

IVR

Invesco Mortgage Capital Inc.

Invesco Mortgage Capital Inc.

First Quarter 2023 Earnings Call

May 10, 2023



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 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.

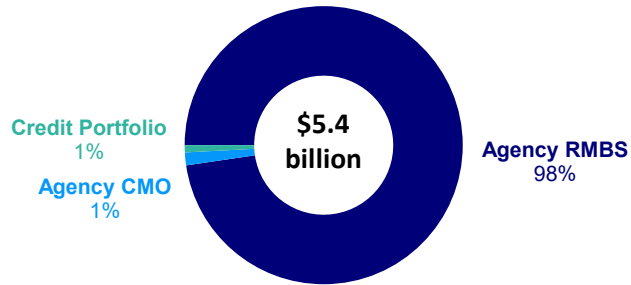
Forward-looking statements are not guarantees, and they involve risks, uncertainties and assumptions. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider 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..

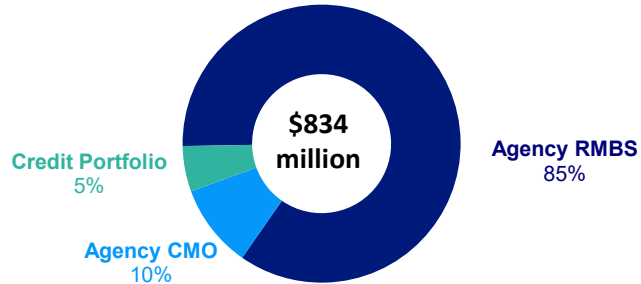
Invesco Mortgage Capital Inc.

Q1 2023 Results

Investment Allocation¹



Equity Allocation



Financial results

- Net income per common share of \$0.39
- Earnings available for distribution per common share² of \$1.50
- Book value per common share of \$12.61
- Dividend per common share of \$0.40
- Economic return of 1.7%

Company activity

- Issued \$35.8 million of common stock under our at-the-market program
- Held \$464 million of unrestricted cash and unencumbered investments at quarter end

1. Agency RMBS includes specified pools at fair value and TBAs at implied cost. Credit portfolio includes non-Agency CMBS, non-Agency RMBS and an investment in a joint venture

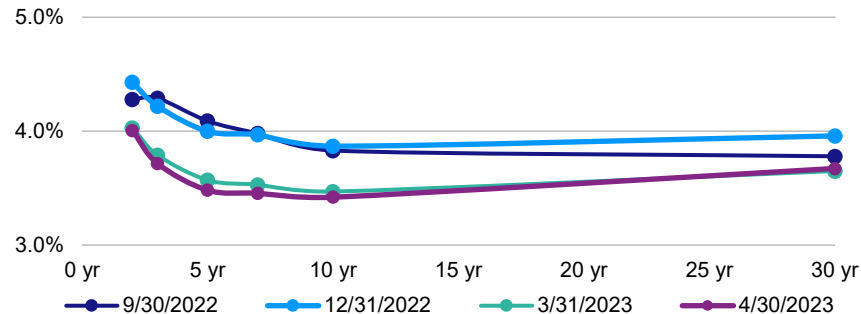
2. Earnings available for distribution is a non-GAAP financial measure. Refer to Appendix for additional information

Past performance is not a guarantee of future results

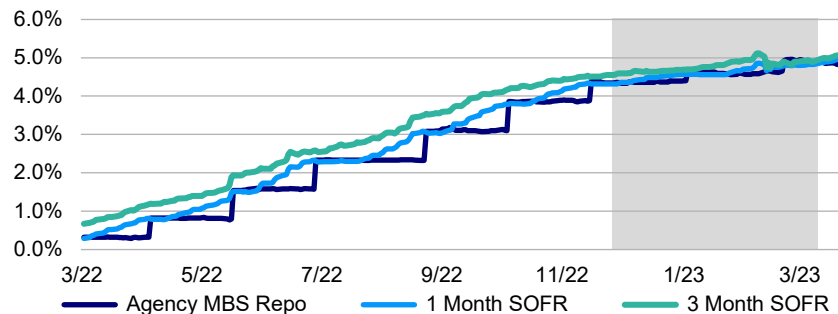
Macro Environment

Interest rate volatility remained elevated during the first quarter of 2023, as economic data raised concerns about the pace of disinflation while turmoil in the banking industry sparked a flight to quality in March

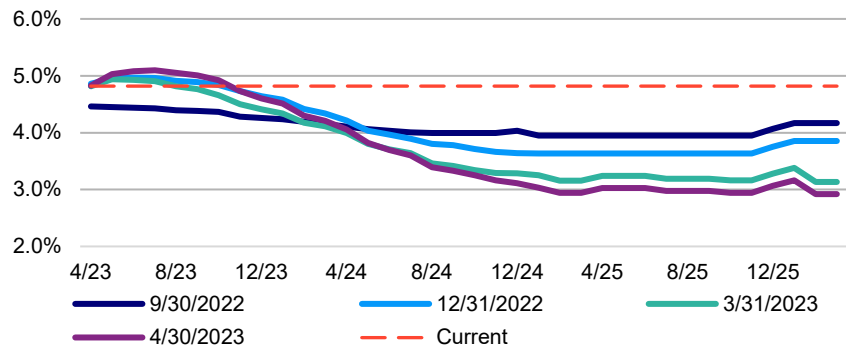
Treasury Yields



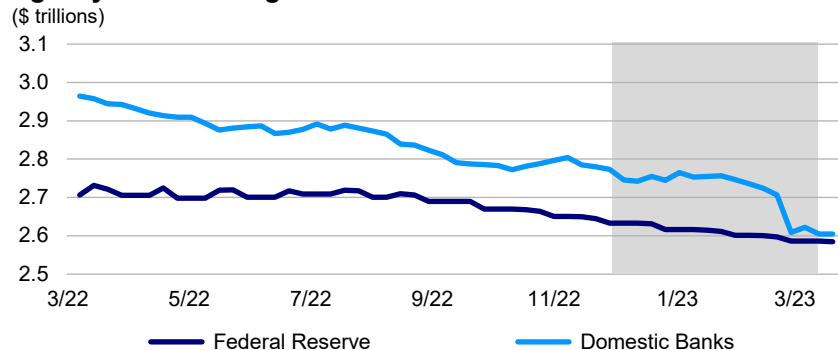
Money Market Rates



Federal Funds Futures



Agency MBS Holdings



Macro Environment

After strong performance in January, Agency RMBS valuations were pressured lower as the banking turmoil in March led to concerns of forced liquidations and broader contagion

Agency RMBS Performance vs. Treasuries¹

(basis points)



Agency RMBS Spread to Treasuries²

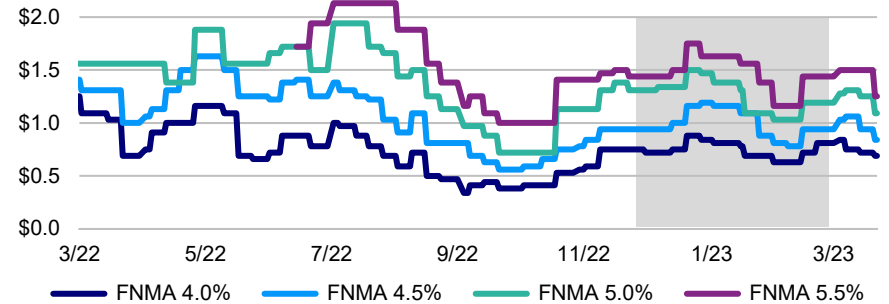
(basis points)



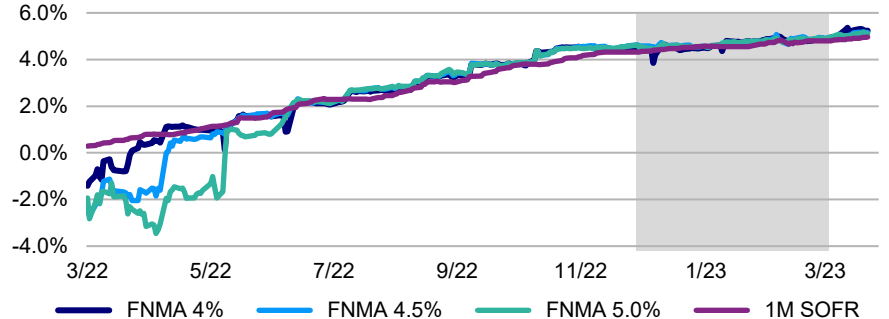
1. 30 year Current Coupon hedged performance vs. Treasuries
2. 30 year Current Coupon Zero Volatility Spread to Treasuries

Specified Pool Pay-ups

(\$200k max, in points)

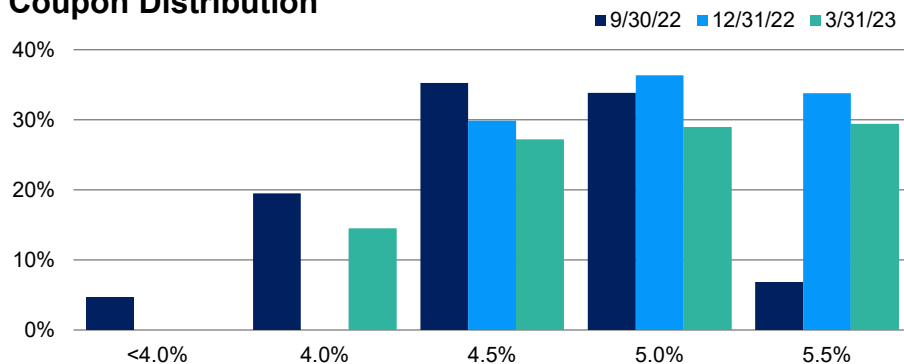


Dollar Roll Implied Financing Rate

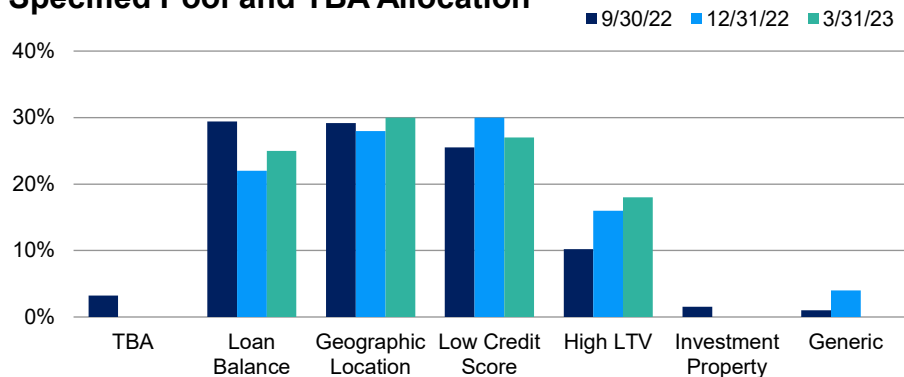


Agency RMBS Investments

Coupon Distribution



Specified Pool and TBA Allocation

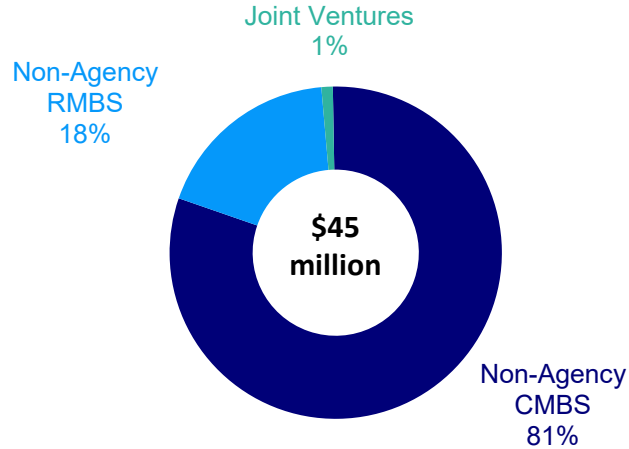


Charts reflect Agency RMBS at fair value and TBAs at implied cost

- Agency RMBS investment portfolio increased 14% to \$5.4 billion in Q1 2023
 - Purchased a net \$667 million of specified pools to invest proceeds from the Q1 2023 at-the-market program and increase leverage
 - Remained focused in higher coupon specified pools with limited exposure to bank liquidations and Fed balance sheet runoff
 - Invested in specified pools with more predictable prepayments in multiple interest rate environments
 - Increased diversification of coupon allocation to further protect the portfolio from sharp changes in interest rates
- Q1 2023 specified pool characteristics
 - 3.6% CPR
 - Period-end weighted average yield of 5.15%
 - Period-end weighted average specified pool pay-up of 0.4 points

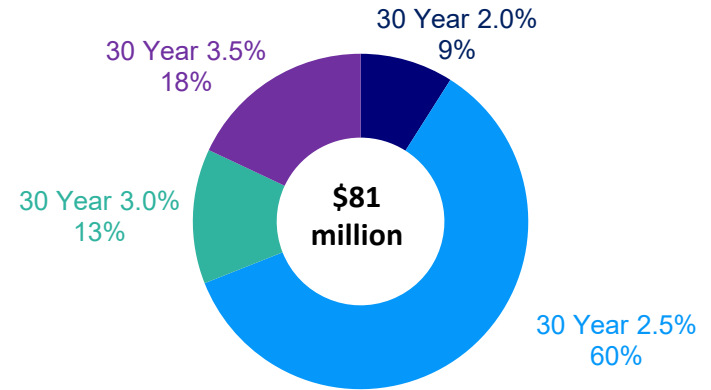
Credit and Agency CMO Investments

Credit Allocation



- 87% of credit securities are rated single-A or higher
- Non-Agency CMBS investments are collateralized by loans benefitting from property type diversification
- Favorable subordination levels support credit investment valuations

Agency CMO Allocation

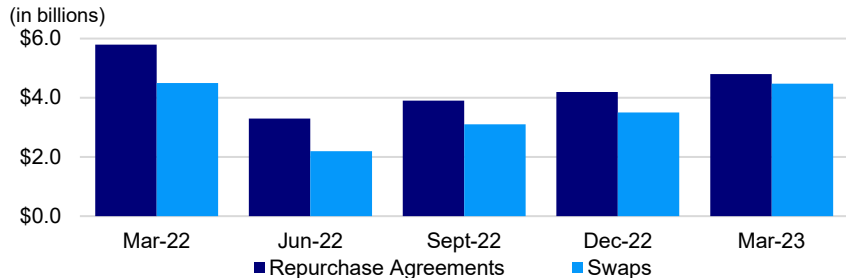


- Q1 2023 Agency CMO characteristics
 - All investments are Interest Only securities
 - 4.1% CPR
 - Period-end weighted average yield of 9.74%
 - Period-end weighted average coupon of 2.58%

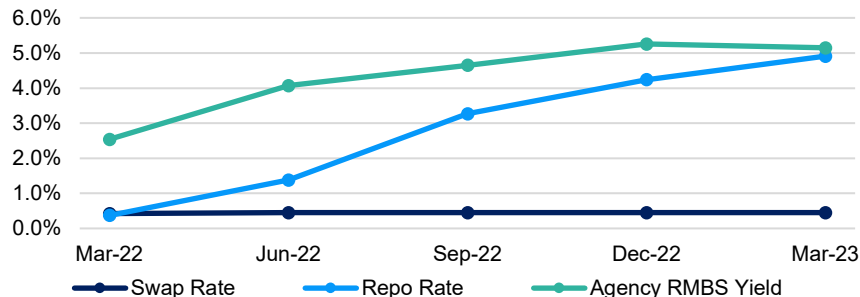
Ratings source: Bloomberg

Financing & Hedging

Cost of Funds Protection¹



Asset Yields and Funding Rates²



1. Chart reflects carrying value of repurchase agreement borrowings and net notional amount of interest rate swaps
2. 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 Rate is the weighted average rate on the pay fixed / receive floating interest rate swaps
3. Does not include \$475 million notional amount of forward starting pay fixed / receive floating interest rate swaps. On a combined basis, the weighted average life for pay fixed interest rate swaps, including forward starters, is 7.5 years.
4. Economic debt-to-equity ratio is a non-GAAP financial measure. Refer to Appendix for additional detail

- Financed Agency RMBS investments with repurchase agreements across 18 counterparties
- All credit assets are unlevered
- Hedged 93% of our borrowing costs with a net \$4.5 billion notional pay fixed / receive floating interest rate swaps
 - \$6.3 billion pay fixed / receive floating interest rate swaps with a weighted average life of 5.8 years³ and weighted average coupon of 0.45%
 - \$1.8 billion receive fixed / pay floating interest rate swaps with a weighted average life of 9.3 years and weighted average coupon of 2.70%
- Hedged additional yield curve exposures with net \$200 million notional forward starting pay fixed / receive floating interest rate swaps
- Held \$464 million of unrestricted cash and unencumbered investments at quarter end
- Debt-to-equity and economic debt-to-equity ratio⁴ of 5.8x

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; (gain) loss on foreign currency transactions, 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 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 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. The Company has historically distributed at least 100% of its REIT taxable income. 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, 2023	December 31, 2022	March 31, 2022
Net income (loss) attributable to common stockholders	15,601	30,599	(236,816)
Adjustments:			
(Gain) loss on investments, net	(51,956)	(10,762)	504,388
Realized (gain) loss on derivative instruments, net	91,900	28,072	(283,429)
Unrealized (gain) loss on derivative instruments, net	7,459	8,949	45,853
TBA dollar roll income	697	1,428	13,401
Foreign currency (gains) losses, net	93	(142)	(55)
Amortization of net deferred (gain) loss on de-designated interest rate swaps	(4,494)	(4,855)	(5,196)
Subtotal	43,699	22,690	274,962
Earnings available for distribution	59,300	53,289	38,146
Basic income (loss) per common share	0.39	0.84	(7.18)
Earnings available for distribution per common share	1.50	1.46	1.16

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 stream 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 (\$113.4 million) and Series C Preferred Stock (\$195.4 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, 2023 is defined as the change in book value per common share from December 31, 2022 to March 31, 2023 of (\$0.18); plus dividends declared of \$0.40 per common share; divided by the December 31, 2022 book value per common share of \$12.79

Economic debt-to-equity ratio – A non-GAAP financial measure calculated as the ratio of total repurchase agreements (\$4.8 billion as of March 31, 2023) and TBAs at implied cost basis (\$929,000 as of March 31, 2023) to total stockholders' equity (\$834.1 million as of March 31, 2023)

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