

IVR

Invesco Mortgage Capital Inc.

Invesco Mortgage Capital Inc. Second Quarter 2022 Earnings Call

August 5, 2022



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 economic and operational impact of the COVID-19 pandemic, 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.

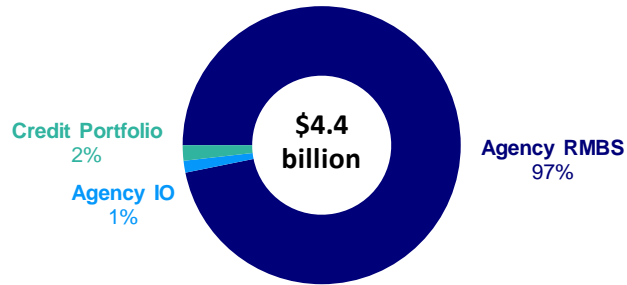
Forward-looking statements are not guarantees, and they involve risks, uncertainties and assumptions. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider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

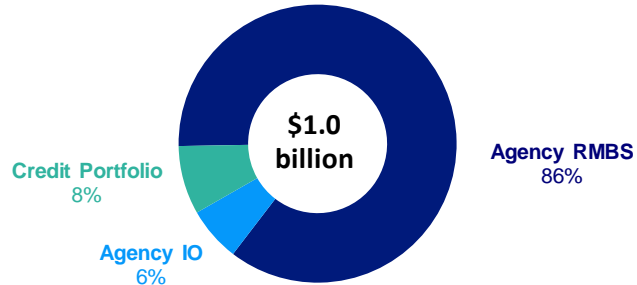
Invesco Mortgage Capital Inc.

Q2 2022 Results

Investment Allocation¹



Equity Allocation



Financial results

- Net loss per common share of \$3.52
- Earnings available for distribution per common share² of \$1.40
- Book value per common share of \$16.16
- Dividend per common share of \$0.90
- Economic return of (17.9)%

Company activity

- Increased net interest margin by 0.63% to 2.86% by rotating Agency RMBS portfolio into higher coupon investments
- Reduced exposure to Agency RMBS given elevated market volatility
 - Debt-to-equity leverage ratio declined to 3.4x from 5.2x
 - Economic debt-to-equity ratio² declined to 3.9x from 6.5x
- Held \$677.1 million of unrestricted cash and unencumbered investments at quarter end
- Completed a one-for-ten reverse common stock split
- Improved our capital structure by repurchasing approximately 30% of our preferred stock outstanding through August 4, 2022

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

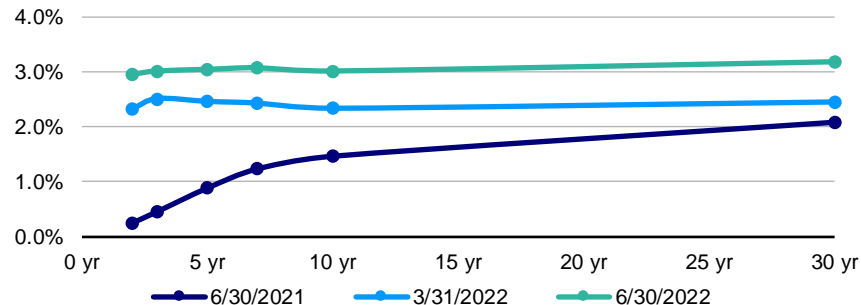
2. Earnings available for distribution and the economic debt-to-equity ratio are non-GAAP financial measures. Refer to Appendix for additional information

Past performance is not a guarantee of future results

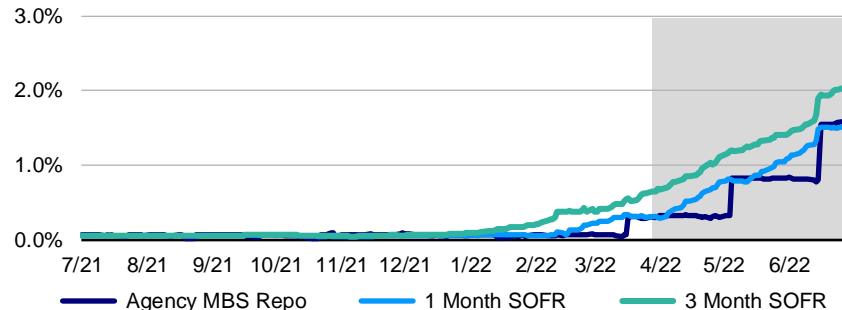
Macro Environment

Federal Reserve accelerates monetary policy tightening as escalating inflation continues to pressure yields higher

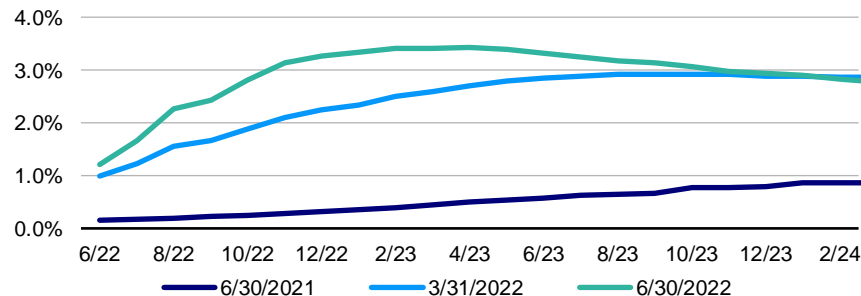
Treasury Yields



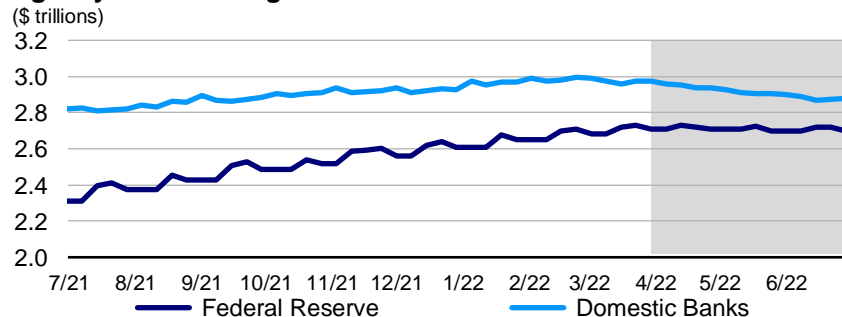
Money Market Rates



Federal Funds Futures



Agency MBS Holdings



Data as of 6/30/22

Sources: Bloomberg, JP Morgan and Federal Reserve Economic Data

Macro Environment

Agency RMBS performed poorly as elevated interest rate volatility and a higher probability of sales by the Federal Reserve weighed on valuations

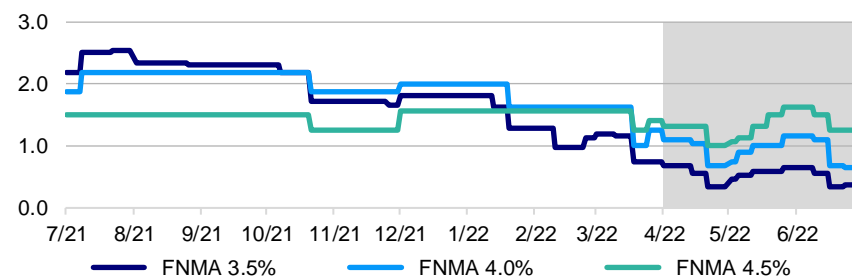
Agency RMBS Performance vs. Treasuries¹

(basis points)



Specified Pool Pay-ups

(\$200k max, in points)

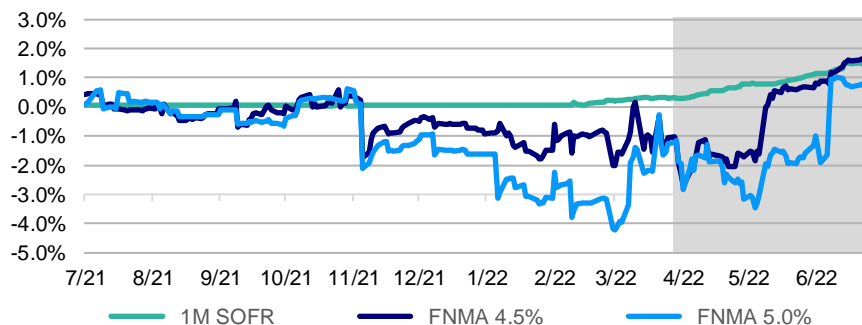


Agency RMBS Spread to Treasuries²

(basis points)



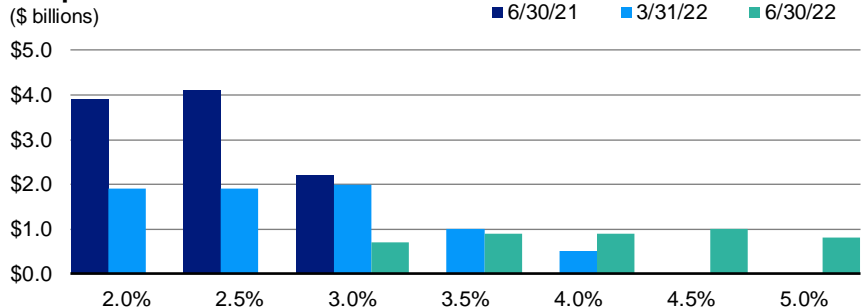
Dollar Roll Implied Financing Rate



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

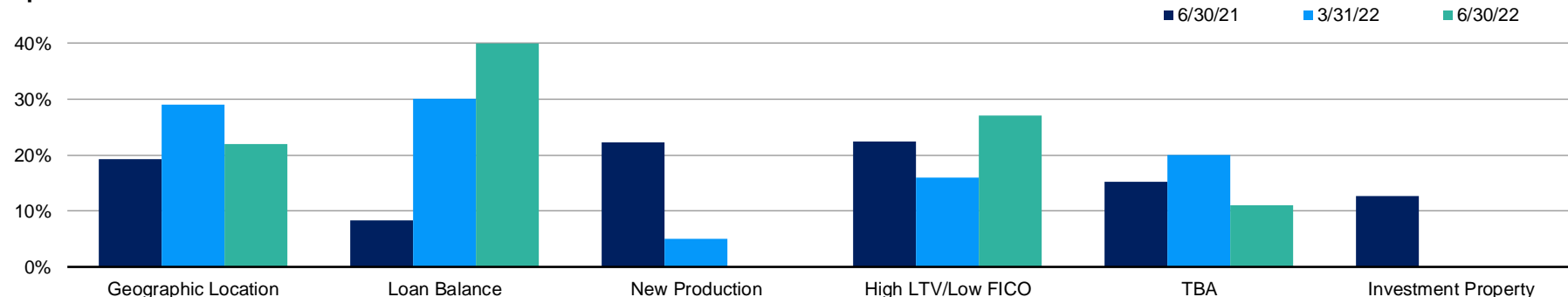
Agency RMBS Investments

Coupon Distribution



- Agency RMBS investment portfolio decreased to \$4.3 billion
 - Increased net interest margin by rotating \$3.2 billion lower coupon investments into more attractive higher coupon investments
 - Reduced specified pool exposure by \$1.7 billion via sales of lower coupon investments
 - Reduced TBA exposure by \$1.1 billion
- Q2 2022 specified pool characteristics
 - 3.9% CPR
 - Period-end weighted average yield of 4.07%
 - Period-end weighted average specified pool pay-up of 0.45 points

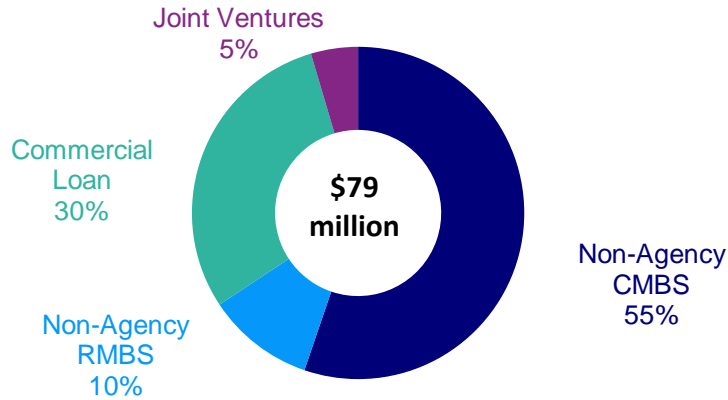
Specified Pool and TBA Allocation



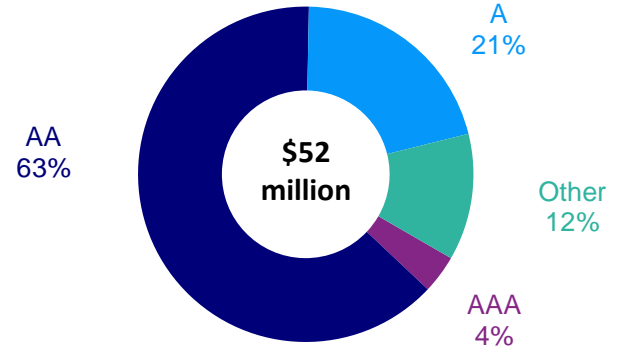
Charts reflect Agency RMBS at fair value and TBAs at implied cost

Credit Investment Characteristics

Credit Allocation



Credit Securities by Rating¹



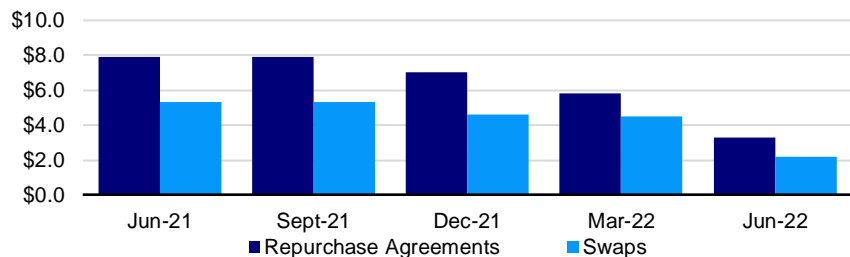
- 88% of credit securities are rated single-A or higher¹
- Majority of non-Agency CMBS investments are collateralized by loans benefitting from property type diversification
- Increasing rents and occupancy rates support credit investment valuations

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

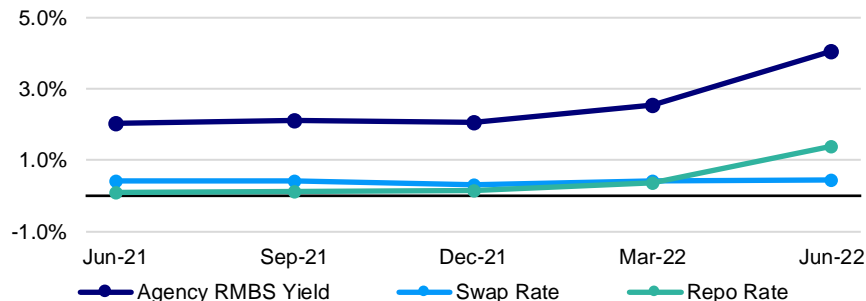
Financing & Hedging

Cost of Funds Protection¹

(in billions)



Asset Yields and Funding Rates²



1. Chart reflects carrying value of borrowings and 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. 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 17 counterparties
- All credit assets are unlevered
- Hedged 67% of our borrowing costs with a net \$2.2 billion notional pay fixed / receive floating interest rate swaps
 - \$5.8 billion pay fixed / receive floating interest rate swaps with a weighted average life of 6.8 years and weighted average coupon of 0.45%
 - \$3.6 billion receive fixed / pay floating interest rate swaps with a weighted average life of 6.6 years and weighted average coupon of 2.90%
- Hedged additional yield curve exposures with \$1.0 billion notional forward starting pay fixed / receive floating interest rate swaps with a weighted average life of 17 years
- Held \$677.1 million of unrestricted cash and unencumbered investments at quarter end
- Debt-to-equity ratio of 3.4x
- Economic debt-to-equity ratio³ of 3.9x

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, we believe the presentation of earnings available for distribution provides a consistent measure of operating performance that investors can use to evaluate our results over multiple reporting periods and, to a certain extent, compare to our peer companies. However, because not all of our peer companies use identical operating performance measures, our presentation of earnings available for distribution may not be comparable to other similarly titled measures used by our peer companies. We exclude the impact of gains and losses when calculating earnings available for distribution because (i) when analyzed in conjunction with our U.S. GAAP results, earnings available for distribution provides additional detail of our 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 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 condensed 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 condensed consolidated statements of operations. In addition, certain gains and losses represent one-time events. We may add and have added additional reconciling items to our earnings available for distribution calculation as appropriate. We added the gain on repurchase and retirement of preferred stock as a reconciling item to our earnings available for distribution calculation in the second quarter of 2022 because the gain does not represent earnings on our investment portfolio.

To maintain our qualification as a REIT, U.S. federal income tax law generally requires that we distribute at least 90% of our REIT taxable income annually, determined without regard to the deduction for dividends paid and excluding net capital gains. We have historically distributed at least 100% of our REIT taxable income. Because we view earnings available for distribution as a consistent measure of our 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 our board of directors uses to determine the amount, if any, and the payment date of dividends on our common stock. However, earnings available for distribution should not be considered as an indication of our taxable income, a guaranty of our ability to pay dividends or as a proxy for the amount of dividends we may pay, as earnings available for distribution excludes certain items that impact our cash needs.

Earnings available for distribution is an incomplete measure of our financial performance and there are other factors that impact the achievement of our business objective. We caution 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 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.

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		
	June 30, 2022	March 31, 2022	June 30, 2021
Net income (loss) attributable to common stockholders	(116,144)	(236,816)	(88,340)
Adjustments:			
(Gain) loss on investments, net	324,876	504,388	(72,620)
Realized (gain) loss on derivative instruments, net	(141,232)	(283,429)	155,947
Unrealized (gain) loss on derivative instruments, net	(26,944)	45,853	25,765
TBA dollar roll income	11,855	13,401	9,680
Gain on repurchase and retirement of preferred stock	(1,491)	-	-
(Gain) loss on foreign currency transactions, net	11	(55)	(16)
Amortization of net deferred (gain) loss on de-designated interest rate swaps	(4,802)	(5,196)	(5,429)
Subtotal	<u>162,273</u>	<u>274,962</u>	<u>113,327</u>
Earnings available for distribution	<u>46,129</u>	<u>38,146</u>	<u>24,987</u>
Basic income (loss) per common share	<u>(3.52)</u>	<u>(7.18)</u>	<u>(3.40)</u>
Earnings available for distribution per common share	<u>1.40</u>	<u>1.16</u>	<u>0.96</u>

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 stockholders' equity less the liquidation preference of the Company's Series B Preferred Stock (\$153.9 million) and Series C Preferred Stock (\$272.0 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 quarter ended June 30, 2022 is defined as the change in book value per common share from March 31, 2022 to June 30, 2022 of \$(4.62); plus dividends declared of \$0.90 per common share; divided by the March 31, 2022 book value per common share of \$20.78

Economic debt-to-equity ratio – A non-GAAP financial measure calculated as the ratio of total repurchase agreements (\$3.3 billion as of June 30, 2022) and TBAs at implied cost basis (\$466.6 million as of June 30, 2022) to total stockholders' equity (\$1.0 billion as of June 30, 2022)

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

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