

Invesco Mortgage Capital Inc. Third Quarter 2020 Earnings Call

November 10, 2020

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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 markets), 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.

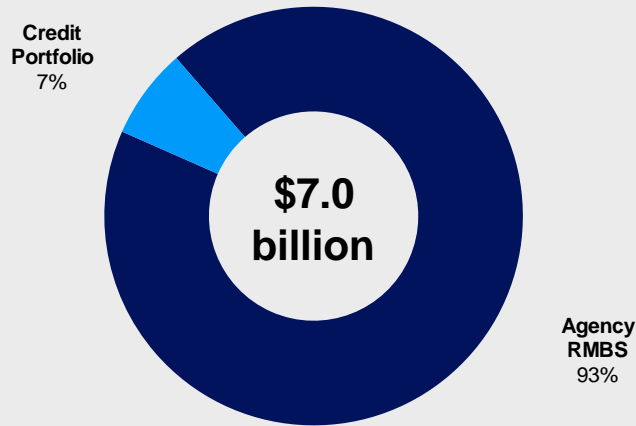
Forward-looking statements are not guarantees, and they involve risks, uncertainties and assumptions. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider 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, quarterly reports on Form 10-Q, and Current Reports on Form 8-K, 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.

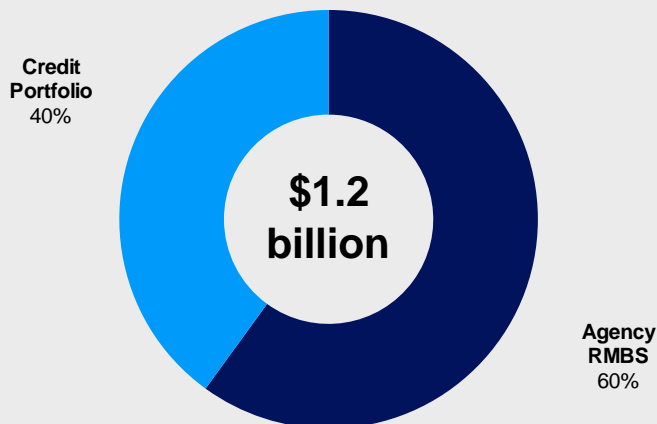
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Invesco Mortgage Capital Inc.

Investment Allocation⁽¹⁾



Equity Allocation

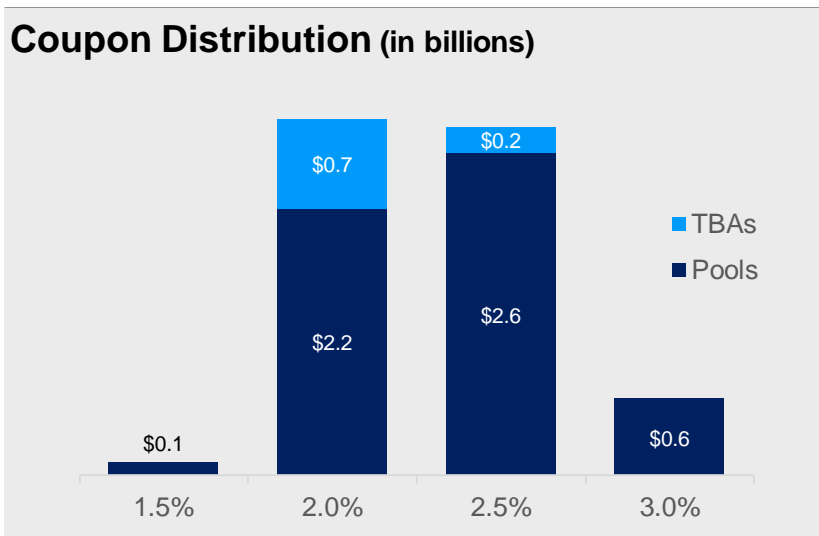
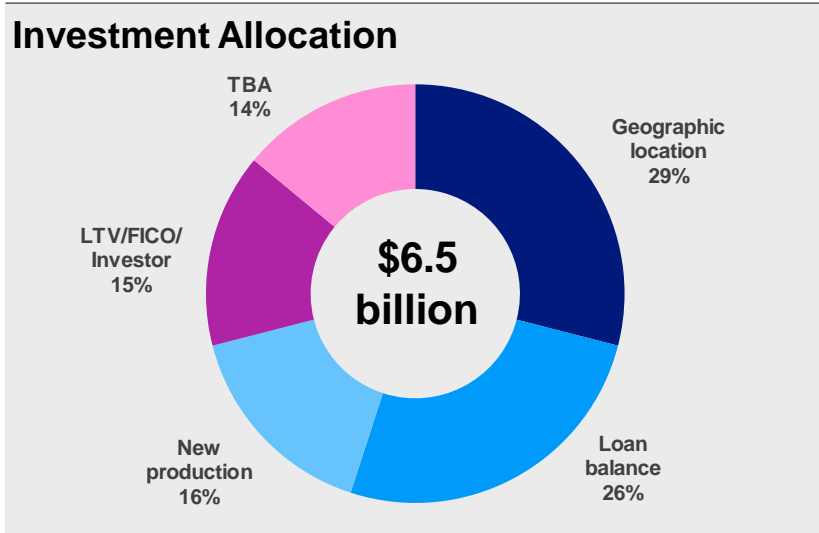


- Financial results
 - Net income per common share of \$0.53
 - Core earnings per common share⁽²⁾ of \$0.06
 - Book value per common share of \$3.47
 - Dividend per common share of \$0.05
 - Economic return of 11.0%

- Investment activity
 - Purchased \$5.6 billion of Agency RMBS specified pools
 - Invested in TBAs with a notional amount of \$900 million
 - Sold \$1.1 billion of credit investments
 - Repaid remaining \$740 million of secured loans

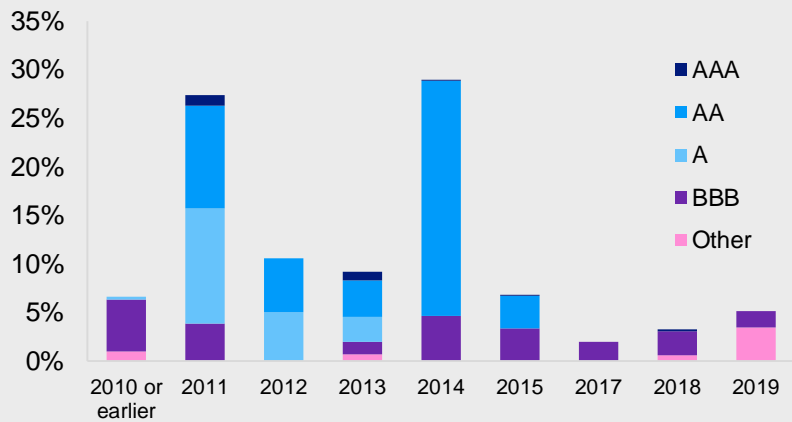
(1) Agency RMBS includes specified pools and net TBA forward purchase contracts at implied cost. Credit portfolio includes non-Agency RMBS, non-Agency CMBS, GSE CRT, a commercial loan and investments in joint ventures.

(2) Core earnings per common share is a non-GAAP financial measure. Refer to slide 9 for additional detail. Past performance is not a guarantee of future results.

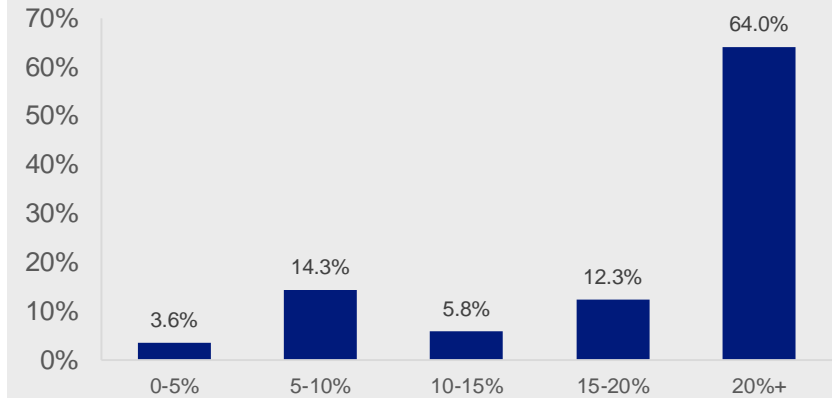


- Invested \$6.5 billion in Agency RMBS in Q3 2020
 - \$5.6 billion of 30 year specified pools
 - \$900 million notional in 30 year TBAs
- Q3 2020 specified pool characteristics:
 - 1.8% CPR
 - Weighted average yield of 1.91%
 - Weighted average loan age of 2 months
- Allocation to new production pools is focused primarily in bank-serviced and originated loans
- Strong demand in production coupon Agency RMBS from the Federal Reserve and commercial banks should support valuations in the coming months

Credit Investments by Vintage and Rating⁽¹⁾

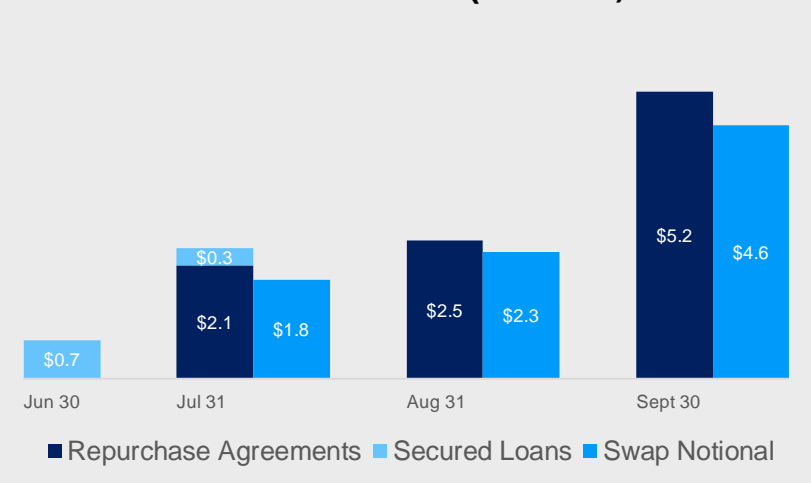


Current Non-Agency CMBS Credit Support



- Credit investment portfolio of \$487 million includes non-Agency CMBS (\$427M), non-Agency RMBS (\$13M), GSE CRT (\$5M), a commercial loan (\$22M) and investments in joint ventures (\$20M)
- 69% 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
- Fed financing via the Term Asset-Backed Securities Loan Facility has helped increase investor demand and improved credit investment valuations

Cost of Funds Protection (in billions)⁽¹⁾



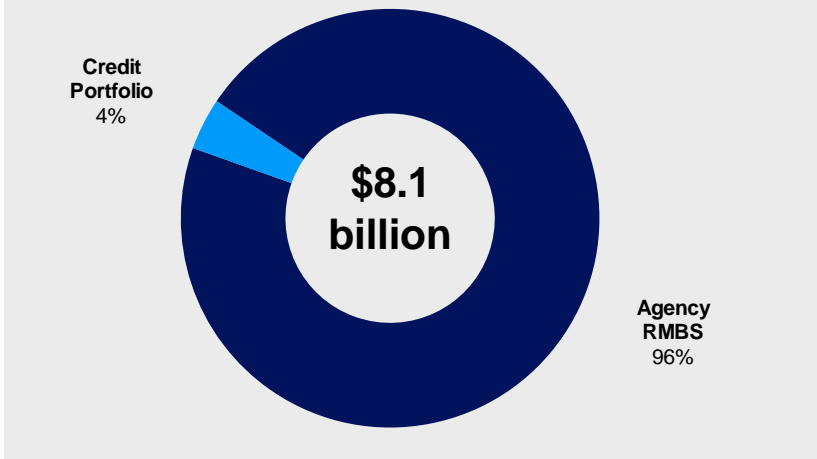
- Repaid remaining secured loans in the third quarter
- All credit assets are unlevered
- Financed Agency RMBS purchases with repurchase agreements across 13 counterparties
- Weighted average interest rate for outstanding repo was 0.23%
- Hedged 87% of our borrowing costs with \$4.6 billion notional of fixed-to-floating interest rate swaps with a weighted average life of 6.4 years
- Debt-to-equity ratio was 4.3x
- Economic debt-to-equity ratio⁽²⁾ was 5.1x

	Wtd Avg Repurchase Agreement Rate	Wtd Avg Swap Rate	Wtd Avg Swap Maturity
July	0.24%	0.20%	4.8 years
August	0.24%	0.28%	5.6 years
September	0.23%	0.34%	6.4 years

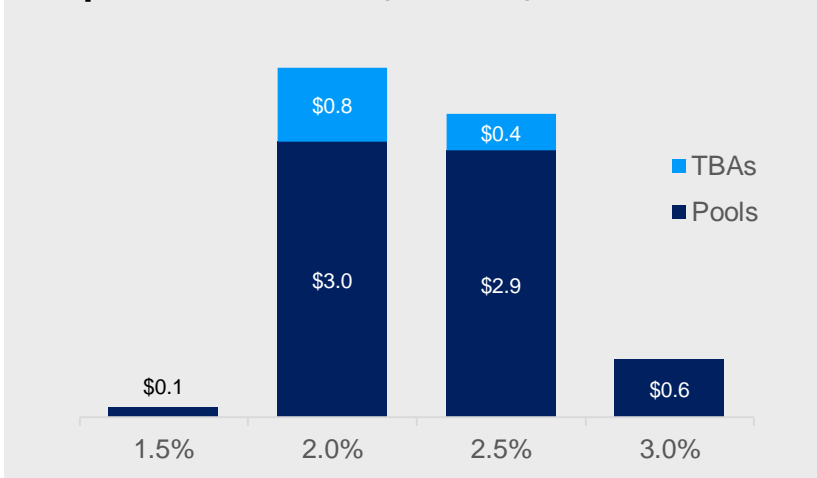
(1) Chart reflects carrying value of borrowings and notional amount of interest rate swaps

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

Investment Allocation⁽¹⁾



Coupon Distribution (in billions)⁽²⁾



- October investment activity:
 - Purchased \$1.0 billion of Agency RMBS specified pools
 - Invested in TBAAs with a notional amount of \$300 million
 - Sold \$112 million of credit investments
 - Added \$650 million notional of fixed-to-floating interest rate swaps
- As of October 31, 2020:
 - Investment portfolio of approximately \$8.1 billion
 - \$6.5 billion Agency RMBS specified pools
 - \$1.2 billion TBAAs at implied cost
 - \$351 million unencumbered credit investments
 - Cash balance of approximately \$538 million, of which \$198 million is restricted
 - Repurchase agreement debt of \$6.2 billion
 - \$5.2 billion notional of fixed-to-floating interest rate swaps

(1) Agency RMBS includes specified pools and net TBA forward purchase contracts at implied cost. Credit portfolio includes nonAgency RMBS, non-Agency CMBS, GSE CRT, a commercial loan and investments in joint ventures as of October 31, 2020.

(2) Coupon distribution of Agency RMBS as of October 31, 2020.

- Seek to provide attractive risk-adjusted returns primarily through dividends and secondarily through capital appreciation
- Enable investors to:
 - Capitalize on the attractive environment for Agency RMBS resulting from reliable financing at attractive terms and continued support from the Federal Reserve
 - 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 the Agency RMBS sector
- Provide access to an established global asset manager* with extensive Agency RMBS 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; net (gain) loss on extinguishment of debt; and cumulative adjustments attributable to non-controlling interest. 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 Q3 2020 earnings press release for a description of the adjustments.

	Three Months Ended September 30,	
	2020	2019
\$ in thousands, except per share data		
Net income (loss) attributable to common stockholders	96,859	77,896
Adjustments:		
(Gain) loss on investments, net	(65,106)	(202,413)
Realized (gain) loss on derivative instruments, net	5,078	173,607
Unrealized (gain) loss on derivative instruments, net	(8,519)	15,352
TBA dollar roll income	2,055	-
Realized and unrealized (gain) loss on GSE CRT embedded derivatives, net	-	5,195
(Gain) loss on foreign currency transactions, net	-	14
Amortization of net deferred (gain) loss on de-designated interest rate swaps	(3,243)	(5,981)
Net (gain) loss on extinguishment of debt	(15,849)	-
Subtotal	<u>(85,584)</u>	<u>(14,226)</u>
Core earnings attributable to common stockholders	<u>11,275</u>	<u>63,670</u>
Basic income (loss) per common share	<u>0.53</u>	<u>0.57</u>
Core earnings per share attributable to common stockholders	<u>0.06</u>	<u>0.47</u>

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, GSE CRT, 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

Economic return – Economic return for three months ended September 30, 2020 is calculated as the change in book value per common share from June 30, 2020 to September 30, 2020 of \$0.30; plus dividends declared of \$0.05 per common share; divided by the June 30, 2020 book value per common share of \$3.17

Economic debt-to-equity ratio – A non-GAAP financial measure calculated as the ratio of total repurchase agreements (\$5.2 billion as of September 30, 2020) and TBAs at implied cost basis (\$932.3 million as of September 30, 2020) to total stockholders' equity (\$1.2 billion as of September 30, 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