

IVR

Invesco Mortgage Capital Inc.

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Third Quarter 2023 Earnings Call

November 7, 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 Agency RMBS and 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.

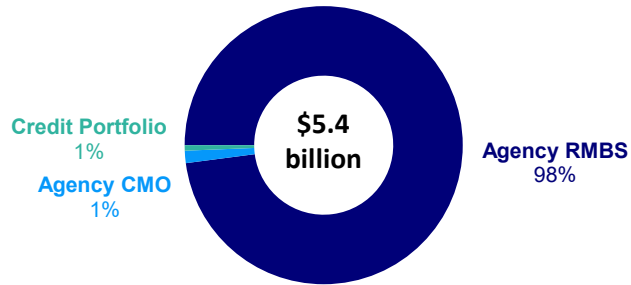
Forward-looking statements are not guarantees, and they involve risks, uncertainties and assumptions. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider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

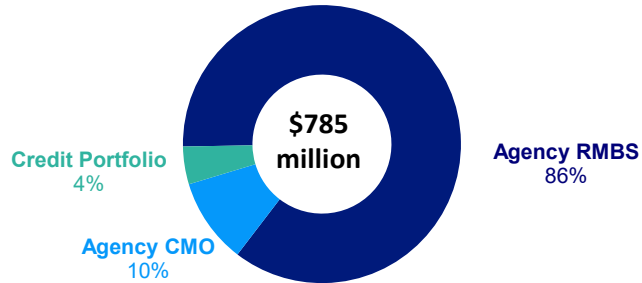
Invesco Mortgage Capital Inc.

Q3 2023 Results

Investment Allocation¹



Equity Allocation



Financial results

- Net loss per common share of \$1.62
- Earnings available for distribution per common share² of \$1.51
- Book value per common share of \$9.93
- Dividend per common share of \$0.40
- Economic return of (13.8%)

Company activity

- Issued \$42.3 million of common stock under our at-the-market program and repurchased preferred stock with a carrying value of \$3.1 million
- Held \$392 million of unrestricted cash and unencumbered investments at quarter end

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

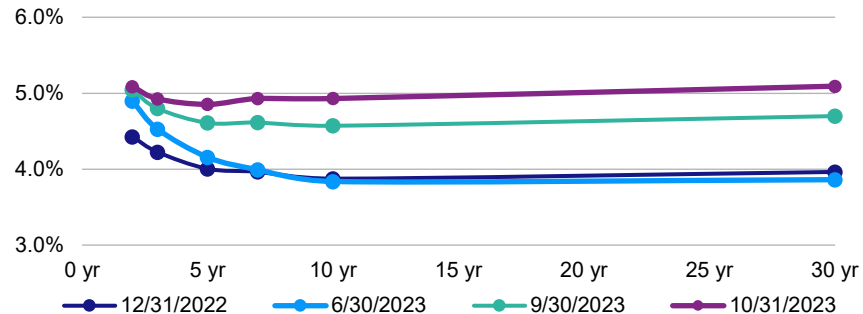
2. Earnings available for distribution is a non-GAAP financial measure. Refer to Appendix for additional information

Past performance is not a guarantee of future results

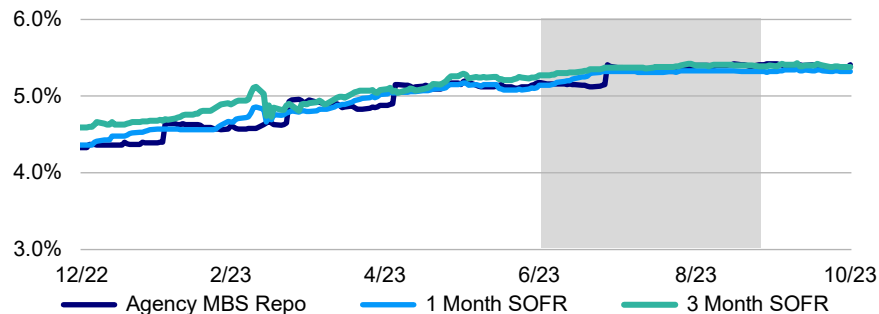
Macro Environment

Interest rates increased sharply across the yield curve as investors priced in “higher for longer” monetary policy; Fed and bank balance sheet runoff continued, increasing supply of Agency MBS to the market

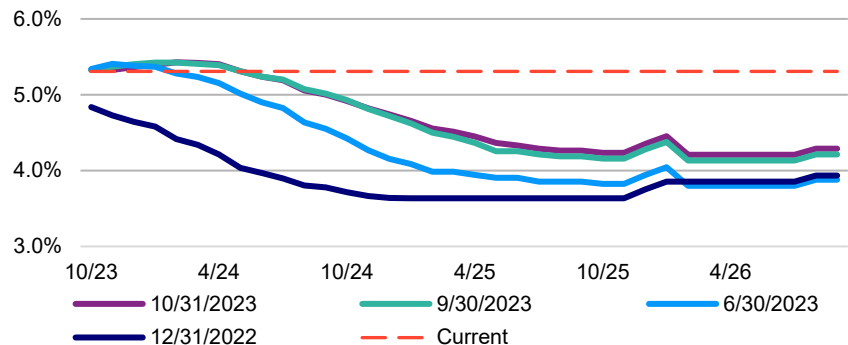
Treasury Yields



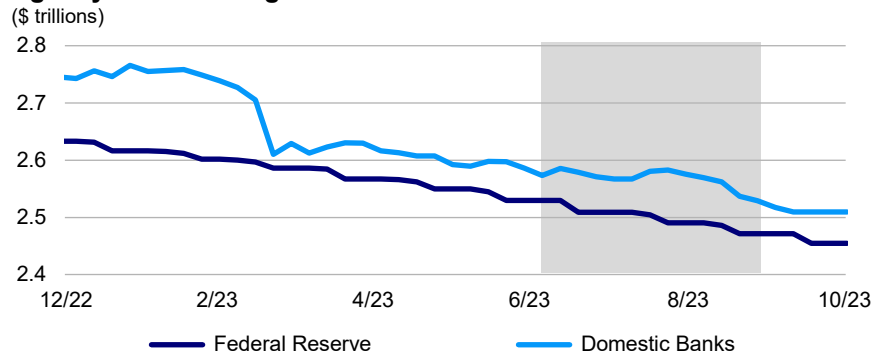
Money Market Rates



Federal Funds Futures



Agency MBS Holdings

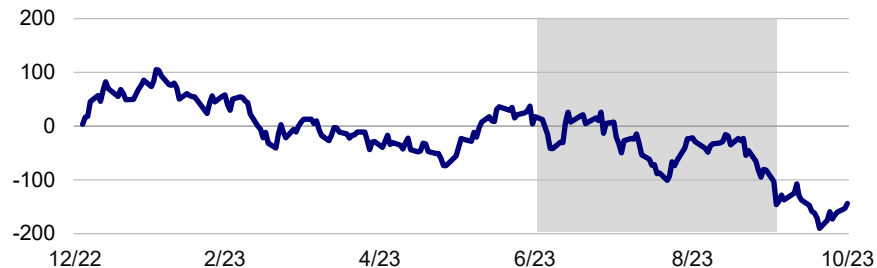


Macro Environment

Agency RMBS performance was volatile intra-quarter; Valuations were pressured lower due to elevated interest rate volatility and poor supply and demand dynamics

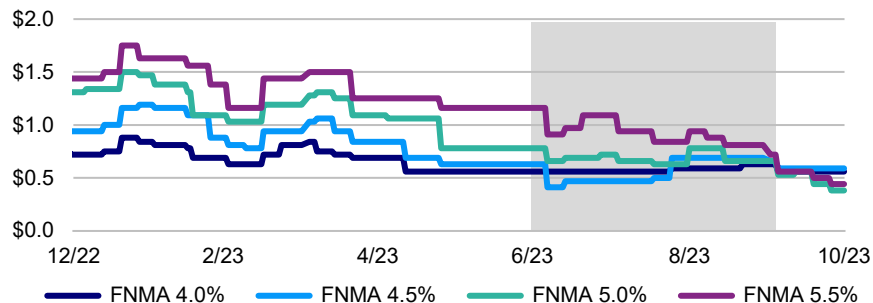
Agency RMBS Performance vs. Treasuries¹

(basis points)



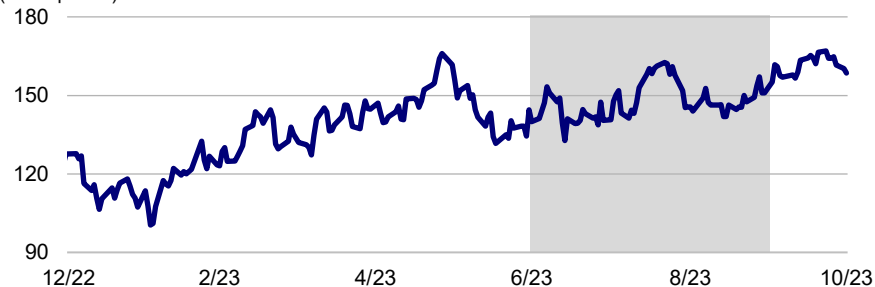
Specified Pool Pay-ups

(\$200k max, in points)

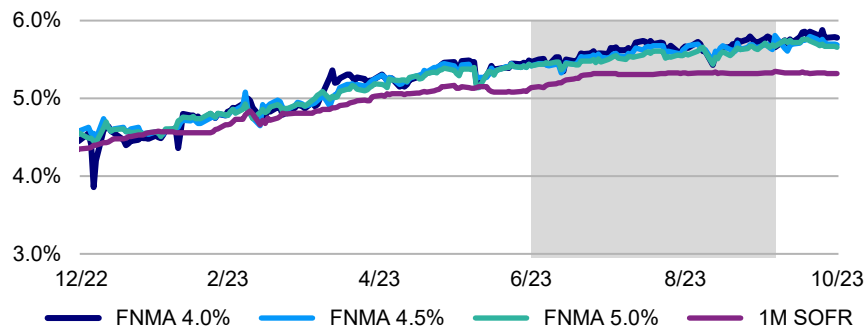


Agency RMBS Spread to Treasuries²

(basis points)



Dollar Roll Implied Financing Rate

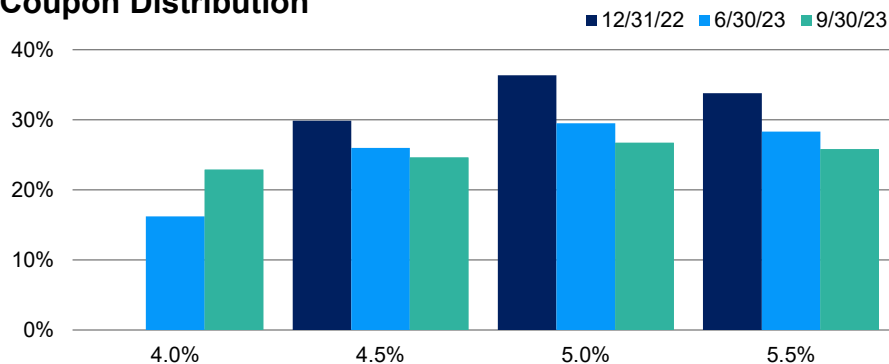


1. 30 year current coupon hedged performance vs. Treasuries

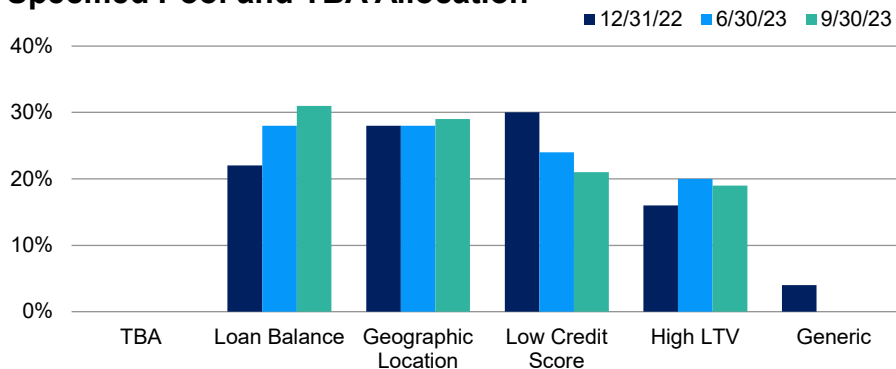
2. 30 year current coupon zero volatility Spread to Treasuries

Agency RMBS Investments

Coupon Distribution



Specified Pool and TBA Allocation

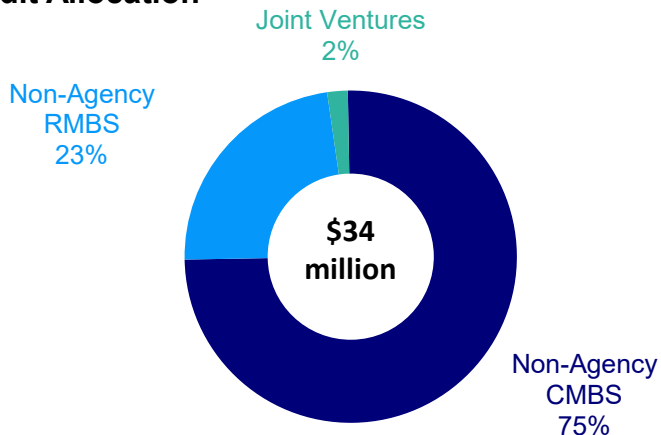


Charts reflect Agency RMBS at fair value and TBAs at implied cost

- Agency RMBS investment portfolio decreased 1% to \$5.4 billion in Q3 2023
 - Purchased a net \$238 million of specified pools to invest proceeds from at-the-market common stock issuance program
 - 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 portfolio from sharp changes in interest rates
- Q3 2023 specified pool characteristics
 - 5.8% CPR
 - Weighted average coupon of 4.76%
 - Amortized cost to principal balance ratio of 96.0%
 - Period-end weighted average specified pool pay-up of 0.2 points

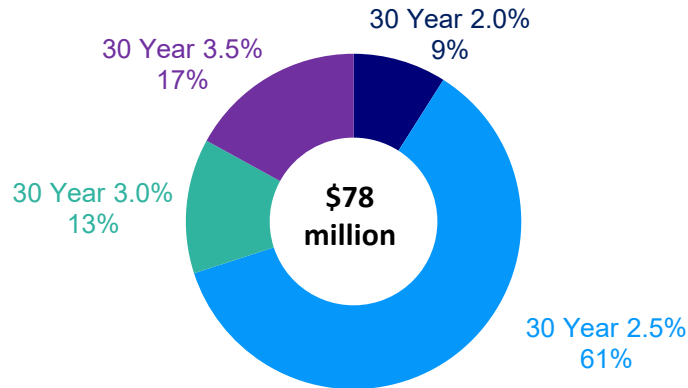
Credit and Agency CMO Investments

Credit Allocation



- 83% of credit securities are rated double-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



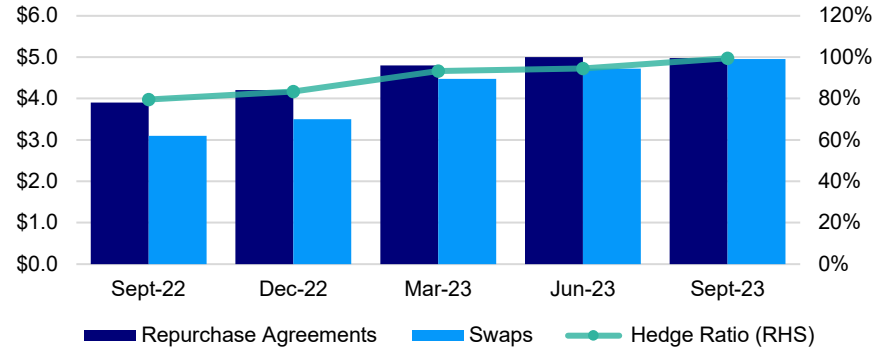
- Q3 2023 Agency CMO characteristics
 - All investments are interest only securities
 - 5.3% CPR
 - Period-end weighted average yield of 9.67%
 - Period-end weighted average coupon of 2.58%

Data as of 9/30/2023
Ratings source: Bloomberg

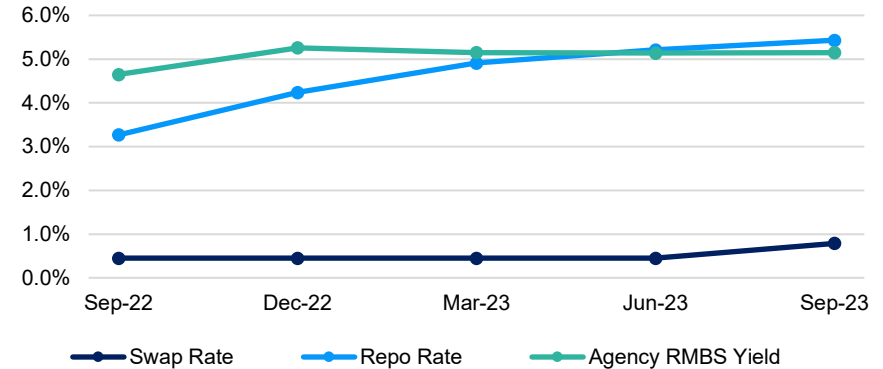
Financing & Hedging

Cost of Funds Protection¹

(in billions)



Asset Yields and Funding Rates²



- Financed Agency RMBS investments with repurchase agreements across 21 counterparties
- Hedged 99% of borrowing costs with a net \$5.0 billion notional pay-fixed / receive-floating interest rate swaps
- Held \$392 million of unrestricted cash and unencumbered investments at quarter end
- Debt-to-equity and economic debt-to-equity ratio³ of 6.4x

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

Interest Rate Swaps

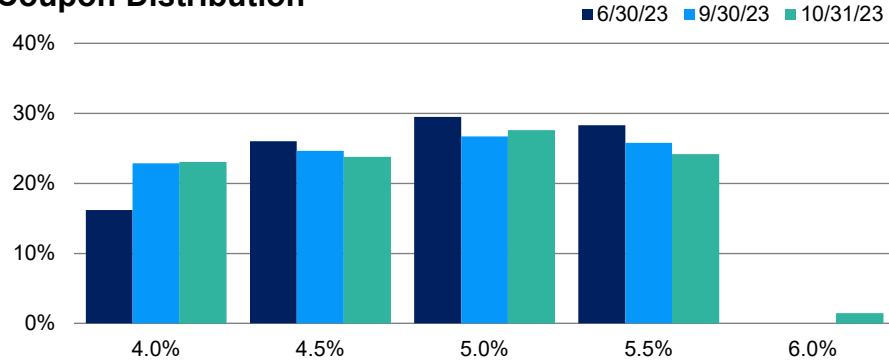
Payer Maturities	Notional Amount (\$ millions)	Fixed Pay Rate ¹	Floating Receive Rate ¹	Years to Maturity ¹
Less than 3 years	\$ 950	0.32%	5.31%	2.1
3 to 5 years	1,975	0.35%	5.31%	4.2
5 to 7 years	1,175	0.46%	5.31%	6.6
7 to 10 years	750	1.10%	5.31%	7.5
10+ years	1,050	2.18%	5.31%	20.6
Total	\$ 5,900	0.79%	5.31%	7.7

Receiver Maturities	Notional Amount (\$ millions)	Floating Pay Rate ¹	Fixed Receive Rate ¹	Years to Maturity ¹
Less than 3 years	\$ 900	5.31%	5.44%	0.5
3 to 5 years	50	5.31%	2.78%	3.6
Total	\$ 950	5.31%	5.30%	0.7

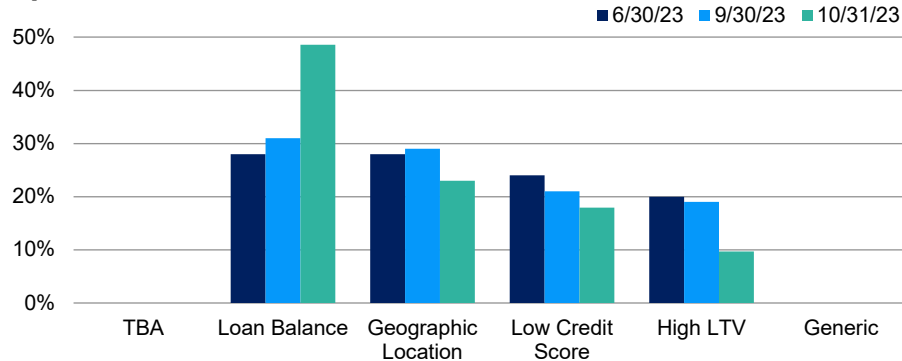
1. Represents period-end weighted average as of September 30, 2023

Agency RMBS Investments – October Update

Coupon Distribution



Specified Pool and TBA Allocation



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

- Given the sharp increase in interest rate volatility Agency RMBS significantly underperformed swap hedges since quarter end
- As a result, management took the following actions in October to mitigate the negative impact on liquidity and preserve book value:
 - Reduced debt-to-equity ratio to 4.3x
 - Sold specified pools with less valuable characteristics such as High LTV, Low FICO and Geographic Location
 - Reduced hedge portfolio commensurate with the reduction in assets; our remaining pay-fixed swap book consists of:
 - \$3.9 billion notional
 - Weighted average years to maturity of 8.6 years
 - Weighted average pay rate of 0.76%

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. 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		
	September 30, 2023	June 30, 2023	September 30, 2022
Net income (loss) attributable to common stockholders	(74,024)	(1,398)	(94,602)
Adjustments:			
(Gain) loss on investments, net	224,897	99,679	260,837
Realized (gain) loss on derivative instruments, net	(84,565)	(26,946)	(62,877)
Unrealized (gain) loss on derivative instruments, net	5,002	(6,241)	(40,527)
TBA dollar roll income	-	-	2,159
Gain on repurchase and retirement of preferred stock	(347)	(364)	(12,688)
Foreign currency (gains) losses, net	-	(27)	-
Amortization of net deferred (gain) loss on de-designated interest rate sw aps	(1,810)	(3,201)	(4,855)
Subtotal	<u>143,177</u>	<u>62,900</u>	<u>142,049</u>
Earnings available for distribution	<u>69,153</u>	<u>61,502</u>	<u>47,447</u>
Basic income (loss) per common share	<u>(1.62)</u>	<u>(0.03)</u>	<u>(2.78)</u>
Earnings available for distribution per common share ¹	<u>1.51</u>	<u>1.45</u>	<u>1.39</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 - 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 (\$111.6 million) and Series C Preferred Stock (\$192.0 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 September 30, 2023 is defined as the change in book value per common share from June 30, 2023 to September 30, 2023 of (\$2.05); plus dividends declared of \$0.40 per common share; divided by the June 30, 2023 book value per common share of \$11.98

Economic debt-to-equity ratio – A non-GAAP financial measure calculated as the ratio of total repurchase agreements (\$5.0 billion as of September 30, 2023) and TBAs at implied cost basis (\$0 as of September 30, 2023) to total stockholders' equity (\$785.0 million as of September 30, 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