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Invesco Mortgage Capital Inc. Reports Third Quarter 2024 Financial Results

Atlanta - November 5, 2024 -- Invesco Mortgage Capital Inc. (NYSE: IVR) (the “Company”) today announced financial results for the quarter ended September 30, 2024.

- Net income per common share of \$0.63 compared to net loss of \$0.38 in Q2 2024
- Earnings available for distribution per common share⁽¹⁾ of \$0.68 compared to \$0.86 in Q2 2024
- Common stock dividend of \$0.40 per common share, unchanged from Q2 2024
- Book value per common share⁽²⁾ of \$9.37 compared to \$9.27 as of June 30, 2024
- Economic return⁽³⁾ of 5.4% compared to (4.1)% in Q2 2024

Update from John Anzalone, Chief Executive Officer

“Agency mortgage valuations improved during the third quarter as interest rate volatility declined and the yield curve steepened in connection with the Federal Reserve's decision to begin easing monetary policy. In this macroeconomic environment, our higher coupon Agency RMBS investments outperformed, contributing to a 1.1% increase in book value per common share to \$9.37. Combined with our \$0.40 common stock dividend, this resulted in an economic return of 5.4% for the quarter. As of October 31, 2024, our book value per common share is estimated to be between \$8.42 and \$8.76.⁽⁴⁾

“Our debt-to-equity ratio ended the third quarter at 6.1x, up from 5.6x as of June 30th, while our economic debt-to-equity ratio⁽¹⁾ increased from 5.9x to 6.1x quarter over quarter. As of the end of the quarter, our \$5.9 billion investment portfolio primarily consisted of \$5.2 billion Agency RMBS and \$0.7 billion Agency CMBS, and we continued to maintain a sizeable balance of unrestricted cash and unencumbered investments totaling \$521 million.

“For the quarter, earnings available for distribution per common share was \$0.68, compared to \$0.86 in the second quarter. This decrease reflects a reduction in our effective net interest income⁽¹⁾ related to changes in the size and composition of our hedging portfolio.

“We recently announced the redemption of our Series B Preferred shares, which will help optimize our capital structure and reduce our dividend obligations going forward.

“The anticipated easing of monetary policy should lead to a steeper yield curve and lower interest rate volatility in the coming months, creating a favorable environment for Agency RMBS investments. However, risks including accelerating inflation, fiscal policy expectations and short-term funding pressures into year end could reduce investor demand for the sector in the near-term. Despite these risks, we are constructive on the sector, as Agency mortgage performance stands to benefit from normalization of monetary policy given attractive valuations and supportive supply and demand technicals.”

(1) Earnings available for distribution (and by calculation, earnings available for distribution per common share), economic debt-to-equity ratio and effective net interest income are non-Generally Accepted Accounting Principles (“GAAP”) financial measures. Refer to the section entitled “Non-GAAP Financial Measures” for important disclosures and reconciliations to the most comparable U.S. GAAP measures.

(2) Book value per common share as of September 30, 2024 and June 30, 2024 is calculated as total stockholders' equity less the liquidation preference of the Company's Series B Preferred Stock and Series C Preferred Stock (\$106.2 million and \$181.9 million as of September 30, 2024, respectively, and \$106.2 million and \$183.6 million as of June 30, 2024, respectively), divided by total common shares outstanding.

(3) Economic return for the quarter ended September 30, 2024 is defined as the change in book value per common share from June 30, 2024 to September 30, 2024 of \$0.10; plus dividends declared of \$0.40 per common share; divided by the June 30, 2024 book value per common share of \$9.27. Economic return for the quarter ended June 30, 2024 is defined as the change in book value per common share from March 31, 2024 to June 30, 2024 of (\$0.81); plus dividends declared of \$0.40 per common share; divided by the March 31, 2024 book value per common share of \$10.08.

(4) Book value per common share as of October 31, 2024 is adjusted to exclude a pro rata portion of the current quarter's common stock dividend (which for purposes of this calculation is assumed to be the same as the previous quarter) and is calculated as total stockholders' equity less the liquidation preference of the Company's Series B Preferred Stock and Series C Preferred Stock (\$106.2 million and \$181.2 million as of October 31, 2024, respectively), divided by total common shares outstanding of 60.7 million.

Key performance indicators for the quarters ended September 30, 2024 and June 30, 2024 are summarized in the table below.

(\$ in millions, except share amounts)	Q3 2024	Q2 2024	Variance
Average Balances ⁽¹⁾	(unaudited)	(unaudited)	
Average earning assets (at amortized cost)	\$5,566.3	\$4,847.1	\$719.2
Average borrowings	\$5,004.5	\$4,252.0	\$752.5
Average total stockholders' equity	\$845.7	\$770.3	\$75.4
<u>U.S. GAAP Financial Measures</u>			
Total interest income	\$73.8	\$68.0	\$5.8
Total interest expense	\$66.3	\$59.4	\$6.9
Net interest income	\$7.5	\$8.6	(\$1.1)
Total expenses	\$4.7	\$4.9	(\$0.2)
Net income (loss) attributable to common stockholders	\$35.3	(\$18.8)	\$54.1
Average earning asset yields	5.31 %	5.61 %	(0.30)%
Average cost of funds	5.30 %	5.59 %	(0.29)%
Average net interest rate margin	0.01 %	0.02 %	(0.01)%
Period-end weighted average asset yields ⁽²⁾	5.41 %	5.45 %	(0.04)%
Period-end weighted average cost of funds	5.15 %	5.46 %	(0.31)%
Period-end weighted average net interest rate margin	0.26 %	(0.01)%	0.27 %
Book value per common share ⁽³⁾	\$9.37	\$9.27	\$0.10
Earnings (loss) per common share (basic)	\$0.63	(\$0.38)	\$1.01
Earnings (loss) per common share (diluted)	\$0.63	(\$0.38)	\$1.01
Debt-to-equity ratio	6.1x	5.6x	0.5x
<u>Non-GAAP Financial Measures ⁽⁴⁾</u>			
Earnings available for distribution	\$38.3	\$42.3	(\$4.0)
Effective interest expense	\$25.4	\$16.1	\$9.3
Effective net interest income	\$48.4	\$51.9	(\$3.5)
Effective cost of funds	2.03 %	1.52 %	0.51 %
Effective interest rate margin	3.28 %	4.09 %	(0.81)%
Earnings available for distribution per common share	\$0.68	\$0.86	(\$0.18)
Economic debt-to-equity ratio	6.1x	5.9x	0.2x

(1) Average earning assets, average borrowings and average total stockholders' equity are calculated based on the weighted month-end balances of mortgage-backed securities at amortized cost, repurchase agreement borrowings and total U.S. GAAP stockholders' equity, respectively.

(2) Period-end weighted average asset yields are based on amortized cost as of period-end and incorporate future prepayment and loss assumptions when appropriate.

(3) Book value per common share is calculated as total stockholders' equity less the liquidation preference of the Company's Series B Preferred Stock and Series C Preferred Stock (\$106.2 million and \$181.9 million as of September 30, 2024, respectively, and \$106.2 million and \$183.6 million as of June 30, 2024, respectively), divided by total common shares outstanding.

(4) Earnings available for distribution (and by calculation, earnings available for distribution per common share), effective interest expense (and by calculation, effective cost of funds), effective net interest income (and by calculation, effective interest rate margin), and economic debt-to-equity ratio are non-GAAP financial measures. Refer to the section entitled "Non-GAAP Financial Measures" for important disclosures and a reconciliation to the most comparable U.S. GAAP measures of net income (loss) attributable to common stockholders (and by calculation, basic earnings (loss) per common share), total interest expense (and by calculation, cost of funds), net interest income (and by calculation, net interest rate margin) and debt-to-equity ratio.

Portfolio Composition

The following table summarizes the Company's MBS portfolio as of September 30, 2024 and June 30, 2024.

\$ in thousands	As of					
	September 30, 2024			June 30, 2024		
	Fair Value	Percentage of Portfolio	Period-end Weighted Average Yield	Fair Value	Percentage of Portfolio	Period-end Weighted Average Yield
Agency RMBS:						
30 year fixed-rate pass-through coupon:						
4.0%	577,105	9.8 %	4.66 %	562,192	11.6 %	4.66 %
4.5%	703,865	12.0 %	4.95 %	868,511	17.9 %	4.95 %
5.0%	1,147,475	19.5 %	5.27 %	876,344	18.1 %	5.35 %
5.5%	1,260,678	21.5 %	5.59 %	965,700	20.0 %	5.59 %
6.0%	1,418,691	24.2 %	5.98 %	1,087,049	22.5 %	6.02 %
Total 30 year fixed-rate pass-through	5,107,814	87.0 %	5.43 %	4,359,796	90.1 %	5.40 %
Agency-CMO	73,199	1.2 %	9.91 %	74,711	1.5 %	9.94 %
Agency CMBS	675,074	11.5 %	4.64 %	384,593	8.0 %	4.97 %
Non-Agency CMBS	9,936	0.2 %	8.91 %	10,264	0.2 %	8.91 %
Non-Agency RMBS	7,673	0.1 %	9.31 %	7,463	0.2 %	9.44 %
Total MBS portfolio	5,873,696	100.0 %	5.41 %	4,836,827	100.0 %	5.45 %

The following table presents certain characteristics of the Company's borrowings as of September 30, 2024 and June 30, 2024.

\$ in thousands	As of					
	September 30, 2024			June 30, 2024		
	Amount Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity (days)	Amount Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity (days)
Agency RMBS repurchase agreements	4,535,956	5.15 %	33	3,945,401	5.46 %	20
Agency CMBS repurchase agreements	648,929	5.16 %	25	315,074	5.46 %	17
Total borrowings	5,184,885	5.15 %	32	4,260,475	5.46 %	19

The following table summarizes certain characteristics of TBAs accounted for as derivatives as of June 30, 2024. The Company did not have any TBAs outstanding as of September 30, 2024.

\$ in thousands	As of June 30, 2024			
	Notional Amount	Implied Cost Basis	Implied Market Value	Net Carrying Value
5.5% TBA Purchase Contracts	200,000	199,945	198,420	(1,525)

The tables below present certain characteristics of the Company's interest rate swaps whereby the Company pays interest at a fixed rate and receives floating interest based on the secured overnight financing rate ("SOFR") as of September 30, 2024 and June 30, 2024.

Maturities	As of September 30, 2024			
	Notional Amount	Weighted Average Fixed Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity
Less than 3 years	1,730,000	1.93 %	4.96 %	2.1
3 to 5 years	575,000	0.33 %	4.96 %	3.4
5 to 7 years	950,000	0.54 %	4.96 %	5.8
7 to 10 years	100,000	3.61 %	4.96 %	9.3
Greater than 10 years	435,000	1.84 %	4.96 %	19.0
Total	3,790,000	1.37 %	4.96 %	5.4

Maturities	As of June 30, 2024			
	Notional Amount	Weighted Average Fixed Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity
Less than 3 years	180,000	0.48 %	5.33 %	1.6
3 to 5 years	1,375,000	0.29 %	5.33 %	3.3
5 to 7 years	1,150,000	0.55 %	5.33 %	6.1
7 to 10 years	565,000	3.87 %	5.33 %	9.7
Greater than 10 years	645,000	2.25 %	5.33 %	18.8
Total	3,915,000	1.22 %	5.33 %	7.5

As of September 30, 2024, the Company held futures contracts representing short positions in Ultra 10 year U.S. Treasury Notes with a notional amount of \$490.0 million. The Company did not hold any futures contracts as of June 30, 2024.

Capital Activities

Dividends

As previously announced on September 24, 2024, the Company declared a common stock dividend of \$0.40 per share paid on October 25, 2024 to its stockholders of record as of the close of business on October 7, 2024. The Company declared the following dividends on November 4, 2024: a Series B Preferred Stock dividend of \$0.4844 per share and a Series C Preferred Stock dividend of \$0.46875 per share payable on December 27, 2024 to its stockholders of record on December 5, 2024.

Issuances of Common Stock

The Company sold 10,084,138 shares of common stock for net proceeds of \$88.5 million during the third quarter through its at-the-market programs.

Repurchases of Preferred Stock

During the three months ended September 30, 2024, the Company repurchased and retired 66,507 shares of Series C Preferred Stock, respectively, for a total cost of \$1.6 million.

Redemption of Series B Preferred Stock

On November 5, 2024, the Company announced that it intends to redeem all outstanding shares of its Series B Preferred Stock on December 27, 2024 for a cash redemption price of \$25.00 per share, plus accrued and unpaid dividends (whether or not declared) to, but not including, the redemption date.

About Invesco Mortgage Capital Inc.

Invesco Mortgage Capital Inc. is a real estate investment trust that primarily focuses on investing in, financing and managing mortgage-backed securities and other mortgage-related assets. Invesco Mortgage Capital Inc. is externally managed and advised by Invesco Advisers, Inc., a registered investment adviser and an indirect wholly-owned subsidiary of Invesco Ltd., a leading independent global investment management firm.

Earnings Call

Members of the investment community and the general public are invited to listen to the Company's earnings conference call on Wednesday, November 6, 2024, at 9:00 a.m. ET, by calling one of the following numbers:

North America Toll Free: 888-982-7409
International: 1-212-287-1625
Passcode: Invesco

An audio replay will be available until 5:00 pm ET on November 20, 2024 by calling:

866-363-4045 (North America) or 1-203-369-0206 (International)

The presentation slides that will be reviewed during the call will be available on the Company's website at www.invescomortgagecapital.com.

Cautionary Notice Regarding Forward-Looking Statements

This press release, the related presentation and comments made in the associated conference call, may include statements and information that constitute "forward-looking statements" within the meaning of the U.S. securities laws as defined in the Private Securities Litigation Reform Act of 1995, and such statements are intended to be covered by the safe harbor provided by the same. Forward-looking statements include our views on the risk positioning of our portfolio, domestic and global market conditions (including the mortgage-backed securities, residential and commercial real estate markets), the market for our target assets, our financial performance, including our earnings available for distribution, economic return, comprehensive income and changes in our book value, our intention and ability to pay dividends, our ability to continue performance trends, the stability of portfolio yields, interest rates, credit spreads, prepayment trends, financing sources, cost of funds, our leverage and equity allocation. In addition, words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "projects," "forecasts," and future or conditional verbs such as "will," "may," "could," "should," and "would" as well as any other statement that necessarily depends on future events, are intended to identify forward-looking statements.

Forward-looking statements are not guarantees, and they involve risks, uncertainties and assumptions. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks identified under the captions "Risk Factors," "Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K and quarterly reports on Form 10-Q, which are available on the Securities and Exchange Commission's website at www.sec.gov.

All written or oral forward-looking statements that we make, or that are attributable to us, are expressly qualified by this cautionary notice. We expressly disclaim any obligation to update the information in any public disclosure if any forward-looking statement later turns out to be inaccurate.

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

	Three Months Ended			Nine Months Ended	
	September 30, 2024	June 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
\$ in thousands, except share data					
Interest income	73,825	68,028	75,132	210,436	215,847
Interest expense	66,315	59,393	65,701	187,288	174,449
Net interest income	7,510	8,635	9,431	23,148	41,398
Other income (loss)					
Gain (loss) on investments, net	165,168	(45,212)	(224,897)	53,803	(272,620)
(Increase) decrease in provision for credit losses	80	(263)	(43)	(222)	(212)
Equity in earnings (losses) of unconsolidated ventures	—	—	2	(193)	4
Gain (loss) on derivative instruments, net	(127,345)	28,262	151,689	(5,922)	203,418
Other investment income (loss), net	—	—	—	—	(66)
Total other income (loss)	37,903	(17,213)	(73,249)	47,466	(69,476)
Expenses					
Management fee – related party	2,888	2,945	3,090	8,694	9,237
General and administrative	1,805	1,943	1,691	5,544	5,743
Total expenses	4,693	4,888	4,781	14,238	14,980
Net income (loss)	40,720	(13,466)	(68,599)	56,376	(43,058)
Dividends to preferred stockholders	(5,474)	(5,508)	(5,772)	(16,567)	(17,474)
Gain on repurchase and retirement of preferred stock	25	208	347	426	711
Net income (loss) attributable to common stockholders	35,271	(18,766)	(74,024)	40,235	(59,821)
Earnings (loss) per share:					
Net income (loss) attributable to common stockholders					
Basic	0.63	(0.38)	(1.62)	0.78	(1.40)
Diluted	0.63	(0.38)	(1.62)	0.78	(1.40)

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

	Three Months Ended			Nine Months Ended	
	September 30, 2024	June 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
\$ in thousands					
Net income (loss)	40,720	(13,466)	(68,599)	56,376	(43,058)
Other comprehensive income (loss):					
Unrealized gain (loss) on mortgage-backed securities, net	(287)	(150)	(91)	(639)	(698)
Reclassification of unrealized loss on available-for-sale securities to (increase) decrease in provision for credit losses	—	263	43	302	212
Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to interest expense	—	—	(1,810)	—	(9,505)
Currency translation adjustments on investment in unconsolidated venture	—	—	—	—	(10)
Reclassification of currency translation loss on investment in unconsolidated venture to other investment income (loss), net	—	—	—	—	123
Total other comprehensive income (loss)	(287)	113	(1,858)	(337)	(9,878)
Comprehensive income (loss)	40,433	(13,353)	(70,457)	56,039	(52,936)
Dividends to preferred stockholders	(5,474)	(5,508)	(5,772)	(16,567)	(17,474)
Gain on repurchase and retirement of preferred stock	25	208	347	426	711
Comprehensive income (loss) attributable to common stockholders	34,984	(18,653)	(75,882)	39,898	(69,699)

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

\$ in thousands, except share amounts	As of	
	September 30, 2024	December 31, 2023
ASSETS		
Mortgage-backed securities, at fair value (including pledged securities of \$5,401,351 and \$4,712,185, respectively; net of allowance for credit losses of \$542 and \$320, respectively)	5,873,696	5,045,306
U.S. Treasury securities, at fair value	—	11,214
Cash and cash equivalents	48,254	76,967
Restricted cash	120,199	121,670
Investment related receivable	26,739	26,604
Derivative assets, at fair value	12,035	939
Other assets	1,307	1,509
Total assets	6,082,230	5,284,209
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	5,184,885	4,458,695
Dividends payable	24,292	19,384
Accrued interest payable	10,686	15,787
Collateral held payable	336	2,475
Accounts payable and accrued expenses	1,607	1,296
Due to affiliate	3,421	3,907
Total liabilities	5,225,227	4,501,544
Commitments and contingencies (See Note 14) ⁽¹⁾		
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: 4,247,989 and 4,385,997 shares issued and outstanding, respectively (\$106,200 and \$109,650 aggregate liquidation preference, respectively)	102,678	106,014
7.50% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock: 7,277,523 and 7,545,439 shares issued and outstanding, respectively (\$181,938 and \$188,636 aggregate liquidation preference, respectively)	175,995	182,474
Common Stock, par value \$0.01 per share; 134,000,000 and 67,000,000 shares authorized, respectively; 60,730,287 and 48,460,626 shares issued and outstanding, respectively	607	484
Additional paid in capital	4,119,347	4,011,138
Accumulated other comprehensive income	361	698
Retained earnings (distributions in excess of earnings)	(3,541,985)	(3,518,143)
Total stockholders' equity	857,003	782,665
Total liabilities and stockholders' equity	6,082,230	5,284,209

(1) See Note 14 of the Company's condensed consolidated financial statements filed in Item 1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024.

Non-GAAP Financial Measures

The table below shows the non-GAAP financial measures the Company uses to analyze its operating results and the most directly comparable U.S. GAAP measures. The Company believes these non-GAAP measures are useful to investors in assessing its 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 the Company's 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 its peer companies.

Earnings Available for Distribution

The Company's business objective is to provide attractive risk-adjusted returns to its stockholders, primarily through dividends and secondarily through capital appreciation. The Company uses earnings available for distribution as a measure of its investment portfolio's ability to generate income for distribution to common stockholders and to evaluate its progress toward meeting this objective. The Company calculates earnings available for distribution as U.S. GAAP net income (loss) attributable to common stockholders adjusted for (gain) loss on investments, net; realized (gain) loss on derivative instruments, net; unrealized (gain) loss on derivative instruments, net; TBA dollar roll income; gain on repurchase and retirement of preferred stock; foreign currency (gains) losses, net and amortization of net deferred (gain) loss on de-designated interest rate swaps.

By excluding the gains and losses discussed above, the Company believes the presentation of earnings available for distribution provides a consistent measure of operating performance that investors can use to evaluate its results over multiple reporting periods and, to a certain extent, compare to its peer companies. However, because not all of the Company's peer companies use identical operating performance measures, the Company's presentation of earnings available for distribution may not be comparable to other similarly titled measures used by its peer companies. The Company excludes the impact of gains and losses when calculating earnings available for distribution because (i) when analyzed in conjunction with its U.S. GAAP results, earnings available for distribution provides additional detail of its investment portfolio's earnings capacity and (ii) gains and losses are not accounted for consistently under U.S. GAAP. Under U.S. GAAP, certain gains and losses are reflected in net income whereas other gains and losses are reflected in other comprehensive income. For example, a portion of the Company's mortgage-backed securities are classified as available-for-sale securities, and changes in the valuation of these securities are recorded in other comprehensive income on its condensed consolidated balance sheets. The Company elected the fair value option for its mortgage-backed securities purchased on or after September 1, 2016, and changes in the valuation of these securities are recorded in other income (loss) in the condensed consolidated statements of operations. In addition, certain gains and losses represent one-time events. The Company may add and has added additional reconciling items to its earnings available for distribution calculation as appropriate.

To maintain qualification as a REIT, U.S. federal income tax law generally requires that the Company distribute at least 90% of its REIT taxable income annually, determined without regard to the deduction for dividends paid and excluding net capital gains. The Company has historically distributed at least 100% of its REIT taxable income. Because the Company views earnings available for distribution as a consistent measure of its investment portfolio's ability to generate income for distribution to common stockholders, earnings available for distribution is one metric, but not the exclusive metric, that the Company's board of directors uses to determine the amount, if any, and the payment date of dividends on common stock. However, earnings available for distribution should not be considered as an indication of the Company's taxable income, a guaranty of its ability to pay dividends or as a proxy for the amount of dividends it may pay, as earnings available for distribution excludes certain items that impact its cash needs.

Earnings available for distribution is an incomplete measure of the Company's financial performance and there are other factors that impact the achievement of the Company's business objective. The Company cautions that earnings available for distribution should not be considered as an alternative to net income (determined in accordance with U.S. GAAP), or as an indication of the Company's cash flow from operating activities (determined in accordance with U.S. GAAP), a measure of the Company's liquidity, or as an indication of amounts available to fund its cash needs.

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			Nine Months Ended	
	September 30, 2024	June 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Net income (loss) attributable to common stockholders	35,271	(18,766)	(74,024)	40,235	(59,821)
Adjustments:					
(Gain) loss on investments, net	(165,168)	45,212	224,897	(53,803)	272,620
Realized (gain) loss on derivative instruments, net ⁽¹⁾	172,797	22,344	(84,565)	146,459	(19,611)
Unrealized (gain) loss on derivative instruments, net ⁽¹⁾	(4,569)	(7,335)	5,002	(11,096)	6,220
TBA dollar roll income ⁽²⁾	39	1,078	—	1,117	697
Gain on repurchase and retirement of preferred stock	(25)	(208)	(347)	(426)	(711)
Foreign currency (gains) losses, net ⁽³⁾	—	—	—	—	66
Amortization of net deferred (gain) loss on de-designated interest rate swaps ⁽⁴⁾	—	—	(1,810)	—	(9,505)
Subtotal	3,074	61,091	143,177	82,251	249,776
Earnings available for distribution	38,345	42,325	69,153	122,486	189,955
Basic income (loss) per common share	0.63	(0.38)	(1.62)	0.78	(1.40)
Earnings available for distribution per common share ⁽⁵⁾	0.68	0.86	1.51	2.38	4.46

- (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			Nine Months Ended	
	September 30, 2024	June 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Realized gain (loss) on derivative instruments, net	(172,797)	(22,344)	84,565	(146,459)	19,611
Unrealized gain (loss) on derivative instruments, net	4,569	7,335	(5,002)	11,096	(6,220)
Contractual net interest income (expense) on interest rate swaps	40,883	43,271	72,126	129,441	190,027
Gain (loss) on derivative instruments, net	(127,345)	28,262	151,689	(5,922)	203,418

- (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. The Company includes TBA dollar roll income in earnings available for distribution because it is the economic equivalent of interest income on the underlying Agency RMBS, 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 the Company's condensed consolidated statements of operations.
- (3) Foreign currency gains (losses), net includes foreign currency transaction gains and losses and the reclassification of currency translation adjustments that were previously recorded in accumulated other comprehensive income and is included in other investment income (loss), net on the condensed consolidated statements of operations.

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

\$ in thousands	Three Months Ended			Nine Months Ended	
	September 30, 2024	June 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Interest expense on repurchase agreement borrowings	66,315	59,393	67,511	187,288	183,954
Amortization of net deferred (gain) loss on de-designated interest rate swaps	—	—	(1,810)	—	(9,505)
Total interest expense	66,315	59,393	65,701	187,288	174,449

(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			Nine Months Ended	
	September 30, 2024	June 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Effective net interest income ⁽¹⁾	48,393	51,906	79,747	152,589	221,920
TBA dollar roll income	39	1,078	—	1,117	697
Equity in earnings (losses) of unconsolidated ventures	—	—	2	(193)	4
(Increase) decrease in provision for credit losses	80	(263)	(43)	(222)	(212)
Total expenses	(4,693)	(4,888)	(4,781)	(14,238)	(14,980)
Subtotal	43,819	47,833	74,925	139,053	207,429
Dividends to preferred stockholders	(5,474)	(5,508)	(5,772)	(16,567)	(17,474)
Earnings available for distribution	38,345	42,325	69,153	122,486	189,955

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

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

The Company calculates 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 its 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 interest expense. The Company views its interest rate swaps as an economic hedge against increases in future market interest rates on its borrowings. The Company adds back the net payments or receipts on its interest rate swap agreements to its total U.S. GAAP interest expense because the Company uses interest rate swaps to add stability to interest expense. The Company excludes the amortization of net deferred gains (losses) on de-designated interest rate swaps from its calculation of effective interest expense because the Company does not consider the amortization a current component of its borrowing costs.

The Company calculates 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 its 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 interest expense.

The Company believes 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 the Company's 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					
	September 30, 2024		June 30, 2024		September 30, 2023	
	Reconciliation	Cost of Funds / Effective Cost of Funds	Reconciliation	Cost of Funds / Effective Cost of Funds	Reconciliation	Cost of Funds / Effective Cost of Funds
Total interest expense	66,315	5.30 %	59,393	5.59 %	65,701	5.36 %
Add: Amortization of net deferred gain (loss) on de-designated interest rate swaps	—	— %	—	— %	1,810	0.15 %
Less: Contractual net interest expense (income) on interest rate swaps recorded as gain (loss) on derivative instruments, net	(40,883)	(3.27)%	(43,271)	(4.07)%	(72,126)	(5.88)%
Effective interest expense	<u>25,432</u>	<u>2.03 %</u>	<u>16,122</u>	<u>1.52 %</u>	<u>(4,615)</u>	<u>(0.37)%</u>

\$ in thousands	Nine Months Ended September 30,			
	2024		2023	
	Reconciliation	Cost of Funds / Effective Cost of Funds	Reconciliation	Cost of Funds / Effective Cost of Funds
Total interest expense	187,288	5.48 %	174,449	4.83 %
Add: Amortization of net deferred gain (loss) on de-designated interest rate swaps	—	— %	9,505	0.26 %
Less: Contractual net interest expense (income) on interest rate swaps recorded as gain (loss) on derivative instruments, net	(129,441)	(3.78)%	(190,027)	(5.27)%
Effective interest expense	<u>57,847</u>	<u>1.70 %</u>	<u>(6,073)</u>	<u>(0.18)%</u>

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:

\$ in thousands	Three Months Ended					
	September 30, 2024		June 30, 2024		September 30, 2023	
	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin
Net interest income	7,510	0.01 %	8,635	0.02 %	9,431	0.11 %
Less: Amortization of net deferred (gain) loss on de-designated interest rate swaps	—	— %	—	— %	(1,810)	(0.15)%
Add: Contractual net interest income (expense) on interest rate swaps recorded as gain (loss) on derivative instruments, net	40,883	3.27 %	43,271	4.07 %	72,126	5.88 %
Effective net interest income	<u>48,393</u>	<u>3.28 %</u>	<u>51,906</u>	<u>4.09 %</u>	<u>79,747</u>	<u>5.84 %</u>

Nine Months Ended September 30,				
		2024	2023	
\$ in thousands	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin
Net interest income	23,148	(0.01)%	41,398	0.56 %
Less: Amortization of net deferred (gain) loss on de-designated interest rate swaps	—	— %	(9,505)	(0.26)%
Add: Contractual net interest income (expense) on interest rate swaps recorded as gain (loss) on derivative instruments, net	129,441	3.78 %	190,027	5.27 %
Effective net interest income	152,589	3.77 %	221,920	5.57 %

Economic Debt-to-Equity Ratio

The following tables show the allocation of the Company's stockholders' equity to its target assets, the Company's debt-to-equity ratio, and the Company's economic debt-to-equity ratio as of September 30, 2024 and June 30, 2024. The Company's debt-to-equity ratio is calculated in accordance with U.S. GAAP and is the ratio of total debt to total stockholders' equity.

The Company presents an economic debt-to-equity ratio, a non-GAAP financial measure of leverage that considers the impact of the off-balance sheet financing of its investments in TBAs that are accounted for as derivative instruments under U.S. GAAP. The Company includes its TBAs at implied cost basis in its 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 the Company's on-balance sheet funding commitments. The Company believes that presenting its economic debt-to-equity ratio, when considered together with its U.S. GAAP financial measure of debt-to-equity ratio, provides information that is useful to investors in understanding how management evaluates at-risk leverage and gives investors a comparable statistic to those of other mortgage REITs who also invest in TBAs and present a similar non-GAAP measure of leverage.

As of September 30, 2024

\$ in thousands	Agency RMBS	Agency CMBS	Credit Portfolio ⁽¹⁾	Total
Mortgage-backed securities	5,181,013	675,074	17,609	5,873,696
Cash and cash equivalents ⁽²⁾	42,190	6,064	—	48,254
Restricted cash ⁽³⁾	115,416	4,783	—	120,199
Derivative assets, at fair value ⁽³⁾	11,556	479	—	12,035
Other assets	25,598	2,448	—	28,046
Total assets	5,375,773	688,848	17,609	6,082,230
Repurchase agreements	4,535,956	648,929	—	5,184,885
Other liabilities	37,289	2,360	693	40,342
Total liabilities	4,573,245	651,289	693	5,225,227
Total stockholders' equity (allocated)	802,528	37,559	16,916	857,003
Debt-to-equity ratio ⁽⁴⁾	5.7	17.3	—	6.1
Economic debt-to-equity ratio ⁽⁵⁾	5.7	17.3	—	6.1

(1) Investments in non-Agency CMBS and non-Agency RMBS are included in credit portfolio.

(2) Cash and cash equivalents is allocated based on the Company's financing strategy for each asset class.

(3) Restricted cash and derivative assets are allocated based on the 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 to total stockholders' equity. The Company did not have any TBAs outstanding as of September 30, 2024.

As of June 30, 2024

\$ in thousands	Agency RMBS	Agency CMBS	Credit Portfolio ⁽¹⁾	Total
Mortgage-backed securities	4,434,507	384,593	17,727	4,836,827
Cash and cash equivalents ⁽²⁾	54,428	4,347	—	58,775
Restricted cash ⁽³⁾	109,485	15,182	—	124,667
Derivative assets, at fair value ⁽³⁾	7,896	1,095	—	8,991
Other assets	35,665	1,474	130	37,269
Total assets	4,641,981	406,691	17,857	5,066,529
Repurchase agreements	3,945,401	315,074	—	4,260,475
Derivative liabilities, at fair value ⁽³⁾	1,525	—	—	1,525
Other liabilities	40,686	3,918	709	45,313
Total liabilities	3,987,612	318,992	709	4,307,313
Total stockholders' equity (allocated)	654,369	87,699	17,148	759,216
Debt-to-equity ratio ⁽⁴⁾	6.0	3.6	—	5.6
Economic debt-to-equity ratio ⁽⁵⁾	6.3	3.6	—	5.9

- (1) Investments in non-Agency CMBS, non-Agency RMBS and an unconsolidated joint venture are included in credit portfolio.
- (2) Cash and cash equivalents is allocated based on the Company's financing strategy for each asset class.
- (3) Restricted cash and derivative assets and liabilities are allocated based on the 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 (\$199.9 million as of June 30, 2024) to total stockholders' equity.

Average Balances

The table below presents information related to the Company's average earning assets, average earning asset yields, average borrowings and average cost of funds for the following periods:

\$ in thousands	Three Months Ended			Nine Months Ended	
	September 30, 2024	June 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Average earning assets ⁽¹⁾	5,566,299	4,847,125	5,498,298	5,130,153	5,344,055
Average earning asset yields ⁽²⁾	5.31 %	5.61 %	5.47 %	5.47 %	5.39 %
Average borrowings ⁽³⁾	5,004,504	4,251,953	4,902,400	4,560,365	4,811,136
Average cost of funds ⁽⁴⁾	5.30 %	5.59 %	5.36 %	5.48 %	4.83%

- (1) Average balances for each period are based on weighted month-end balances.
- (2) Average earning asset yields for each period are 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.
- (3) Average borrowings for each period are based on weighted month-end balances.
- (4) 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 average borrowings.