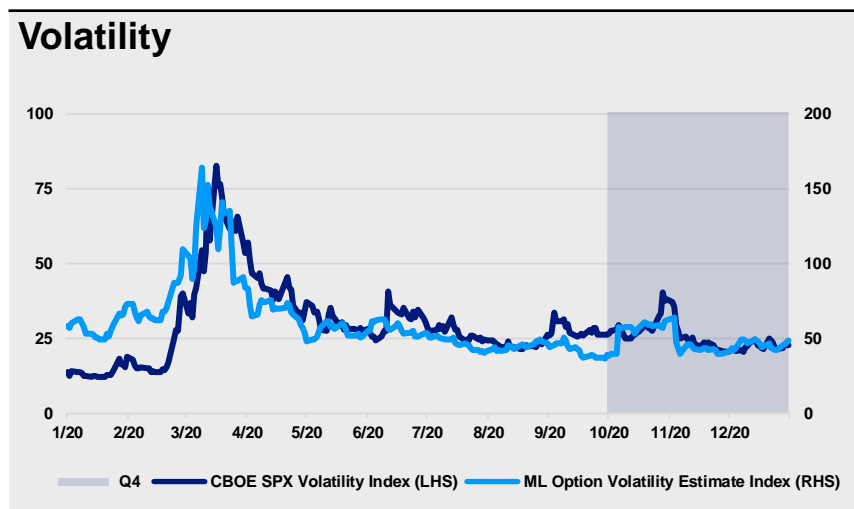
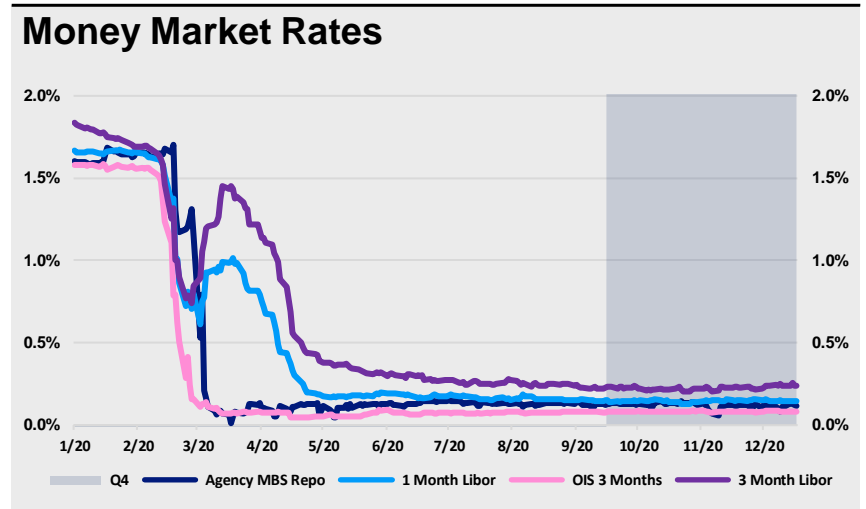
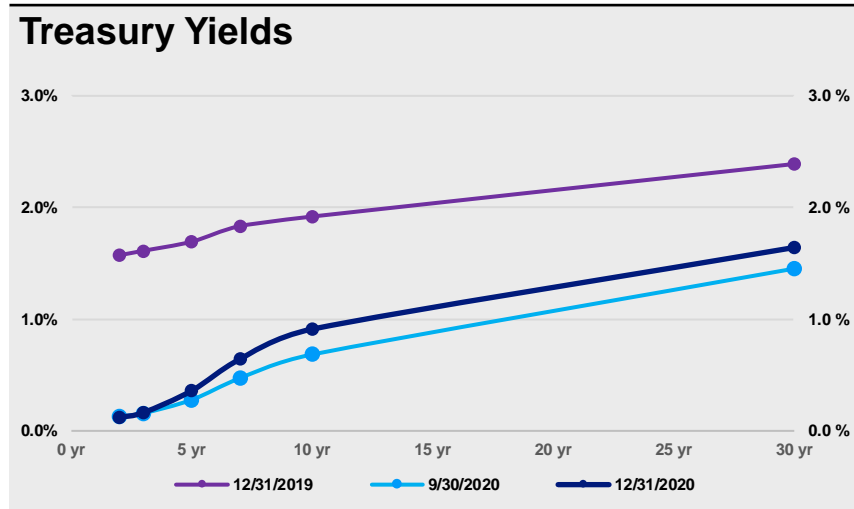
(1) Agency RMBS includes specified pools and TBAs at implied cost. Credit portfolio includes non-Agency CMBS, non-Agency RMBS, a commercial loan and investments in joint ventures.

(2) Core earnings per common share is a non-GAAP financial measure. Refer to page 10 for additional detail.

Past performance is not a guarantee of future results.

Macro Environment

Financial markets continued to be influenced by the COVID-19 pandemic, as massive monetary stimulus led to a steeper yield curve, attractive funding rates and muted volatility



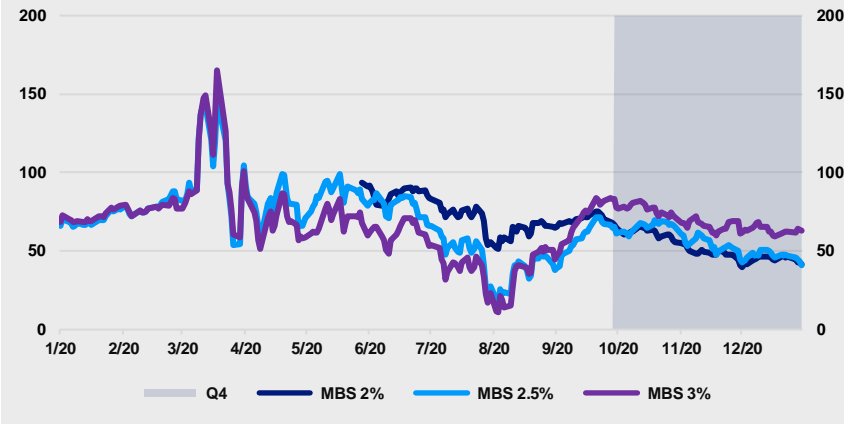
Data as of 12/31/20
Sources: Bloomberg and JP Morgan

Agency RMBS Market

Significant Fed and commercial bank demand tightened spreads despite historically fast prepayment speeds and modestly weaker TBA dollar roll market

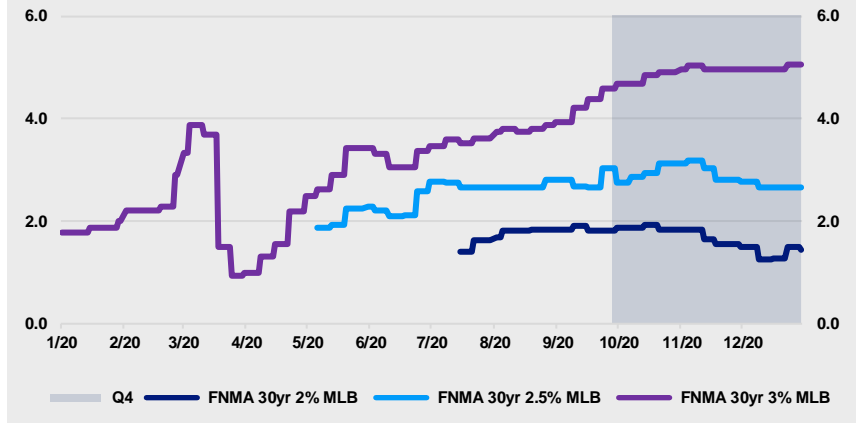


Agency MBS Zero Vol Spread to Treasury

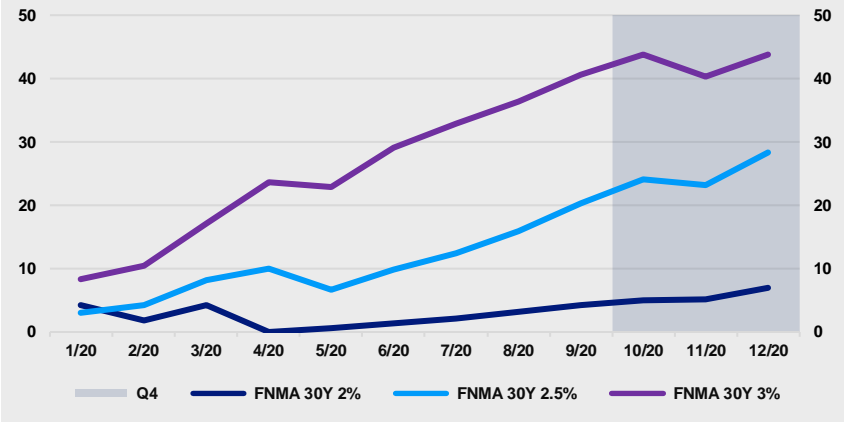


Specified Pool Payups

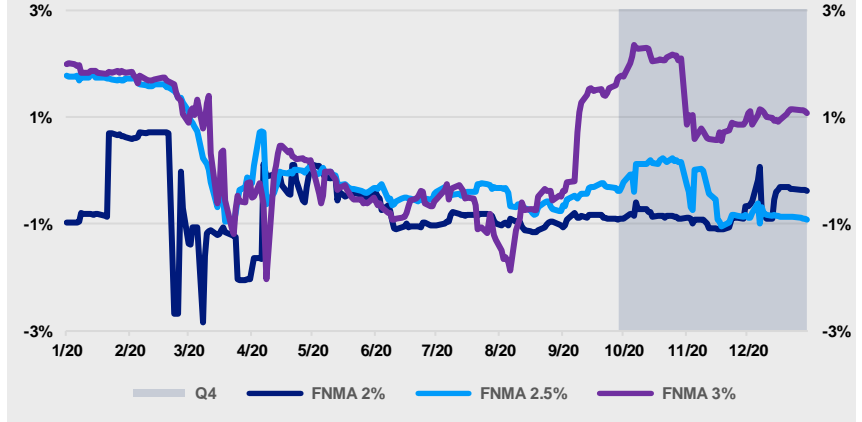
(150k Max, in Points)



Generic Prepayment Speeds (CPR)

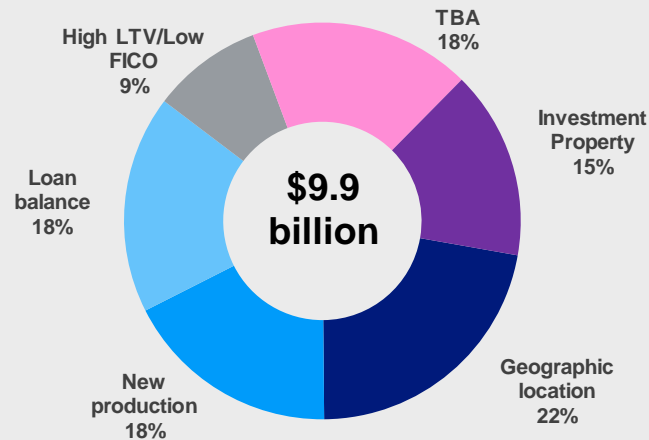


Dollar Roll Implied Financing Rate

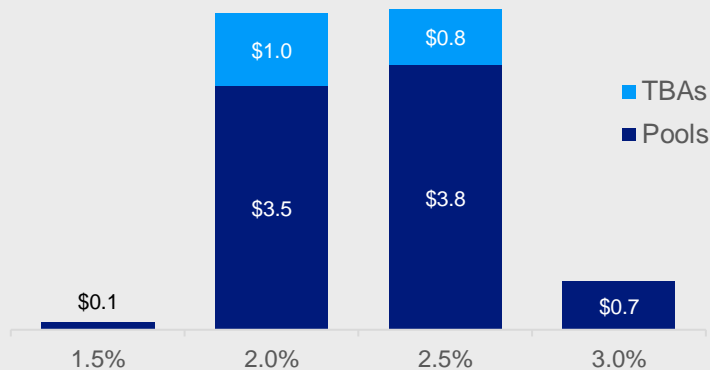


Data as of 12/31/20
Sources: Bloomberg & JP Morgan

Specified Pool and TBA Allocation



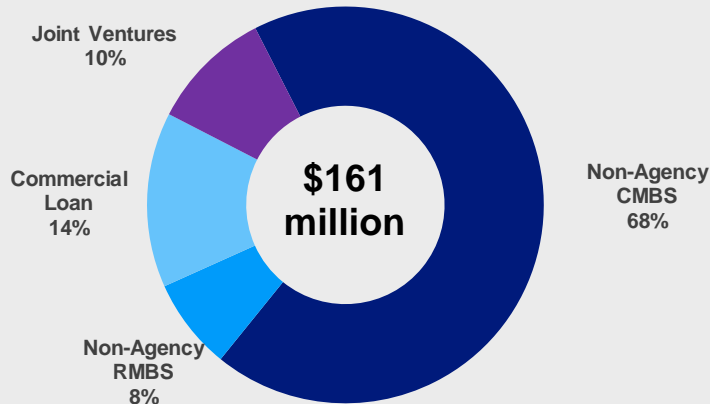
Coupon Distribution (in billions)



- Increased investment in Agency RMBS by \$3.4 billion in Q4 2020
 - Purchased \$3.1 billion of 30 year specified pools
 - Added \$800 million notional in 30 year TBAs
 - Sold \$491 million of 30 year specified pools
- Q4 2020 specified pool characteristics:
 - 3.9% CPR
 - Weighted average yield of 1.61%
 - Weighted average loan age of 5 months
 - Weighted average specified pool pay-up of 0.8 points
- Specified pool allocation focused primarily in low pay-up 30 year 2% and 2.5% coupons
- Attractive opportunities in higher coupons are limited as prepayment speeds remain near all-time highs
- Continued demand in lower coupon Agency RMBS from the Federal Reserve and commercial banks supports valuations

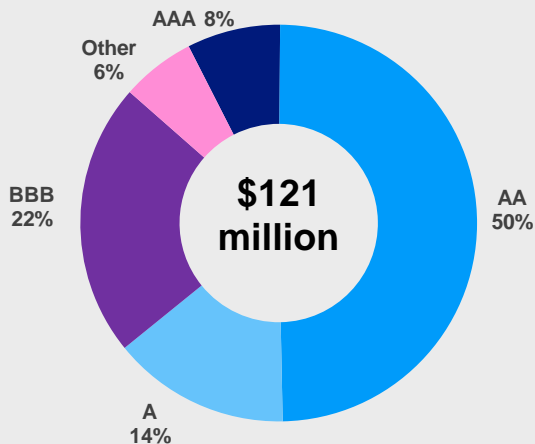
Charts reflect fair value of Agency RMBS and TBAs at implied cost as of December 31, 2020

Credit Allocation



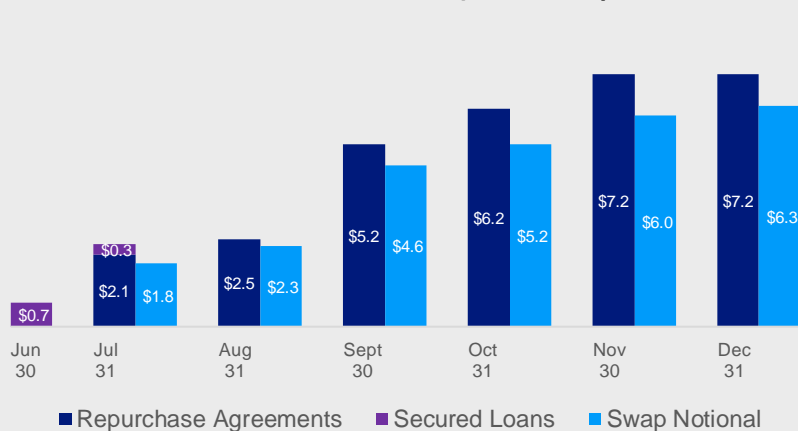
- 72% of credit investments are rated single-A or higher⁽¹⁾
- Majority of non-Agency CMBS investments are collateralized by loans benefitting from property type diversification and improved underwriting following the 2008 global financial crisis
- An improving economic outlook, limited supply, and strong investor demand have benefitted credit investment valuations

Credit Securities by Rating⁽¹⁾



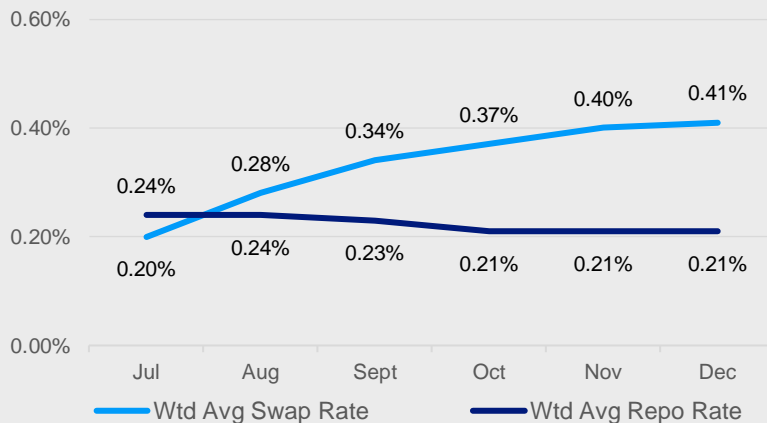
(1) Ratings source: Bloomberg. "Other" includes investments rated below BBB and unrated investments. Excludes commercial loan and investments in joint ventures.

Cost of Funds Protection (in billions)⁽¹⁾



- Financed Agency RMBS purchases with repurchase agreements across 17 counterparties
- All credit assets are unlevered
- Repaid remaining secured loans in the third quarter
- Weighted average interest rate for outstanding repo was 0.21%
- Hedged 88% of our borrowing costs with \$6.3 billion notional of fixed-to-floating interest rate swaps with a weighted average life of 6.7 years
- Debt-to-equity ratio was 5.3x
- Economic debt-to-equity ratio⁽²⁾ was 6.6x

Funding Rates



(1) Chart reflects carrying value of borrowings and notional amount of interest rate swaps

(2) Economic debt-to-equity ratio is a non-GAAP financial measure. Refer to page 10 for additional detail.

- Seek to provide attractive risk-adjusted returns generated by real estate-related investments, primarily through dividends and secondarily through capital appreciation
- Enable investors to:
 - Capitalize on opportunities in our target assets, including residential and commercial mortgage-backed securities and direct loan investments
 - Avoid risks associated with utilization of mark-to-market funding on illiquid credit assets
- Portfolio size will allow IVR to take advantage of shifting relative value opportunities within our target assets
- Provide access to an established global asset manager* with extensive mortgage and real estate expertise
 - Depth and breadth of Invesco's investment and operational resources are committed to support IVR
 - Ready access to in-house sector specialists to be utilized as market opportunities evolve

Appendix - Non-GAAP Financial Information

We calculate core earnings 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; realized and unrealized (gain) loss on GSE CRT embedded derivatives, net; (gain) loss on foreign currency transactions, net; amortization of net deferred (gain) loss on de-designated interest rate swaps; and net (gain) loss on extinguishment of debt. We may add and have added additional reconciling items to our core earnings calculation as appropriate. We believe the presentation of core earnings provides a consistent measure of operating performance by excluding the impact of gains and losses described above from operating results. We exclude the impact of gains and losses because 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 our mortgage-backed securities are classified as available-for-sale securities, and we record changes in the valuation of these securities in other comprehensive income on our consolidated balance sheets. We elected the fair value option for our 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 our consolidated statements of operations. In addition, certain gains and losses represent one-time events.

We believe that providing transparency into core earnings enables our investors to consistently measure, evaluate and compare our operating performance to that of our peers over multiple reporting periods. However, we caution that core earnings should not be considered as an alternative to net income (determined in accordance with U.S. GAAP), or as an indication of our cash flow from operating activities (determined in accordance with U.S. GAAP), a measure of our liquidity, or as an indication of amounts available to fund our cash needs, including our ability to make cash distributions. Please refer to pages 8-10 in the Q4 2020 earnings press release for a description of the adjustments.

\$ in thousands, except per share data	Three Months Ended		
	December 31, 2020	September 30, 2020	December 31, 2019
Net income (loss) attributable to common stockholders	111,607	96,859	106,866
Adjustments:			
(Gain) loss on investments, net	(34,805)	(65,106)	148,511
Realized (gain) loss on derivative instruments, net	(64,859)	5,078	(116,156)
Unrealized (gain) loss on derivative instruments, net	4,351	(8,519)	(60,435)
TBA dollar roll income	8,367	2,055	-
Realized and unrealized (gain) loss on GSE CRT embedded derivatives, net	-	-	2,091
(Gain) loss on foreign currency transactions, net	(65)	-	(20)
Amortization of net deferred (gain) loss on de-designated interest rate swaps	(5,981)	(3,243)	(5,981)
Net (gain) loss on extinguishment of debt	-	(15,849)	-
Subtotal	(92,992)	(85,584)	(31,990)
Core earnings attributable to common stockholders	18,615	11,275	74,876
Basic income (loss) per common share	0.59	0.53	0.75
Core earnings per share attributable to common stockholders	0.10	0.06	0.52

Appendix - Definitions

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 equity less the liquidation preference of our Series A Preferred Stock (\$140.0 million), Series B Preferred Stock (\$155.0 million) and Series C Preferred Stock (\$287.5 million); divided by total common shares outstanding

Credit portfolio – Investments in non-Agency CMBS, non-Agency RMBS, commercial loans and unconsolidated joint ventures 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 three months ended December 31, 2020 is calculated as the change in book value per common share from September 30, 2020 to December 31, 2020 of \$0.39; plus dividends declared of \$0.08 per common share; divided by the September 30, 2020 book value per common share of \$3.47

Economic debt-to-equity ratio – A non-GAAP financial measure calculated as the ratio of total repurchase agreements (\$7.2 billion as of December 31, 2020) and TBAs at implied cost basis (\$1.8 billion as of December 31, 2020) to total stockholders' equity (\$1.4 billion as of December 31, 2020)

GSE CRT – Credit risk transfer securities that are unsecured obligations issued by government-sponsored enterprises

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 federally chartered corporation

TBAs – To-be-announced securities forward contracts