

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2022
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____
Commission file number 001-34385

 **Invesco Mortgage Capital Inc.**
Invesco Mortgage Capital Inc.
(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)
1555 Peachtree Street, N.E., Suite 1800,
Atlanta, Georgia
(Address of Principal Executive Offices)

26-2749336
(I.R.S. Employer
Identification No.)

30309
(Zip Code)

(404) 892-0896
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	IVR	New York Stock Exchange
7.75% Fixed-to-Floating Series B Cumulative Redeemable Preferred Stock	IVR PrB	New York Stock Exchange
7.50% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock	IVR PrC	New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-Accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 30, 2022, there were 329,917,927 outstanding shares of common stock of Invesco Mortgage Capital Inc.

INVESCO MORTGAGE CAPITAL INC.
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PART I

ITEM 1. FINANCIAL STATEMENTS

INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

\$ in thousands, except share amounts	As of	
	March 31, 2022	December 31, 2021
ASSETS		
Mortgage-backed securities, at fair value (including pledged securities of \$5,607,777 and \$7,326,175, respectively)	5,992,494	7,804,259
U.S. Treasury securities, at fair value (including pledged securities of \$482,445 as of March 31, 2022)	482,445	—
Cash and cash equivalents	251,724	357,134
Restricted cash	245,809	219,918
Due from counterparties	47,793	7,985
Investment related receivable	15,214	16,766
Derivative assets, at fair value	17,674	270
Other assets	29,465	37,509
Total assets	7,082,618	8,443,841
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	5,837,420	6,987,834
Derivative liabilities, at fair value	77,613	14,356
Dividends payable	29,693	29,689
Investment related payable	1	—
Accrued interest payable	1,143	1,171
Collateral held payable	280	280
Accounts payable and accrued expenses	2,083	1,887
Due to affiliate	6,438	6,489
Total liabilities	5,954,671	7,041,706
Commitments and contingencies (See Note 15):		
Stockholders' equity:		
Preferred Stock, par value \$0.01 per share; 50,000,000 shares authorized:		
7.75% Fixed-to-Floating Series B Cumulative Redeemable Preferred Stock: 6,200,000 shares issued and outstanding (\$155,000 aggregate liquidation preference)	149,860	149,860
7.50% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock: 11,500,000 shares issued and outstanding (\$287,500 aggregate liquidation preference)	278,108	278,108
Common Stock, par value \$0.01 per share; 450,000,000 shares authorized; 329,917,927 and 329,874,780 shares issued and outstanding, respectively	3,299	3,299
Additional paid in capital	3,816,544	3,816,406
Accumulated other comprehensive income	29,469	37,286
Retained earnings (distributions in excess of earnings)	(3,149,333)	(2,882,824)
Total stockholders' equity	1,127,947	1,402,135
Total liabilities and stockholders' equity	7,082,618	8,443,841

The accompanying notes are an integral part of these condensed consolidated financial statements.

INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

\$ in thousands, except share data	Three Months Ended March 31,	
	2022	2021
Interest income		
Mortgage-backed and other securities	41,637	39,434
Commercial loan	537	576
Total interest income	42,174	40,010
Interest expense		
Repurchase agreements ⁽¹⁾	(2,104)	(1,660)
Total interest expense	(2,104)	(1,660)
Net interest income	44,278	41,670
Other income (loss)		
Gain (loss) on investments, net	(504,388)	(331,857)
(Increase) decrease in provision for credit losses	—	938
Equity in earnings (losses) of unconsolidated ventures	71	(94)
Gain (loss) on derivative instruments, net	238,860	286,961
Other investment income (loss), net	55	(16)
Total other income (loss)	(265,402)	(44,068)
Expenses		
Management fee – related party	5,274	4,884
General and administrative	2,024	1,993
Total expenses	7,298	6,877
Net income (loss)	(228,422)	(9,275)
Dividends to preferred stockholders	8,394	11,107
Net income (loss) attributable to common stockholders	(236,816)	(20,382)
Earnings (loss) per share:		
Net income (loss) attributable to common stockholders		
Basic	(0.72)	(0.09)
Diluted	(0.72)	(0.09)

(1) Negative interest expense on repurchase agreements is due to amortization of net deferred gains on de-designated interest rate swaps that exceeds current period interest expense on repurchase agreements. For further information on amortization of amounts classified in accumulated other comprehensive income before we discontinued hedge accounting, see Note 9 - "Derivatives and Hedging Activities" and Note 13 - "Stockholders' Equity".

The accompanying notes are an integral part of these condensed consolidated financial statements.

INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Net income (loss)	(228,422)	(9,275)
Other comprehensive income (loss):		
Unrealized gain (loss) on mortgage-backed securities, net	(2,421)	981
Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	(5,196)	(5,368)
Currency translation adjustments on investment in unconsolidated venture	(200)	609
Total other comprehensive income (loss)	(7,817)	(3,778)
Comprehensive income (loss)	(236,239)	(13,053)
Less: Dividends to preferred stockholders	(8,394)	(11,107)
Comprehensive income (loss) attributable to common stockholders	(244,633)	(24,160)

The accompanying notes are an integral part of these condensed consolidated financial statements.

INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the three months ended March 31, 2022 and 2021
(Unaudited)

\$ in thousands, except share amounts	Series B Preferred Stock		Series C Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Distributions in excess of earnings)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2021	<u>6,200,000</u>	<u>149,860</u>	<u>11,500,000</u>	<u>278,108</u>	<u>329,874,780</u>	<u>3,299</u>	<u>3,816,406</u>	<u>37,286</u>	<u>(2,882,824)</u>	<u>1,402,135</u>
Net income (loss)	—	—	—	—	—	—	—	—	(228,422)	(228,422)
Other comprehensive income (loss)	—	—	—	—	—	—	—	(7,817)	—	(7,817)
Stock awards	—	—	—	—	43,147	—	—	—	—	—
Common stock dividends	—	—	—	—	—	—	—	—	(29,693)	(29,693)
Preferred stock dividends	—	—	—	—	—	—	—	—	(8,394)	(8,394)
Amortization of equity-based compensation	—	—	—	—	—	—	138	—	—	138
Balance at March 31, 2022	<u>6,200,000</u>	<u>149,860</u>	<u>11,500,000</u>	<u>278,108</u>	<u>329,917,927</u>	<u>3,299</u>	<u>3,816,544</u>	<u>29,469</u>	<u>(3,149,333)</u>	<u>1,127,947</u>

\$ in thousands, except share amounts	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Distributions in excess of earnings)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2020	<u>5,600,000</u>	<u>135,356</u>	<u>6,200,000</u>	<u>149,860</u>	<u>11,500,000</u>	<u>278,108</u>	<u>203,222,108</u>	<u>2,032</u>	<u>3,387,552</u>	<u>58,605</u>	<u>(2,644,355)</u>	<u>1,367,158</u>
Net income (loss)	—	—	—	—	—	—	—	—	—	—	(9,275)	(9,275)
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	—	(3,778)	—	(3,778)
Proceeds from issuance of common stock, net of offering costs	—	—	—	—	—	—	43,150,000	432	160,549	—	—	160,981
Stock awards	—	—	—	—	—	—	25,602	—	—	—	—	—
Common stock dividends	—	—	—	—	—	—	—	—	—	—	(22,176)	(22,176)
Preferred stock dividends	—	—	—	—	—	—	—	—	—	—	(11,107)	(11,107)
Amortization of equity-based compensation	—	—	—	—	—	—	—	—	129	—	—	129
Balance at March 31, 2021	<u>5,600,000</u>	<u>135,356</u>	<u>6,200,000</u>	<u>149,860</u>	<u>11,500,000</u>	<u>278,108</u>	<u>246,397,710</u>	<u>2,464</u>	<u>3,548,230</u>	<u>54,827</u>	<u>(2,686,913)</u>	<u>1,481,932</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Cash Flows from Operating Activities		
Net income (loss)	(228,422)	(9,275)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of mortgage-backed and other securities premiums and (discounts), net	4,813	11,625
Realized and unrealized (gain) loss on derivative instruments, net	(237,576)	(291,510)
(Gain) loss on investments, net	504,388	331,857
Increase (decrease) in provision for credit losses	—	(938)
(Gain) loss from investments in unconsolidated ventures in excess of distributions received	34	18
Other amortization	(5,058)	(5,239)
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets	1,875	(1,990)
Increase (decrease) in operating liabilities	82	(43)
Net cash provided by (used in) operating activities	40,136	34,505
Cash Flows from Investing Activities		
Purchase of mortgage-backed securities	(7,602,660)	(7,012,452)
Purchase of U.S. Treasury securities	(502,288)	—
Distributions from investments in unconsolidated ventures, net	7,388	1,233
Principal payments from mortgage-backed securities	168,316	200,590
Proceeds from sale of mortgage-backed securities	8,754,469	5,545,566
Settlement (termination) of forwards, swaps, swaptions and TBAs, net	283,429	282,250
Net change in due from counterparties and collateral held payable on derivative instruments	(38,829)	(3,438)
Net cash provided by (used in) investing activities	1,069,825	(986,251)
Cash Flows from Financing Activities		
Proceeds from issuance of common stock	—	161,413
Proceeds from repurchase agreements	23,329,788	28,514,983
Principal repayments of repurchase agreements	(24,480,202)	(27,502,795)
Net change in due from counterparties and collateral held payable on repurchase agreements	(979)	(7,953)
Payments of deferred costs	(4)	(86)
Payments of dividends	(38,083)	(27,365)
Net cash provided by (used in) financing activities	(1,189,480)	1,138,197
Net change in cash, cash equivalents and restricted cash	(79,519)	186,451
Cash, cash equivalents and restricted cash, beginning of period	577,052	392,584
Cash, cash equivalents and restricted cash, end of period	497,533	579,035
Supplement Disclosure of Cash Flow Information		
Interest paid	2,771	3,985
Non-cash Investing and Financing Activities Information		
Net change in unrealized gain (loss) on mortgage-backed securities classified as available-for-sale	(2,421)	981
Dividends declared not paid	29,693	24,888
Net change in investment related receivable (payable)	15	(271)
Offering costs not paid	562	334
Change in foreign currency translation adjustment on other investments	200	(609)

The accompanying notes are an integral part of these condensed consolidated financial statements.

INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Organization and Business Operations

Invesco Mortgage Capital Inc. (the “Company” or “we”) is a Maryland corporation primarily focused on investing in, financing and managing mortgage-backed securities (“MBS”) and other mortgage-related assets.

We currently invest in:

- 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”) (collectively “Agency RMBS”);
- Commercial mortgage-backed securities (“CMBS”) that are not guaranteed by a U.S. government agency or a federally chartered corporation (“non-Agency CMBS”);
- RMBS that are not guaranteed by a U.S. government agency or a federally chartered corporation (“non-Agency RMBS”);
- A commercial mortgage loan;
- Other real estate-related financing agreements; and
- U.S. Treasury securities.

We conduct our business through IAS Operating Partnership L.P. (the “Operating Partnership”) and have one operating segment. We are externally managed and advised by Invesco Advisers, Inc. (our “Manager”), a registered investment adviser and an indirect, wholly-owned subsidiary of Invesco Ltd. (“Invesco”), a leading independent global investment management firm.

We elected to be taxed as a real estate investment trust (“REIT”) for U.S. federal income tax purposes under the provisions of the Internal Revenue Code of 1986. To maintain our REIT qualification, we are generally required to distribute at least 90% of our REIT taxable income to our stockholders annually. We operate our business in a manner that permits our exclusion from the “Investment Company” definition under the Investment Company Act of 1940, as amended (the “1940 Act”).

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

Certain disclosures included in our Annual Report on Form 10-K are not required to be included on an interim basis in our quarterly reports on Form 10-Q. We have condensed or omitted these disclosures. Therefore, this Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2021.

Our condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and consolidate the financial statements of the Company and our controlled subsidiaries. All significant intercompany transactions, balances, revenues and expenses are eliminated upon consolidation. In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are necessary for a fair statement of our financial condition and results of operations for the periods presented.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Examples of estimates include, but are not limited to, estimates of the fair values of financial instruments, interest income on mortgage-backed securities and allowances for credit losses. Actual results may differ from those estimates.

Significant Accounting Policies

There have been no changes to our accounting policies included in Note 2 to the consolidated financial statements of our Annual Report on Form 10-K for the year ended December 31, 2021 other than as detailed below.

U.S. Treasury Securities

U.S. Treasury securities are classified as trading securities and reported at fair value on our condensed consolidated balance sheets. Purchases of U.S. Treasury Securities are recorded on the trade date. Changes in the fair value of U.S. Treasury securities are recognized within gain (loss) on investments, net in our condensed consolidated statements of operations. Coupon interest income is accrued based on the outstanding principal balance of the securities and their contractual terms. Interest income on U.S. Treasury securities is recognized within mortgage-backed and other securities interest income on our condensed consolidated statements of operations. Similar to the Company's MBS, U.S. Treasury securities are valued based upon prices obtained from third party pricing vendors and classified as Level 2 assets within the fair value hierarchy.

Note 3 – Variable Interest Entities ("VIEs")

Our maximum risk of loss in VIEs in which we are not the primary beneficiary at March 31, 2022 is presented in the table below.

\$ in thousands	Carrying Amount	Company's Maximum Risk of Loss
Non-Agency CMBS	61,295	61,295
Non-Agency RMBS	8,402	8,402
Investments in unconsolidated ventures	4,854	4,854
Total	74,551	74,551

Refer to Note 4 - "Mortgage-Backed Securities" and Note 6 - "Other Assets" for additional details regarding these investments.

Note 4 – Mortgage-Backed Securities

The following tables summarize our MBS portfolio by asset type as of March 31, 2022 and December 31, 2021.

March 31, 2022

\$ in thousands	Principal/ Notional Balance	Unamortized Premium (Discount)	Amortized Cost	Unrealized Gain/ (Loss), net	Fair Value	Period- end Weighted Average Yield ⁽¹⁾
Agency RMBS:						
30 year fixed-rate	6,132,696	(43,156)	6,089,540	(227,561)	5,861,979	2.54 %
Total Agency RMBS pass-through	6,132,696	(43,156)	6,089,540	(227,561)	5,861,979	2.54 %
Agency-CMO ⁽²⁾	441,397	(382,576)	58,821	1,997	60,818	6.32 %
Non-Agency CMBS	61,427	(2,594)	58,833	2,462	61,295	8.62 %
Non-Agency RMBS ⁽³⁾⁽⁴⁾⁽⁵⁾	354,236	(345,577)	8,659	(257)	8,402	8.32 %
Total	6,989,756	(773,903)	6,215,853	(223,359)	5,992,494	2.64 %

(1) Period-end weighted average yield is based on amortized cost as of March 31, 2022 and incorporates future prepayment and loss assumptions.

(2) All Agency collateralized mortgage obligations ("Agency-CMO") are interest-only securities ("Agency IO").

(3) Non-Agency RMBS is 62.6% fixed rate, 36.4% variable rate, and 1.0% floating rate based on fair value. Coupon payments on variable rate investments are based upon changes in the underlying Hybrid adjustable-rate mortgage ("ARM") loan coupons, while coupon payments on floating rate investments are based upon a spread to a reference index.

(4) Of the total discount in non-Agency RMBS, \$2.1 million is non-accretable calculated using the principal/notional balance and based on estimated future cash flows of the securities.

(5) Non-Agency RMBS includes interest-only securities ("non-Agency IO") which represent 97.5% of principal/notional balance, 44.1% of amortized cost and 18.3% of fair value.

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December 31, 2021

\$ in thousands	Principal/Notional Balance	Unamortized Premium (Discount)	Amortized Cost	Unrealized Gain/(Loss), net	Fair Value	Period-end Weighted Average Yield ⁽¹⁾
Agency RMBS:						
30 year fixed-rate	7,514,229	246,183	7,760,412	(58,889)	7,701,523	2.07 %
Total Agency RMBS pass-through	7,514,229	246,183	7,760,412	(58,889)	7,701,523	2.07 %
Agency-CMO ⁽²⁾	235,216	(203,180)	32,036	(1,279)	30,757	6.47 %
Non-Agency CMBS	61,427	(3,096)	58,331	4,578	62,909	8.63 %
Non-Agency RMBS ⁽³⁾⁽⁴⁾⁽⁵⁾	392,543	(383,591)	8,952	118	9,070	5.26 %
Total	8,203,415	(343,684)	7,859,731	(55,472)	7,804,259	2.14 %

(1) Period-end weighted average yield is based on amortized cost as of December 31, 2021 and incorporates future prepayment and loss assumptions.

(2) All Agency-CMO are Agency IO.

(3) Non-Agency RMBS is 63.5% fixed rate, 35.6% variable rate and 0.9% floating rate based on fair value. Coupon payments on variable rate investments are based upon changes in the underlying Hybrid adjustable-rate mortgage ("ARM") loan coupons, while coupon payments on floating rate investments are based upon a spread to a reference index.

(4) Of the total discount in non-Agency RMBS, \$2.1 million is non-accretable calculated using the principal/notional balance and based on estimated future cash flows of the securities.

(5) Non-Agency RMBS includes non-Agency IO which represent 97.7% of principal/notional balance, 44.8% of amortized cost and 19.9% of fair value.

The following table presents the fair value of our available-for-sale securities and securities accounted for under the fair value option by asset type as of March 31, 2022 and December 31, 2021. We have elected the fair value option for all of our RMBS interest-only securities and our MBS purchased on or after September 1, 2016. As of March 31, 2022 and December 31, 2021, approximately 99% of our MBS are accounted for under the fair value option.

\$ in thousands	March 31, 2022			December 31, 2021		
	Available-for-sale Securities	Securities under Fair Value Option	Total Fair Value	Available-for-sale Securities	Securities under Fair Value Option	Total Fair Value
Agency RMBS:						
30 year fixed-rate	—	5,861,979	5,861,979	—	7,701,523	7,701,523
Total Agency RMBS pass-through	—	5,861,979	5,861,979	—	7,701,523	7,701,523
Agency-CMO	—	60,818	60,818	—	30,757	30,757
Non-Agency CMBS	61,295	—	61,295	62,909	—	62,909
Non-Agency RMBS	6,869	1,533	8,402	7,288	1,782	9,070
Total	68,164	5,924,330	5,992,494	70,197	7,734,062	7,804,259

The components of the carrying value of our MBS portfolio at March 31, 2022 and December 31, 2021 are presented below. Accrued interest receivable on our MBS portfolio, which is recorded within investment related receivable on our condensed consolidated balance sheets, was \$14.1 million at March 31, 2022 (December 31, 2021: \$16.6 million).

\$ in thousands	March 31, 2022		
	MBS	Interest-Only Securities	Total
Principal/notional balance	6,203,136	786,620	6,989,756
Unamortized premium	75,067	—	75,067
Unamortized discount	(124,990)	(723,980)	(848,970)
Gross unrealized gains ⁽¹⁾	4,483	3,399	7,882
Gross unrealized losses ⁽¹⁾	(227,561)	(3,680)	(231,241)
Fair value	5,930,135	62,359	5,992,494

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\$ in thousands	December 31, 2021		
	MBS	Interest-Only Securities	Total
Principal/notional balance	7,584,812	618,603	8,203,415
Unamortized premium	250,771	—	250,771
Unamortized discount	(11,902)	(582,553)	(594,455)
Gross unrealized gains ⁽¹⁾	8,754	109	8,863
Gross unrealized losses ⁽¹⁾	(60,741)	(3,594)	(64,335)
Fair value	7,771,694	32,565	7,804,259

- (1) Gross unrealized gains and losses includes gains (losses) recognized in net income for securities accounted for under the fair value option as well as gains (losses) for available-for-sale securities which are recognized as adjustments to other comprehensive income. Realization occurs upon sale or settlement of such securities. Further detail on the components of our total gains (losses) on investments, net for the three months ended March 31, 2022 and 2021 is provided below in this Note 4.

The following table summarizes our MBS portfolio according to estimated weighted average life classifications as of March 31, 2022 and December 31, 2021.

\$ in thousands	March 31, 2022	December 31, 2021
Less than one year	22,792	23,150
Greater than one year and less than five years	38,627	891,510
Greater than or equal to five years	5,931,075	6,889,599
Total	5,992,494	7,804,259

The following tables present the estimated fair value and gross unrealized losses of our MBS by length of time that such securities have been in a continuous unrealized loss position at March 31, 2022 and December 31, 2021.

March 31, 2022

\$ in thousands	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Agency RMBS:									
30 year fixed-rate	5,861,979	(227,561)	36	—	—	—	5,861,979	(227,561)	36
Total Agency RMBS pass-through ⁽¹⁾	5,861,979	(227,561)	36	—	—	—	5,861,979	(227,561)	36
Agency-CMO ⁽¹⁾	27,175	(1,401)	5	—	—	—	27,175	(1,401)	5
Non-Agency RMBS ⁽²⁾	113	(142)	1	1,427	(2,137)	13	1,540	(2,279)	14
Total	5,889,267	(229,104)	42	1,427	(2,137)	13	5,890,694	(231,241)	55

- (1) Fair value option has been elected for all Agency securities in an unrealized loss position.
- (2) Includes non-Agency IO with fair value of \$1.4 million for which the fair value option has been elected. Such securities have unrealized losses of \$2.1 million. The remaining \$142,000 of unrealized losses on non-Agency RMBS are included in accumulated other comprehensive income. These losses are not reflected in an allowance for credit losses based on a comparison of discounted expected cash flows to current amortized cost basis.

December 31, 2021

\$ in thousands	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Agency RMBS:									
30 year fixed-rate	6,838,999	(60,741)	54	—	—	—	6,838,999	(60,741)	54
Total Agency RMBS pass-through ⁽¹⁾	6,838,999	(60,741)	54	—	—	—	6,838,999	(60,741)	54
Agency-CMO ⁽¹⁾	21,810	(1,389)	5	—	—	—	21,810	(1,389)	5
Non-Agency RMBS ⁽²⁾	767	(1,132)	5	1,042	(1,073)	9	1,809	(2,205)	14
Total	6,861,576	(63,262)	64	1,042	(1,073)	9	6,862,618	(64,335)	73

(1) Fair value option has been elected for all Agency securities in an unrealized loss position.

(2) Includes non-Agency IO with fair value of \$1.7 million for which the fair value option has been elected. Such securities have unrealized losses of \$2.1 million. The remaining \$136,000 of unrealized losses on non-Agency RMBS are included in accumulated other comprehensive income. These losses are not reflected in an allowance for credit losses based on a comparison of discounted expected cash flows to current amortized cost basis.

As of March 31, 2022 and December 31, 2021, we did not have an allowance for credit losses recorded on our condensed consolidated balance sheets. We recorded a \$938,000 decrease in our provision for credit losses during the three months ended March 31, 2021. The following table presents a roll-forward of our allowance for credit losses.

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Beginning allowance for credit losses		(1,768)
Additional increases or decreases to the allowance for credit losses on securities that had an allowance recorded in a previous period		938
Ending allowance for credit losses		(830)

The following table summarizes the components of our total gain (loss) on investments, net for the three months ended March 31, 2022 and 2021.

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Gross realized gains on sale of MBS	—	201
Gross realized losses on sale of MBS	(318,970)	(117,048)
Net unrealized gains (losses) on MBS accounted for under the fair value option	(165,467)	(211,912)
Net unrealized gains (losses) on commercial loan	(124)	(3,098)
Net unrealized gains (losses) on U.S. Treasury securities	(19,827)	—
Total gain (loss) on investments, net	(504,388)	(331,857)

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The following tables present components of interest income recognized on our mortgage-backed and other securities portfolio for the three months ended March 31, 2022 and 2021.

For the three months ended March 31, 2022

\$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income
Agency RMBS	46,598	(6,928)	39,670
Non-Agency CMBS	737	503	1,240
Non-Agency RMBS	330	(151)	179
U.S. Treasury securities	560	(16)	544
Other	4	—	4
Total	48,229	(6,592)	41,637

For the three months ended March 31, 2021

\$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income
Agency RMBS	49,555	(12,484)	37,071
Non-Agency CMBS	1,305	878	2,183
Non-Agency RMBS	624	(450)	174
Other	6	—	6
Total	51,490	(12,056)	39,434

Note 5 - U.S. Treasury Securities

The following table presents the components of the carrying value of our U.S. Treasury securities, which are classified as trading securities, as of March 31, 2022. We did not hold any U.S. Treasury securities as of December 31, 2021.

\$ in thousands	March 31, 2022
Principal balance	500,000
Unamortized premium	2,272
Amortized cost	502,272
Unrealized gains (losses), net	(19,827)
Fair value ⁽¹⁾	482,445

(1) Fair value includes \$97.3 million maturing in 2027, \$193.1 million maturing in 2029 and \$192.1 million maturing in 2032.

Note 6 – Other Assets

The following table summarizes our other assets as of March 31, 2022 and December 31, 2021.

\$ in thousands	March 31, 2022	December 31, 2021
Commercial loan, held-for-investment	23,391	23,515
Investments in unconsolidated ventures	4,854	12,476
Prepaid expenses and other assets	1,220	1,518
Total	29,465	37,509

In February 2022, we agreed to extend the contractual maturity of our commercial loan investment from February 2022 to June 2022. The borrower continues to make current interest payments on the loan. The loan had a principal balance of \$23.9 million as of March 31, 2022 and December 31, 2021 and a weighted average coupon rate of 8.73% as of March 31, 2022 and 8.60% as of December 31, 2021. We account for this investment using the fair value option. We recorded unrealized losses of \$124,000 and \$3.1 million on this loan in our condensed consolidated statements of operations during the three months ended March 31, 2022 and 2021, respectively.

We have invested in unconsolidated ventures that are managed by an affiliate of our Manager. The unconsolidated ventures invest in our target assets. Refer to Note 15 - "Commitments and Contingencies" for additional details regarding our commitments to these unconsolidated ventures.

Note 7 – Borrowings

We finance the majority of our investment portfolio through repurchase agreements. The following tables summarize certain characteristics of our borrowings at March 31, 2022 and December 31, 2021. Refer to Note 8 - "Collateral Positions" for collateral pledged and held under our repurchase agreements.

	March 31, 2022		
	Amount Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity (days)
\$ in thousands			
Repurchase Agreements - Agency RMBS	5,349,388	0.38 %	31
Repurchase Agreements - U.S. Treasury securities	488,032	0.19 %	1
Total Borrowings	5,837,420	0.37 %	28

	December 31, 2021		
	Amount Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity (days)
\$ in thousands			
Repurchase Agreements - Agency RMBS	6,987,834	0.14 %	29
Total Borrowings	6,987,834	0.14 %	29

Repurchase Agreements

Our repurchase agreements generally bear interest at a contractually agreed upon rate. Agency RMBS repurchase agreements generally have maturities ranging from one to six months. U.S. Treasury securities repurchase agreements generally have maturities ranging from one day to one month. Repurchase agreements are accounted for as secured borrowings since we maintain effective control of the financed assets. The repurchase agreements are subject to certain financial covenants. We were in compliance with all of these covenants as of March 31, 2022.

Note 8 - Collateral Positions

The following table summarizes the fair value of collateral that we pledged and held under our repurchase agreements, interest rate swaps, currency forward contracts and TBAs as of March 31, 2022 and December 31, 2021. Refer to Note 2 - "Summary of Significant Accounting Policies" in this Form 10-Q and Note 2 - "Summary of Significant Accounting Policies - Fair Value Measurements" of our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021 for a description of how we determine fair value. Agency RMBS collateral pledged is included in mortgage-backed securities on our condensed consolidated balance sheets. U.S. Treasury securities collateral pledged is included in U.S. Treasury securities on our condensed consolidated balance sheets. Cash collateral pledged on centrally cleared interest rate swaps and currency forward contracts is classified as restricted cash on our condensed consolidated balance sheets. Cash collateral pledged on repurchase agreements and TBAs accounted for as derivatives is classified as due from counterparties on our condensed consolidated balance sheets.

Cash collateral held that is not restricted for use is included in cash and cash equivalents on our condensed consolidated balance sheets and the liability to return the collateral is included in collateral held payable. Non-cash collateral held is only recognized if the counterparty defaults or if we sell the pledged collateral. As of March 31, 2022 and December 31, 2021, we did not recognize any non-cash collateral held on our condensed consolidated balance sheets.

\$ in thousands	As of	
Collateral Pledged	March 31, 2022	December 31, 2021
Repurchase Agreements:		
Agency RMBS	5,607,777	7,326,175
U.S. Treasury securities	482,445	—
Cash	4,506	3,527
Total repurchase agreements collateral pledged	6,094,728	7,329,702
Derivative Instruments:		
Cash	43,287	4,458
Restricted cash	245,809	219,918
Total derivative instruments collateral pledged	289,096	224,376
Total collateral pledged:		
Agency RMBS	5,607,777	7,326,175
U.S. Treasury securities	482,445	—
Cash	47,793	7,985
Restricted cash	245,809	219,918
Total collateral pledged	6,383,824	7,554,078
	As of	
Collateral Held	March 31, 2022	December 31, 2021
Repurchase Agreements:		
Non-cash collateral	—	248
Total repurchase agreements collateral held	—	248
Derivative instruments:		
Cash	280	280
Total derivative instruments collateral held	280	280
Total collateral held:		
Cash	280	280
Non-cash collateral	—	248
Total collateral held	280	528

Repurchase Agreements

Collateral pledged with our repurchase agreement counterparties is segregated in our books and records. The repurchase agreement counterparties have the right to resell and repledge the collateral posted but have the obligation to return the pledged collateral, or substantially the same collateral if agreed to by us, upon maturity of the repurchase agreement. Under the repurchase agreements, the respective lender retains the contractual right to mark the underlying collateral to fair value. We would be required to provide additional collateral to fund margin calls if the value of pledged assets declined. We intend to maintain a level of liquidity that will enable us to meet margin calls.

The ratio of our total repurchase agreements collateral pledged to our total repurchase agreements outstanding was 104% as of March 31, 2022 (December 31, 2021: 105%).

Interest Rate Swaps

As of March 31, 2022 and December 31, 2021, all of our interest rate swaps were centrally cleared by a registered clearing organization such as the Chicago Mercantile Exchange ("CME") and LCH Limited ("LCH") through a Futures Commission Merchant ("FCM"). We are required to pledge initial margin and daily variation margin for our centrally cleared interest rate swaps that is based on the fair value of our contracts as determined by our FCM. Collateral pledged with our FCM is segregated in our books and records and can be in the form of cash or securities. Daily variation margin for centrally cleared interest rate swaps is characterized as settlement of the derivative itself rather than collateral and is recorded as gain (loss) on derivative instruments, net in our condensed consolidated statements of operations. Certain of our FCM agreements include cross default provisions.

TBAs and Currency Forward Contracts

Our TBAs and currency forward contracts provide for bilateral collateral pledging based on market value as determined by our counterparties. Collateral pledged with our TBA and currency forward counterparties is segregated in our books and records and can be in the form of cash or securities. Our counterparties have the right to repledge the collateral posted and have the obligation to return the pledged collateral, or substantially the same collateral, if agreed to by us, as the market value of the contracts changes.

Note 9 – Derivatives and Hedging Activities

The following table summarizes changes in the notional amount of our derivative instruments during 2022.

\$ in thousands	Notional Amount as of December 31, 2021	Additions	Settlement, Termination, Expiration or Exercise	Notional Amount as of March 31, 2022
Interest Rate Swaps ^{(1) (2)}	8,050,000	5,050,000	(4,000,000)	9,100,000
Currency Forward Contracts	13,596	14,187	(20,391)	7,392
TBA Purchase Contracts	1,600,000	10,050,000	(8,350,000)	3,300,000
TBA Sale Contracts	—	(10,150,000)	8,350,000	(1,800,000)
Total	9,663,596	4,964,187	(4,020,391)	10,607,392

(1) Does not include interest rate swaps with forward start dates with a notional amount of \$1.3 billion as of March 31, 2022 and December 31, 2021.

(2) Notional amount as of March 31, 2022 includes \$6.8 billion of interest rate swaps whereby we pay interest at a fixed rate and receive interest at a floating rate and \$2.3 billion of interest rate swaps whereby we pay interest at a floating rate and receive interest at a fixed rate. Notional amount as of December 31, 2021 includes \$6.3 billion of interest rate swaps whereby we pay interest at a fixed rate and receive interest at a floating rate and \$1.8 billion of interest rate swaps whereby we pay interest at a floating rate and receive interest at a fixed rate.

Refer to Note 8 - "Collateral Positions" for further information regarding our collateral pledged to and received from our derivative counterparties.

Interest Rate Swaps

Our repurchase agreements are usually settled on a short-term basis ranging from one day to six months. At each settlement date, we typically refinance each repurchase agreement at the market interest rate at that time. Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposures to interest rate movements. To accomplish these objectives, we primarily use interest rate swaps as part of our interest rate risk management strategy. Under the terms of the majority of our interest rate swap contracts, we make fixed-rate payments to a counterparty in exchange for the receipt of floating-rate amounts over the life of the agreements without exchange of the underlying notional amount. To

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a lesser extent, we also enter into interest rate swap contracts whereby we make floating-rate payments to a counterparty in exchange for the receipt of fixed-rate amounts as part of our overall risk management strategy.

Amounts recorded in AOCI before we discontinued cash flow hedge accounting for our interest rate swaps are reclassified to interest expense on repurchase agreements on the condensed consolidated statements of operations as interest is accrued and paid on the related repurchase agreements over the remaining life of the interest rate swap agreements. We reclassified \$5.2 million as a decrease (March 31, 2021: \$5.4 million as a decrease) to interest expense for the three months ended March 31, 2022. During the next 12 months, we estimate that \$19.0 million will be reclassified as a decrease to interest expense, repurchase agreements. As of March 31, 2022, \$24.9 million (December 31, 2021: \$30.1 million) of unrealized gains on discontinued cash flow hedges, net are still included in accumulated other comprehensive income and will be reclassified as a decrease to interest expense, repurchase agreements over a period of time through December 15, 2023.

As of March 31, 2022 and December 31, 2021, we had interest rate swaps whereby we pay interest at a fixed rate and receive floating interest based on the secured overnight financing rate ("SOFR") with the following maturities outstanding, excluding interest rate swaps with forward start dates.

\$ in thousands

Maturities	As of March 31, 2022			
	Notional Amount	Weighted Average Fixed Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity
Less than 3 years	1,000,000	0.06 %	0.30 %	2.3
3 to 5 years	1,250,000	0.12 %	0.30 %	3.4
5 to 7 years	2,225,000	0.32 %	0.30 %	5.7
7 to 10 years	1,825,000	0.52 %	0.30 %	8.3
Greater than 10 years	500,000	1.92 %	0.30 %	20.0
Total	6,800,000	0.42 %	0.30 %	6.5

\$ in thousands

Maturities	As of December 31, 2021			
	Notional Amount	Weighted Average Fixed Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity
Less than 3 years	1,000,000	0.06 %	0.05 %	2.6
3 to 5 years	1,250,000	0.12 %	0.05 %	3.6
5 to 7 years	2,225,000	0.32 %	0.05 %	5.9
7 to 10 years	1,825,000	0.52 %	0.05 %	8.6
Total	6,300,000	0.30 %	0.05 %	5.7

As of March 31, 2022 and December 31, 2021, we held \$1.3 billion notional amount of interest rate swaps with forward start dates that will receive floating interest based on SOFR. As of March 31, 2022, these interest rate swaps had a weighted average maturity of 20.5 years (December 31, 2021: 20.8 years) and a weighted average fixed pay rate of 0.99% (December 31, 2021: 0.99%).

As of March 31, 2022 and December 31, 2021, we had interest rate swaps whereby we pay floating interest based on SOFR and receive interest at a fixed rate with the following maturities outstanding.

\$ in thousands

Maturities	As of March 31, 2022			
	Notional Amount	Weighted Average Floating Pay Rate	Weighted Average Fixed Receive Rate	Weighted Average Years to Maturity
Less than 3 years	1,400,000	0.30 %	1.43 %	2.0
3 to 5 years	100,000	0.30 %	1.75 %	5.0
5 to 7 years	500,000	0.30 %	1.57 %	7.7
Greater than 10 years	300,000	0.30 %	1.83 %	30.0
Total	2,300,000	0.30 %	1.53 %	7.0

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\$ in thousands

Maturities	As of December 31, 2021			
	Notional Amounts	Weighted Average Floating Pay Rate	Weighted Average Fixed Receive Rate	Weighted Average Years to Maturity
Less than 3 years	1,000,000	0.05 %	0.77 %	2.6
5 to 7 years	500,000	0.05 %	1.26 %	6.9
7 to 10 years	250,000	0.05 %	1.27 %	10.0
Total	1,750,000	0.05 %	0.98 %	4.9

Swaptions and Currency Forward Contracts

We periodically purchase interest rate swaptions to help mitigate the potential impact of increases or decreases in interest rates on the performance of our Agency RMBS portfolio (referred to as "convexity risk"). The interest rate swaptions provide us the option to enter into interest rate swap agreements for a predetermined notional amount, stated term and pay and receive interest rates in the future. The premium paid for interest rate swaptions is reported as a derivative asset in our condensed consolidated balance sheets. The premium is valued at an amount equal to the fair value of the swaption that would have the effect of closing the position adjusted for nonperformance risk, if any. The difference between the premium and the fair value of the swaption is reported in gain (loss) on derivative instruments, net in our condensed consolidated statements of operations. If an interest rate swaption expires unexercised, the loss on the interest rate swaption would equal the premium paid. If we sell or exercise an interest rate swaption, the realized gain or loss on the interest rate swaption would equal the difference between the cash or the fair value of the underlying interest rate swap received and the premium paid.

We use currency forward contracts to help mitigate the potential impact of changes in foreign currency exchange rates on our investments denominated in foreign currencies. We recognize realized and unrealized gains and losses associated with the purchases or sales of currency forward contracts in gain (loss) on derivative instruments, net in our condensed consolidated statements of operations. As of March 31, 2022, we had \$7.4 million (December 31, 2021: \$13.6 million) of notional amount of currency forward contracts related to an investment in an unconsolidated venture denominated in Euro.

TBAs

We primarily use TBAs that we do not intend to physically settle on the contractual settlement date as an alternative means of investing in and financing Agency RMBS. The following table summarizes certain characteristics of our TBAs accounted for as derivatives as of March 31, 2022 and December 31, 2021.

\$ in thousands

	As of March 31, 2022			
	Notional Amount	Implied Cost Basis	Implied Market Value	Net Carrying Value
TBA Purchase Contracts ⁽¹⁾	3,300,000	3,317,340	3,265,344	(51,996)
TBA Sale Contracts ⁽²⁾	(1,800,000)	(1,767,945)	(1,753,313)	14,632
Net TBA Derivatives	1,500,000	1,549,395	1,512,031	(37,364)

(1) Net carrying value of TBA purchase contracts includes \$1.2 million of derivative assets and \$53.2 million of derivative liabilities.

(2) Net carrying value of TBA sale contracts includes \$16.2 million of derivative assets and \$1.6 million of derivative liabilities.

\$ in thousands

	As of December 31, 2021			
	Notional Amount	Implied Cost Basis	Implied Market Value	Net Carrying Value
TBA Purchase Contracts	1,600,000	1,636,906	1,633,955	(2,951)

Tabular Disclosure of the Effect of Derivative Instruments on the Balance Sheet

The table below presents the fair value of our derivative financial instruments, as well as their classification on the condensed consolidated balance sheets as of March 31, 2022 and December 31, 2021.

\$ in thousands

Derivative Assets			Derivative Liabilities		
	As of March 31, 2022	As of December 31, 2021		As of March 31, 2022	As of December 31, 2021
Balance Sheet	Fair Value	Fair Value	Balance Sheet	Fair Value	Fair Value
Interest Rate Swaps Asset	—	—	Interest Rate Swaps Liability	22,805	11,405
Currency Forward Contracts	237	270	Currency Forward Contracts	7	—
TBAs	17,437	—	TBAs	54,801	2,951
Total Derivative Assets	17,674	270	Total Derivative Liabilities	77,613	14,356

The following tables summarize the effect of interest rate swaps, interest rate swaptions, currency forward contracts and TBAs reported in gain (loss) on derivative instruments, net on the condensed consolidated statements of operations for the three months ended March 31, 2022 and 2021.

\$ in thousands

Derivative not designated as hedging instrument	Three Months Ended March 31, 2022			
	Realized gain (loss) on derivative instruments, net	Contractual net interest income (expense)	Unrealized gain (loss), net	Gain (loss) on derivative instruments, net
Interest Rate Swaps	343,309	1,284	(11,399)	333,194
Currency Forward Contracts	193	—	(41)	152
TBAs	(60,073)	—	(34,413)	(94,486)
Total	283,429	1,284	(45,853)	238,860

\$ in thousands

Derivative not designated as hedging instrument	Three Months Ended March 31, 2021			
	Realized gain (loss) on derivative instruments, net	Contractual net interest income (expense)	Unrealized gain (loss), net	Gain (loss) on derivative instruments, net
Interest Rate Swaps	327,527	(4,549)	21,081	344,059
Interest Rate Swaptions	(553)	—	—	(553)
Currency Forward Contracts	(539)	—	1,255	716
TBAs	(44,185)	—	(13,076)	(57,261)
Total	282,250	(4,549)	9,260	286,961

Note 10 – Offsetting Assets and Liabilities

Certain of our repurchase agreements and derivative transactions are governed by underlying agreements that generally provide for a right of offset under master netting arrangements (or similar agreements) in the event of default or in the event of bankruptcy of either party to the transactions. Assets and liabilities subject to such arrangements are presented on a gross basis in the condensed consolidated balance sheets.

The following tables present information about the assets and liabilities that are subject to master netting arrangements (or similar agreements) and can potentially be offset on our condensed consolidated balance sheets at March 31, 2022 and December 31, 2021. The daily variation margin payment for centrally cleared interest rate swaps is characterized as settlement of the derivative itself rather than collateral. Our derivative liability of \$22.8 million at March 31, 2022 (December 31, 2021: liability of \$11.4 million) related to centrally cleared interest rate swaps is not included in the table below as a result of this characterization of daily variation margin.

As of March 31, 2022

\$ in thousands	Gross Amounts Not Offset with Financial Assets (Liabilities) in the Balance Sheets					
	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets (Liabilities) Presented in the Balance Sheets	Financial Instruments	Cash Collateral (Received) Pledged	Net Amount
Assets						
Derivatives ^{(1) (2)}	17,674	—	17,674	(17,674)	—	—
Total Assets	17,674	—	17,674	(17,674)	—	—
Liabilities						
Derivatives ^{(1) (2)}	(54,808)	—	(54,808)	17,674	37,017	(117)
Repurchase Agreements ⁽³⁾	(5,837,420)	—	(5,837,420)	5,837,420	—	—
Total Liabilities	(5,892,228)	—	(5,892,228)	5,855,094	37,017	(117)

As of December 31, 2021

\$ in thousands	Gross Amounts Not Offset with Financial Assets (Liabilities) in the Balance Sheets					
	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets (Liabilities) Presented in the Balance Sheets	Financial Instruments	Cash Collateral (Received) Pledged	Net Amount
Assets						
Derivatives ^{(1) (2)}	270	—	270	—	(270)	—
Total Assets	270	—	270	—	(270)	—
Liabilities						
Derivatives ^{(1) (2)}	(2,951)	—	(2,951)	—	2,951	—
Repurchase Agreements ⁽³⁾	(6,987,834)	—	(6,987,834)	6,987,834	—	—
Total Liabilities	(6,990,785)	—	(6,990,785)	6,987,834	2,951	—

- (1) Amounts represent derivative assets and derivative liabilities which could potentially be offset against other derivative assets, derivative liabilities and cash collateral pledged or received.
- (2) Cash collateral pledged by us on our derivatives was \$289.1 million and \$224.4 million as of March 31, 2022 and December 31, 2021, respectively. Cash collateral pledged on our centrally cleared interest rate swaps is settled against the fair value of these swaps and is therefore excluded from the tables above. We held cash collateral on our derivatives of \$280,000 as of March 31, 2022 and December 31, 2021.
- (3) The fair value of securities pledged against our borrowings under repurchase agreements was \$6.1 billion and \$7.3 billion at March 31, 2022 and December 31, 2021, respectively. We pledged cash collateral of \$4.5 million and \$3.5 million under repurchase agreements as of March 31, 2022 and December 31, 2021, respectively. We held no cash collateral under repurchase agreements as of March 31, 2022 or December 31, 2021.

Note 11 – Fair Value of Financial Instruments

A three-level valuation hierarchy exists for disclosure of fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. The three levels are defined as follows:

- *Level 1 Inputs* – Quoted prices for identical instruments in active markets.
- *Level 2 Inputs* – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- *Level 3 Inputs* – Instruments with primarily unobservable value drivers.

The following tables present our assets and liabilities measured at fair value on a recurring basis.

March 31, 2022					
Fair Value Measurements Using:					
\$ in thousands	Level 1	Level 2	Level 3	NAV as a practical expedient ⁽⁴⁾	Total at Fair Value
Assets:					
Mortgage-backed securities ⁽¹⁾	—	5,992,494	—	—	5,992,494
U.S. Treasury securities ⁽²⁾	—	482,445	—	—	482,445
Derivative assets	—	17,674	—	—	17,674
Other assets ⁽³⁾	—	—	23,391	4,854	28,245
Total assets	—	6,492,613	23,391	4,854	6,520,858
Liabilities:					
Derivative liabilities	—	77,613	—	—	77,613
Total liabilities	—	77,613	—	—	77,613

December 31, 2021					
Fair Value Measurements Using:					
\$ in thousands	Level 1	Level 2	Level 3	NAV as a practical expedient ⁽⁴⁾	Total at Fair Value
Assets:					
Mortgage-backed securities ⁽¹⁾	—	7,804,259	—	—	7,804,259
Derivative assets	—	270	—	—	270
Other assets ⁽³⁾	—	—	23,515	12,476	35,991
Total assets	—	7,804,529	23,515	12,476	7,840,520
Liabilities:					
Derivative liabilities	—	14,356	—	—	14,356
Total liabilities	—	14,356	—	—	14,356

(1) For more detail about the fair value of our MBS, refer to Note 4 - "Mortgage-Backed Securities."

(2) For more detail about the fair value of our U.S. Treasury securities, refer to Note 5 - "U.S. Treasury Securities".

(3) Includes \$23.4 million and \$23.5 million of a commercial loan as of March 31, 2022 and December 31, 2021, respectively. We elected the fair value option for our commercial loan investment as of January 1, 2020 and valued the loan based on a third party appraisal as of March 31, 2022 and December 31, 2021.

(4) Investments in unconsolidated ventures are valued using the net asset value ("NAV") as a practical expedient and are not subject to redemption, although investors may sell or transfer their interest at the approval of the general partner of the underlying funds. As of March 31, 2022 and December 31, 2021, both of the unconsolidated ventures were in liquidation and plan to sell or settle their remaining investments as expeditiously as possible.

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The following table shows a reconciliation of the beginning and ending fair value measurements of our commercial loan investment, which we have valued utilizing Level 3 inputs.

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Beginning balance	23,515	23,098
Unrealized gains (losses)	(124)	(3,098)
Ending balance	23,391	20,000

Unrealized gains and losses on our commercial loan investment are included in gain (loss) on investments, net in our condensed consolidated statements of operations.

The following table summarizes the significant unobservable input used in the fair value measurement of our commercial loan.

\$ in thousands	Fair Value at March 31, 2022	Valuation Technique	Unobservable Input	Rate
Commercial Loan	23,391	Discounted Cash Flow	Discount rate	18.5 %

\$ in thousands	Fair Value at December 31, 2021	Valuation Technique	Unobservable Input	Rate
Commercial Loan	23,515	Discounted Cash Flow	Discount rate	18.8 %

The following table presents the carrying value and estimated fair value of our financial instruments that are not carried at fair value on the condensed consolidated balance sheets at March 31, 2022 and December 31, 2021.

\$ in thousands	March 31, 2022		December 31, 2021	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Liabilities				
Repurchase agreements	5,837,420	5,836,454	6,987,834	6,987,806
Total	5,837,420	5,836,454	6,987,834	6,987,806

The following describes our methods for estimating the fair value for financial instruments not carried at fair value on the condensed consolidated balance sheets.

- The estimated fair value of repurchase agreements is a Level 3 fair value measurement based on an expected present value technique. This method discounts future estimated cash flows using rates we determined best reflect current market interest rates that would be offered for repurchase agreements with similar characteristics and credit quality.

Note 12 – Related Party Transactions

Our Manager is at all times subject to the supervision and oversight of our Board of Directors and has only such functions and authority as we delegate to it. Under the terms of our management agreement, our Manager and its affiliates provide us with our management team, including our officers and appropriate support personnel. Each of our officers is an employee of our Manager or one of its affiliates. We do not have any employees. Our Manager is not obligated to dedicate any of its employees exclusively to us, nor is our Manager obligated to dedicate any specific portion of time to our business. During the three months ended March 31, 2022, we reimbursed our Manager \$413,000 (March 31, 2021: \$298,000) for costs of support personnel.

Management Fee

We pay our Manager a fee equal to 1.50% of our stockholders' equity per annum. For purposes of calculating the management fee, stockholders' equity is calculated as average month-end stockholders' equity for the prior calendar quarter as determined in accordance with U.S. GAAP. Stockholders' equity may exclude one-time events due to changes in U.S. GAAP and certain non-cash items upon approval by a majority of our independent directors.

We do not pay any management fees on our investments in unconsolidated ventures that are managed by an affiliate of our Manager.

Expense Reimbursement

We are required to reimburse our Manager for operating expenses incurred on our behalf, including directors and officers insurance, accounting services, auditing and tax services, legal services, filing fees, and miscellaneous general and administrative costs. Our reimbursement obligation is not subject to any dollar limitation.

The following table summarizes the costs incurred on our behalf by our Manager for the three months ended March 31, 2022 and 2021.

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Incurred costs, prepaid or expensed	1,337	1,157
Incurred costs, charged against equity as a cost of raising capital	58	77
Total incurred costs, originally paid by our Manager	1,395	1,234

Note 13 – Stockholders' Equity

Preferred Stock

Holders of our Series B Preferred Stock are entitled to receive dividends at an annual rate of 7.75% of the liquidation preference of \$25.00 per share or \$1.9375 per share per annum until December 27, 2024. After December 27, 2024, holders are entitled to receive dividends at a floating rate equal to three-month LIBOR plus a spread of 5.18% of the \$25.00 liquidation preference per annum. Dividends are cumulative and payable quarterly in arrears.

Holders of our Series C Preferred Stock are entitled to receive dividends at an annual rate of 7.50% of the liquidation preference of \$25.00 per share or \$1.875 per share per annum until September 27, 2027. After September 27, 2027, holders are entitled to receive dividends at a floating rate equal to three-month LIBOR plus a spread of 5.289% of the \$25.00 liquidation preference per annum. Dividends are cumulative and payable quarterly in arrears.

We have the option to redeem shares of our Series B Preferred Stock after December 27, 2024 and shares of our Series C Preferred Stock after September 27, 2027 for \$25.00 per share, plus any accumulated and unpaid dividends through the date of the redemption. Shares of Series B and Series C Preferred Stock are not redeemable, convertible into or exchangeable for any other property or any other securities of the Company before those times, except under circumstances intended to preserve our qualification as a REIT or upon the occurrence of a change in control.

As of March 31, 2022, we may sell up to 5,500,000 shares of our preferred stock from time to time in at-the-market or privately negotiated transactions under an equity distribution agreement with a placement agent. These shares are registered with the SEC under our shelf registration statement (as amended and/or supplemented). We have not sold any shares of preferred stock under equity distribution agreements.

Common Stock

As of March 31, 2022, we may sell up to 56,865,980 shares of our common stock from time to time in at-the-market or privately negotiated transactions under our equity distribution agreement with placement agents. These shares are registered with the SEC under our shelf registration statement (as amended and/or supplemented). We did not sell any shares of common stock under our equity distribution agreement during the three months ended March 31, 2022. During three months ended March 31, 2021, we sold 15,550,000 shares of common stock under an equity distribution agreement for proceeds of \$57.8 million, net of approximately \$831,000 in commissions and fees.

Share Repurchase Program

During the three months ended March 31, 2022 and 2021, we did not repurchase any shares of our common stock. As of March 31, 2022, we had authority to purchase 18,163,982 shares of our common stock through our share repurchase program.

Accumulated Other Comprehensive Income

The following tables present the components of total other comprehensive income (loss), net and accumulated other comprehensive income ("AOCI") for the three months ended March 31, 2022 and 2021. The tables exclude gains and losses on MBS that are accounted for under the fair value option.

\$ in thousands	Three Months Ended March 31, 2022			
	Equity method investments	Available-for-sale securities	Derivatives and hedging	Total
Total other comprehensive income (loss)				
Unrealized gain (loss) on mortgage-backed securities, net	—	(2,421)	—	(2,421)
Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	—	—	(5,196)	(5,196)
Currency translation adjustments on investment in unconsolidated venture	(200)	—	—	(200)
Total other comprehensive income (loss)	(200)	(2,421)	(5,196)	(7,817)
AOCI balance at beginning of period	424	6,749	30,113	37,286
Total other comprehensive income (loss)	(200)	(2,421)	(5,196)	(7,817)
AOCI balance at end of period	224	4,328	24,917	29,469

\$ in thousands	Three Months Ended March 31, 2021			
	Equity method investments	Available-for-sale securities	Derivatives and hedging	Total
Total other comprehensive income (loss)				
Unrealized gain (loss) on mortgage-backed securities, net	—	981	—	981
Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	—	—	(5,368)	(5,368)
Currency translation adjustments on investment in unconsolidated venture	609	—	—	609
Total other comprehensive income (loss)	609	981	(5,368)	(3,778)
AOCI balance at beginning of period	499	5,993	52,113	58,605
Total other comprehensive income (loss)	609	981	(5,368)	(3,778)
AOCI balance at end of period	1,108	6,974	46,745	54,827

Amounts recorded in AOCI before we discontinued cash flow hedge accounting for our interest rate swaps are reclassified to interest expense on repurchase agreements on the condensed consolidated statements of operations as interest is accrued and paid on the related repurchase agreements over the remaining original life of the interest rate swap agreements.

Dividends

The table below summarizes the dividends we declared during the three months ended March 31, 2022 and 2021.

\$ in thousands, except per share amounts	Dividends Declared		
	Per Share	In Aggregate	Date of Payment
Series A Preferred Stock			
2021			
February 19, 2021	0.4844	2,713	April 26, 2021

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\$ in thousands, except per share amounts

<u>Series B Preferred Stock</u>	Dividends Declared		
	Per Share	In Aggregate	Date of Payment
2022			
February 16, 2022	0.4844	3,003	March 28, 2022
2021			
February 19, 2021	0.4844	3,003	March 29, 2021

\$ in thousands, except per share amounts

<u>Series C Preferred Stock</u>	Dividends Declared		
	Per Share	In Aggregate	Date of Payment
2022			
February 16, 2022	0.46875	5,391	March 28, 2022
2021			
February 19, 2021	0.46875	5,391	March 29, 2021

\$ in thousands, except per share amounts

<u>Common Stock</u>	Dividends Declared		
	Per Share	In Aggregate	Date of Payment
2022			
March 28, 2022	0.09	29,693	April 27, 2022
2021			
March 26, 2021	0.09	22,176	April 27, 2021

Note 14 – Earnings (Loss) per Common Share

Earnings (loss) per share for the three months ended March 31, 2022 and 2021 is computed as follows.

In thousands, except per share amounts	Three Months Ended March 31,	
	2022	2021
Numerator (Income)		
Basic Earnings:		
Net income (loss) available to common stockholders	(236,816)	(20,382)
Denominator (Weighted Average Shares)		
Basic Earnings:		
Shares available to common stockholders	329,850	223,955
Dilutive Shares	329,850	223,955
Earnings (loss) per share:		
Net income (loss) attributable to common stockholders		
Basic	(0.72)	(0.09)
Diluted	(0.72)	(0.09)

The following potential weighted average common shares were excluded from diluted earnings per share for three months ended March 31, 2022 as the effect would be antidilutive: 15,004 for restricted stock awards (12,385 for restricted stock awards for three months ended March 31, 2021).

Note 15 – Commitments and Contingencies

Commitments and Contingencies

Commitments and contingencies may arise in the ordinary course of business. Our material off-balance sheet commitments as of March 31, 2022 are discussed below.

As discussed in Note 6 - “Other Assets”, we have invested in unconsolidated ventures that are sponsored by an affiliate of our Manager. The unconsolidated ventures are structured as partnerships, and we invested in the partnerships as a limited partner. Both of the unconsolidated ventures are in liquidation and plan to sell or settle their remaining investments as

expeditiously as possible. Until the ventures complete their liquidation, we are committed to fund \$6.5 million, in additional capital to cover future expenses should they occur.

Note 16 – Subsequent Events

Dividends

We declared the following dividends on May 3, 2022: a Series B Preferred Stock dividend of \$0.4844 per share payable on June 27, 2022 to our stockholders of record as of June 5, 2022 and a Series C Preferred Stock dividend of \$0.46875 per share payable on June 27, 2022 to our stockholders of record as of June 5, 2022.

Preferred Stock Repurchase Plan

On May 3, 2022, our Board of Directors approved a repurchase plan for our preferred stock. Under the terms of the plan, we are authorized to repurchase up to 3,000,000 shares of our Series B Preferred Stock and 5,000,000 shares of our Series C Preferred Stock.

Reverse Stock Split

On May 3, 2022, our Board of Directors approved a one-for-ten reverse stock split of outstanding shares of our common stock. We expect the reverse stock split will be effective following the close of business on June 3, 2022 at which time every ten issued and outstanding shares of our common stock will convert into one share of common stock. Cash will be paid in lieu of fractional shares. The following table presents pro forma earnings (loss) per common share as if the one-for-ten reverse stock split had been given retroactive recognition in our financial statements for the three months ended March 31, 2022 and 2021.

Pro Forma Computation of Earnings (Loss) Per Common Share Assuming a One-for-Ten Reverse Stock Split

In thousands, except per share amounts	Three Months Ended March 31,	
	2022	2021
Numerator (Income)		
Basic Earnings:		
Net income (loss) available to common stockholders	(236,816)	(20,382)
Denominator (Weighted Average Shares)		
Basic Earnings:		
Shares available to common stockholders	32,985	22,396
Dilutive Shares	32,985	22,396
Pro forma earnings (loss) per share:		
Net income (loss) attributable to common stockholders		
Basic	(7.18)	(0.91)
Diluted	(7.18)	(0.91)

The following potential weighted average common shares were excluded from pro forma diluted earnings per share for three months ended March 31, 2022 as the effect would be antidilutive: 1,500 for restricted stock awards (1,238 for restricted stock awards for three months ended March 31, 2021).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In this quarterly report on Form 10-Q, or this "Quarterly Report," we refer to Invesco Mortgage Capital Inc. and its consolidated subsidiaries as "we," "us," "our Company," or "our," unless we specifically state otherwise or the context indicates otherwise. We refer to our external manager, Invesco Advisers, Inc., as our "Manager," and we refer to the indirect parent company of our Manager, Invesco Ltd. together with its consolidated subsidiaries (which does not include us), as "Invesco."

The following discussion should be read in conjunction with our condensed consolidated financial statements and the accompanying notes to our condensed consolidated financial statements, which are included in Item 1 of this Report, as well as the information contained in our most recent Form 10-K filed with the Securities and Exchange Commission (the "SEC").

Forward-Looking Statements

We make forward-looking statements in this Report and other filings we make with the SEC within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and such statements are intended to be covered by the safe harbor provided by the same. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. These forward-looking statements include information about possible or assumed future results of our business, investment strategies, financial condition, liquidity, results of operations, plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "intend," "project," "forecast" or similar expressions and future or conditional verbs such as "will," "may," "could," "should," and "would," and any other statement that necessarily depends on future events, we intend to identify forward-looking statements, although not all forward-looking statements may contain such words. Factors that could cause actual results to differ from those expressed in our forward-looking statements include, but are not limited to:

- the economic and operational impact of the COVID-19 pandemic, including but not limited to, the impact on the value, volatility, availability, financing and liquidity of target assets;
- our business and investment strategy;
- our investment portfolio and expected investments;
- our projected operating results;
- general volatility of financial markets and the effects of governmental responses, including actions and initiatives of the U.S. governmental agencies and changes to U.S. government policies in response to the COVID-19 pandemic, mortgage loan forbearance and modification programs, interest rate fluctuations, increases in inflation, actions and initiatives of foreign governmental agencies and central banks, monetary policy actions of the Federal Reserve, including actions relating to its agency mortgage-backed securities portfolio and our ability to respond to and comply with such actions, initiatives and changes;
- the availability of financing sources, including our ability to obtain additional financing arrangements and the terms of such arrangements;
- financing and advance rates for our target assets;
- changes to our expected leverage;
- our expected book value per common share;
- our intention and ability to pay dividends;
- interest rate mismatches between our target assets and our borrowings used to fund such investments;
- the adequacy of our cash flow from operations and borrowings to meet our short-term liquidity needs;
- our ability to maintain sufficient liquidity to meet our short-term liquidity needs;
- changes in the credit rating of the U.S. government;
- changes in interest rates and interest rate spreads and the market value of our target assets;
- changes in prepayment rates on our target assets;
- the impact of any deficiencies in loss mitigation of third parties and related uncertainty in the timing of collateral disposition;

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- our reliance on third parties in connection with services related to our target assets;
- disruption of our information technology systems;
- the impact of potential data security breaches or other cyber-attacks or other disruptions;
- the effects of hedging instruments on our target assets;
- rates of default or decreased recovery rates on our target assets;
- modifications to whole loans or loans underlying securities;
- the degree to which our hedging strategies may or may not protect us from interest rate and foreign currency exchange rate volatility;
- the degree to which derivative contracts expose us to contingent liabilities;
- counterparty defaults;
- compliance with financial covenants in our financing arrangements;
- changes in governmental regulations, zoning, insurance, eminent domain and tax law and rates, and similar matters and our ability to respond to such changes;
- our ability to maintain our qualification as a real estate investment trust for U.S. federal income tax purposes;
- our ability to maintain our exception from the definition of "investment company" under the Investment Company Act of 1940, as amended (the "1940 Act");
- the availability of investment opportunities in mortgage-related, real estate-related and other securities;
- the availability of U.S. Government Agency guarantees with regard to payments of principal and interest on securities;
- the market price and trading volume of our capital stock;
- the availability of qualified personnel from our Manager and our Manager's continued ability to find and retain such personnel;
- the relationship with our Manager;
- estimates relating to taxable income and our ability to continue to make distributions to our stockholders in the future;
- estimates relating to fair value of our target assets and interest income recognition;
- our understanding of our competition;
- changes to generally accepted accounting principles in the United States of America ("U.S. GAAP");
- the adequacy of our disclosure controls and procedures and internal controls over financial reporting; and
- market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these factors are described under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Report. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion should be read in conjunction with our condensed consolidated financial statements and the accompanying notes to our condensed consolidated financial statements, which are included in this Report.

Executive Summary

We are a Maryland corporation primarily focused on investing in, financing and managing mortgage-backed securities ("MBS") and other mortgage-related assets. Our objective is to provide attractive risk-adjusted returns to our stockholders, primarily through dividends and secondarily through capital appreciation. To achieve this objective, we currently invest in the following:

- 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") (collectively "Agency RMBS");
- Commercial mortgage-backed securities ("CMBS") that are not guaranteed by a U.S. government agency or a federally chartered corporation ("non-Agency CMBS");
- RMBS that are not guaranteed by a U.S. government agency or a federally chartered corporation ("non-Agency RMBS");
- To-be-announced securities forward contracts ("TBAs") to purchase Agency RMBS;
- A commercial mortgage loan;
- Other real estate-related financing arrangements; and
- U.S. Treasury securities.

We continuously evaluate new investment opportunities to complement our current investment portfolio by expanding our target assets and portfolio diversification.

We conduct our business through our wholly-owned subsidiary, IAS Operating Partnership L.P. (the "Operating Partnership"). We are externally managed and advised by Invesco Advisers, Inc. (our "Manager"), an indirect wholly-owned subsidiary of Invesco Ltd. ("Invesco").

We have elected to be taxed as a real estate investment trust ("REIT") for U.S. federal income tax purposes under the provisions of the Internal Revenue Code of 1986. To maintain our REIT qualification, we are generally required to distribute at least 90% of our REIT taxable income to our stockholders annually. We operate our business in a manner that permits our exclusion from the definition of "Investment Company" under the 1940 Act.

Market Conditions

Macroeconomic factors that affect our business include interest rate spread premiums, governmental policy initiatives, residential and commercial real estate prices, credit availability, consumer personal income and spending, corporate earnings, employment conditions, financial conditions and inflation.

Financial conditions tightened significantly during the first quarter of 2022 as equity markets declined, credit spreads widened and volatility increased in reaction to sharply higher price data and the potential disruption to supply chains brought on by the conflict in Ukraine and continued COVID-19 lockdowns in China. Interest rates were higher across the yield curve, with shorter dated maturities increasing more than longer dated maturities as the Federal Reserve began to remove monetary policy accommodations. Equity markets ended the first quarter lower, as the S&P 500 lost 4.9% while the NASDAQ lost 9.1% since the end of 2021. The employment picture continued to improve during the quarter, as gains in nonfarm payrolls averaged 562,000 per month, and the unemployment rate fell from 3.9% to 3.6% at quarter-end. Consumer activity was mixed with consumer confidence measures declining as the impact of higher prices took hold, while spending and retail sales both increased modestly.

Interest rates rose during the first quarter as market expectations of additional aggressive increases to the Federal Funds target rate by the Federal Open Market Committee ("FOMC") impacted shorter maturities and increases in inflation expectations affected longer dated maturities. During the quarter, the yield on the 2 year Treasury note increased 160 basis points to 2.34%, the yield on the 5 year Treasury increased 120 basis points to 2.46% and the yield on the 10 year Treasury ended the quarter at 2.34%, up 83 basis points. In March, the FOMC raised the Federal Funds target rate as it began its fight against inflation. Market expectations for further rate hikes increased dramatically, with pricing in the Federal Funds futures market reflecting as many as 10 additional hikes by the end of 2023. The consumer price index ("CPI") hit a 40-year high of 8.5% during March, up from 7.0% at year-end. The CPI excluding food and energy ended the quarter at 6.5%, up from 5.5% last quarter. Commodity prices gaped higher during the quarter, with West Texas Intermediate crude recording a 56.2% increase and the Commodity Research Bureau commodity index gaining 37.4%. Despite these price increases, breakeven rates on inflation-protected Treasuries reflected the belief that the Federal Reserve will have success in reducing inflation below

current levels. The inflation rate implied by 2 year U.S. Treasury inflation-protected securities ended the quarter at 4.41% (up from 3.22% last quarter), while the 5 year breakeven rate rose from 2.91% to 3.43% over the course of the quarter.

After posting their worst performance in nearly a decade in 2021, Agency RMBS underperformed significantly worse during the first quarter of 2022. Underperformance relative to Treasuries during the first quarter was approximately twice as bad as in 2021, with lower coupons lagging Treasuries by approximately 200 basis points. Increased interest rate volatility and elevated market expectations for more restrictive monetary policy were particularly harmful for low coupon 30 year Agency RMBS, which previously had benefited the most from the Federal Reserve's initial response to the COVID-19 pandemic. In particular, the accelerated timeline for the tapering of net asset purchases and balance sheet normalization significantly disrupted the supply and demand dynamics in Agency RMBS, as the Federal Reserve signaled a notable decline in demand for the asset class in 2022. While prepayment speeds remained relatively elevated due to the strength of the housing market, premiums on specified pool Agency RMBS collapsed during the quarter as investor demand for prepayment protection disappeared as mortgage rates hit multi-year highs. Prepayment speeds should moderate in the months ahead, as sharply higher mortgage rates dampen refinancing activity. The dollar roll market for new production higher coupon TBAs continues to be attractive, as demand for par-priced paper outstrips current production. Overall, despite cheaper valuations, we remain cautious on the Agency RMBS sector, as heightened volatility and a worsening technical picture weighs on our outlook.

CMBS risk premiums increased in the first quarter of 2022 due to elevated geopolitical risks, higher inflation and increased interest rate volatility. Despite these concerns, the economy continued to show signs of improvement. This pick-up in economic activity has translated to improving employment levels, increased commercial real estate activity and continued property price appreciation. While commercial mortgage loan delinquencies remain elevated across many property types, they continue to decline from their post-pandemic peak levels. The lodging and retail sectors have experienced the highest level of loan delinquencies due to travel restrictions and a severe slowdown in activity. Office, multi-family and industrial property sectors continue to post relatively lower delinquency levels. Loans secured by office properties have benefited from long-term tenant leases and industrial warehouse properties have benefited from growing online shopping, as online retailers have demanded more space to support their fulfillment process.

The housing market staged a robust recovery following the onset of the COVID-19 pandemic, driven in part by low mortgage rates and tight supply conditions. Demographic trends and changes in housing preferences shaped by the pandemic have contributed to solid demand, especially for single family homes. This strength is reflected in rapid home price appreciation, which has only recently begun to moderate as mortgage rates have increased and affordability has declined. After reversing much of the credit spread widening that occurred in March 2020, residential mortgage-backed securities valuations have been negatively impacted by challenging market technicals and increased macro volatility over the past two quarters despite supportive credit fundamentals.

Investment Activities

The table below shows the composition of our investment portfolio as of March 31, 2022, December 31, 2021 and March 31, 2021:

\$ in thousands	As of		
	March 31, 2022	December 31, 2021	March 31, 2021
Agency RMBS:			
30 year fixed-rate, at fair value	5,861,979	7,701,523	8,997,918
Agency CMO, at fair value	60,818	30,757	—
Non-Agency CMBS, at fair value	61,295	62,909	91,250
Non-Agency RMBS, at fair value	8,402	9,070	10,574
U.S. Treasury securities, at fair value	482,445	—	—
Commercial loan, at fair value	23,391	23,515	20,000
Investments in unconsolidated ventures	4,854	12,476	15,766
Subtotal	6,503,184	7,840,250	9,135,508
TBAs, at implied cost basis ⁽¹⁾	1,549,395	1,636,906	1,548,066
Total investment portfolio, including TBAs	8,052,579	9,477,156	10,683,574

- (1) Our presentation of TBAs in the table above represents management's view of our investment portfolio and does not reflect how we record TBAs on our condensed consolidated balance sheets under U.S. GAAP. Under U.S. GAAP, we record TBAs that we do not intend to physically settle on the contractual settlement date as derivative financial instruments. We value TBAs on our condensed consolidated balance sheets at net carrying value, which represents the difference between the fair market value and the implied cost basis of the TBAs. For further details of our U.S. GAAP accounting for TBAs, refer to Note 9 "Derivatives and Hedging Activities" in Part I, Item 1 of this report on Form 10-Q. Our TBA dollar roll transactions are a form of off-balance sheet financing. For further information on how management evaluates our at-risk leverage, see Non-GAAP Financial Measures below.

We sold \$8.8 billion and purchased \$7.6 billion of Agency RMBS during the three months ended March 31, 2022 primarily to rotate into higher yielding securities, in some cases changing coupon rates or the type of specified pool collateral. Purchases were funded with proceeds from the sales and paydowns of securities.

As of March 31, 2022, our holdings of 30 year fixed-rate Agency RMBS represented approximately 73% of our total investment portfolio, including TBAs, versus 81% as of December 31, 2021 and 84% as of March 31, 2021. Our 30 year fixed-rate Agency RMBS holdings as of March 31, 2022, December 31, 2021 and March 31, 2021 consisted of specified pools with coupon distributions as shown in the table below.

\$ in thousands	As of					
	March 31, 2022		December 31, 2021		March 31, 2021	
	Fair Value	Percentage	Fair Value	Percentage	Fair Value	Percentage
2.0%	1,911,141	32.6 %	2,408,404	31.3 %	4,135,167	46.0 %
2.5%	1,938,205	33.1 %	2,877,568	37.3 %	4,255,013	47.2 %
3.0%	2,012,633	34.3 %	2,178,476	28.3 %	607,738	6.8 %
3.5%	—	— %	237,075	3.1 %	—	— %
Total 30 year fixed-rate Agency RMBS	5,861,979	100.0 %	7,701,523	100.0 %	8,997,918	100.0 %

Our purchases of Agency RMBS have been primarily focused on specified pools with attractive prepayment profiles. We seek to capitalize on the impact of prepayments on our investment portfolio by purchasing specified pools with characteristics that optimize borrower incentive to prepay for both our premium and discount priced investments. Specified pools typically consist of characteristics such as a lower loan balance, higher loan-to-value ("LTV") ratio, lower FICO score, non-owner occupied loans (investment and vacation properties) and higher geographic concentrations in states such as New York, Florida and Texas. In addition, specified pools with certain loan age and servicers can also exhibit prepayment tendencies that may be attractive.

We invest in TBAs as an alternative means of investing in and financing Agency RMBS. As of March 31, 2022, the implied cost basis of TBAs represented approximately 19% of our total investment portfolio versus 17% as of December 31, 2021 and 14% as of March 31, 2021. As of March 31, 2022, our investments consist of 30-year Agency RMBS TBAs with coupons that range from 2.5% to 4.0% in conventional collateral. We maintain a meaningful allocation to TBAs given attractive

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implied financing rates in the Agency RMBS TBA dollar roll market. Implied financing rates in the dollar roll market were below those available in the repurchase market as the sharp rise in mortgage rates led to a supply and demand imbalance in certain coupons, benefiting investors. We anticipate this benefit to diminish in the coming quarters as the imbalance decreases due to an increase in production of higher coupon Agency RMBS.

As of March 31, 2022; December 31, 2021 and March 31, 2021 our holdings of non-Agency CMBS represented approximately 1% of our total investment portfolio, including TBAs. Our non-Agency CMBS portfolio is comprised of fixed-rate securities that are rated single-A (or equivalent) or higher by a nationally recognized statistical rating organization as of March 31, 2022. Approximately 72% of non-Agency CMBS are rated double-A (or equivalent) or higher by a nationally recognized statistical rating organization as of March 31, 2022.

As of March 31, 2022; December 31, 2021 and March 31, 2021, our holdings of non-Agency RMBS represented less than 1% of our total investment portfolio, including TBAs.

As of March 31, 2022, our holdings of U.S. Treasury securities represented approximately 6% of our total investment portfolio, including TBAs, versus 0% as of December 31, 2021 and March 31, 2021. We use various financial instruments, including swaps and U.S. Treasury securities to keep duration within management's targeted range. Management determines the type of financial instrument best suited to manage duration based on various factors, including interest rate swap spreads, repurchase agreement borrowing rates, expected holding periods and transaction costs. Our holdings of U.S. Treasury securities as of March 31, 2022 were comprised of 5-, 7- and 10-year U.S. Treasury notes with a weighted average coupon rate of 1.88%.

As of March 31, 2022, we held an investment in one commercial real estate mezzanine loan that is due in June 2022 and has a loan-to-value ratio of approximately 68.0%.

As of March 31, 2022, we held investments in two unconsolidated ventures that are managed by an affiliate of our Manager. Both of the unconsolidated ventures are in liquidation and plan to sell or settle their remaining investments as expeditiously as possible. Until the ventures complete their liquidation, we are committed to fund \$6.5 million in additional capital to cover future expenses should they occur.

Financing and Other Liabilities

We have historically used repurchase agreements to finance the majority of our target assets and expect to continue to use repurchase agreements to finance Agency investments in the future. We also currently use repurchase agreements to finance our purchases of U.S. Treasury securities. Repurchase agreements are generally settled on a short-term basis, usually from one day to six months, and bear interest at rates that are expected to move in close relationship to SOFR.

The following table presents the amount of collateralized borrowings outstanding under repurchase agreements as of the end of each quarter, the average amount outstanding during the quarter and the maximum balance outstanding during the quarter.

Quarter Ended	Collateralized borrowings under repurchase agreements		
	Quarter-end balance	Average quarterly balance	Maximum balance ⁽²⁾
March 31, 2021	8,240,887	8,359,010	8,708,686
June 30, 2021	7,851,204	7,945,494	8,004,924
September 30, 2021	7,873,798	7,846,536	7,886,360
December 31, 2021	6,987,834	7,442,784	7,776,070
March 31, 2022	5,837,420	6,218,445	6,636,913

(1) Average quarterly balance for each period is based on month-end balances.

(2) Amount represents the maximum borrowings at month-end during each of the respective periods.

Hedging Instruments

We enter into interest rate swap agreements that are designed to mitigate the effects of increases in interest rates for a portion of our borrowings. Under these swap agreements, we generally pay fixed interest rates and receive floating interest rates indexed to SOFR. To a lesser extent, we also enter into interest rate swap agreements whereby we make floating interest rate payments indexed to SOFR and receive fixed interest rate payments as part of our overall risk management strategy. Prior to the transition of our swap portfolio to swaps that are indexed to SOFR in the fourth quarter of 2021, our interest rate swaps were generally indexed to one- or three-month LIBOR.

We actively manage our swap portfolio by terminating and entering into new swaps as the size and composition of our investment portfolio changes. During the three months ended March 31, 2022, we terminated existing swaps with a notional amount of \$4.0 billion and entered into new swaps with a notional amount of \$5.1 billion as part of our overall risk management strategy. Daily variation margin payment for interest rate swaps is characterized as settlement of the derivative itself rather than collateral and is recorded as a realized gain or loss in our condensed consolidated statement of operations. We realized a net gain of \$343.3 million on interest rate swaps during the three months ended March 31, 2022 primarily due to rising interest rates.

We enter into currency forward contracts to help mitigate the potential impact of changes in foreign currency exchange rates on investments denominated in foreign currencies. As of March 31, 2022, we had €6.5 million or \$7.4 million (December 31, 2021: €11.7 million or \$13.6 million) of notional amount of forward contracts denominated in Euro related to our investment in an unconsolidated venture. During the three months ended March 31, 2022, we settled currency forward contracts of €17.6 million or \$20.4 million (March 31, 2021: €27.8 million or \$33.1 million) in notional amount and realized a net gain of \$193,000 (March 31, 2021: \$539,000 net loss).

Capital Activities

As of March 31, 2022, we may sell up to 56,865,980 shares of our common stock and 5,500,000 shares of our preferred stock from time to time in at-the-market or privately negotiated transactions under our equity distribution agreement with placement agents. During the three months ended March 31, 2022, we did not sell any shares of common stock under our equity distribution agreement. During three months ended March 31, 2021, we sold 15,550,000 shares of common stock under an equity distribution agreement for proceeds of \$57.8 million, net of approximately \$831,000 in commissions and fees.

For information on dividends declared during the three months ended March 31, 2022 and 2021, see Note 13 - "Stockholders' Equity" of our condensed consolidated financial statements in Part I. Item 1 of this report on Form 10-Q.

During the three months ended March 31, 2022, we did not repurchase any shares of our common stock.

In May 2022, our Board of Directors approved a preferred stock repurchase plan under which we are authorized to repurchase 3,000,000 shares of our Series B Preferred Stock and 5,000,000 shares of our Series C Preferred Stock.

Refer to Note 16 - "Subsequent Events" of our condensed consolidated financial statements in Part I. Item 1. of this report on Form 10-Q for details of our one-for-ten reverse stock split that was approved by our Board of Directors on May 3, 2022.

Book Value per Common Share

We calculate book value per common share as follows.

\$ in thousands except per share amounts	As of	
	March 31, 2022	December 31, 2021
Numerator (adjusted equity):		
Total equity	1,127,947	1,402,135
Less: Liquidation preference of Series B Preferred Stock	(155,000)	(155,000)
Less: Liquidation preference of Series C Preferred Stock	(287,500)	(287,500)
Total adjusted equity	685,447	959,635
Denominator (number of shares):		
Common stock outstanding	329,918	329,875
Book value per common share	2.08	2.91

Our book value per common share decreased 28.5% as of March 31, 2022 compared to December 31, 2021 as the anticipation of an accelerated timeline for balance sheet reduction and the sharp pivot to tighter monetary policy by the Federal Reserve has pressured valuations lower in 2022. Premium valuations on our specified pool collateral have also deteriorated as higher rates reduced investor demand for prepayment protection. Furthermore, the Russian invasion of Ukraine has led to a reduction in demand for risk assets as volatility and uncertainty increased. Refer to Item 3. "Quantitative and Qualitative Disclosures About Market Risk" for interest rate risk and its impact on fair value.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies and estimates that are disclosed in our most recent Form 10-K for the year ended December 31, 2021.

Recent Accounting Standards

None.

Results of Operations

The table below presents certain information from our condensed consolidated statements of operations for the three months ended March 31, 2022 and 2021.

\$ in thousands, except share data	Three Months Ended March 31,	
	2022	2021
Interest income		
Mortgage-backed and other securities	41,637	39,434
Commercial loan	537	576
Total interest income	42,174	40,010
Interest expense		
Repurchase agreements ⁽¹⁾	(2,104)	(1,660)
Total interest expense	(2,104)	(1,660)
Net interest income	44,278	41,670
Other income (loss)		
Gain (loss) on investments, net	(504,388)	(331,857)
(Increase) decrease in provision for credit losses	—	938
Equity in earnings (losses) of unconsolidated ventures	71	(94)
Gain (loss) on derivative instruments, net	238,860	286,961
Other investment income (loss), net	55	(16)
Total other income (loss)	(265,402)	(44,068)
Expenses		
Management fee – related party	5,274	4,884
General and administrative	2,024	1,993
Total expenses	7,298	6,877
Net income (loss)	(228,422)	(9,275)
Dividends to preferred stockholders	8,394	11,107
Net income (loss) attributable to common stockholders	(236,816)	(20,382)
Earnings (loss) per share:		
Net income (loss) attributable to common stockholders		
Basic	(0.72)	(0.09)
Diluted	(0.72)	(0.09)
Weighted average number of shares of common stock:		
Basic	329,850,097	223,954,989
Diluted	329,850,097	223,954,989

- (1) Negative interest expense on repurchase agreements is due to amortization of net deferred gains on de-designated interest rate swaps that exceeds current period interest expense on repurchase agreements. For further information on amortization of amounts classified in accumulated other comprehensive income before we discontinued hedge accounting, see Note 9 - "Derivatives and Hedging Activities" and Note 13 - "Stockholders' Equity" in Part I. Item 1. of this report on Form 10-Q.

Interest Income and Average Earning Asset Yields

The table below presents information related to our average earning assets and earning asset yields for the three months ended March 31, 2022 and 2021.

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Average earning assets ⁽¹⁾	7,005,218	9,330,134
Average earning asset yields ⁽²⁾	2.41 %	1.72 %

(1) Average balances for each period are based on weighted month-end balances.

(2) Average earning asset yields for the period were calculated by dividing interest income, including amortization of premiums and discounts, by average earning assets based on the amortized cost of the investments. All yields are annualized.

Our primary source of income is interest earned on our investment portfolio. We had average earning assets of \$7.0 billion for the three months ended March 31, 2022 (March 31, 2021: \$9.3 billion). Average earning assets decreased for the three months ended March 31, 2022 compared to 2021 as we reduced the size of our investment portfolio given expectations that the Federal Reserve's tapering of asset purchases could result in an increase in market volatility and lower valuations on our holdings. Average earning asset yields were 2.41% for the three months ended March 31, 2022 (March 31, 2021: 1.72%). Average earning asset yields increased for the three months ended March 31, 2022 compared to 2021 due to our rotation into higher yielding Agency RMBS.

We earned total interest income of \$42.2 million for the three months ended March 31, 2022 (March 31, 2021: \$40.0 million). Our interest income includes coupon interest and net premium amortization on mortgage-backed and other securities as well as interest income on our commercial loan as shown in the table below.

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Interest Income		
Mortgage-backed and other securities - coupon interest	48,229	51,490
Mortgage-backed and other securities - net premium amortization	(6,592)	(12,056)
Mortgage-backed and other securities - interest income	41,637	39,434
Commercial loan	537	576
Total interest income	42,174	40,010

Mortgage-backed and other securities interest income increased \$2.2 million for the three months ended March 31, 2022 compared to 2021 despite lower average earning assets due to a 69 basis point increase in average earning asset yields. Interest income on our commercial loan was relatively flat during the three months ended March 31, 2022 compared to 2021.

Prepayment Speeds

Our RMBS portfolio is subject to inherent prepayment risk primarily driven by changes in interest rates, which impacts the amount of premium and discount on the purchase of these securities that is recognized into interest income. Expected future prepayment speeds are estimated on a quarterly basis. Generally, in an environment of falling interest rates, prepayment speeds will increase as homeowners are more likely to prepay their existing mortgage and refinance into a lower borrowing rate. If the actual prepayment speed during the period is faster than estimated, the amortization on securities purchased at a premium to par value will be accelerated, resulting in lower interest income recognized. Conversely, for securities purchased at a discount to par value, interest income will be reduced in periods where prepayment speeds were slower than expected.

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The following table presents net premium amortization recognized on our mortgage-backed and other securities portfolio for the three months ended March 31, 2022 and 2021.

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Agency RMBS	(6,928)	(12,484)
Non-Agency CMBS	503	878
Non-Agency RMBS	(151)	(450)
U.S. Treasury Securities	(16)	—
Net (premium amortization) discount accretion	(6,592)	(12,056)

Net premium amortization decreased \$5.5 million for the three months ended March 31, 2022 compared to 2021 primarily due to repositioning our Agency RMBS portfolio into securities with lower book prices.

Our interest income is subject to interest rate risk. Refer to Item 3. "Quantitative and Qualitative Disclosures about Market Risk" for more information relating to interest rate risk and its impact on our operating results.

Interest Expense and Cost of Funds

The table below presents the components of interest expense for the three months ended March 31, 2022 and 2021.

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Interest Expense		
Interest expense on repurchase agreement borrowings	3,092	3,708
Amortization of net deferred (gain) loss on de-designated interest rate swaps	(5,196)	(5,368)
Repurchase agreements interest expense	(2,104)	(1,660)
Total interest expense	(2,104)	(1,660)

Our repurchase agreements interest expense, which equals our total interest expense, decreased \$444,000 for the three months ended March 31, 2022 compared to 2021 due to our lower average borrowings.

Our repurchase agreement interest expense as reported in our condensed consolidated statement of operations includes amortization of net deferred gains and losses on de-designated interest rate swaps as summarized in the table above. Amortization of net deferred gains on de-designated interest rate swaps decreased our total interest expense by \$5.2 million during the three months ended March 31, 2022 and \$5.4 million and during the three months ended March 31, 2021. Amounts recorded in AOCI before we discontinued cash flow hedge accounting for our interest rate swaps are reclassified to interest expense on repurchase agreements on the condensed consolidated statements of operations as interest is accrued and paid on the related repurchase agreements over the remaining life of the interest rate swap agreements. During the next twelve months, we estimate that \$19.0 million of net deferred gains on de-designated interest rate swaps will be reclassified from other comprehensive income and recorded as a decrease to interest expense.

The table below presents information related to our borrowings and cost of funds for the three months ended March 31, 2022 and 2021.

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Total average borrowings ⁽¹⁾	6,219,694	8,347,354
Maximum borrowings during the period ⁽²⁾	6,636,913	8,708,686
Cost of funds ⁽³⁾	(0.14)%	(0.08)%

(1) Average borrowings for each period are based on weighted month-end balances.

(2) Amount represents the maximum borrowings at month-end during each of the respective periods.

(3) Average cost of funds is calculated by dividing annualized interest expense including amortization of net deferred gain (loss) on de-designated interest rate swaps by our average borrowings.

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Total average borrowings decreased \$2.1 billion in the three months ended March 31, 2022 compared to 2021 as we reduced the size of our investment portfolio, and related repurchase agreement borrowings, given expectations that the Federal Reserve's tapering of asset purchases could result in an increase in market volatility and lower valuations on our holdings. Our average cost of funds decreased 6 basis points for the three months ended March 31, 2022 compared to 2021 as amortization of net deferred gains on de-designated interest rate swaps comprised a larger portion of our total interest expense.

Net Interest Income

The table below presents the components of net interest income for the three months ended March 31, 2022 and 2021:

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Interest Income		
Mortgage-backed and other securities	41,637	39,434
Commercial loan	537	576
Total interest income	42,174	40,010
Interest Expense		
Interest expense on repurchase agreement borrowings	3,092	3,708
Amortization of net deferred (gain) loss on de-designated interest rate swaps	(5,196)	(5,368)
Repurchase agreements interest expense	(2,104)	(1,660)
Total interest expense	(2,104)	(1,660)
Net interest income	44,278	41,670
Net interest rate margin	2.55 %	1.80 %

Our net interest income, which equals interest income less interest expense, totaled \$44.3 million for the three months ended March 31, 2022 (March 31, 2021: \$41.7 million). Our net interest rate margin, which equals the yield on our average assets for the period less the average cost of funds for the period, was 2.55% for the three months ended March 31, 2022 (March 31, 2021: 1.80%). The increase in net interest income and net interest rate margin for the three months ended March 31, 2022 compared to 2021 was primarily due to our rotation into higher yielding Agency RMBS.

Gain (Loss) on Investments, net

The table below summarizes the components of gain (loss) on investments, net for the three months ended March 31, 2022 and 2021:

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Net realized gains (losses) on sale of MBS	(318,970)	(116,847)
Net unrealized gains (losses) on MBS accounted for under the fair value option	(165,467)	(211,912)
Net unrealized gains (losses) on commercial loan	(124)	(3,098)
Net unrealized gains (losses) on U.S. Treasury securities	(19,827)	—
Total gain (loss) on investments, net ⁽¹⁾	(504,388)	(331,857)

During the three months ended March 31, 2022, we sold MBS and realized net losses of \$319.0 million (March 31, 2021: net losses of \$116.8 million). Realized net losses during the three months ended March 31, 2022 and 2021 primarily reflect sales of lower yielding Agency RMBS to purchase higher yielding Agency RMBS.

We have elected the fair value option for all of our MBS purchased on or after September 1, 2016. Before September 1, 2016, we had also elected the fair value option for our non-Agency RMBS interest-only securities. Under the fair value option, changes in fair value are recognized in income in the condensed consolidated statements of operations and are reported as a component of gain (loss) on investments, net. As of March 31, 2022, \$5.9 billion (December 31, 2021: \$7.7 billion) or 99% (December 31, 2021: 99%) of our MBS are accounted for under the fair value option.

We recorded net unrealized losses on our MBS portfolio accounted for under the fair value option of \$165.5 million in the three months ended March 31, 2022 compared to net unrealized losses of \$211.9 million in the three months ended March 31, 2021. Net unrealized losses in the three months ended March 31, 2022 primarily reflect wider interest rate spreads on our Agency RMBS. Net unrealized losses in the three months ended March 31, 2021 reflect wider interest rate spreads on our

Agency assets as a sharp increase in mortgage rates and reduced investor demand for prepayment protection resulted in lower valuation premiums on our Agency RMBS specified pools.

We recorded an unrealized loss of \$124,000 and \$3.1 million on our commercial loan in the three months ended March 31, 2022 and 2021, respectively. We value our commercial loan based upon a valuation from an independent pricing service.

We recorded unrealized losses of \$19.8 million on U.S. Treasury securities in the three months ended March 31, 2022 due to rising interest rates. We did not hold any U.S. Treasury securities during the three months ended March 31, 2021.

(Increase) Decrease in Provision for Credit Losses

As of March 31, 2022, \$68.2 million of our MBS are classified as available-for-sale and subject to evaluation for credit losses (December 31, 2021: \$70.2 million). We did not record any provisions for credit losses during the three months ended March 31, 2022. We recorded a \$938,000 decrease in the provision for credit losses on a single non-Agency CMBS during the three months ended March 31, 2021 because the valuation for the security improved.

Equity in Earnings (Losses) of Unconsolidated Ventures

For the three months ended March 31, 2022, we recorded equity in earnings of unconsolidated ventures of \$71,000 (March 31, 2021: equity in losses of \$94,000). Earnings and losses on unconsolidated ventures are driven by the underlying portfolio investments.

Gain (Loss) on Derivative Instruments, net

We record all derivatives on our condensed consolidated balance sheets at fair value. Changes in the fair value of our derivatives are recorded in gain (loss) on derivative instruments, net in our condensed consolidated statements of operations. Net interest paid or received under our interest rate swaps is also recognized in gain (loss) on derivative instruments, net in our condensed consolidated statements of operations.

The tables below summarize our realized and unrealized gain (loss) on derivative instruments, net for the following periods.

\$ in thousands	Three months ended March 31, 2022				
	Derivative not designated as hedging instrument	Realized gain (loss) on derivative instruments, net	Contractual net interest income (expense)	Unrealized gain (loss), net	Gain (loss) on derivative instruments, net
Interest Rate Swaps		343,309	1,284	(11,399)	333,194
Currency Forward Contracts		193	—	(41)	152
TBAs		(60,073)	—	(34,413)	(94,486)
Total		283,429	1,284	(45,853)	238,860

\$ in thousands	Derivative not designated as hedging instrument	Three months ended March 31, 2021			
		Realized gain (loss) on derivative instruments, net	Contractual net interest income (expense)	Unrealized gain (loss), net	Gain (loss) on derivative instruments, net
	Interest Rate Swaps	327,527	(4,549)	21,081	344,059
	Interest Rate Swaptions	(553)	—	—	(553)
	Currency Forward Contracts	(539)	—	1,255	716
	TBAs	(44,185)	—	(13,076)	(57,261)
	Total	282,250	(4,549)	9,260	286,961

During the three months ended March 31, 2022, we terminated existing interest rate swaps with a notional amount of \$4.0 billion and entered into new swaps with a notional amount of \$5.1 billion. We realized a net gains of \$343.3 million and \$327.5 million for the three months ended March 31, 2022 and 2021, respectively, on interest rate swaps due to rising interest rates.

As of March 31, 2022, we had \$5.8 billion of repurchase agreement borrowings with a weighted average remaining maturity of 28 days. We typically refinance each repurchase agreement at market interest rates upon maturity. We primarily use interest rate swaps to manage our exposure to changing interest rates and add stability to interest rate expense.

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As of March 31, 2022 and December 31, 2021, we held interest rate swaps whereby we receive floating interest based upon SOFR as shown in the table below.

\$ in thousands	As of March 31, 2022				As of December 31, 2021			
	Notional Amounts	Weighted Average Fixed Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity	Notional Amounts	Weighted Average Fixed Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity
Derivative instrument								
Interest Rate Swaps ⁽¹⁾	6,800,000	0.42 %	0.30 %	6.5	6,300,000	0.30 %	0.05 %	5.7

(1) Notional amount as of March 31, 2022 and December 31, 2021 excludes \$1.3 billion of interest rate swaps with forward start dates.

As of March 31, 2022 and December 31, 2021, we held interest rate swaps whereby we pay floating interest based upon SOFR as shown in the table below.

\$ in thousands	As of March 31, 2022				As of December 31, 2021			
	Notional Amounts	Weighted Average Floating Pay Rate	Weighted Average Fixed Receive Rate	Weighted Average Years to Maturity	Notional Amounts	Weighted Average Floating Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity
Derivative instrument								
Interest Rate Swaps	2,300,000	0.30 %	1.53 %	7.0	1,750,000	0.05 %	0.98 %	4.9

We use currency forward contracts to help mitigate the potential impact of changes in foreign currency exchange rates. As of March 31, 2022, we had \$7.4 million (December 31, 2021: \$13.6 million) of notional amount of currency forward contracts related to an investment in an unconsolidated venture denominated in euro.

We primarily use TBAs that we do not intend to physically settle on the contractual settlement date as an alternative means of investing in and financing Agency RMBS. As of March 31, 2022, we had \$1.5 billion net notional amount of TBAs (December 31, 2021: \$1.6 billion). We recorded \$94.5 million and \$57.3 million of net realized and unrealized losses on TBAs during the three months ended March 31, 2022 and 2021, respectively, primarily due to rising interest rates, in addition to wider interest rate spreads on Agency RMBS.

Other Investment Income (Loss), net

Our other investment income (loss), net during the three months ended March 31, 2022 and 2021 consisted of foreign currency transaction gains and losses.

Expenses

We incurred management fees of \$5.3 million for the three months ended March 31, 2022 (March 31, 2021: \$4.9 million). Management fees increased for the three months ended March 31, 2022 compared to the same period in 2021 due to a higher stockholders' equity management fee base. Refer to Note 12 – "Related Party Transactions" of our condensed consolidated financial statements for a discussion of our relationship with our Manager and a description of how our fees are calculated.

Our general and administrative expenses not covered under our management agreement amounted to \$2.0 million for the three months ended March 31, 2022 (March 31, 2021: \$2.0 million). General and administrative expenses not covered under our management agreement primarily consist of directors and officers insurance, legal costs, accounting, auditing and tax services, filing fees and miscellaneous general and administrative costs.

Net Income (Loss) attributable to Common Stockholders

For the three months ended March 31, 2022, our net loss attributable to common stockholders was \$236.8 million (March 31, 2021: \$20.4 million net loss attributable to common stockholders) or \$0.72 basic and diluted net loss per average share available to common stockholders (March 31, 2021: \$0.09 basic and diluted net loss per average share available to common stockholders). The change in net loss attributable to common stockholders was primarily due to (i) net losses on investments of \$504.4 million in the 2022 period compared to \$331.9 million in the 2021 period; (ii) net gains on derivative instruments of \$238.9 million in the 2022 period compared to \$287.0 million in the 2021 period; and (iii) a \$2.6 million increase in net interest income.

For further information on the changes in net gain (loss) on investments, net gain (loss) on derivative instruments and net changes in net interest income, see preceding discussion under "Gain (Loss) on Investments, net", "Gain (Loss) on Derivative Instruments, net" and "Net Interest Income".

Non-GAAP Financial Measures

The table below shows the non-GAAP financial measures we use to analyze our operating results and the most directly comparable U.S. GAAP measures. We believe these non-GAAP measures are useful to investors in assessing our performance as discussed further below.

Non-GAAP Financial Measure	Most Directly Comparable U.S. GAAP Measure
Earnings available for distribution (and by calculation, earnings available for distribution per common share)	Net income (loss) attributable to common stockholders (and by calculation, basic earnings (loss) per common share)
Effective interest expense (and by calculation, effective cost of funds)	Total interest expense (and by calculation, cost of funds)
Effective net interest income (and by calculation, effective interest rate margin)	Net interest income (and by calculation, net interest rate margin)
Economic debt-to-equity ratio	Debt-to-equity ratio

The non-GAAP financial measures used by management should be analyzed in conjunction with U.S. GAAP financial measures and should not be considered substitutes for U.S. GAAP financial measures. In addition, the non-GAAP financial measures may not be comparable to similarly titled non-GAAP financial measures of our peer companies.

Earnings Available for Distribution

Our business objective is to provide attractive risk-adjusted returns to our stockholders, primarily through dividends and secondarily through capital appreciation. We use earnings available for distribution as a measure of our investment portfolio's ability to generate income for distribution to common stockholders and to evaluate our progress toward meeting this objective. We calculate 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) loss on foreign currency transactions, net and amortization of net deferred (gain) loss on 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.

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.

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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,	
	2022	2021
Net income (loss) attributable to common stockholders	(236,816)	(20,382)
Adjustments:		
(Gain) loss on investments, net	504,388	331,857
Realized (gain) loss on derivative instruments, net ⁽¹⁾	(283,429)	(282,250)
Unrealized (gain) loss on derivative instruments, net ⁽¹⁾	45,853	(9,260)
TBA dollar roll income ⁽²⁾	13,401	10,545
(Gain) loss on foreign currency transactions, net ⁽³⁾	(55)	16
Amortization of net deferred (gain) loss on de-designated interest rate swaps ⁽⁴⁾	(5,196)	(5,368)
Subtotal	274,962	45,540
Earnings available for distribution	38,146	25,158
Basic income (loss) per common share	(0.72)	(0.09)
Earnings available for distribution per common share ⁽⁵⁾	0.12	0.11

(1) U.S. GAAP gain (loss) on derivative instruments, net on the condensed consolidated statements of operations includes the following components.

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Realized gain (loss) on derivative instruments, net	283,429	282,250
Unrealized gain (loss) on derivative instruments, net	(45,853)	9,260
Contractual net interest income (expense) on interest rate swaps	1,284	(4,549)
Gain (loss) on derivative instruments, net	238,860	286,961

(2) A TBA dollar roll is a series of derivative transactions where TBAs with the same specified issuer, term and coupon but different settlement dates are simultaneously bought and sold. The TBA settling in the later month typically prices at a discount to the TBA settling in the earlier month. TBA dollar roll income represents the price differential between the TBA price for current month settlement versus the TBA price for forward month settlement. We include TBA dollar roll income in earnings available for distribution because it is the economic equivalent of interest income on the underlying Agency securities, less an implied financing cost, over the forward settlement period. TBA dollar roll income is a component of gain (loss) on derivative instruments, net on our condensed consolidated statements of operations.

(3) Gain (loss) on foreign currency transactions, net is included in other investment income (loss) net on the condensed consolidated statements of operations.

(4) U.S. GAAP repurchase agreements interest expense on the condensed consolidated statements of operations includes the following components.

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Interest expense on repurchase agreement borrowings	3,092	3,708
Amortization of net deferred (gain) loss on de-designated interest rate swaps	(5,196)	(5,368)
Repurchase agreements interest expense	(2,104)	(1,660)

(5) 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.

The table below shows the components of earnings available for distribution for the following periods.

\$ in thousands	Three Months Ended March 31,	
	2022	2021
Effective net interest income ⁽¹⁾	40,366	31,753
TBA dollar roll income	13,401	10,545
Equity in earnings (losses) of unconsolidated ventures	71	(94)
(Increase) decrease in provision for credit losses	—	938
Total expenses	(7,298)	(6,877)
Subtotal	46,540	36,265
Dividends to preferred stockholders	(8,394)	(11,107)
Earnings available for distribution	38,146	25,158

(1) See below for a reconciliation of net interest income to effective net interest income, a non-GAAP measure.

Earnings available for distribution increased during the three months ended March 31, 2022 compared to the same period in 2021 due to higher effective net interest income and TBA dollar roll income.

Effective Interest Expense / Effective Cost of Funds / Effective Net Interest Income / Effective Interest Rate Margin

We calculate effective interest expense (and by calculation, effective cost of funds) as U.S. GAAP total interest expense adjusted for contractual net interest income (expense) on our interest rate swaps that is recorded as gain (loss) on derivative instruments, net and the amortization of net deferred gains (losses) on de-designated interest rate swaps that is recorded as repurchase agreements interest expense. We view our interest rate swaps as an economic hedge against increases in future market interest rates on our floating rate borrowings. We add back the net payments we make on our interest rate swap agreements to our total U.S. GAAP interest expense because we use interest rate swaps to add stability to interest expense. We exclude the amortization of net deferred gains (losses) on de-designated interest rate swaps from our calculation of effective interest expense because we do not consider the amortization a current component of our borrowing costs.

We calculate effective net interest income (and by calculation, effective interest rate margin) as U.S. GAAP net interest income adjusted for contractual net interest income (expense) on our interest rate swaps that is recorded as gain (loss) on derivative instruments, net and amortization of net deferred gains (losses) on de-designated interest rate swaps that is recorded as repurchase agreements interest expense.

We believe the presentation of effective interest expense, effective cost of funds, effective net interest income and effective interest rate margin measures, when considered together with U.S. GAAP financial measures, provides information that is useful to investors in understanding our borrowing costs and operating performance.

The following table reconciles total interest expense to effective interest expense and cost of funds to effective cost of funds for the following periods.

\$ in thousands	Three Months Ended March 31,			
	2022		2021	
	Reconciliation	Cost of Funds / Effective Cost of Funds	Reconciliation	Cost of Funds / Effective Cost of Funds
Total interest expense	(2,104)	(0.14)%	(1,660)	(0.08)%
Add: Amortization of net deferred gain (loss) on de-designated interest rate swaps	5,196	0.33 %	5,368	0.26 %
Add (Less): Contractual net interest expense (income) on interest rate swaps recorded as gain (loss) on derivative instruments, net	(1,284)	(0.08)%	4,549	0.22 %
Effective interest expense	1,808	0.11 %	8,257	0.40 %

Our effective interest expense and effective cost of funds decreased in the three months ended March 31, 2022 compared to the same period in 2021 primarily due to contractual net interest income on interest rate swaps of \$1.3 million during the three months ended March 31, 2022 compared to \$4.5 million of contractual net interest expense for the same period in 2021.

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The following table reconciles net interest income to effective net interest income and net interest rate margin to effective interest rate margin for the following periods.

	Three Months Ended March 31,			
	2022		2021	
	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin
\$ in thousands				
Net interest income	44,278	2.55 %	41,670	1.80 %
Less: Amortization of net deferred (gain) loss on de-designated interest rate swaps	(5,196)	(0.33)%	(5,368)	(0.26)%
Add (Less): Contractual net interest income (expense) on interest rate swaps recorded as gain (loss) on derivative instruments, net	1,284	0.08 %	(4,549)	(0.22)%
Effective net interest income	40,366	2.30 %	31,753	1.32 %

Effective net interest income increased in the three months ended March 31, 2022 compared to the same period in 2021 primarily due to higher net interest income and changes in contractual net interest income (expense) on interest rate swaps as discussed above. Our effective interest rate margin increased in the three months ended March 31, 2022 compared to the same periods in 2021 primarily due to our rotation into higher yielding Agency RMBS and changes in contractual net interest income (expense) on interest rate swaps.

Economic Debt-to-Equity Ratio

The tables below show the allocation of our stockholders' equity to our target assets, our debt-to-equity ratio, and our economic debt-to-equity ratio as of March 31, 2022 and December 31, 2021. Our debt-to-equity ratio is calculated in accordance with U.S. GAAP and is the ratio of total debt to total stockholders' equity. As of March 31, 2022, approximately 92% of our equity is allocated to Agency RMBS.

We present an economic debt-to-equity ratio, a non-GAAP financial measure of leverage that considers the impact of the off-balance sheet financing of our investments in TBAs that are accounted for as derivative instruments under U.S. GAAP. We include our TBAs at implied cost basis in our measure of leverage because a forward contract to acquire Agency RMBS in the TBA market carries similar risks to Agency RMBS purchased in the cash market and funded with on-balance sheet liabilities. Similarly, a contract for the forward sale of Agency RMBS has substantially the same effect as selling the underlying Agency RMBS and reducing our on-balance sheet funding commitments. We believe that presenting our economic debt-to-equity ratio, when considered together with our U.S. GAAP financial measure of debt-to-equity ratio, provides information that is useful to investors in understanding how management evaluates our at-risk leverage and gives investors a comparable statistic to those other mortgage REITs who also invest in TBAs and present a similar non-GAAP measure of leverage.

March 31, 2022

\$ in thousands	Agency RMBS	Credit Portfolio ⁽¹⁾	Total
Mortgage-backed securities	5,922,797	69,697	5,992,494
U.S. Treasury securities	482,445	—	482,445
Cash and cash equivalents ⁽²⁾	251,724	—	251,724
Restricted cash ⁽³⁾	245,809	—	245,809
Derivative assets, at fair value ⁽³⁾	17,437	237	17,674
Other assets	63,693	28,779	92,472
Total assets	6,983,905	98,713	7,082,618
Repurchase agreements	5,837,420	—	5,837,420
Derivative liabilities, at fair value ⁽³⁾	77,606	7	77,613
Other liabilities	26,421	13,217	39,638
Total liabilities	5,941,447	13,224	5,954,671
Total stockholders' equity (allocated)	1,042,458	85,489	1,127,947
Debt-to-equity ratio ⁽⁴⁾	5.6	—	5.2
Economic debt-to-equity ratio ⁽⁵⁾	7.1	—	6.5

(1) Investments in non-Agency CMBS, non-Agency RMBS, a commercial loan and unconsolidated joint ventures are included in credit portfolio.

(2) Cash and cash equivalents is allocated based on our financing strategy for each asset class.

(3) Restricted cash and derivative assets and liabilities are allocated based on our hedging strategy for each asset class.

(4) Debt-to-equity ratio is calculated as the ratio of total repurchase agreements to total stockholders' equity.

(5) Economic debt-to-equity ratio is calculated as the ratio of total repurchase agreements and TBAs at implied cost basis (\$1.5 billion as of March 31, 2022) to total stockholders' equity.

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December 31, 2021

\$ in thousands	Agency RMBS	Credit Portfolio ⁽¹⁾	Total
Mortgage-backed securities	7,732,281	71,978	7,804,259
Cash and cash equivalents ⁽²⁾	357,134	—	357,134
Restricted cash ⁽³⁾	219,918	—	219,918
Derivative assets, at fair value ⁽³⁾	—	270	270
Other assets	25,728	36,532	62,260
Total assets	8,335,061	108,780	8,443,841
Repurchase agreements	6,987,834	—	6,987,834
Derivative liabilities, at fair value ⁽³⁾	14,356	—	14,356
Other liabilities	35,596	3,920	39,516
Total liabilities	7,037,786	3,920	7,041,706
Total stockholders' equity (allocated)	1,297,275	104,860	1,402,135
Debt-to-equity ratio ⁽⁴⁾	5.4	—	5.0
Economic debt-to-equity ratio ⁽⁵⁾	6.6	—	6.2

(1) Investments in non-Agency CMBS, non-Agency RMBS, a commercial loan and unconsolidated joint ventures are included in credit portfolio.

(2) Cash and cash equivalents is allocated based on our financing strategy for each asset class.

(3) Restricted cash and derivative assets and liabilities are allocated based on our hedging strategy for each asset class.

(4) Debt-to-equity ratio is calculated as the ratio of total repurchase agreements to total stockholders' equity.

(5) Economic debt-to-equity ratio is calculated as the ratio of total repurchase agreements and TBAs at implied cost basis (\$1.6 billion as of December 31, 2021) to total stockholders' equity.

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to pay dividends, fund investments, repay borrowings and fund other general business needs. Our primary sources of funds for liquidity consist of the net proceeds from our common and preferred equity offerings, net cash provided by operating activities, proceeds from repurchase agreements and other financing arrangements and future issuances of equity and/or debt securities.

We currently believe that we have sufficient liquidity and capital resources available for the acquisition of additional investments, repayments on borrowings, margin requirements and the payment of cash dividends as required for continued qualification as a REIT. We generally maintain liquidity to pay down borrowings under repurchase arrangements to reduce borrowing costs and otherwise efficiently manage our long-term investment capital. Because the level of these borrowings can be adjusted on a daily basis, the level of cash and cash equivalents carried on our consolidated balance sheets is significantly less important than our potential liquidity available under borrowing arrangements or through the sale of liquid investments. However, there can be no assurance that we will maintain sufficient levels of liquidity to meet any margin calls.

We held cash, cash equivalents and restricted cash of \$497.5 million at March 31, 2022 (March 31, 2021: \$579.0 million). Our cash, cash equivalents and restricted cash increased due to normal fluctuations in cash balances related to the timing of principal and interest payments, repayments of debt, and asset purchases and sales. Our operating activities provided net cash of \$40.1 million for the three months ended March 31, 2022 (March 31, 2021: \$34.5 million).

Our investing activities provided net cash of \$1.1 billion in the three months ended March 31, 2022 compared to net cash used in investing activities of \$986.3 million in the three months ended March 31, 2021. Our primary source of cash from investing activities for the three months ended March 31, 2022 was proceeds from sales of MBS of \$8.8 billion (March 31, 2021: \$5.5 billion). We also generated \$168.3 million from principal payments of MBS during the three months ended March 31, 2022 (March 31, 2021: \$200.6 million). We used cash of \$7.6 billion to purchase MBS and \$502.3 million to purchase U.S. Treasury securities during the three months ended March 31, 2022 (March 31, 2021: \$7.0 billion to purchase MBS). We received cash of \$283.4 million to settle derivative contracts in the three months ended March 31, 2022 (March 31, 2021: \$282.3 million).

Our financing activities used net cash of \$1.2 billion for the three months ended March 31, 2022 (March 31, 2021: net cash provided by financing activities of \$1.1 billion). During the three months ended March 31, 2022, we used cash for net principal repayments on our repurchase agreements of \$1.2 billion (March 31, 2021: net cash provided of \$1.0 billion). We also used cash of \$38.1 million for the three months ended March 31, 2022 to pay dividends (March 31, 2021: \$27.4 million). Proceeds from issuance of common stock provided \$161.4 million during the three months ended March 31, 2021.

As of March 31, 2022, the average margin requirement (weighted by borrowing amount), or the haircut, under our repurchase agreements was 4.8% for Agency RMBS and 0.3% for U.S. Treasury securities. The haircuts ranged from a low of 3% to a high of 5% for Agency RMBS and a low of 0% to a high of 1% for U.S. Treasury securities. Declines in the value of our securities portfolio can trigger margin calls by our lenders under our repurchase agreements. An event of default or termination event may give our counterparties the option to terminate all repurchase transactions outstanding with us and require any amount due from us to the counterparties to be payable immediately.

Effects of Margin Requirements, Leverage and Credit Spreads

Our securities have values that fluctuate according to market conditions and the market value of our securities will decrease as prevailing interest rates or credit spreads increase. When the value of the securities pledged to secure a repurchase loan decreases to the point where the positive difference between the collateral value and the loan amount is less than the haircut, our lenders may issue a "margin call," which means that the lender will require us to pay cash or pledge additional collateral. Under our repurchase facilities, our lenders have full discretion to determine the value of the securities we pledge to them. Most of our lenders will value securities based on recent trades in the market. Lenders also issue margin calls as the published current principal balance factors change on the pool of mortgages underlying the securities pledged as collateral when scheduled and unscheduled paydowns are announced monthly.

We experience margin calls and increased collateral requirements in the ordinary course of our business. In seeking to effectively manage the margin requirements established by our lenders, we maintain a position of cash and unpledged securities. We refer to this position as our liquidity. The level of liquidity we have available to meet margin calls is directly affected by our leverage levels, our haircuts and the price changes on our securities. If interest rates increase as a result of a yield curve shift or for another reason or if credit spreads widen, then the prices of our collateral (and our unpledged assets that constitute our liquidity) will decline, we will experience margin calls, and we will seek to use our liquidity to meet the margin calls. There can be no assurance that we will maintain sufficient levels of liquidity to meet any margin calls or increased collateral requirements. If our haircuts increase, our liquidity will proportionately decrease. In addition, if we increase our borrowings, our liquidity will decrease by the amount of additional haircut on the increased level of indebtedness.

We intend to maintain a level of liquidity in relation to our assets that enables us to meet reasonably anticipated margin calls and increased collateral requirements but that also allows us to be substantially invested in securities. We may misjudge the appropriate amount of our liquidity by maintaining excessive liquidity, which would lower our investment returns, or by maintaining insufficient liquidity, which would force us to liquidate assets into unfavorable market conditions and harm our results of operations and financial condition.

We are subject to financial covenants in connection with our lending, derivatives and other agreements we enter into in the normal course of our business. We intend to operate in a manner which complies with all of our financial covenants. Our lending and derivative agreements provide that we may be declared in default of our obligations if our leverage ratio exceeds certain thresholds and we fail to maintain stockholders' equity or market value above certain thresholds over specified time periods.

Forward-Looking Statements Regarding Liquidity

As of March 31, 2022, we held \$5.6 billion of Agency securities and \$482.4 million of U.S. Treasury securities that are financed by repurchase agreements. We also had approximately \$413.0 million of unencumbered investments and unrestricted cash of \$251.7 million as of March 31, 2022. As of March 31, 2022, our known contractual obligations primarily consist of \$5.8 billion of repurchase agreement borrowings with a weighted average remaining maturity of 28 days. We generally intend to refinance the majority of our repurchase agreement borrowings at market rates upon maturity. Repurchase agreement borrowings that are not refinanced upon maturity are typically repaid through the use of cash on hand or proceeds from sales of securities. We are also committed to fund \$6.5 million in additional capital to our unconsolidated joint ventures to cover future expenses should they occur.

Based upon our current portfolio and existing borrowing arrangements, we believe that cash flow from operations and available borrowing capacity will be sufficient to enable us to meet anticipated short-term (one year or less) liquidity requirements to fund our investment activities, pay fees under our management agreement, fund our required distributions to stockholders and fund other general corporate expenses.

Our ability to meet our long-term (greater than one year) liquidity and capital resource requirements will be subject to obtaining additional debt financing. We may increase our capital resources by obtaining long-term credit facilities or through public or private offerings of equity or debt securities, possibly including classes of preferred stock, common stock, senior or subordinated notes and convertible notes. Such financing will depend on market conditions for capital raises and our ability to invest such offering proceeds. If we are unable to renew, replace or expand our sources of financing on substantially similar terms, it may have an adverse effect on our business and results of operations.

Dividends

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 must pay tax at regular corporate rates to the extent that we annually distribute less than 100% of our REIT taxable income. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our repurchase agreements and other debt payable. If our cash available for distribution is less than our REIT taxable income, we could be required to sell assets or borrow funds to make cash distributions, or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities.

As discussed above, our distribution requirements are based on REIT taxable income rather than U.S. GAAP net income. The primary differences between our REIT taxable income and U.S. GAAP net income are: (i) unrealized gains and losses on investments that we have elected the fair value option for that are included in current U.S. GAAP income but are excluded from REIT taxable income until realized or settled; (ii) gains and losses on derivative instruments that are included in current U.S. GAAP net income but are excluded from REIT taxable income until realized; and (iii) temporary differences related to amortization of premiums and discounts on investments. For additional information regarding the characteristics of our dividends, refer to Note 12 – "Stockholders' Equity" of our annual report on Form 10-K for the year ended December 31, 2021.

Unrelated Business Taxable Income

We have not engaged in transactions that would result in a portion of our income being treated as unrelated business taxable income.

Other Matters

We believe that we satisfied each of the asset tests in Section 856(c)(4) of the Internal Revenue Code of 1986, as amended (the "Code") for the period ended March 31, 2022, and that our proposed method of operation will permit us to satisfy the asset tests, gross income tests, and distribution and stock ownership requirements for our taxable year that will end on December 31, 2022.

At all times, we intend to conduct our business so that neither we nor our Operating Partnership nor the subsidiaries of our Operating Partnership are required to register as an investment company under the 1940 Act. If we were required to register as an investment company, then our use of leverage would be substantially reduced. Because we are a holding company that conducts our business through our Operating Partnership and the Operating Partnership's wholly-owned or majority-owned subsidiaries, the securities issued by these subsidiaries that are excepted from the definition of "investment company" under Section 3(c)(1) or Section 3(c)(7) of the 1940 Act, together with any other investment securities the Operating Partnership may own, may not have a combined value in excess of 40% of the value of the Operating Partnership's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis, which we refer to as the 40% test. This requirement limits the types of businesses in which we are permitted to engage in through our subsidiaries. In addition, we believe neither we nor the Operating Partnership are considered an investment company under Section 3(a)(1)(A) of the 1940 Act because they do not engage primarily or hold themselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, through the Operating Partnership's wholly-owned or majority-owned subsidiaries, we and the Operating Partnership are primarily engaged in the non-investment company businesses of these subsidiaries. IAS Asset I LLC and certain of the Operating Partnership's other subsidiaries that we may form in the future rely upon the exclusion from the definition of "investment company" under the 1940 Act provided by Section 3(c)(5)(C) of the 1940 Act, which is available for entities "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exclusion generally requires that at least 55% of each subsidiary's portfolio be comprised of qualifying assets and at least 80% be comprised of qualifying assets and real estate-related assets (and no more than 20% comprised of miscellaneous assets). We calculate that as of March 31, 2022, we conducted our business so as not to be regulated as an investment company under the 1940 Act.

Exposure to Financial Counterparties

We finance a substantial portion of our investment portfolio through repurchase agreements. Under these agreements, we pledge assets from our investment portfolio as collateral. Additionally, certain counterparties may require us to provide cash collateral in the event the market value of the assets declines to maintain a contractual repurchase agreement collateral ratio. If a counterparty were to default on its obligations, we would be exposed to potential losses to the extent the fair value of collateral pledged by us to the counterparty including any accrued interest receivable on such collateral exceeded the amount loaned to us by the counterparty plus interest due to the counterparty.

As of March 31, 2022, no counterparties held collateral that exceeded the amounts borrowed under the related repurchase agreements by more than \$56.4 million, or 5% of our stockholders' equity. The following table summarizes our exposure to counterparties by geographic concentration as of March 31, 2022. The information is based on the geographic headquarters of the counterparty or counterparty's parent company. However, our repurchase agreements are generally denominated in U.S. dollars.

\$ in thousands	Number of Counterparties	Repurchase Agreement Financing	Exposure
North America	12	3,244,027	168,333
Europe (excluding United Kingdom)	2	592,114	27,428
Asia	3	1,412,692	60,025
United Kingdom	1	588,587	13,570
Total	18	5,837,420	269,356

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The primary components of our market risk are related to interest rate, principal prepayment and market value. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and we seek to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

For additional discussion of market risk associated with the COVID-19 pandemic, see Part I. Item 1 - Risk Factors of our annual report on Form 10-K for the year ended December 31, 2021.

Interest Rate Risk

Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. We are subject to interest rate risk in connection with our investments and our repurchase agreements. Our repurchase agreements are typically short-term in nature and are periodically refinanced at current market rates. We typically mitigate this interest rate risk by utilizing derivative contracts, primarily interest rate swap agreements.

Interest Rate Effect on Net Interest Income

Our operating results depend in large part upon differences between the yields earned on our investments and our cost of borrowing and interest rate hedging activities. During periods of rising interest rates, the borrowing costs associated with our investments tend to increase while the income earned on our fixed interest rate investments may remain substantially unchanged. This increase in borrowing costs results in the narrowing of the net interest spread between the related assets and borrowings and may even result in losses. Further, defaults could increase and result in credit losses to us, which could adversely affect our liquidity and operating results. Such delinquencies or defaults could also have an adverse effect on the spread between interest-earning assets and interest-bearing liabilities.

Hedging techniques are partly based on assumed levels of prepayments of our RMBS. If prepayments are slower or faster than assumed, the life of the RMBS will be longer or shorter, which would reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions. Hedging strategies involving the use of derivative securities are highly complex and may produce volatile returns.

Interest Rate Effects on Fair Value

Another component of interest rate risk is the effect that changes in interest rates will have on the market value of the assets that we acquire. We face the risk that the market value of our assets will increase or decrease at different rates than those of our liabilities, including our hedging instruments.

We primarily assess our interest rate risk by estimating the duration of our assets and the duration of our liabilities. Duration measures the market price volatility of financial instruments as interest rates change. We generally calculate duration using various financial models and empirical data. Different models and methodologies can produce different duration values for the same securities.

The impact of changing interest rates on fair value can change significantly when interest rates change materially. Therefore, the volatility in the fair value of our assets could increase significantly in the event interest rates change materially. In addition, other factors impact the fair value of our interest rate-sensitive investments and hedging instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, changes in actual interest rates may have a material adverse effect on us.

Spread Risk

We employ a variety of spread risk management techniques that seek to mitigate the influences of spread changes on our book value and our liquidity to help us achieve our investment objectives. We refer to the difference between interest rates on our investments and interest rates on risk free instruments as spreads. The yield on our investments changes over time due to the level of risk free interest rates, the creditworthiness of the security, and the price of the perceived risk. The change in the market yield of our interest rate hedges also changes primarily with the level of risk free interest rates. We manage spread risk through careful asset selection, sector allocation, regulating our portfolio value-at-risk, and maintaining adequate liquidity. Changes in spreads impact our book value and our liquidity and could cause us to sell assets and to change our investment strategy to maintain liquidity and preserve book value.

Unprecedented government responses to the COVID-19 pandemic, including fiscal stimulus, monetary policy actions, and various purchase and financing programs have impacted and will continue to impact credit spreads.

Prepayment Risk

As we receive prepayments of principal on our investments, premiums paid on these investments are amortized against interest income. In general, an increase in prepayment rates will accelerate the amortization of purchase premiums, thereby reducing the interest income earned on the investments. Conversely, discounts on such investments are accreted into interest income. In general, an increase in prepayment rates will accelerate the accretion of purchase discounts, thereby increasing the interest income earned on the investments.

Historically low interest rates, high interest rate volatility, uncertainties related to government policies on mortgage finance in response to the COVID-19 pandemic, social distancing, and other factors have made it more difficult to predict prepayment levels for the securities in our portfolio. As a result, it is possible that realized prepayment behavior will be materially different from our expectations.

Extension Risk

We compute the projected weighted average life of our investments based upon assumptions regarding the rate at which the borrowers will prepay the underlying mortgages. In general, when a fixed-rate or hybrid adjustable-rate security is acquired with borrowings, we may, but are not required to, enter into an interest rate swap agreement or other hedging instrument that effectively fixes our borrowing costs for a period close to the anticipated average life of the fixed-rate portion of the related assets. This strategy is designed to protect us from rising interest rates, because the borrowing costs are fixed for the duration of the fixed-rate portion of the related target asset.

However, if prepayment rates decrease in a rising interest rate environment, then the life of the fixed-rate portion of the related assets could extend beyond the term of the swap agreement or other hedging instrument. This could have a negative impact on our results from operations, as borrowing costs would no longer be fixed after the end of the hedging instrument, while the income earned on the hybrid adjustable-rate assets would remain fixed. This situation may also cause the market value of our hybrid adjustable-rate assets to decline, with little or no offsetting gain from the related hedging transactions. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

Market Risk

Market Value Risk

Our available-for-sale securities are reflected at their estimated fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income under ASC Topic 320. The estimated fair value of these securities fluctuates primarily due to changes in interest rates and other factors. Generally, in a rising interest rate environment, the estimated fair value of these securities would be expected to decrease; conversely, in a falling interest rate environment, the estimated fair value of these securities would be expected to increase.

The COVID-19 pandemic and related preventative measures have caused unprecedented volatility and illiquidity in fixed income markets. The amount of financing we receive under our repurchase agreements is directly related to our counterparties' valuation of our assets that collateralize the outstanding repurchase agreement financing. As a result, if these market conditions persist, margin call risk remains elevated and our operating results and financial condition may be materially impacted.

The sensitivity analysis table presented below shows the estimated impact of an instantaneous parallel shift in the yield curve, up and down 50 and 100 basis points, on the market value of our interest rate-sensitive investments and net interest income, including net interest paid or received under interest rate swaps, at March 31, 2022 and December 31, 2021, assuming a static portfolio and constant financing and credit spreads. When evaluating the impact of changes in interest rates, prepayment assumptions and principal reinvestment rates are adjusted based on our Manager's expectations. The analysis presented utilized assumptions, models and estimates of our Manager based on our Manager's judgment and experience.

Change in Interest Rates	At March 31, 2022		At December 31, 2021	
	Percentage Change in Projected Net Interest Income	Percentage Change in Projected Portfolio Value	Percentage Change in Projected Net Interest Income	Percentage Change in Projected Portfolio Value
+1.00%	(2.50)%	(1.37)%	(3.27)%	(1.61)%
+0.50%	(1.25)%	(0.56)%	(0.19)%	(0.52)%
-0.50%	0.98 %	0.20 %	(1.96)%	(0.38)%
-1.00%	1.39 %	(0.09)%	(16.33)%	(2.11)%

Certain assumptions have been made in connection with the calculation of the information set forth in the foregoing interest rate sensitivity table and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. The interest rate scenarios assume interest rates at March 31, 2022 and December 31, 2021. Furthermore, while the analysis reflects the estimated impact of interest rate increases and decreases on a static portfolio, we actively manage the size and composition of our investment and swap portfolios, which can result in material changes to our interest rate risk profile.

Our scenario analysis assumes a floor of 0% for U.S. Treasury yields. Given the relatively low interest rates at March 31, 2022, to be consistent, we also applied a floor of 0% for all related funding costs. Due to this floor, we anticipate that declines in funding costs resulting from a significant interest rate decrease would be limited. At the same time, increases in prepayment speed forecasts resulting from lower rates are also limited by this assumption. For purposes of our calculations, the net interest income projections are determined for each specific security. In contrast, for the market value analysis, this floor may limit the gains in market values in scenarios where the interest rate drops significantly.

The information set forth in the interest rate sensitivity table above and all related disclosures constitutes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Actual results could differ significantly from those estimated in the foregoing interest rate sensitivity table.

Real Estate Risk

Residential and commercial property values are subject to volatility and may be adversely affected by a number of factors, including, but not limited to: national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as the supply of housing stock or other property sectors); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses.

Credit Risk

We retain the risk of potential credit losses on all of our residential and commercial mortgage investments. We seek to manage this risk through our pre-acquisition due diligence process. In addition, we re-evaluate the credit risk inherent in our

investments on a regular basis pursuant to fundamental considerations such as GDP, unemployment, interest rates, retail sales, store closings/openings, corporate earnings, housing inventory, affordability and regional home price trends. We also review key loan credit metrics including, but not limited to, payment status, current loan-to-value ratios, current borrower credit scores and debt yields. These characteristics assist in determining the likelihood and severity of loan loss as well as prepayment and extension expectations. We then perform structural analysis under multiple scenarios to establish likely cash flow profiles and credit enhancement levels relative to collateral performance projections. This analysis allows us to quantify our opinions of credit quality and fundamental value, which are key drivers of portfolio management decisions.

Commercial real estate occupancy and rental rates continue to improve across most property types and residential properties continue to benefit from strong demand and limited housing supply. While loan delinquencies remain elevated, they continue to decline from their post-pandemic peak levels. Further, stimulative monetary policies have helped support real estate activity and property valuations. Despite these positives, many borrowers continue to experience difficulties meeting their obligations or seek to forbear or further forbear payment on their mortgage loans. As a result, loans may continue to experience elevated delinquency levels and eventual defaults, which could impact the performance of our mortgage-backed securities. We also expect credit rating agencies to continue to reassess transactions negatively impacted by these adverse changes, which may result in our investments being downgraded.

Foreign Exchange Rate Risk

As of March 31, 2022 we have an investment of €2.7 million in an unconsolidated joint venture whose net assets and results of operations are exposed to foreign currency translation risk when translated in U.S. dollars upon consolidation. We have historically sought to hedge our foreign currency exposures by purchasing currency forward contracts.

The unconsolidated joint venture is in liquidation and plans to sell or settle its remaining investments as expeditiously as possible.

Risk Management

To the extent consistent with maintaining our REIT qualification, we seek to manage risk exposure to protect our investment portfolio against the effects of major interest rate changes. We generally seek to manage this risk by:

- monitoring and adjusting, if necessary, the reset index and interest rate related to our target assets and our financings;
- attempting to structure our financing agreements to have a range of different maturities, terms, amortizations and interest rate adjustment periods;
- exploring options to obtain financing arrangements that are not marked to market;
- using hedging instruments, primarily interest rate swap agreements but also financial futures, options, interest rate cap agreements, floors and forward sales to adjust the interest rate sensitivity of our target assets and our borrowings; and
- actively managing, on an aggregate basis, the interest rate indices, interest rate adjustment periods, and gross reset margins of our target assets and the interest rate indices and adjustment periods of our financings.

ITEM 4. CONTROLS AND PROCEDURES.

Our management is responsible for establishing and maintaining disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act.

We have evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of March 31, 2022. Based upon our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended March 31, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. As of March 31, 2022, we were not involved in any such legal proceedings.

ITEM 1A. RISK FACTORS.

There were no material changes during the period covered by this Report to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on February 17, 2022. Additional risks not presently known, or that we currently deem immaterial, also may have a material adverse effect on our business, financial condition and results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the three months ended March 31, 2022, we did not repurchase any shares of our common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

A list of exhibits to this Form 10-Q is set forth on the Exhibit Index and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INVESCO MORTGAGE CAPITAL INC.

May 4, 2022

By: /s/ John M. Anzalone
John M. Anzalone
Chief Executive Officer

May 4, 2022

By: /s/ R. Lee Phegley, Jr.
R. Lee Phegley, Jr.
Chief Financial Officer

EXHIBIT INDEX

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	<u>Articles of Amendment and Restatement of Invesco Mortgage Capital Inc. (incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission ("SEC") on August 12, 2009).</u>
3.2	<u>Articles Supplementary of 7.75% Fixed-to-Floating Series B Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form 8-A, filed with the SEC on September 8, 2014).</u>
3.3	<u>Articles Supplementary classifying 1,500,000 shares of the Company's preferred stock as additional Series B Shares (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K, filed with the SEC on March 19, 2019).</u>
3.4	<u>Articles Supplementary of 7.50% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.4 to the Registrant's Registration Statement on Form 8-A, filed with the SEC on August 11, 2017).</u>
3.5	<u>Articles Supplementary classifying 4,000,000 shares of the Company's preferred stock as additional Series C Shares (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K, filed with the SEC on March 19, 2019).</u>
3.6	<u>Articles Supplementary reclassifying 2,110,000 shares of authorized but unissued shares of Series A Preferred Stock as shares of Preferred Stock without designation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed with the SEC on June 17, 2021).</u>
3.7	<u>Amended and Restated Bylaws of Invesco Mortgage Capital Inc., incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed with the SEC on February 17, 2017.</u>
31.1	<u>Certification of John M. Anzalone pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of R. Lee Phegley, Jr. pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of John M. Anzalone pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of R. Lee Phegley, Jr. pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	101.INS XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. 101.SCH XBRL Taxonomy Extension Schema Document 101.CAL XBRL Taxonomy Calculation Linkbase Document 101.LAB XBRL Taxonomy Label Linkbase Document 101.PRE XBRL Taxonomy Presentation Linkbase Document 101.DEF XBRL Taxonomy Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

**Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, John M. Anzalone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Invesco Mortgage Capital Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 4, 2022

/s/ John M. Anzalone

John M. Anzalone
Chief Executive Officer

**Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, R. Lee Phegley, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Invesco Mortgage Capital Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 4, 2022

/s/ R. Lee Phegley, Jr.

R. Lee Phegley, Jr.
Chief Financial Officer

**CERTIFICATION OF JOHN M. ANZALONE
PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with Invesco Mortgage Capital Inc.'s (the "Company") Quarterly Report on Form 10-Q for the period ended March 31, 2022 (the "Report"), I, John M. Anzalone, do hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 4, 2022

/s/ John M. Anzalone

John M. Anzalone
Chief Executive Officer

**CERTIFICATION OF R. LEE PHEGLEY, JR.
PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with Invesco Mortgage Capital Inc.'s (the "Company") Quarterly Report on Form 10-Q for the period ended March 31, 2022 (the "Report"), I, R. Lee Phegley, Jr., do hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 4, 2022

/s/ R. Lee Phegley, Jr.

R. Lee Phegley, Jr.
Chief Financial Officer