REFINITIV

DELTA REPORT

10-Q

IVR PR C - INVESCO MORTGAGE CAPITAL

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	993
CHANGES	432
DELETIONS	326
ADDITIONS	235

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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 June 30, 2023 September 30, 2023

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

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Invesco Mortgage Capital Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**26-2749336**
(State or Other Jurisdiction of Incorporation or Organization)	***(I.R.S. Employer Identification No.)***
1331 Spring Street, N.W., Suite 2500,	
Atlanta, Georgia	**30309**
(Address of Principal Executive Offices)	***(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 July 31, 2023 October 31, 2023, there were 44,579,863 48,460,626 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	**$ in thousands, except share amounts**	**As of**		**$ in thousands, except share amounts**	**As of**	
		June 30, 2023	**December 31, 2022**		**September 30, 2023**	**December 31, 2022**
ASSETS	**ASSETS**			**ASSETS**		
Mortgage-backed securities, at fair value (including pledged securities of $5,224,675 and $4,439,583, respectively; net of allowance for credit losses of $169 and $0, respectively)		5,507,460	4,791,893			

Mortgage-backed securities, at fair value (including pledged securities of $5,226,133 and $4,439,583, respectively; net of allowance for credit losses of $212 and $0, respectively)				Mortgage-backed securities, at fair value (including pledged securities of $5,226,133 and $4,439,583, respectively; net of allowance for credit losses of $212 and $0, respectively)	5,443,928	4,791,893
Cash and cash equivalents	Cash and cash equivalents	209,036	175,535	Cash and cash equivalents	173,921	175,535
Restricted cash	Restricted cash	124,669	103,246	Restricted cash	185,824	103,246
Due from counterparties	Due from counterparties	—	1,584	Due from counterparties	—	1,584
Investment related receivable	Investment related receivable	23,809	22,744	Investment related receivable	25,608	22,744
Derivative assets, at fair value	Derivative assets, at fair value	—	662	Derivative assets, at fair value	—	662
Other assets	Other assets	1,255	1,731	Other assets	2,062	1,731
Total assets	Total assets	5,866,229	5,097,395	Total assets	5,831,343	5,097,395
LIABILITIES AND STOCKHOLDERS' EQUITY	**LIABILITIES AND STOCKHOLDERS' EQUITY**			**LIABILITIES AND STOCKHOLDERS' EQUITY**		
Liabilities:	**Liabilities:**			**Liabilities:**		
Repurchase agreements	Repurchase agreements	4,959,388	4,234,823	Repurchase agreements	4,987,006	4,234,823
Derivative liabilities, at fair value	Derivative liabilities, at fair value	2,635	2,079	Derivative liabilities, at fair value	7,637	2,079
Dividends payable	Dividends payable	17,832	25,162	Dividends payable	19,384	25,162
Accrued interest payable	Accrued interest payable	40,159	20,546	Accrued interest payable	26,751	20,546
Collateral held payable	Collateral held payable	—	4,892	Collateral held payable	—	4,892
Accounts payable and accrued expenses	Accounts payable and accrued expenses	1,779	1,365	Accounts payable and accrued expenses	1,838	1,365
Due to affiliate	Due to affiliate	3,552	4,453	Due to affiliate	3,702	4,453
Total liabilities	Total liabilities	5,025,345	4,293,320	Total liabilities	5,046,318	4,293,320
Commitments and contingencies (See Note 14):	**Commitments and contingencies (See Note 14):**			**Commitments and contingencies (See Note 14):**		
Stockholders' equity:	**Stockholders' equity:**			**Stockholders' equity:**		
Preferred Stock, par value $0.01 per share; 50,000,000 shares authorized:	Preferred Stock, par value $0.01 per share; 50,000,000 shares authorized:			Preferred Stock, par value $0.01 per share; 50,000,000 shares authorized:		
7.75% Fixed-to-Floating Series B Cumulative Redeemable Preferred Stock: 4,499,846 and 4,537,634 shares issued and outstanding, respectively ($112,496 and $113,441 aggregate liquidation preference, respectively)		108,766	109,679			
7.50% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock: 7,773,774 and 7,816,470 shares issued and outstanding, respectively ($194,344 and $195,412 aggregate liquidation preference, respectively)		187,995	189,028			
Common Stock, par value $0.01 per share; 67,000,000 shares authorized, 44,579,863 and 38,710,916 shares issued and outstanding, respectively		445	387			

7.75% Fixed-to-Floating Series B Cumulative Redeemable Preferred Stock: 4,465,414 and 4,537,634 shares issued and outstanding, respectively ($111,635 and $113,441 aggregate liquidation preference, respectively)				7.75% Fixed-to-Floating Series B Cumulative Redeemable Preferred Stock: 4,465,414 and 4,537,634 shares issued and outstanding, respectively ($111,635 and $113,441 aggregate liquidation preference, respectively)	107,934	109,679
7.50% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock: 7,681,211 and 7,816,470 shares issued and outstanding, respectively ($192,030 and $195,412 aggregate liquidation preference, respectively)				7.50% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock: 7,681,211 and 7,816,470 shares issued and outstanding, respectively ($192,030 and $195,412 aggregate liquidation preference, respectively)	185,757	189,028
Common Stock, par value $0.01 per share; 67,000,000 shares authorized, 48,460,626 and 38,710,916 shares issued and outstanding, respectively				Common Stock, par value $0.01 per share; 67,000,000 shares authorized, 48,460,626 and 38,710,916 shares issued and outstanding, respectively	484	387
Additional paid in capital	Additional paid in capital	3,968,567	3,901,562	Additional paid in capital	4,011,005	3,901,562
Accumulated other comprehensive income	Accumulated other comprehensive income	2,741	10,761	Accumulated other comprehensive income	883	10,761
Retained earnings (distributions in excess of earnings)	Retained earnings (distributions in excess of earnings)	(3,427,630)	(3,407,342)	Retained earnings (distributions in excess of earnings)	(3,521,038)	(3,407,342)
Total stockholders' equity	Total stockholders' equity	840,884	804,075	Total stockholders' equity	785,025	804,075
Total liabilities and stockholders' equity	Total liabilities and stockholders' equity	5,866,229	5,097,395	Total liabilities and stockholders' equity	5,831,343	5,097,395

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)

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands, except share data	**$ in thousands, except share data**	**2023**	**2022**	**2023**	**2022**	**$ in thousands, except share data**	**2023**	**2022**	**2023**	**2022**
Interest income	**Interest income**					**Interest income**				
Mortgage-backed and other securities	Mortgage-backed and other securities	71,428	43,994	140,715	85,631	Mortgage-backed and other securities	75,132	49,058	215,847	134,689
Commercial loan	Commercial loan	—	561	—	1,098	Commercial loan	—	670	—	1,768

Total interest income	Total interest income	71,428	44,555	140,715	86,729	Total interest income	75,132	49,728	215,847	136,457
Interest expense	**Interest expense**					**Interest expense**				
Repurchase agreements	Repurchase agreements	59,022	3,455	108,748	1,351	Repurchase agreements	65,701	18,008	174,449	19,359
Total interest expense	Total interest expense	59,022	3,455	108,748	1,351	Total interest expense	65,701	18,008	174,449	19,359
Net interest income	**Net interest income**	12,406	41,100	31,967	85,378	**Net interest income**	9,431	31,720	41,398	117,098
Other income (loss)	**Other income (loss)**					**Other income (loss)**				
Gain (loss) on investments, net	Gain (loss) on investments, net	(99,679)	(324,876)	(47,723)	(829,264)	Gain (loss) on investments, net	(224,897)	(260,837)	(272,620)	(1,090,101)
(Increase) decrease in provision for credit losses	(Increase) decrease in provision for credit losses	(169)	—	(169)	—	(Increase) decrease in provision for credit losses	(43)	—	(212)	—
Equity in earnings (losses) of unconsolidated ventures	Equity in earnings (losses) of unconsolidated ventures	—	(352)	2	(281)	Equity in earnings (losses) of unconsolidated ventures	2	(6)	4	(287)
Gain (loss) on derivative instruments, net	Gain (loss) on derivative instruments, net	96,624	181,742	51,729	420,602	Gain (loss) on derivative instruments, net	151,689	133,549	203,418	554,151
Other investment income (loss), net	Other investment income (loss), net	27	(11)	(66)	44	Other investment income (loss), net	—	—	(66)	44
Total other income (loss)	**Total other income (loss)**	(3,197)	(143,497)	3,773	(408,899)	**Total other income (loss)**	(73,249)	(127,294)	(69,476)	(536,193)
Expenses	**Expenses**					**Expenses**				
Management fee – related party	Management fee – related party	3,168	4,619	6,147	9,893	Management fee – related party	3,090	3,836	9,237	13,729
General and administrative	General and administrative	1,963	2,519	4,052	4,543	General and administrative	1,691	2,018	5,743	6,561
Total expenses	**Total expenses**	5,131	7,138	10,199	14,436	**Total expenses**	4,781	5,854	14,980	20,290
Net income (loss)	Net income (loss)	4,078	(109,535)	25,541	(337,957)	Net income (loss)	(68,599)	(101,428)	(43,058)	(439,385)
Dividends to preferred stockholders	Dividends to preferred stockholders	(5,840)	(8,100)	(11,702)	(16,494)	Dividends to preferred stockholders	(5,772)	(5,862)	(17,474)	(22,356)
Gain on repurchase and retirement of preferred stock	Gain on repurchase and retirement of preferred stock	364	1,491	364	1,491	Gain on repurchase and retirement of preferred stock	347	12,688	711	14,179
Net income (loss) attributable to common stockholders	Net income (loss) attributable to common stockholders	(1,398)	(116,144)	14,203	(352,960)	Net income (loss) attributable to common stockholders	(74,024)	(94,602)	(59,821)	(447,562)
Earnings (loss) per share:	Earnings (loss) per share:					Earnings (loss) per share:				
Net income (loss) attributable to common stockholders	Net income (loss) attributable to common stockholders					Net income (loss) attributable to common stockholders				
Basic	Basic	(0.03)	(3.52)	0.35	(10.70)	Basic	(1.62)	(2.78)	(1.40)	(13.42)
Diluted	Diluted	(0.03)	(3.52)	0.35	(10.70)	Diluted	(1.62)	(2.78)	(1.40)	(13.42)

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)

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	**$ in thousands**	**2023**	**2022**	**2023**	**2022**	**$ in thousands**	**2023**	**2022**	**2023**	**2022**
Net income (loss)	Net income (loss)	4,078	(109,535)	25,541	(337,957)	Net income (loss)	(68,599)	(101,428)	(43,058)	(439,385)
Other comprehensive income (loss):	**Other comprehensive income (loss):**					**Other comprehensive income (loss):**				
Unrealized gain (loss) on mortgage-backed securities, net	Unrealized gain (loss) on mortgage-backed securities, net	(131)	(1,825)	(607)	(4,246)	Unrealized gain (loss) on mortgage-backed securities, net	(91)	(1,243)	(698)	(5,489)
Reclassification of unrealized loss on available-for-sale securities to (increase) decrease in provision for credit losses	Reclassification of unrealized loss on available-for-sale securities to (increase) decrease in provision for credit losses	169	—	169	—	Reclassification of unrealized loss on available-for-sale securities to (increase) decrease in provision for credit losses	43	—	212	—
Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	(3,201)	(4,802)	(7,695)	(9,998)	Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	(1,810)	(4,855)	(9,505)	(14,853)
Currency translation adjustments on investment in unconsolidated venture	Currency translation adjustments on investment in unconsolidated venture	—	(93)	(10)	(293)	Currency translation adjustments on investment in unconsolidated venture	—	(141)	(10)	(434)
Reclassification of currency translation loss on investment in unconsolidated venture to other investment income (loss), net	Reclassification of currency translation loss on investment in unconsolidated venture to other investment income (loss), net	—	—	123	—	Reclassification of currency translation loss on investment in unconsolidated venture to other investment income (loss), net	—	—	123	—
Total other comprehensive income (loss)	Total other comprehensive income (loss)	(3,163)	(6,720)	(8,020)	(14,537)	Total other comprehensive income (loss)	(1,858)	(6,239)	(9,878)	(20,776)
Comprehensive income (loss)	Comprehensive income (loss)	915	(116,255)	17,521	(352,494)	Comprehensive income (loss)	(70,457)	(107,667)	(52,936)	(460,161)
Dividends to preferred stockholders	Dividends to preferred stockholders	(5,840)	(8,100)	(11,702)	(16,494)	Dividends to preferred stockholders	(5,772)	(5,862)	(17,474)	(22,356)

Gain on repurchase and retirement of preferred stock	Gain on repurchase and retirement of preferred stock	364	1,491	364	1,491	Gain on repurchase and retirement of preferred stock	347	12,688	711	14,179
Comprehensive income (loss) attributable to common stockholders	Comprehensive income (loss) attributable to common stockholders	(4,561)	(122,864)	6,183	(367,497)	Comprehensive income (loss) attributable to common stockholders	(75,882)	(100,841)	(69,699)	(468,338)

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, 2023; June 30, 2023 and June 30, 2023 September 30, 2023
(Unaudited)

$ in thousands, except share amounts	$ in thousands, except share amounts	Series B Preferred Stock Shares	Series B Preferred Stock Amount	Series C Preferred Stock Shares	Series C Preferred Stock Amount	Common Stock Shares	Common Stock Amount	$ in thousands, except share amounts	Additional Paid in Capital		Accumulated Other Comprehensive Income (Loss)		Retained Earnings (Distributions in excess of earnings)		Total Stockholders' Equity	C Shar
Balance as of December 31, 2022	**Balance as of December 31, 2022**	4,537,634	109,679	7,816,470	189,028	38,710,916	387		3,901,562		10,761		(3,407,342)		804,075	**Balance as December 3 2022**
Net income (loss)	Net income (loss)	—	—	—	—	—	—		—		—	**Accumulated Other**	21,463	**Retained Earnings**	21,463	Net income (loss)
Other comprehensive income (loss)	Other comprehensive income (loss)	—	—	—	—	—	—		—	**Additional Paid in Capital**	(4,857)	**Comprehensive Income (Loss)**	—	**(Distributions in excess of earnings)**	(4,857)	Other comprehens income (loss
Proceeds from issuance of common stock, net of offering costs	Proceeds from issuance of common stock, net of offering costs	—	—	—	—	2,930,069	29		35,763		—		—		35,792	Proceeds fro issuance of common sto net of offeri costs
Stock awards	Stock awards	—	—	—	—	6,259	—		—		—		—		—	Stock award
Common stock dividends	Common stock dividends	—	—	—	—	—	—		—		—		(16,658)		(16,658)	Common sto dividends
Preferred stock dividends	Preferred stock dividends	—	—	—	—	—	—		—		—		(5,862)		(5,862)	Preferred st dividends
Amortization of equity-based compensation	Amortization of equity-based compensation	—	—	—	—	—	—		162		—		—		162	Amortizatio of equity-based compensati
Balance as of March 31, 2023	**Balance as of March 31, 2023**	4,537,634	109,679	7,816,470	189,028	41,647,244	416		3,937,487		5,904		(3,408,399)		834,115	**Balance as March 31, 2023**
Net income (loss)	Net income (loss)	—	—	—	—	—	—		—		—		4,078		4,078	Net income (loss)
Other comprehensive income (loss)	Other comprehensive income (loss)	—	—	—	—	—	—		—		(3,163)		—		(3,163)	Other comprehens income (loss

Proceeds from issuance of common stock, net of offering costs	Proceeds from issuance of common stock, net of offering costs	—	—	—	—	2,888,639	29	30,939	—	—	30,968	Proceeds fro issuance of common sto net of offeri costs
Repurchase and retirement of preferred stock	Repurchase and retirement of preferred stock	(37,788)	(913)	(42,696)	(1,033)	—	—	—	—	364	(1,582)	Repurchase and retirem of preferred stock
Stock awards	Stock awards	—	—	—	—	43,980	—	—	—	—	—	Stock award
Common stock dividends	Common stock dividends	—	—	—	—	—	—	—	—	(17,833)	(17,833)	Common sto dividends
Preferred stock dividends	Preferred stock dividends	—	—	—	—	—	—	—	—	(5,840)	(5,840)	Preferred st dividends
Amortization of equity-based compensation	Amortization of equity-based compensation	—	—	—	—	—	—	141	—	—	141	Amortizatio of equity-based compensati
Balance as of June 30, 2023	**Balance as of June 30, 2023**	4,499,846	108,766	7,773,774	187,995	44,579,863	445	3,968,567	2,741	(3,427,630)	840,884	**Balance as June 30, 20**
Net income (loss)												Net income (loss)
Other comprehensive income (loss)												Other comprehens income (loss
Proceeds from issuance of common stock, net of offering costs												Proceeds fro issuance of common sto net of offeri costs
Repurchase and retirement of preferred stock												Repurchase and retirem of preferred stock
Common stock dividends												Common sto dividends
Preferred stock dividends												Preferred st dividends
Amortization of equity-based compensation												Amortizatio of equity-based compensati
Balance at September 30, 2023												**Balance at September 2023**

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; June 30, 2022 and June 30, 2022 September 30, 2022
(Unaudited)

Series B	Series C	Additional	Accumulated	Retained	Total

$ in thousands, except share amounts	$ in thousands, except share amounts	Preferred Stock Shares	Preferred Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	$ in thousands, except share amounts	Paid in Capital		Other Comprehensive Income (Loss)		Earnings (Distributions in excess of earnings)		Stockholders' Equity		Sha
Balance as of December 31, 2021	**Balance as of December 31, 2021**	6,200,000	149,860	11,500,000	278,108	32,987,478	330		3,819,375		37,286		(2,882,824)		1,402,135	**Balance a December 2021**	
Net income (loss)	Net income (loss)	—	—	—	—	—	—		—		—	**Accumulated**	(228,422)	**Retained Earnings**	(228,422)	Net incom (loss)	
Other comprehensive income (loss)	Other comprehensive income (loss)	—	—	—	—	—	—		—	**Additional Paid in Capital**	(7,817)	**Other Comprehensive Income (Loss)**	—	**(Distributions in excess of earnings)**	(7,817)	Other compreher income (lo	
Stock awards	Stock awards	—	—	—	—	4,315	—		—		—		—		—	Stock awa	
Common stock dividends	Common stock dividends	—	—	—	—	—	—		—		—		(29,693)		(29,693)	Common s dividends	
Preferred stock dividends	Preferred stock dividends	—	—	—	—	—	—		—		—		(8,394)		(8,394)	Preferred s dividends	
Amortization of equity-based compensation	Amortization of equity-based compensation	—	—	—	—	—	—		138		—		—		138	Amortizati of equity-based compensa	
Balance as of March 31, 2022	**Balance as of March 31, 2022**	6,200,000	149,860	11,500,000	278,108	32,991,793	330		3,819,513		29,469		(3,149,333)		1,127,947	**Balance a March 31, 2022**	
Net income (loss)	Net income (loss)	—	—	—	—	—	—		—		—		(109,535)		(109,535)	Net incom (loss)	
Other comprehensive income (loss)	Other comprehensive income (loss)	—	—	—	—	—	—		—		(6,720)		—		(6,720)	Other compreher income (lo	
Repurchase and retirement of preferred stock	Repurchase and retirement of preferred stock	(43,820)	(1,059)	(620,141)	(14,997)	—	—		—		—		1,491		(14,565)	Repurchas and retirer of preferre stock	
Stock awards	Stock awards	—	—	—	—	32,571	—		—		—		—		—	Stock awa	
Payments in lieu of fractional shares in connection with one-for-ten reverse stock split	Payments in lieu of fractional shares in connection with one-for-ten reverse stock split	—	—	—	—	(46)	—		(1)		—		—		(1)	Payments lieu of fractional shares in connectior with one-f ten revers stock split	
Common stock dividends	Common stock dividends	—	—	—	—	—	—		—		—		—		—	Common s dividends	
Preferred stock dividends	Preferred stock dividends	—	—	—	—	—	—		—		—		(29,721)		(29,721)	Preferred s dividends	
Redemption of preferred stock	Redemption of preferred stock	—	—	—	—	—	—		—		—		(8,100)		(8,100)	Redemptic preferred s	
Amortization of equity-based compensation	Amortization of equity-based compensation	—	—	—	—	—	—		158		—		—		158	Amortizati of equity-based compensa	
Balance as of June 30, 2022	**Balance as of June 30, 2022**	6,156,180	148,801	10,879,859	263,111	33,024,318	330		3,819,670		22,749		(3,295,198)		959,463	**Balance a June 30, 2**	
Net income (loss)																Net incom (loss)	

Other comprehensive income (loss)	Other comprehe income (lo
Proceeds from issuance of common stock, net of offering costs	Proceeds f issuance o common s net of offe costs
Repurchase and retirement of preferred stock	Repurchas and retire of preferre stock
Common stock dividends	Common s dividends
Preferred stock dividends	Preferred s dividends
Amortization of equity-based compensation	Amortizati of equity-based compensa
Balance at September 30, 2022	**Balance a Septembe 2022**

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

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

		Six Months Ended June 30,			Nine Months Ended September 30,	
$ in thousands	**$ in thousands**	**2023**	**2022**	**$ in thousands**	**2023**	**2022**
Cash Flows from Operating Activities	**Cash Flows from Operating Activities**			**Cash Flows from Operating Activities**		
Net income (loss)	Net income (loss)	25,541	(337,957)	Net income (loss)	(43,058)	(439,385)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			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	Amortization of mortgage-backed and other securities premiums and (discounts), net	2,752	2,333	Amortization of mortgage-backed and other securities premiums and (discounts), net	(4,412)	835
Realized and unrealized (gain) loss on derivative instruments, net	Realized and unrealized (gain) loss on derivative instruments, net	66,172	(405,752)	Realized and unrealized (gain) loss on derivative instruments, net	(13,391)	(509,156)
(Gain) loss on investments, net	(Gain) loss on investments, net	47,723	829,264	(Gain) loss on investments, net	272,620	1,090,101
Increase (decrease) in provision for credit losses	Increase (decrease) in provision for credit losses	169	—	Increase (decrease) in provision for credit losses	212	—
(Gain) loss from investments in unconsolidated ventures in excess of distributions received	(Gain) loss from investments in unconsolidated ventures in excess of distributions received	(2)	37	(Gain) loss from investments in unconsolidated ventures in excess of distributions received	(4)	38
Other amortization	Other amortization	(7,392)	(9,702)	Other amortization	(9,069)	(14,399)

Loss on foreign currency translation	Loss on foreign currency translation	123	—	Loss on foreign currency translation	123	—
Changes in operating assets and liabilities:	Changes in operating assets and liabilities:			Changes in operating assets and liabilities:		
(Increase) decrease in operating assets	(Increase) decrease in operating assets	(421)	2,182	(Increase) decrease in operating assets	(3,106)	(1,901)
Increase (decrease) in operating liabilities	Increase (decrease) in operating liabilities	19,079	374	Increase (decrease) in operating liabilities	6,200	651
Net cash provided by (used in) operating activities	Net cash provided by (used in) operating activities	153,744	80,779	Net cash provided by (used in) operating activities	206,115	126,784
Cash Flows from Investing Activities	**Cash Flows from Investing Activities**			**Cash Flows from Investing Activities**		
Purchase of mortgage-backed securities	Purchase of mortgage-backed securities	(2,393,198)	(14,442,287)	Purchase of mortgage-backed securities	(4,522,098)	(20,721,166)
Purchase of U.S. Treasury securities	Purchase of U.S. Treasury securities	—	(502,290)	Purchase of U.S. Treasury securities	(48,672)	(502,290)
Distributions from investments in unconsolidated ventures, net	Distributions from investments in unconsolidated ventures, net	40	8,524	Distributions from investments in unconsolidated ventures, net	41	8,529
Principal payments from mortgage-backed securities	Principal payments from mortgage-backed securities	144,515	264,791	Principal payments from mortgage-backed securities	260,942	330,550
Proceeds from sale of mortgage-backed securities	Proceeds from sale of mortgage-backed securities	1,482,034	17,264,232	Proceeds from sale of mortgage-backed securities	3,339,830	22,775,148
Proceeds from the sale of U.S. Treasury securities	Proceeds from the sale of U.S. Treasury securities	—	468,051	Proceeds from the sale of U.S. Treasury securities	48,977	468,051
Settlement (termination) of forwards, swaps, and TBAs, net	Settlement (termination) of forwards, swaps, and TBAs, net	(64,954)	424,661	Settlement (termination) of forwards, swaps, and TBAs, net	19,611	487,538
Net change in due from counterparties and collateral held payable on derivative instruments	Net change in due from counterparties and collateral held payable on derivative instruments	1,584	(3,897)	Net change in due from counterparties and collateral held payable on derivative instruments	1,584	(649)
Net cash provided by (used in) investing activities	Net cash provided by (used in) investing activities	(829,979)	3,481,785	Net cash provided by (used in) investing activities	(899,785)	2,845,711
Cash Flows from Financing Activities	**Cash Flows from Financing Activities**			**Cash Flows from Financing Activities**		
Proceeds from issuance of common stock	Proceeds from issuance of common stock	66,760	—	Proceeds from issuance of common stock	109,104	38,726
Repurchase of preferred stock	Repurchase of preferred stock	(1,582)	(14,565)	Repurchase of preferred stock	(4,305)	(115,082)
Cash paid in lieu of fractional shares in connection with one-for-ten reverse stock split	Cash paid in lieu of fractional shares in connection with one-for-ten reverse stock split	—	(1)	Cash paid in lieu of fractional shares in connection with one-for-ten reverse stock split	—	(1)
Proceeds from repurchase agreements	Proceeds from repurchase agreements	17,156,436	35,949,170	Proceeds from repurchase agreements	28,937,349	51,685,864

Principal repayments of repurchase agreements	Principal repayments of repurchase agreements	(16,431,871)	(39,674,474)	Principal repayments of repurchase agreements	(28,185,166)	(54,786,407)
Net change in due from counterparties and collateral held payable on repurchase agreements	Net change in due from counterparties and collateral held payable on repurchase agreements	(4,892)	7,099	Net change in due from counterparties and collateral held payable on repurchase agreements	(4,892)	3,527
Payments of deferred costs	Payments of deferred costs	(169)	(184)	Payments of deferred costs	(329)	(350)
Payments of dividends	Payments of dividends	(53,523)	(75,875)	Payments of dividends	(77,127)	(111,459)
Net cash provided by (used in) financing activities	Net cash provided by (used in) financing activities	731,159	(3,808,830)	Net cash provided by (used in) financing activities	774,634	(3,285,182)
Net change in cash, cash equivalents and restricted cash	Net change in cash, cash equivalents and restricted cash	54,924	(246,266)	Net change in cash, cash equivalents and restricted cash	80,964	(312,687)
Cash, cash equivalents and restricted cash, beginning of period	Cash, cash equivalents and restricted cash, beginning of period	278,781	577,052	Cash, cash equivalents and restricted cash, beginning of period	278,781	577,052
Cash, cash equivalents and restricted cash, end of period	Cash, cash equivalents and restricted cash, end of period	333,705	330,786	Cash, cash equivalents and restricted cash, end of period	359,745	264,365
Supplement Disclosure of Cash Flow Information	**Supplement Disclosure of Cash Flow Information**			**Supplement Disclosure of Cash Flow Information**		
Interest paid	Interest paid	96,830	10,713	Interest paid	177,748	31,616
Non-cash Investing and Financing Activities Information	**Non-cash Investing and Financing Activities Information**			**Non-cash Investing and Financing Activities Information**		
Net change in unrealized gain (loss) on mortgage-backed securities classified as available-for-sale	Net change in unrealized gain (loss) on mortgage-backed securities classified as available-for-sale	438	(4,246)	Net change in unrealized gain (loss) on mortgage-backed securities classified as available-for-sale	486	(5,489)
Dividends declared not paid	Dividends declared not paid	17,832	29,722	Dividends declared not paid	19,384	22,979
Net change in investment related receivable (payable)	Net change in investment related receivable (payable)	—	(791)	Net change in investment related receivable (payable)	80	(416)
Net change in foreign currency translation adjustment recorded in accumulated other comprehensive income	Net change in foreign currency translation adjustment recorded in accumulated other comprehensive income	(113)	293	Net change in foreign currency translation adjustment recorded in accumulated other comprehensive income	(113)	434

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.

As of June 30, 2023 September 30, 2023, we were invested 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”); and
- other real estate-related financing arrangements.

During the periods presented in these condensed consolidated financial statements, we also invested in:

- a commercial mortgage loan; 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, 2022.

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 its 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, 2022.

Note 3 – Variable Interest Entities ("VIEs")

Our maximum risk of loss in VIEs in which we are not the primary beneficiary as of June 30, 2023 September 30, 2023 is presented in the table below.

$ in thousands	$ in thousands	Carrying Amount	Company's Maximum Risk of Loss	$ in thousands	Carrying Amount	Company's Maximum Risk of Loss
Non-Agency CMBS	Non-Agency CMBS	36,730	36,730	Non-Agency CMBS	25,987	25,987
Non-Agency RMBS	Non-Agency RMBS	8,256	8,256	Non-Agency RMBS	7,965	7,965
Investments in unconsolidated ventures	Investments in unconsolidated ventures	503	503	Investments in unconsolidated ventures	505	505
Total	Total	45,489	45,489	Total	34,457	34,457

Refer to Note 4 - "Mortgage-Backed Securities" and Note 5 - "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 June 30, 2023 September 30, 2023 and December 31, 2022.

As of June 30, 2023	
As of September 30, 2023	**As of September 30, 2023**

$ in thousands	$ in thousands	Principal/ Notional Balance	Unamortized Premium (Discount)	Amortized Cost	Allowance for Credit Losses	Unrealized Gain/ (Loss), net	Fair Value	Period-end Weighted Average Yield (1)	$ in thousands	Principal/ Notional Balance	Unamortized Premium (Discount)	Amortized Cost	Allowance for Credit Losses	Unrealized Gain/ (Loss), net	Fair Value
30 year fixed-rate Agency RMBS	30 year fixed-rate Agency RMBS	5,521,614	(170,891)	5,350,723	—	33,274	5,383,997	5.14 %	30 year fixed-rate Agency RMBS	5,719,581	(227,631)	5,491,950	—	(159,981)	5,331,969
Agency-CMO (2)	Agency-CMO (2)	596,770	(518,048)	78,722	—	(245)	78,477	9.60 %	Agency-CMO (2)	583,850	(507,065)	76,785	—	1,222	78,007
Non-Agency CMBS	Non-Agency CMBS	38,652	(885)	37,767	(169)	(868)	36,730	8.52 %	Non-Agency CMBS	27,652	(585)	27,067	(212)	(868)	25,987
Non-Agency RMBS (3)(4)(5)	Non-Agency RMBS (3)(4)(5)	291,613	(283,897)	7,716	—	540	8,256	8.41 %	Non-Agency RMBS (3)(4)(5)	283,991	(276,555)	7,436	—	529	7,965
Total	Total	6,448,649	(973,721)	5,474,928	(169)	32,701	5,507,460	5.24 %	Total	6,615,074	(1,011,836)	5,603,238	(212)	(159,098)	5,443,928

(1) Period-end weighted average yield is based on amortized cost as of June 30, 2023 September 30, 2023 and incorporates future prepayment and loss assumptions when appropriate.

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

(3) Non-Agency RMBS is 68.0% 66.2% fixed rate, 31.2% 33.0% variable rate, and 0.8% 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 97.0% of principal/notional balance, 39.3% 38.8% of amortized cost and 33.4% 33.1% of fair value.

As of December 31, 2022

$ in thousands	Principal/Notional Balance	Unamortized Premium (Discount)	Amortized Cost	Unrealized Gain/ (Loss), net	Fair Value	Period-end Weighted Average Yield (1)
30 year fixed-rate Agency RMBS	4,722,768	(115,365)	4,607,403	54,334	4,661,737	5.26 %
Agency-CMO (2)	619,069	(536,376)	82,693	2,263	84,956	9.09 %
Non-Agency CMBS	38,652	(1,472)	37,180	(393)	36,787	8.35 %
Non-Agency RMBS (3)(4)(5)	307,016	(299,012)	8,004	409	8,413	8.33 %
Total	5,687,505	(952,225)	4,735,280	56,613	4,791,893	5.35 %

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

(2) All Agency-CMO are Agency IO.

(3) Non-Agency RMBS is 68.6% fixed rate, 30.6% variable rate and 0.8% floating rate based on fair value. Coupon payments on variable rate investments are based upon changes in the underlying hybrid 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 97.1% of principal/notional balance, 41.6% of amortized cost and 35.3% 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 June 30, 2023 September 30, 2023 and December 31, 2022. 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 June 30, 2023 September 30, 2023 and December 31, 2022, approximately 99% of our MBS was accounted for under the fair value option.

		As of							As of					
		June 30, 2023			December 31, 2022				September 30, 2023			December 31, 2022		
$ in thousands	$ in thousands	Available-for-sale Securities	Securities under Fair Value Option	Total Fair Value	Available-for-sale Securities	Securities under Fair Value Option	Total Fair Value	$ in thousands	Available-for-sale Securities	Securities under Fair Value Option	Total Fair Value	Available-for-sale Securities	Securities under Fair Value Option	Total Fair Value

30 year fixed-rate Agency RMBS	30 year fixed-rate Agency RMBS	—	5,383,997	5,383,997	—	4,661,737	4,661,737	30 year fixed-rate Agency RMBS	—	5,331,969	5,331,969	—	4,661,737	4,661,737
Agency-CMO	Agency-CMO	—	78,477	78,477	—	84,956	84,956	Agency-CMO	—	78,007	78,007	—	84,956	84,956
Non-Agency CMBS	Non-Agency CMBS	36,730	—	36,730	36,787	—	36,787	Non-Agency CMBS	25,987	—	25,987	36,787	—	36,787
Non-Agency RMBS	Non-Agency RMBS	5,703	2,553	8,256	5,667	2,746	8,413	Non-Agency RMBS	5,515	2,450	7,965	5,667	2,746	8,413
Total	Total	42,433	5,465,027	5,507,460	42,454	4,749,439	4,791,893	Total	31,502	5,412,426	5,443,928	42,454	4,749,439	4,791,893

The components of the carrying value of our MBS portfolio as of June 30, 2023 September 30, 2023 and December 31, 2022 are presented below. Accrued interest receivable on our MBS portfolio, which is recorded within investment related receivable on our condensed consolidated balance sheets, was $23.8 million $24.2 million as of June 30, 2023 September 30, 2023 (December 31, 2022: $21.3 million).

		As of							As of					
		June 30, 2023			December 31, 2022				September 30, 2023			December 31, 2022		
$ in thousands	$ in thousands	MBS	Interest-Only Securities	Total	MBS	Interest-Only Securities	Total	$ in thousands	MBS	Interest-Only Securities	Total	MBS	Interest-Only Securities	Total
Principal/notional balance	Principal/notional balance	5,568,991	879,658	6,448,649	4,770,175	917,330	5,687,505	Principal/notional balance	5,755,806	859,268	6,615,074	4,770,175	917,330	5,687,505
Unamortized premium	Unamortized premium	2,674	—	2,674	5,195	—	5,195	Unamortized premium	294	—	294	5,195	—	5,195
Unamortized discount	Unamortized discount	(178,489)	(797,906)	(976,395)	(126,112)	(831,308)	(957,420)	Unamortized discount	(232,530)	(779,600)	(1,012,130)	(126,112)	(831,308)	(957,420)
Allowance for credit losses	Allowance for credit losses	(169)	—	(169)	—	—	—	Allowance for credit losses	(212)	—	(212)	—	—	—
Gross unrealized gains (1)	Gross unrealized gains (1)	43,706	3,272	46,978	62,245	4,605	66,850	Gross unrealized gains (1)	804	3,817	4,621	62,245	4,605	66,850
Gross unrealized losses (1)	Gross unrealized losses (1)	(10,492)	(3,785)	(14,277)	(7,535)	(2,702)	(10,237)	Gross unrealized losses (1)	(160,876)	(2,843)	(163,719)	(7,535)	(2,702)	(10,237)
Fair value	Fair value	5,426,221	81,239	5,507,460	4,703,968	87,925	4,791,893	Fair value	5,363,286	80,642	5,443,928	4,703,968	87,925	4,791,893

(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 and six nine months ended June 30, 2023 September 30, 2023 and 2022 is provided below in this Note 4.

The following table summarizes our MBS portfolio according to estimated weighted average life classifications as of June 30, 2023 September 30, 2023 and December 31, 2022.

		As of			As of	
$ in thousands	$ in thousands	June 30, 2023	December 31, 2022	$ in thousands	September 30, 2023	December 31, 2022
Less than one year	Less than one year	26,717	26,593	Less than one year	16,126	26,593
Greater than one year and less than five years	Greater than one year and less than five years	10,014	10,194	Greater than one year and less than five years	9,862	10,194
Greater than or equal to five years	Greater than or equal to five years	5,470,729	4,755,106	Greater than or equal to five years	5,417,940	4,755,106
Total	Total	5,507,460	4,791,893	Total	5,443,928	4,791,893

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 as of June 30, 2023 September 30, 2023 and December 31, 2022.

As of June 30, 2023 September 30, 2023

		Less than 12 Months			12 Months or More			Total				Less than 12 Months			12 Months or More			
$ in thousands	$ in thousands	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	$ in thousands	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	
30 year fixed-rate Agency RMBS (1)	30 year fixed-rate Agency RMBS (1)	1,849,796	(9,597)	17	—	—	—	1,849,796	(9,597)	17	30 year fixed-rate Agency RMBS (1)	5,331,969	(159,981)	58	—	—	—	5,
Agency-CMO (1)	Agency-CMO (1)	42,147	(1,617)	8	8,773	(1,702)	3	50,920	(3,319)	11	Agency-CMO (1)	26,827	(771)	5	8,603	(1,633)	3	
Non-Agency CMBS (2)	Non-Agency CMBS (2)	36,730	(868)	3	—	—	—	36,730	(868)	3	Non-Agency CMBS (2)	25,987	(868)	2	—	—	—	
Non-Agency RMBS (3)	Non-Agency RMBS (3)	—	—	—	1,600	(493)	10	1,600	(493)	10	Non-Agency RMBS (3)	—	—	—	1,505	(466)	9	
Total	Total	1,928,673	(12,082)	28	10,373	(2,195)	13	1,939,046	(14,277)	41	Total	5,384,783	(161,620)	65	10,108	(2,099)	12	5,

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

(2) Unrealized losses on non-Agency CMBS 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.

(3) Includes non-Agency IO with a fair value of $1.3 million $1.2 million for which the fair value option has been elected. Such securities have unrealized losses of $466,000. $439,000.

As of December 31, 2022

	Less than 12 Months			12 Months or More			Total		
$ in thousands	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
30 year fixed-rate Agency RMBS (1)	929,292	(7,060)	7	—	—	—	929,292	(7,060)	7
Agency-CMO (1)	25,417	(1,645)	6	2,934	(496)	1	28,351	(2,141)	7
Non-Agency CMBS (2)	26,592	(439)	2	—	—	—	26,592	(439)	2
Non-Agency RMBS (3)	349	(36)	2	1,411	(561)	9	1,760	(597)	11
Total	981,650	(9,180)	17	4,345	(1,057)	10	985,995	(10,237)	27

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

(2) Unrealized losses on non-Agency CMBS 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.

(3) Includes non-Agency IO with a fair value of $1.4 million for which the fair value option has been elected. Such securities have unrealized losses of $561,000.

We recorded a $169,000 $43,000 and $212,000 provision for credit losses on a single non-Agency CMBS during the three and six nine months ended June 30, 2023. September 30, 2023, respectively. We did not record any provisions for credit losses during the three and six nine months ended June 30, 2022 September 30, 2022. The following table presents a roll-forward of our allowance for credit losses.

		Three Months Ended June 30,	Six Months Ended June 30,		Three Months Ended September 30,	Nine Months Ended September 30,
$ in thousands	$ in thousands	2023	2023	$ in thousands	2023	2023
Beginning allowance for credit losses	Beginning allowance for credit losses	—	—	Beginning allowance for credit losses	(169)	—

Additions to the allowance for credit losses on securities for which credit losses were not previously recorded	Additions to the allowance for credit losses on securities for which credit losses were not previously recorded	(169)	(169)	Additions to the allowance for credit losses on securities for which credit losses were not previously recorded	—	(212)
Additional increases to the allowance for credit losses on securities that had an allowance recorded in a previous period				Additional increases to the allowance for credit losses on securities that had an allowance recorded in a previous period	(43)	—
Ending allowance for credit losses	Ending allowance for credit losses	(169)	(169)	Ending allowance for credit losses	(212)	(212)

The following table summarizes the components of our total gain (loss) on investments, net for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	$ in thousands	2023	2022	2023	2022	$ in thousands	2023	2022	2023	2022
Gross realized gains on sale of MBS	Gross realized gains on sale of MBS	—	5,348	5,363	5,348	Gross realized gains on sale of MBS	—	—	5,363	5,348
Gross realized losses on sale of MBS	Gross realized losses on sale of MBS	(10,484)	(540,404)	(29,612)	(859,374)	Gross realized losses on sale of MBS	(33,157)	(120,418)	(62,769)	(979,792)
Net unrealized gains (losses) on MBS accounted for under the fair value option	Net unrealized gains (losses) on MBS accounted for under the fair value option	(89,195)	224,464	(23,474)	58,997	Net unrealized gains (losses) on MBS accounted for under the fair value option	(191,752)	(140,590)	(215,226)	(81,593)
Net unrealized gains (losses) on commercial loan	Net unrealized gains (losses) on commercial loan	—	87	—	(37)	Net unrealized gains (losses) on commercial loan	—	171	—	134
Net unrealized gains (losses) on U.S. Treasury securities		—	19,827	—	—					
Net realized gains (losses) on U.S. Treasury securities	Net realized gains (losses) on U.S. Treasury securities	—	(34,198)	—	(34,198)	Net realized gains (losses) on U.S. Treasury securities	12	—	12	(34,198)
Total gain (loss) on investments, net	Total gain (loss) on investments, net	(99,679)	(324,876)	(47,723)	(829,264)	Total gain (loss) on investments, net	(224,897)	(260,837)	(272,620)	(1,090,101)

The following tables present components of interest income recognized on our mortgage-backed and other securities portfolio for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

For the three months ended June 30, 2023 September 30, 2023

$ in thousands	$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income	$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income
Agency RMBS	Agency RMBS	68,570	1,138	69,708	Agency RMBS	70,754	2,465	73,219
Non-Agency CMBS	Non-Agency CMBS	491	296	787	Non-Agency CMBS	437	301	738
Non-Agency RMBS	Non-Agency RMBS	288	(125)	163	Non-Agency RMBS	285	(126)	159
U.S. Treasury securities					U.S. Treasury securities	—	292	292
Other	Other	770	—	770	Other	724	—	724
Total	Total	70,119	1,309	71,428	Total	72,200	2,932	75,132

For the three months ended June 30, 2022 September 30, 2022

$ in thousands	$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income	$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income
Agency RMBS	Agency RMBS	40,927	422	41,349	Agency RMBS	48,075	(355)	47,720
Non-Agency CMBS	Non-Agency CMBS	668	509	1,177	Non-Agency CMBS	485	328	813
Non-Agency RMBS	Non-Agency RMBS	310	(132)	178	Non-Agency RMBS	288	(139)	149
U.S. Treasury Securities		1,213	(25)	1,188				
Other	Other	102	—	102	Other	376	—	376
Total	Total	43,220	774	43,994	Total	49,224	(166)	49,058

For the six nine months ended June 30, 2023 September 30, 2023

$ in thousands	$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income	$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income
Agency RMBS	Agency RMBS	136,053	1,152	137,205	Agency RMBS	206,804	3,616	210,420
Non-Agency CMBS	Non-Agency CMBS	966	587	1,553	Non-Agency CMBS	1,404	888	2,292
Non-Agency RMBS	Non-Agency RMBS	578	(259)	319	Non-Agency RMBS	865	(384)	481
U.S. Treasury securities					U.S. Treasury securities	—	292	292
Other	Other	1,638	—	1,638	Other	2,362	—	2,362
Total	Total	139,235	1,480	140,715	Total	211,435	4,412	215,847

For the six nine months ended June 30, 2022 September 30, 2022

$ in thousands	$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income	$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income
Agency RMBS	Agency RMBS	87,525	(6,506)	81,019	Agency RMBS	135,600	(6,861)	128,739
Non-Agency CMBS	Non-Agency CMBS	1,405	1,012	2,417	Non-Agency CMBS	1,890	1,340	3,230
Non-Agency RMBS	Non-Agency RMBS	640	(283)	357	Non-Agency RMBS	928	(422)	506

U.S. Treasury Securities	U.S. Treasury Securities	1,773	(41)	1,732	U.S. Treasury Securities	1,773	(41)	1,732
Other	Other	106	—	106	Other	482	—	482
Total	Total	91,449	(5,818)	85,631	Total	140,673	(5,984)	134,689

Note 5 – Other Assets

The following table summarizes our other assets as of June 30, 2023 September 30, 2023 and December 31, 2022.

		As of			As of	
$ in thousands	**$ in thousands**	**June 30, 2023**	**December 31, 2022**	**$ in thousands**	**September 30, 2023**	**December 31, 2022**
Investments in unconsolidated ventures	Investments in unconsolidated ventures	503	552	Investments in unconsolidated ventures	505	552
Prepaid expenses and other assets	Prepaid expenses and other assets	752	1,179	Prepaid expenses and other assets	1,557	1,179
Total	Total	1,255	1,731	Total	2,062	1,731

As of December 31, 2022, we were invested in two unconsolidated ventures that were managed by an affiliate of our Manager. Our joint venture whose net assets were denominated in euros was dissolved during the first quarter of 2023. Our remaining unconsolidated venture is in liquidation and plans to sell or settle its remaining investments as expeditiously as possible. Refer to Note 14 - "Commitments and Contingencies" for additional details regarding our commitment to this unconsolidated venture.

Note 6 – Borrowings

We finance the majority of our investment portfolio through repurchase agreements. Our repurchase agreements bear interest at a contractually agreed upon rate and generally have maturities ranging from one to six months. We account for our repurchase agreements as secured borrowings since we maintain effective control of the financed assets. Our repurchase agreements are subject to certain financial covenants. We were in compliance with all of these covenants as of June 30, 2023 September 30, 2023.

The following tables summarize certain characteristics of our borrowings as of June 30, 2023 September 30, 2023 and December 31, 2022. Refer to Note 7 - "Collateral Positions" for collateral pledged and held under our repurchase agreements.

		As of							As of					
		June 30, 2023			December 31, 2022				September 30, 2023			December 31, 2022		
$ in thousands	**$ in thousands**	**Amount Outstanding**	**Weighted Average Interest Rate**	**Weighted Average Remaining Maturity (days)**	**Amount Outstanding**	**Weighted Average Interest Rate**	**Weighted Average Remaining Maturity (days)**	**$ in thousands**	**Amount Outstanding**	**Weighted Average Interest Rate**	**Weighted Average Remaining Maturity (days)**	**Amount Outstanding**	**Weighted Average Interest Rate**	**Weighted Average Remaining Maturity (days)**
Repurchase Agreements - Agency RMBS	Repurchase Agreements - Agency RMBS	4,959,388	5.21 %	49	4,234,823	4.24 %	28	Repurchase Agreements - Agency RMBS	4,987,006	5.43 %	24	4,234,823	4.24 %	28
Total Borrowings	Total Borrowings	4,959,388	5.21 %	49	4,234,823	4.24 %	28	Total Borrowings	4,987,006	5.43 %	24	4,234,823	4.24 %	28

Note 7 - Collateral Positions

The following table summarizes the fair value of collateral that we pledged and held under our repurchase agreements, interest rate swaps and TBAs as of June 30, 2023 September 30, 2023 and December 31, 2022. Refer to 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, 2022 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. Cash collateral pledged on centrally cleared interest rate swaps 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 June 30, 2023 September 30, 2023 and December 31, 2022, we did not recognize any non-cash collateral held on our condensed consolidated balance sheets.

$ in thousands	**$ in thousands**	**As of**	**$ in thousands**	**As of**

Collateral Pledged	Collateral Pledged	June 30, 2023	December 31, 2022	Collateral Pledged	September 30, 2023	December 31, 2022
Repurchase Agreements:	Repurchase Agreements:			Repurchase Agreements:		
Agency RMBS	Agency RMBS	5,224,675	4,439,583	Agency RMBS	5,226,133	4,439,583
Total repurchase agreements collateral pledged	Total repurchase agreements collateral pledged	5,224,675	4,439,583	Total repurchase agreements collateral pledged	5,226,133	4,439,583
Derivative Instruments:	Derivative Instruments:			Derivative Instruments:		
Cash	Cash	—	1,584	Cash	—	1,584
Restricted cash	Restricted cash	124,669	103,246	Restricted cash	185,824	103,246
Total derivative instruments collateral pledged	Total derivative instruments collateral pledged	124,669	104,830	Total derivative instruments collateral pledged	185,824	104,830
Total collateral pledged:	Total collateral pledged:			Total collateral pledged:		
Agency RMBS	Agency RMBS	5,224,675	4,439,583	Agency RMBS	5,226,133	4,439,583
Cash	Cash	—	1,584	Cash	—	1,584
Restricted cash	Restricted cash	124,669	103,246	Restricted cash	185,824	103,246
Total collateral pledged	Total collateral pledged	5,349,344	4,544,413	Total collateral pledged	5,411,957	4,544,413
		As of			As of	
Collateral Held	Collateral Held	June 30, 2023	December 31, 2022	Collateral Held	September 30, 2023	December 31, 2022
Repurchase Agreements:	Repurchase Agreements:			Repurchase Agreements:		
Cash	Cash	—	4,892	Cash	—	4,892
Non-cash collateral	Non-cash collateral	—	7,216	Non-cash collateral	—	7,216
Total repurchase agreements collateral held	Total repurchase agreements collateral held	—	12,108	Total repurchase agreements collateral held	—	12,108

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 105% as of June 30, 2023 September 30, 2023 (December 31, 2022: 105%) based on the fair value of the securities as reported in our condensed consolidated balance sheets.

Interest Rate Swaps

As of June 30, 2023 September 30, 2023 and December 31, 2022, 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

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

Our TBAs provide for bilateral collateral pledging based on market value as determined by our counterparties. Collateral pledged with our TBA 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 8 – Derivatives and Hedging Activities

The following table summarizes changes in the notional amount of our derivative instruments during 2023.

$ in thousands	$ in thousands	Notional Amount as of December 31, 2022	Additions	Settlement, Termination, Expiration or Exercise	Notional Amount as of June 30, 2023	$ in thousands	Notional Amount as of December 31, 2022	Additions	Settlement, Termination, Expiration or Exercise	Notional Amount as of September 30, 2023
Interest Rate Swaps (1) (2)	Interest Rate Swaps (1) (2)	8,150,000	500,000	(775,000)	7,875,000	Interest Rate Swaps (1) (2)	8,150,000	2,700,000	(4,000,000)	6,850,000
TBA Purchase Contracts	TBA Purchase Contracts	400,000	1,150,000	(1,550,000)	—	TBA Purchase Contracts	400,000	1,150,000	(1,550,000)	—
TBA Sale Contracts	TBA Sale Contracts	(400,000)	(1,150,000)	1,550,000	—	TBA Sale Contracts	(400,000)	(1,150,000)	1,550,000	—
Total	Total	8,150,000	500,000	(775,000)	7,875,000	Total	8,150,000	2,700,000	(4,000,000)	6,850,000

(1) Does not include interest rate swaps with forward start dates until the date they begin to bear interest. See below for additional detail on our interest rate swaps with forward start dates.

(2) Notional amount as of June 30, 2023 September 30, 2023 includes $6.3 billion $5.9 billion of interest rate swaps whereby we pay interest at a fixed rate and receive interest at a floating rate and $1.6 billion $950.0 million 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, 2022 includes $5.8 billion of interest rate swaps whereby we pay interest at a fixed rate and receive interest at a floating rate and $2.4 billion of interest rate swaps whereby we pay interest at a floating rate and receive interest at a fixed rate.

Refer to Note 7 - "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 month 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 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 accumulated other comprehensive income 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 $3.2 million $1.8 million and $7.7 million $9.5 million as a decrease (June (September 30, 2022: $4.8 million $4.9 million and $10.0 million $14.9 million as a decrease) to interest expense for the three and six nine months ended June 30, 2023 September 30, 2023, respectively. As of June 30, 2023 September 30, 2023, $2.7 million $900,000 (December 31, 2022: $10.4 million) of unrealized gains on discontinued cash flow hedges, net are still included in accumulated other comprehensive income and are expected to be reclassified as a decrease to interest expense repurchase agreements over a period in the fourth quarter of time through December 15, 2023. 2023.

As of June 30, 2023 September 30, 2023 and December 31, 2022, 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	$ in thousands	As of June 30, 2023				$ in thousands	As of September 30, 2023			
Maturities	Maturities	Notional Amount	Weighted Average Fixed Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity	Maturities	Notional Amount	Weighted Average Fixed Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity
Less than 3 years	Less than 3 years	2,050,000	0.18 %	5.09 %	1.9	Less than 3 years	950,000	0.32 %	5.31 %	2.1
3 to 5 years	3 to 5 years	1,475,000	0.27 %	5.09 %	4.2	3 to 5 years	1,975,000	0.35 %	5.31 %	4.2
5 to 7 years	5 to 7 years	850,000	0.38 %	5.09 %	5.7	5 to 7 years	1,175,000	0.46 %	5.31 %	6.6
7 to 10 years	7 to 10 years	1,425,000	0.55 %	5.09 %	7.3	7 to 10 years	750,000	1.10 %	5.31 %	7.5
Greater than 10 years	Greater than 10 years	500,000	1.92 %	5.09 %	18.7	Greater than 10 years	1,050,000	2.18 %	5.31 %	20.6
Total	Total	6,300,000	0.45 %	5.09 %	5.5	Total	5,900,000	0.79 %	5.31 %	7.7

$ in thousands	As of December 31, 2022			
Maturities	Notional Amount	Weighted Average Fixed Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity
Less than 3 years	1,550,000	0.09 %	4.30 %	2.2
3 to 5 years	1,475,000	0.27 %	4.30 %	4.7
5 to 7 years	850,000	0.38 %	4.30 %	6.2
7 to 10 years	1,425,000	0.55 %	4.30 %	7.8
Greater than 10 years	500,000	1.92 %	4.30 %	19.2
Total	5,800,000	0.45 %	4.30 %	6.3

As of June 30, 2023 December 31, 2022, we held $475.0 million $975.0 million notional amount of SOFR-based pay fixed and receive floating interest rate swaps with forward start dates that will receive floating interest based on SOFR (December 31, 2022: $975.0 million). As of June 30, 2023, these interest rate swaps had a weighted average maturity of 30.1 16.5 years (December 31, 2022: 16.5 years) and a weighted average fixed pay rate of 1.33% (December 31, 2022: 0.89%) . We did not hold any such interest rate swaps with forward start dates as of September 30, 2023.

As of June 30, 2023 September 30, 2023 and December 31, 2022, 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, excluding interest rate swaps with forward start dates.

$ in thousands	$ in thousands	As of June 30, 2023				$ in thousands	As of September 30, 2023			
Maturities	Maturities	Notional Amount	Weighted Average Floating Pay Rate	Weighted Average Fixed Receive Rate	Weighted Average Years to Maturity	Maturities	Notional Amount	Weighted Average Floating Pay Rate	Weighted Average Fixed Receive Rate	Weighted Average Years to Maturity
Less than 3 years						Less than 3 years	900,000	5.31 %	5.44 %	0.5
3 to 5 years						3 to 5 years	50,000	5.31 %	2.78 %	3.6
3 to 5 years		375,000	5.09 %	2.66 %	4.6					
5 to 7 years		825,000	5.09 %	2.68 %	6.0					
7 to 10 years		100,000	5.09 %	2.74 %	8.9					
Greater than 10 years		275,000	5.09 %	2.72 %	29.0					
Total	Total	1,575,000	5.09 %	2.69 %	9.9	Total	950,000	5.31 %	5.30 %	0.7

$ in thousands	As of December 31, 2022			
Maturities	Notional Amount	Weighted Average Floating Pay Rate	Weighted Average Fixed Receive Rate	Weighted Average Years to Maturity
Less than 3 years	100,000	4.30 %	4.90 %	0.9
3 to 5 years	550,000	4.30 %	2.74 %	4.0
5 to 7 years	1,125,000	4.30 %	2.66 %	6.0
7 to 10 years	200,000	4.30 %	2.66 %	8.4
Greater than 10 years	375,000	4.30 %	2.67 %	29.5
Total	2,350,000	4.30 %	2.78 %	9.3

$ in thousands	As of December 31, 2022			
Maturities	Notional Amount	Weighted Average Floating Pay Rate	Weighted Average Fixed Receive Rate	Weighted Average Years to Maturity
Less than 3 years	100,000	4.30 %	4.90 %	0.9
3 to 5 years	550,000	4.30 %	2.74 %	4.0
5 to 7 years	1,125,000	4.30 %	2.66 %	6.0
7 to 10 years	200,000	4.30 %	2.66 %	8.4
Greater than 10 years	375,000	4.30 %	2.67 %	29.5
Total	2,350,000	4.30 %	2.78 %	9.3

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As of June 30, 2023 December 31, 2022, we held $275.0 million notional amount of SOFR-based pay floating and receive fixed interest rate swaps with forward start dates that will pay floating interest based on SOFR (December 31, 2022: $275.0 million). As of June 30, 2023, these interest rate swaps had a weighted average maturity of 15.5 16.0 years (December 31, 2022: 16.0 years) and a weighted average fixed receive rate of 2.63% (December 31, 2022: 2.63%) . We did not hold any such interest rate swaps with forward start dates as of September 30, 2023.

Currency Forward Contracts

We have historically used 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. We did not have any currency forward contracts outstanding as of June 30, 2023 September 30, 2023 or December 31, 2022.

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 December 31, 2022. We did not have any TBAs outstanding as of June 30, 2023 September 30, 2023.

$ in thousands	As of December 31, 2022			
	Notional Amount	Implied Cost Basis	Implied Market Value	Net Carrying Value
TBA Purchase Contracts (1)	400,000	404,144	402,237	(1,907)
TBA Sale Contracts (2)	(400,000)	(402,707)	(402,237)	470
Net TBA Derivatives	—	1,437	—	(1,437)

(1) Net carrying value of TBA purchase contracts includes $1.9 million of derivative liabilities.

(2) Net carrying value of TBA sales contract includes $642,000 of derivative assets and $172,000 of derivative liabilities.

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 June 30, 2023 September 30, 2023 and December 31, 2022.

$ in thousands Derivative Assets	Derivative Assets			Derivative Liabilities			Derivative Assets			Derivative Liabilities		
		As of			As of			As of			As of	
		June 30, 2023	December 31, 2022		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
Balance Sheet	Balance Sheet	Fair Value	Fair Value	Balance Sheet	Fair Value	Fair Value	Balance Sheet	Fair Value	Fair Value	Balance Sheet	Fair Value	Fair Value
Interest Rate Swaps Asset	Interest Rate Swaps Asset	—	20	Interest Rate Swaps Liability	2,635	—	Interest Rate Swaps Asset	—	20	Interest Rate Swaps Liability	7,637	—
TBAs	TBAs	—	642	TBAs	—	2,079	TBAs	—	642	TBAs	—	2,079
Total Derivative Assets	Total Derivative Assets	—	662	Total Derivative Liabilities	2,635	2,079	Total Derivative Assets	—	662	Total Derivative Liabilities	7,637	2,079

The following tables summarize the effect of interest rate swaps, currency forward contracts and TBAs reported in gain (loss) on derivative instruments, net on the condensed consolidated statements of operations for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

$ in thousands	$ in thousands	Three Months Ended June 30, 2023				$ in thousands	Three Months Ended September 30, 2023			
Derivative not designated as hedging instrument	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	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

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Interest Rate Swaps	Interest Rate Swaps	27,893	63,437	5,312	96,642	Interest Rate Swaps	84,565	72,126	(5,002)	151,689
Currency Forward Contracts		(18)	—	—	(18)					
TBAs		(929)	—	929	—					
Total	Total	26,946	63,437	6,241	96,624	Total	84,565	72,126	(5,002)	151,689

$ in thousands	$ in thousands	Three Months Ended June 30, 2022				$ in thousands	Three Months Ended September 30, 2022			
Derivative not designated as hedging instrument	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	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	Interest Rate Swaps	209,913	13,566	(2,966)	220,513	Interest Rate Swaps	71,862	30,145	36,930	138,937
Currency Forward Contracts	Currency Forward Contracts	486	—	(177)	309	Currency Forward Contracts	187	—	14	201
TBAs	TBAs	(69,167)	—	30,087	(39,080)	TBAs	(9,172)	—	3,583	(5,589)
Total	Total	141,232	13,566	26,944	181,742	Total	62,877	30,145	40,527	133,549

$ in thousands	$ in thousands	Six Months Ended June 30, 2023				$ in thousands	Nine Months Ended September 30, 2023			
Derivative not designated as hedging instrument	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	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	Interest Rate Swaps	(63,056)	117,901	(2,656)	52,189	Interest Rate Swaps	21,509	190,027	(7,658)	203,878
Currency Forward Contracts	Currency Forward Contracts	(18)	—	—	(18)	Currency Forward Contracts	(18)	—	—	(18)
TBAs	TBAs	(1,880)	—	1,438	(442)	TBAs	(1,880)	—	1,438	(442)
Total	Total	(64,954)	117,901	(1,218)	51,729	Total	19,611	190,027	(6,220)	203,418

$ in thousands	$ in thousands	Six Months Ended June 30, 2022				$ in thousands	Nine Months Ended September 30, 2022			
Derivative not designated as hedging instrument	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	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	Interest Rate Swaps	553,222	14,850	(14,365)	553,707	Interest Rate Swaps	625,084	44,995	22,565	692,644
Currency Forward Contracts	Currency Forward Contracts	679	—	(218)	461	Currency Forward Contracts	866	—	(204)	662
TBAs	TBAs	(129,240)	—	(4,326)	(133,566)	TBAs	(138,412)	—	(743)	(139,155)
Total	Total	424,661	14,850	(18,909)	420,602	Total	487,538	44,995	21,618	554,151

Note 9 – 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 as of June 30, 2023 September 30, 2023 and December 31, 2022. 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 $2.6 million $7.6 million as of June 30, 2023 September 30, 2023 (December 31, 2022: asset of $20,000) 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 June 30, 2023 September 30, 2023

					Gross Amounts Not Offset with Financial Assets (Liabilities) in the Balance Sheets							Gross Amounts Not Offset with Financial Assets (Liabilities) in the Balance Sheets		
$ in thousands	$ in thousands	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	$ in thousands	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
Liabilities	**Liabilities**							**Liabilities**						
Repurchase Agreements (1)	Repurchase Agreements (1)	(4,959,388)	—	(4,959,388)	4,959,388	—	—	Repurchase Agreements (1)	(4,987,006)	—	(4,987,006)	4,987,006	—	—
Total Liabilities	**Total Liabilities**	(4,959,388)	—	(4,959,388)	4,959,388	—	—	**Total Liabilities**	(4,987,006)	—	(4,987,006)	4,987,006	—	—

As of December 31, 2022

				Gross Amounts Not Offset with Financial Assets (Liabilities) in the Balance Sheets		
$ in thousands	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 (2) (3)	642	—	642	(642)	—	—
Total Assets	642	—	642	(642)	—	—
Liabilities						
Derivatives (2) (3)	(2,079)	—	(2,079)	642	1,297	(140)
Repurchase Agreements (1)	(4,234,823)	—	(4,234,823)	4,234,823	—	—
Total Liabilities	(4,236,902)	—	(4,236,902)	4,235,465	1,297	(140)

(1) The fair value of securities pledged against our borrowings under repurchase agreements was $5.2 billion as of June 30, 2023 September 30, 2023 (December 31, 2022: $4.4 billion). We held no cash collateral under repurchase agreements as of June 30, 2023 September 30, 2023 (December 31, 2022: $4.9 million).

(2) Amounts represent derivative assets and derivative liabilities which could potentially be offset against other derivative assets, derivative liabilities and cash collateral pledged or received.

(3) Cash collateral pledged by us on our derivatives was $124.7 million $185.8 million as of June 30, 2023 September 30, 2023 (December 31, 2022: $104.8 million) of which $124.7 million $185.8 million relates to initial margin pledged on centrally cleared interest rate swaps (December 31, 2022: $103.2 million). Centrally cleared interest rate swaps are excluded from the tables above. We held no cash collateral on our derivatives as of June 30, 2023 and September 30, 2023 or December 31, 2022.

Note 10 – 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.

		As of June 30, 2023						As of September 30, 2023				
		Fair Value Measurements Using:						Fair Value Measurements Using:				
$ in thousands	**$ in thousands**	**Level 1**	**Level 2**	**Level 3**	**NAV as a practical expedient (2)**	**Total at Fair Value**	**$ in thousands**	**Level 1**	**Level 2**	**Level 3**	**NAV as a practical expedient (2)**	**Total at Fair Value**
Assets:	Assets:						Assets:					
Mortgage-backed securities (1)	Mortgage-backed securities (1)	—	5,507,460	—	—	5,507,460	Mortgage-backed securities (1)	—	5,443,928	—	—	5,443,928
Other assets	Other assets	—	—	—	503	503	Other assets	—	—	—	505	505
Total assets	Total assets	—	5,507,460	—	503	5,507,963	Total assets	—	5,443,928	—	505	5,444,433
Liabilities:	Liabilities:						Liabilities:					
Derivative liabilities	Derivative liabilities	—	2,635	—	—	2,635	Derivative liabilities	—	7,637	—	—	7,637
Total liabilities	Total liabilities	—	2,635	—	—	2,635	Total liabilities	—	7,637	—	—	7,637

	As of December 31, 2022				
	Fair Value Measurements Using:				
$ in thousands	**Level 1**	**Level 2**	**Level 3**	**NAV as a practical expedient (2)**	**Total at Fair Value**
Assets:					
Mortgage-backed securities (1)	—	4,791,893	—	—	4,791,893
Derivative assets	—	662	—	—	662
Other assets	—	—	—	552	552
Total assets	—	4,792,555	—	552	4,793,107
Liabilities:					
Derivative liabilities	—	2,079	—	—	2,079
Total liabilities	—	2,079	—	—	2,079

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

(2) 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 December 31, 2022, we were invested in two unconsolidated ventures that were managed by an affiliate of our Manager. One of the unconsolidated ventures was dissolved during the first quarter of 2023. As of June 30, 2023 September 30, 2023, the remaining unconsolidated venture was in liquidation and plans to sell or settle its remaining investments as expeditiously as possible.

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 as of June 30, 2023 September 30, 2023 and December 31, 2022.

		As of					As of			
		June 30, 2023		December 31, 2022			September 30, 2023		December 31, 2022	
$ in thousands	**$ in thousands**	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**	**$ in thousands**	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Financial Liabilities	Financial Liabilities					Financial Liabilities				

Repurchase agreements	Repurchase agreements	4,959,388	4,958,370	4,234,823	4,233,627	Repurchase agreements	4,987,006	4,986,655	4,234,823	4,233,627
Total	Total	4,959,388	4,958,370	4,234,823	4,233,627	Total	4,987,006	4,986,655	4,234,823	4,233,627

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 11 – 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. The costs of support personnel provided by our Manager for the three and six nine months ended June 30, 2023 September 30, 2023 reimbursed or reimbursable by us were $461,000 $397,000 and $870,000, $1.3 million, respectively (June (September 30, 2022: $337,000 $375,000 and $750,000, $1.1 million, respectively).

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 during the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	**$ in thousands**	**2023**	**2022**	**2023**	**2022**	**$ in thousands**	**2023**	**2022**	**2023**	**2022**
Incurred costs, prepaid or expensed	Incurred costs, prepaid or expensed	1,294	2,020	2,688	3,357	Incurred costs, prepaid or expensed	2,442	3,060	5,130	6,417
Incurred costs, charged or expected to be charged against equity as a cost of raising capital	Incurred costs, charged or expected to be charged against equity as a cost of raising capital	257	159	257	217	Incurred costs, charged or expected to be charged against equity as a cost of raising capital	—	—	257	217
Total incurred costs, originally paid by our Manager	Total incurred costs, originally paid by our Manager	1,551	2,179	2,945	3,574	Total incurred costs, originally paid by our Manager	2,442	3,060	5,387	6,634

Note 12 – Stockholders' Equity

Preferred Stock

In May 2022, our board of directors approved a share repurchase program for our Series B and Series C Preferred Stock. During the three and six nine months ended June 30, 2023 September 30, 2023, we repurchased and retired 37,788 34,432 and 72,220 shares of Series B Preferred Stock, respectively. During the three and 42,696 nine months ended September 30, 2023, we repurchased and retired 92,563 and 135,259 shares of Series C Preferred Stock. Stock, respectively. During the three and six nine months ended June 30, 2022 September 30, 2022, we repurchased and retired 43,820 1,618,546 and 1,662,366 shares of Series B Preferred Stock, respectively. During the three and 620,141 nine months ended September 30, 2022 we repurchased and retired 3,063,389 and 3,683,530 shares of Series C Preferred Stock. Stock, respectively. As of June 30, 2023 September 30, 2023, we had authority to purchase 1,299,846 repurchase 1,265,414 additional shares of our Series B Preferred Stock and 1,273,774 1,181,211 additional shares of our Series C Preferred Stock under the current share repurchase program.

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 originally equal to three-month London Interbank Offered Rate ("LIBOR" CME Term SOFR and the applicable credit spread adjustment (0.26161%) plus a spread of 5.18% of the $25.00 liquidation preference per annum. On June 30, 2023, LIBOR ceased being published. Under the Adjustable Interest Rate (LIBOR) Act ("LIBOR Act"), the floating rate will be three-month CME Term SOFR plus the applicable credit spread adjustment (0.26161%). 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 originally equal to three-month LIBOR CME Term SOFR and the applicable credit spread adjustment (0.26161%) plus a spread of 5.289% of the $25.00 liquidation preference per annum. Under the LIBOR Act, the floating rate will be three-month CME Term SOFR plus the applicable credit spread adjustment (0.26161%). 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.

Common Stock

In May 2022, our board of directors approved a one-for-ten reverse split of outstanding shares of our common stock. The reverse stock split was effected following the close of business on June 3, 2022 (the "Effective Time"). At the Effective Time, every ten issued and outstanding shares of our common stock were converted into one share of our common stock. No fractional shares were issued in connection with the reverse stock split. Instead, each stockholder holding fractional shares received cash, in lieu of such fractional shares, in an amount determined based on the closing price of our common stock at the Effective Time. The reverse stock split applied to all of our outstanding shares of common stock and did not affect any stockholder's ownership percentage of our common stock, except for changes resulting from the payment of cash for fractional shares.

As of June 30, 2023 September 30, 2023, we may sell up to 10,181,292 6,300,529 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). During the three months ended June 30, 2023 September 30, 2023, we sold 2,888,639 3,880,763 shares of common stock under our equity distribution agreement for proceeds of $31.0 million $42.3 million, net of approximately $421,000 $575,000 in commissions and fees. During the six nine months ended June 30, 2023 September 30, 2023, we sold 5,818,708 9,699,471 shares of common stock under our equity distribution agreement for proceeds of $66.8 million $109.1 million, net of approximately $903,000 $1.5 million in commissions and fees. We did not sell any During the three and nine months ended September 30, 2022, we sold 2,327,805 shares of common stock under an equity distribution agreements during the three agreement for proceeds of $38.6 million, net of approximately $603,000 in commissions and six months ended June 30, 2022. fees.

During the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, we did not repurchase any shares of our common stock. As of June 30, 2023 September 30, 2023, we had authority to purchase repurchase 1,816,398 shares of our common stock through our common stock 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 and six nine months ended June 30, 2023 September 30, 2023 and 2022. The tables exclude gains and losses on MBS that are accounted for under the fair value option.

		Three Months Ended June 30, 2023					Three Months Ended September 30, 2023			
$ in thousands	$ in thousands	Equity method investments	Available-for-sale securities	Derivatives and hedging	Total	$ in thousands	Equity method investments	Available-for-sale securities	Derivatives and hedging	Total
Total other comprehensive income (loss)	Total other comprehensive income (loss)					Total other comprehensive income (loss)				
Unrealized gain (loss) on mortgage-backed securities, net	Unrealized gain (loss) on mortgage-backed securities, net	—	(131)	—	(131)	Unrealized gain (loss) on mortgage-backed securities, net	—	(91)	—	(91)

Reclassification of unrealized loss on available-for-sale securities to (increase) decrease in provision for credit losses	Reclassification of unrealized loss on available-for-sale securities to (increase) decrease in provision for credit losses	—	169	—	169	Reclassification of unrealized loss on available-for-sale securities to (increase) decrease in provision for credit losses	—	43	—	43
Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	—	—	(3,201)	(3,201)	Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	—	—	(1,810)	(1,810)
Total other comprehensive income (loss)	Total other comprehensive income (loss)	—	38	(3,201)	(3,163)	Total other comprehensive income (loss)	—	(48)	(1,810)	(1,858)
AOCI balance at beginning of period	AOCI balance at beginning of period	—	(7)	5,911	5,904	AOCI balance at beginning of period	—	31	2,710	2,741
Total other comprehensive income (loss)	Total other comprehensive income (loss)	—	38	(3,201)	(3,163)	Total other comprehensive income (loss)	—	(48)	(1,810)	(1,858)
AOCI balance at end of period	AOCI balance at end of period	—	31	2,710	2,741	AOCI balance at end of period	—	(17)	900	883

		Three Months Ended June 30, 2022					Three Months Ended September 30, 2022			
$ in thousands	**$ in thousands**	**Equity method investments**	**Available-for-sale securities**	**Derivatives and hedging**	**Total**	**$ in thousands**	**Equity method investments**	**Available-for-sale securities**	**Derivatives and hedging**	**Total**
Total other comprehensive income (loss)	Total other comprehensive income (loss)					Total other comprehensive income (loss)				
Unrealized gain (loss) on mortgage-backed securities, net	Unrealized gain (loss) on mortgage-backed securities, net	—	(1,825)	—	(1,825)	Unrealized gain (loss) on mortgage-backed securities, net	—	(1,243)	—	(1,243)
Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	—	—	(4,802)	(4,802)	Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	—	—	(4,855)	(4,855)
Currency translation adjustments on investment in unconsolidated venture	Currency translation adjustments on investment in unconsolidated venture	(93)	—	—	(93)	Currency translation adjustments on investment in unconsolidated venture	(141)	—	—	(141)

Total other comprehensive income (loss)	(93)	(1,825)	(4,802)	(6,720)
AOCI balance at beginning of period	224	4,328	24,917	29,469
Total other comprehensive income (loss)	(93)	(1,825)	(4,802)	(6,720)
AOCI balance at end of period	131	2,503	20,115	22,749

Total other comprehensive income (loss)	(141)	(1,243)	(4,855)	(6,239)
AOCI balance at beginning of period	131	2,503	20,115	22,749
Total other comprehensive income (loss)	(141)	(1,243)	(4,855)	(6,239)
AOCI balance at end of period	(10)	1,260	15,260	16,510

	Six Months Ended June 30, 2023			
$ in thousands	**Equity method investments**	**Available-for-sale securities**	**Derivatives and hedging**	**Total**
Total other comprehensive income (loss)				
Unrealized gain (loss) on mortgage-backed securities, net	—	(607)	—	(607)
Reclassification of unrealized loss on available-for-sale securities to (increase) decrease in provision for credit losses	—	169	—	169
Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	—	—	(7,695)	(7,695)
Currency translation adjustments on investment in unconsolidated venture	(10)	—	—	(10)

	Nine Months Ended September 30, 2023			
$ in thousands	**Equity method investments**	**Available-for-sale securities**	**Derivatives and hedging**	**Total**
Total other comprehensive income (loss)				
Unrealized gain (loss) on mortgage-backed securities, net	—	(698)	—	(698)
Reclassification of unrealized loss on available-for-sale securities to (increase) decrease in provision for credit losses	—	212	—	212
Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	—	—	(9,505)	(9,505)
Currency translation adjustments on investment in unconsolidated venture	(10)	—	—	(10)

Reclassification of currency translation loss on investment in unconsolidated venture to other investment income (loss), net	123	—	—	123	123	—	—	123
Total other comprehensive income (loss)	113	(438)	(7,695)	(8,020)	113	(486)	(9,505)	(9,878)
AOCI balance at beginning of period	(113)	469	10,405	10,761	(113)	469	10,405	10,761
Total other comprehensive income (loss)	113	(438)	(7,695)	(8,020)	113	(486)	(9,505)	(9,878)
AOCI balance at end of period	—	31	2,710	2,741	—	(17)	900	883

	Six Months Ended June 30, 2022				Nine Months Ended September 30, 2022			
$ in thousands	**Equity method investments**	**Available-for-sale securities**	**Derivatives and hedging**	**Total**	**Equity method investments**	**Available-for-sale securities**	**Derivatives and hedging**	**Total**
Total other comprehensive income (loss)								
Unrealized gain (loss) on mortgage-backed securities, net	—	(4,246)	—	(4,246)	—	(5,489)	—	(5,489)
Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	—	—	(9,998)	(9,998)	—	—	(14,853)	(14,853)
Currency translation adjustments on investment in unconsolidated venture	(293)	—	—	(293)	(434)	—	—	(434)
Total other comprehensive income (loss)	(293)	(4,246)	(9,998)	(14,537)	(434)	(5,489)	(14,853)	(20,776)
AOCI balance at beginning of period	424	6,749	30,113	37,286	424	6,749	30,113	37,286
Total other comprehensive income (loss)	(293)	(4,246)	(9,998)	(14,537)	(434)	(5,489)	(14,853)	(20,776)

AOCI balance at end of period	AOCI balance at end of period	131	2,503	20,115	22,749	AOCI balance at end of period	(10)	1,260	15,260	16,510

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 six nine months ended June 30, 2023 September 30, 2023 and 2022.

$ in thousands, except per share amounts	$ in thousands, except per share amounts	Dividends Declared			$ in thousands, except per share amounts	Dividends Declared		
Series B Preferred Stock	Series B Preferred Stock	Per Share	In Aggregate	Date of Payment	Series B Preferred Stock	Per Share	In Aggregate	Date of Payment
2023	**2023**				**2023**			
August 2, 2023					August 2, 2023	0.4844	2,167	September 27, 2023
May 8, 2023	May 8, 2023	0.4844	2,186	June 27, 2023	May 8, 2023	0.4844	2,186	June 27, 2023
February 17, 2023	February 17, 2023	0.4844	2,198	March 27, 2023	February 17, 2023	0.4844	2,198	March 27, 2023
2022	**2022**				**2022**			
August 2, 2022					August 2, 2022	0.4844	2,198	September 27, 2022
May 3, 2022	May 3, 2022	0.4844	2,991	June 27, 2022	May 3, 2022	0.4844	2,991	June 27, 2022
February 16, 2022	February 16, 2022	0.4844	3,003	March 28, 2022	February 16, 2022	0.4844	3,003	March 28, 2022

$ in thousands, except per share amounts	$ in thousands, except per share amounts	Dividends Declared			$ in thousands, except per share amounts	Dividends Declared		
Series C Preferred Stock	Series C Preferred Stock	Per Share	In Aggregate	Date of Payment	Series C Preferred Stock	Per Share	In Aggregate	Date of Payment
2023	**2023**				**2023**			
August 2, 2023					August 2, 2023	0.46875	3,605	September 27, 2023
May 8, 2023	May 8, 2023	0.46875	3,654	June 27, 2023	May 8, 2023	0.46875	3,654	June 27, 2023
February 17, 2023	February 17, 2023	0.46875	3,664	March 27, 2023	February 17, 2023	0.46875	3,664	March 27, 2023
2022	**2022**				**2022**			
August 2, 2022					August 2, 2022	0.46875	3,664	September 27, 2022
May 3, 2022	May 3, 2022	0.46875	5,109	June 27, 2022	May 3, 2022	0.46875	5,109	June 27, 2022
February 16, 2022	February 16, 2022	0.46875	5,391	March 28, 2022	February 16, 2022	0.46875	5,391	March 28, 2022

$ in thousands, except per share amounts	$ in thousands, except per share amounts	Dividends Declared			$ in thousands, except per share amounts	Dividends Declared		
Common Stock	Common Stock	Per Share	In Aggregate	Date of Payment	Common Stock	Per Share	In Aggregate	Date of Payment
2023	**2023**				**2023**			
September 26, 2023					September 26, 2023	0.40	19,384	October 27, 2023
June 21, 2023	June 21, 2023	0.40	17,833	July 27, 2023	June 21, 2023	0.40	17,833	July 27, 2023
March 27, 2023	March 27, 2023	0.40	16,658	April 27, 2023	March 27, 2023	0.40	16,658	April 27, 2023

2022	2022				2022			
September 26, 2022					September 26, 2022	0.65	22,979	October 27, 2022
June 27, 2022	June 27, 2022	0.90	29,721	July 27, 2022	June 27, 2022	0.90	29,721	July 27, 2022
March 28, 2022	March 28, 2022	0.90	29,693	April 27, 2022	March 28, 2022	0.90	29,693	April 27, 2022

Note 13 – Earnings (Loss) per Common Share

Earnings (loss) per share for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022 is computed as shown in the table below.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands, except per share amounts	**In thousands, except per share amounts**	**2023**	**2022**	**2023**	**2022**	**In thousands, except per share amounts**	**2023**	**2022**	**2023**	**2022**
Numerator (Income)	**Numerator (Income)**					**Numerator (Income)**				
Basic Earnings:	Basic Earnings:					Basic Earnings:				
Net income (loss) available to common stockholders	Net income (loss) available to common stockholders	(1,398)	(116,144)	14,203	(352,960)	Net income (loss) available to common stockholders	(74,024)	(94,602)	(59,821)	(447,562)
Denominator (Weighted Average Shares)	**Denominator (Weighted Average Shares)**					**Denominator (Weighted Average Shares)**				
Basic Earnings:	Basic Earnings:					Basic Earnings:				
Shares available to common stockholders	Shares available to common stockholders	42,391	32,990	41,007	32,988	Shares available to common stockholders	45,747	34,051	42,604	33,346
Effect of dilutive securities:										
Restricted stock awards		—	—	1	—					
Dilutive Shares	Dilutive Shares	42,391	32,990	41,008	32,988	Dilutive Shares	45,747	34,051	42,604	33,346
Earnings (loss) per share:	Earnings (loss) per share:					Earnings (loss) per share:				
Net income (loss) attributable to common stockholders	Net income (loss) attributable to common stockholders					Net income (loss) attributable to common stockholders				
Basic	Basic	(0.03)	(3.52)	0.35	(10.70)	Basic	(1.62)	(2.78)	(1.40)	(13.42)
Diluted	Diluted	(0.03)	(3.52)	0.35	(10.70)	Diluted	(1.62)	(2.78)	(1.40)	(13.42)

The following potential weighted average common shares were excluded from diluted earnings per share for the three and nine months ended June 30, 2023 September 30, 2023 as the effect would be antidilutive: 654 1,383 and 1,077, respectively (three and six nine months ended June 30, 2022 September 30, 2022: 1,127 and 1,314 1,248 for restricted stock awards, respectively).

Note 14 – 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 June 30, 2023 September 30, 2023 are discussed below.

As discussed in Note 5 - “Other Assets”, we have invested in an unconsolidated venture that is sponsored by an affiliate of our Manager. The unconsolidated venture is structured as a partnership, and we invested in the partnership as a limited partner. The unconsolidated venture is in liquidation and plans to sell or settle its remaining investments as expeditiously as possible. Until the venture completes its liquidation, we are committed to fund $2.9 million in additional capital to cover future expenses should they occur.

Note 15 – Subsequent Events

Dividends

We declared the following dividends on August 2, 2023 November 2, 2023: a Series B Preferred Stock dividend of $0.4844 per share payable on September 27, 2023 December 27, 2023 to our stockholders of record as of September 5, 2023 December 5, 2023 and a Series C Preferred Stock dividend of $0.46875 per share payable on September 27, 2023 December 27, 2023 to our stockholders of record as of September 5, 2023 December 5, 2023.

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 Quarterly 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 Quarterly 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, objectives and our views on domestic and global market conditions (including the Agency RMBS and residential and commercial real estate market). 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 effects of health endemics, including the COVID-19 pandemic;
- unfavorable or changing economic, market or political conditions;
- 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, actions and initiatives of foreign governmental agencies and central banks, and 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;
- our business and investment strategy;
- our investment portfolio and expected investments;
- 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 impact of changes in the credit rating of the U.S. government;
- financing and advance rates for our target assets;
- the impact of changes in interest rates and interest rate spreads and the market value of our target assets;
- the potential interest rate mismatches between our target assets and our borrowings used to fund such investments;
- changes to our expected leverage;
- the availability of financing sources, including our ability to obtain additional financing arrangements and the terms of such arrangements;
- the adequacy of our cash flow from operations and borrowings, and our ability to maintain sufficient liquidity to meet our short-term liquidity needs;
- 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;
- our reliance on third parties in connection with services related to our target assets;
- the effects of hedging instruments, including, but not limited to, 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;
- rates of default or decreased recovery rates on our target assets;
- counterparty defaults;
- modifications to whole loans or loans underlying securities;

- our ability to comply with financial covenants in our financing arrangements;
- disruption of our information technology systems;
- the impact of potential data security breaches or other cyber-attacks or other disruptions;
- changes in governmental regulations, and changes in 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 1940 Act;
- the market price and trading volume of our capital stock;
- our ability to continue to generate taxable income and our ability to continue to make distributions to our stockholders in the future;
- our intention and ability to pay dividends;
- our dependence upon, and the relationship with, our Manager;
- the availability of qualified personnel from our Manager, and our Manager's continued ability to find and retain such personnel;
- the accuracy of our estimates relating to fair value of our target assets and interest income recognition;
- our understanding of our competition;
- the impact of changes to 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 We caution you not to rely unduly on any forward-looking statements and urge you to carefully consider the factors are described under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Report. Report and our Annual Report on Form 10-K. 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.

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.

As of June 30, 2023 September 30, 2023, we were invested 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"); and
- other real estate-related financing arrangements.

During the periods presented in this Quarterly Report, we also invested in:

- a commercial mortgage loan;
- to-be-announced securities forward contracts ("TBAs") to purchase Agency RMBS; 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 our Manager, an indirect wholly-owned subsidiary of 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 rates, 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.

Of these macroeconomic factors, government policy initiatives, inflation, interest rates and interest rate volatility had the most direct impacts on our performance and financial condition during the second third quarter of 2023. Contributing factors included:

- Financial conditions improved throughout became more restrictive during the second third quarter, reversing the trend from the prior quarter. Credit spreads widened, equity market valuations declined, and both interest rates and interest rate volatility spiked higher as financial markets adjusted to shifting expectations for fiscal and monetary policy. The latest inflation readings were mixed during the quarter, as credit spreads tightened, equity markets rallied, concerns around sharply higher energy costs drove an increase in the U.S. debt ceiling were resolved and volatility eased. The positive environment seen across most risk assets was largely spurred by a continued moderation in most inflation measures. Headline headline consumer price index ("CPI") fell from 5.0% 3.0% to 3.0% during the quarter, 3.7%, while CPI (ex. food and energy) fell from 5.6% 4.8% to 4.8% 4.1%. Core personal consumption expenditures, however, remained anchored at 4.7%, and has been in a tight range between 4.6% and 4.7% since Despite the beginning of the year. Investors mixed readings, investors continue to expect a further drops decline in inflation, as Treasury inflation-protected securities breakeven rates dropped sharply during the quarter, were relatively steady, with the two year two-year breakeven ending the quarter at 2.1% 2.05% and the five year five-year breakeven ending at 2.2% 2.25%.
- Interest rates were sharply higher increased during the quarter largely reversing as the rally spurred by FOMC raised the uncertainty surrounding Federal Funds target rate in July and delivered a "hawkish pause" in September, indicating that its benchmark rate may need to remain at elevated levels for longer than the regional banking system that we saw in the first quarter. market was anticipating. Meanwhile, economic growth and employment data remained relatively strong. The yield on the two year two-year Treasury increased by 87 15 basis points, to 4.90% 5.04%, the yield on the five year five-year Treasury increased 59 45 basis points, to 4.16% 4.61% and the yield on the ten year ten-year Treasury finished at 3.84% 4.57%, up 37 73 basis points on the quarter. The Federal Reserve's Open Market Committee ("FOMC") increased the Federal Funds target rate by 25 basis points in May, taking the target to a range of 5.0% to 5.25%.
- Agency mortgage performance improved RMBS sharply underperformed similar duration Treasuries during the second third quarter as lower coupon valuations recovered a portion of their underperformance in March, while higher coupon valuations were largely unchanged as elevated interest rate volatility remained elevated. As a result, current and higher interest rates weighed on the sector. Although underperformance was pervasive across the coupon spreads ended stack, higher coupon mortgages performed modestly wider better than lower coupon mortgages given the notable steepening of the yield curve. The technical picture for the sector was mixed, as supply remains constrained by higher mortgage rates while performance versus Treasuries was increased interest rate volatility kept most buyers on the sidelines.

slightly positive. In addition, premiums on specified pool collateral declined as a result of sharply higher interest rates during the quarter. Although modestly lower levels of interest rate volatility led to increased demand for risk assets by investors, this demand was largely offset by faster than anticipated sales of failed bank assets by the FDIC and the increased supply caused by a stronger housing market.

The following market conditions were also notable for the company in the second third quarter of 2023:

- The employment picture labor market remained strong as gains in non-farm payrolls averaged 244,000 266,000 per month. month, up from a monthly average of 201,00 last quarter. The unemployment rate was slightly higher, ending the quarter up 0.1 0.2 at 3.6% 3.8%.
- Risk assets performed well broadly underperformed during the quarter. The S&P 500 gained 8.3% lost 3.65%, while the NASDAQ was up 12.8% down 4.12%. Likewise, credit spreads across investment grade credit, high yield and emerging market debt all finished the quarter tighter. Credit spreads on debt backed by commercial real estate mortgage loans also finished the quarter tighter, buoyed by increased investor risk appetite. wider.
- Despite favorable moves in CMBS valuations, increasing performance was mixed on the quarter. Credit spreads for senior bonds declined while subordinate risk premiums increased during the quarter. Increasing property vacancy rates, declining real estate values, increased elevated borrowing costs and tighter mortgage lending standards remain challenges for the sector. Meanwhile, reevaluation of tenant needs and a corresponding increase in the amount of available sublease space has created unique headwinds for the office sector. The number of CMBS loans residing with special servicers increased across property types. increased.
- Non-Agency RMBS credit spreads tightened spread performance varied across subsectors during the quarter, as low issuance profiles with superior liquidity and compelling relative value drove positive market technicals. favorable technicals outperformed those with greater interest rate sensitivity and persistent supply. The resilience of home prices through in the first half face of the year despite high higher mortgage rates and historically low affordability further has supported investor risk appetite. Despite the potential for a slowing economy, borrower defaults are likely to remain contained given strong loan underwriting and high levels of borrower equity. equity.

Outlook

Moving into the third fourth quarter of 2023, investors continue to price in the FOMC's possibility of further increases in the Federal Funds target rate. The uncertain path of monetary policy tightening cycle is expected continues to conclude by result in elevated interest rate volatility in the front end of the year, with one or two more 25 basis point increases yield curve, while the persistent strength in recent economic and employment data resulted in a sharp increase in longer-dated volatility as well. In addition, the Fed Funds Rate reflected increase in geopolitical risk brought on by the futures market. While ongoing war in Ukraine and the timing Middle East conflict have contributed to the recent elevated levels of interest rate and broader market volatility. Although the immediate path of monetary policy remains uncertain, the potential decline in interest rate volatility in conjunction with the end of the tightening cycle should be supportive for higher coupon Agency RMBS valuations. Furthermore, Agency RMBS supply and demand technicals dynamics are expected to improve in the second half coming quarters, as loan originations decline in the face of the year, as the liquidation of assets from the FDIC nears its conclusion higher interest rates and organic net supply declines. seasonal factors. Commercial banks should also soon receive greater clarity on their regulatory environment, requirements, which could encourage further deployment of capital away from loans and into lower risk weighted risk-weighted assets such as Agency RMBS. Finally, valuations in production coupon Agency RMBS remain historically attractive, and funding capacity is robust. Taken together, While we remain cautious in the near-term due to increased volatility, we believe over time the decline in interest rate volatility and a supportive technical environment, combined with compelling valuations and favorable funding conditions, represent an should create attractive investment opportunity in Agency RMBS for the remainder of 2023. investment opportunities.

Investment Activities

The table below shows the composition of our investment portfolio as of June 30, 2023 September 30, 2023, December 31, 2022 and June 30, 2022 September 30, 2022.

$ in thousands	$ in thousands	As of June 30, 2023	As of December 31, 2022	As of June 30, 2022	$ in thousands	As of September 30, 2023	As of December 31, 2022	As of September 30, 2022
Agency RMBS:	Agency RMBS:				Agency RMBS:			
30 year fixed-rate, at fair value	30 year fixed-rate, at fair value	5,383,997	4,661,737	3,802,451	30 year fixed-rate, at fair value	5,331,969	4,661,737	4,252,742
Agency CMO, at fair value	Agency CMO, at fair value	78,477	84,956	60,808	Agency CMO, at fair value	78,007	84,956	59,389
Non-Agency CMBS, at fair value	Non-Agency CMBS, at fair value	36,730	36,787	43,644	Non-Agency CMBS, at fair value	25,987	36,787	37,256
Non-Agency RMBS, at fair value	Non-Agency RMBS, at fair value	8,256	8,413	8,262	Non-Agency RMBS, at fair value	7,965	8,413	7,604
Commercial loan, at fair value	Commercial loan, at fair value	—	—	23,478	Commercial loan, at fair value	—	—	23,649
Investments in unconsolidated ventures	Investments in unconsolidated ventures	503	552	3,622	Investments in unconsolidated ventures	505	552	3,475
Subtotal	Subtotal	5,507,963	4,792,445	3,942,265	Subtotal	5,444,433	4,792,445	4,384,115
TBAs, at implied cost basis (1)	TBAs, at implied cost basis (1)	—	1,437	466,559	TBAs, at implied cost basis (1)	—	1,437	142,842
Total investment portfolio, including TBAs	Total investment portfolio, including TBAs	5,507,963	4,793,882	4,408,824	Total investment portfolio, including TBAs	5,444,433	4,793,882	4,526,957

(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 8 "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 $1.5 billion $3.3 billion and purchased $2.4 billion $4.5 billion of Agency RMBS during the six nine months ended June 30, 2023 September 30, 2023. As of June 30, 2023 September 30, 2023, our holdings of 30 year fixed-rate Agency RMBS represented approximately 98% of our total investment portfolio, including TBAs, versus 97% as of December 31, 2022 and 86% 94% as of June 30, 2022 September 30, 2022. Our 30 year fixed-rate Agency RMBS holdings as of June 30, 2023 September 30, 2023, December 31, 2022 and June 30, 2022 September 30, 2022 consisted of specified pools with coupon distributions as shown in the table below.

$ in thousands	$ in thousands	June 30, 2023 Fair Value	June 30, 2023 Percentage	December 31, 2022 Fair Value	December 31, 2022 Percentage	June 30, 2022 Fair Value	June 30, 2022 Percentage
3.0%	3.0%	—	— %	—	— %	636,413	16.7 %
3.5%		—	— %	—	— %	900,002	23.7 %
4.0%	4.0%	871,876	16.2 %	—	— %	911,599	24.0 %
4.5%	4.5%	1,400,379	26.0 %	1,392,304	29.9 %	1,011,921	26.6 %
5.0%	5.0%	1,588,177	29.5 %	1,694,939	36.4 %	342,516	9.0 %
5.5%	5.5%	1,523,565	28.3 %	1,574,494	33.7 %	—	— %

$ in thousands	September 30, 2023 Fair Value	September 30, 2023 Percentage	September 30, 2023 Period-end Weighted Average Yield	December 31, 2022 Fair Value	December 31, 2022 Percentage	December 31, 2022 Period-end Weighted Average Yield	Sep Fair Value
3.0%	—	— %	— %	—	— %	— %	201,298
4.0%	1,218,869	22.9 %	4.64 %	—	— %	— %	855,876
4.5%	1,313,632	24.6 %	4.97 %	1,392,304	29.9 %	4.93 %	1,548,557
5.0%	1,424,615	26.7 %	5.32 %	1,694,939	36.4 %	5.27 %	1,486,108
5.5%	1,374,853	25.8 %	5.59 %	1,574,494	33.7 %	5.53 %	160,903

Total 30 year fixed-rate Agency RMBS	Total 30 year fixed-rate Agency RMBS	5,383,997	100.0 %	4,661,737	100.0 %	3,802,451	100.0 %	Total 30 year fixed-rate Agency RMBS	5,331,969	100.0 %	5.15 %	4,661,737	100.0 %	5.26 %	4,252,742		

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. The table below shows the specified pool characteristics of our 30 year fixed-rate Agency RMBS holdings as of June 30, 2023 September 30, 2023, December 31, 2022 and June 30, 2022 September 30, 2022.

		As of							As of					
		June 30, 2023		December 31, 2022		June 30, 2022			September 30, 2023		December 31, 2022		September 30, 2022	
$ in thousands	$ in thousands	Fair Value	Percentage	Fair Value	Percentage	Fair Value	Percentage	$ in thousands	Fair Value	Percentage	Fair Value	Percentage	Fair Value	Percentage
Specified pool characteristic:	Specified pool characteristic:							Specified pool characteristic:						
Geographic location	Geographic location	1,508,513	28.0 %	1,302,391	27.9 %	949,527	25.0 %	Geographic location	1,557,191	29.2 %	1,302,391	27.9 %	1,281,497	30.2 %
Loan balance	Loan balance	1,504,068	27.9 %	1,033,014	22.2 %	1,721,069	45.3 %	Loan balance	1,634,316	30.7 %	1,033,014	22.2 %	1,292,408	30.4 %
Generic	Generic	—	— %	158,230	3.4 %	—	— %	Generic	—	— %	158,230	3.4 %	44,278	1.0 %
High loan-to-value (“LTV”) ratio	High loan-to-value (“LTV”) ratio	1,087,052	20.2 %	750,724	16.1 %	256,240	6.7 %	High loan-to-value (“LTV”) ratio	1,012,827	19.0 %	750,724	16.1 %	448,163	10.5 %
Low credit score	Low credit score	1,284,364	23.9 %	1,417,378	30.4 %	875,615	23.0 %	Low credit score	1,127,635	21.1 %	1,417,378	30.4 %	1,118,388	26.3 %
Investment property								Investment property	—	— %	—	— %	68,008	1.6 %
Total 30 year fixed-rate Agency RMBS	Total 30 year fixed-rate Agency RMBS	5,383,997	100.0 %	4,661,737	100.0 %	3,802,451	100.0 %	Total 30 year fixed-rate Agency RMBS	5,331,969	100.0 %	4,661,737	100.0 %	4,252,742	100.0 %

We have invested in TBAs as an alternative means of investing in and financing Agency RMBS. As of June 30, 2023 September 30, 2023 and December 31, 2022, we had no investments or immaterial investments in TBAs, versus 11% 3% of our investment portfolio as of June 30, 2022 September 30, 2022. We decreased the allocation to TBAs as implied financing rates in the Agency RMBS TBA dollar roll market increased more than those available in the repurchase market for most coupons.

As of June 30, 2023; September 30, 2023, December 31, 2022 and June 30, 2022 September 30, 2022, our holdings of non-Agency CMBS and non-Agency RMBS represented approximately 1% of our total investment portfolio, including TBAs. Our Approximately 83% of our non-Agency CMBS portfolio is comprised of fixed-rate securities that were rated single-A (or equivalent) or higher by a nationally recognized statistical rating organization as of June 30, 2023. Approximately 71% of non-Agency CMBS were rated double-A (or equivalent) or higher by a nationally recognized statistical rating organization as of June 30, 2023 September 30, 2023.

As of June 30, 2023; December 31, 2022 and June 30, 2022, our holdings of non-Agency RMBS represented less than 1% of our total investment portfolio, including TBAs.

As of December 31, 2022 and June 30, 2022 September 30, 2022, we held investments in two unconsolidated ventures that were managed by an affiliate of our Manager. Our joint venture whose net assets were denominated in euros was dissolved during the first quarter of 2023. Our remaining unconsolidated venture is in liquidation and plans to sell or settle its remaining investments as expeditiously as possible. Until the venture completes its liquidation, we are committed to fund $2.9 million in additional capital to cover future expenses should they occur.

Financing and Other Liabilities

We finance the majority of our investment portfolio through repurchase agreements. Repurchase agreements are generally settled on a short-term basis, usually from one to six months, and bear interest at rates that are expected to move in close relationship to the secured overnight financing rate (“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.

$ in thousands	$ in thousands	Collateralized borrowings under repurchase agreements	$ in thousands	Collateralized borrowings under repurchase agreements

Quarter Ended	Quarter Ended	Quarter-end balance	Average quarterly balance (1)	Maximum balance (2)	Quarter Ended	Quarter-end balance	Average quarterly balance (1)	Maximum balance (2)
June 30, 2022		3,262,530	4,059,917	4,902,191				
September 30, 2022	September 30, 2022	3,887,291	3,907,505	4,165,996	September 30, 2022	3,887,291	3,907,505	4,165,996
December 31, 2022	December 31, 2022	4,234,823	3,825,218	4,234,823	December 31, 2022	4,234,823	3,825,218	4,234,823
March 31, 2023	March 31, 2023	4,814,700	4,734,819	4,814,700	March 31, 2023	4,814,700	4,734,819	4,814,700
June 30, 2023	June 30, 2023	4,959,388	4,791,720	4,959,388	June 30, 2023	4,959,388	4,791,720	4,959,388
September 30, 2023					September 30, 2023	4,987,006	4,902,400	4,987,006

(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 changes 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.

We actively manage our interest rate swap portfolio as the size and composition of our investment portfolio changes. During the six nine months ended June 30, 2023 September 30, 2023, we entered into interest rate swaps with a notional amount of $2.7 billion and terminated existing interest rate swaps with a notional amount of $775.0 million $4.0 billion. In addition, one of our Forward starting swaps are excluded from the additions and terminations above until they begin to bear interest. We did not have any forward starting swaps held as of December 31, 2022 with a notional amount of $500.0 million began to bear interest during the six months ended June 30, 2023 September 30, 2023. The remainder of our forward starting swaps begin to bear interest in July 2023. 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 recorded net gains of $96.6 million $151.7 million and $52.2 million $203.9 million on interest rate swaps for the three and six nine months ended June 30, 2023 September 30, 2023, respectively, primarily due to changes in forward interest rate expectations.

We have historically entered into currency forward contracts to help mitigate the potential impact of changes in foreign currency exchange rates on investments denominated in foreign currencies. We did not have any currency forward contracts outstanding as of June 30, 2023 September 30, 2023 or December 31, 2022.

Capital Activities

As of June 30, 2023 September 30, 2023, we may sell up to 10,181,292 6,300,529 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. During the three months ended June 30, 2023 September 30, 2023, we sold 2,888,639 3,880,763 shares of common stock under our equity distribution agreement for proceeds of $31.0 million $42.3 million, net of approximately $421,000 $575,000 in commissions and fees. During the six nine months ended June 30, 2023 September 30, 2023, we sold 5,818,708 9,699,471 shares of common stock under our equity distribution agreement for proceeds of $66.8 million $109.1 million, net of approximately $903,000 $1.5 million in commissions and fees. We did not sell any During the three and nine months ended September 30, 2022, we sold 2,327,805 shares of common stock under an equity distribution agreements during the three agreement for proceeds of $38.6 million, net of approximately $603,000 in commissions and six months ended June 30, 2022. fees.

For information on dividends declared during the six nine months ended June 30, 2023 September 30, 2023 and 2022, see Note 12 - "Stockholders' Equity" of our condensed consolidated financial statements in Part I. Item 1 of this report on Form 10-Q.

During the six nine months ended June 30, 2023 September 30, 2023, we did not repurchase any shares of our common stock.

In May 2022, our board of directors approved a share repurchase program for our Series B and Series C Preferred Stock. During the three and six nine months ended June 30, 2023 September 30, 2023, we repurchased and retired 37,788 34,432 and 72,220 shares of Series B Preferred Stock, respectively. During the three and 42,696 nine months ended September 30, 2023, we repurchased and retired 92,563 and 135,259 shares of Series C Preferred Stock. Stock, respectively. During the three and six nine months ended June 30, 2022 September 30, 2022, we repurchased and retired 43,820 1,618,546 and 1,662,366 shares of Series B Preferred Stock, respectively. During the three and 620,141 nine months ended September 30, 2022 we repurchased and retired 3,063,389 and 3,683,530 shares of Series C Preferred Stock. Stock, respectively. As of June 30, 2023 September 30, 2023, we had authority to purchase 1,299,846 repurchase 1,265,414 additional shares of our Series B Preferred Stock and 1,273,774 1,181,211 additional shares of our Series C Preferred Stock under the current share repurchase program.

Book Value per Common Share

We calculate book value per common share as follows.

	As of	As of

In thousands except per share amounts	In thousands except per share amounts	June 30, 2023	December 31, 2022	In thousands except per share amounts	September 30, 2023	December 31, 2022
Numerator (adjusted equity):	**Numerator (adjusted equity):**			**Numerator (adjusted equity):**		
Total equity	Total equity	840,884	804,075	Total equity	785,025	804,075
Less: Liquidation preference of Series B Preferred Stock	Less: Liquidation preference of Series B Preferred Stock	(112,496)	(113,441)	Less: Liquidation preference of Series B Preferred Stock	(111,635)	(113,441)
Less: Liquidation preference of Series C Preferred Stock	Less: Liquidation preference of Series C Preferred Stock	(194,344)	(195,412)	Less: Liquidation preference of Series C Preferred Stock	(192,030)	(195,412)
Total adjusted equity	Total adjusted equity	534,044	495,222	Total adjusted equity	481,360	495,222
Denominator (number of shares):	**Denominator (number of shares):**			**Denominator (number of shares):**		
Common stock outstanding	Common stock outstanding	44,580	38,711	Common stock outstanding	48,461	38,711
Book value per common share	Book value per common share	11.98	12.79	Book value per common share	9.93	12.79

Our book value per common share decreased 6.3% 22% as of June 30, 2023 September 30, 2023 compared to December 31, 2022 as modest outperformance in higher coupon primarily due to sharp underperformance of Agency RMBS relative to similar duration Treasuries has been offset by further inversion of during the yield curve, third quarter as elevated interest rate volatility given changes in and higher interest rates weighed on the expectation for near-term monetary policy and declines in premiums on our specified pool investments. sector. 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, 2022.

Recent Accounting Standards

None.

Results of Operations

The table below presents information from our condensed consolidated statements of operations for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands, except share data	**$ in thousands, except share data**	**2023**	**2022**	**2023**	**2022**	**$ in thousands, except share data**	**2023**	**2022**	**2023**	**2022**
Interest income	**Interest income**					**Interest income**				
Mortgage-backed and other securities	Mortgage-backed and other securities	71,428	43,994	140,715	85,631	Mortgage-backed and other securities	75,132	49,058	215,847	134,689
Commercial loan	Commercial loan	—	561	—	1,098	Commercial loan	—	670	—	1,768
Total interest income	Total interest income	71,428	44,555	140,715	86,729	Total interest income	75,132	49,728	215,847	136,457
Interest expense	**Interest expense**					**Interest expense**				
Repurchase agreements	Repurchase agreements	59,022	3,455	108,748	1,351	Repurchase agreements	65,701	18,008	174,449	19,359
Total interest expense	Total interest expense	59,022	3,455	108,748	1,351	Total interest expense	65,701	18,008	174,449	19,359
Net interest income	**Net interest income**	12,406	41,100	31,967	85,378	**Net interest income**	9,431	31,720	41,398	117,098

Other income (loss)	**Other income (loss)**					**Other income (loss)**				
Gain (loss) on investments, net	Gain (loss) on investments, net	(99,679)	(324,876)	(47,723)	(829,264)	Gain (loss) on investments, net	(224,897)	(260,837)	(272,620)	(1,090,101)
(Increase) decrease in provision for credit losses	(Increase) decrease in provision for credit losses	(169)	—	(169)	—	(Increase) decrease in provision for credit losses	(43)	—	(212)	—
Equity in earnings (losses) of unconsolidated ventures	Equity in earnings (losses) of unconsolidated ventures	—	(352)	2	(281)	Equity in earnings (losses) of unconsolidated ventures	2	(6)	4	(287)
Gain (loss) on derivative instruments, net	Gain (loss) on derivative instruments, net	96,624	181,742	51,729	420,602	Gain (loss) on derivative instruments, net	151,689	133,549	203,418	554,151
Other investment income (loss), net	Other investment income (loss), net	27	(11)	(66)	44	Other investment income (loss), net	—	—	(66)	44
Total other income (loss)	**Total other income (loss)**	(3,197)	(143,497)	3,773	(408,899)	**Total other income (loss)**	(73,249)	(127,294)	(69,476)	(536,193)
Expenses	**Expenses**					**Expenses**				
Management fee – related party	Management fee – related party	3,168	4,619	6,147	9,893	Management fee – related party	3,090	3,836	9,237	13,729
General and administrative	General and administrative	1,963	2,519	4,052	4,543	General and administrative	1,691	2,018	5,743	6,561
Total expenses	**Total expenses**	5,131	7,138	10,199	14,436	**Total expenses**	4,781	5,854	14,980	20,290
Net income (loss)	Net income (loss)	4,078	(109,535)	25,541	(337,957)	Net income (loss)	(68,599)	(101,428)	(43,058)	(439,385)
Dividends to preferred stockholders	Dividends to preferred stockholders	(5,840)	(8,100)	(11,702)	(16,494)	Dividends to preferred stockholders	(5,772)	(5,862)	(17,474)	(22,356)
Gain on repurchase and retirement of preferred stock	Gain on repurchase and retirement of preferred stock	364	1,491	364	1,491	Gain on repurchase and retirement of preferred stock	347	12,688	711	14,179
Net income (loss) attributable to common stockholders	Net income (loss) attributable to common stockholders	(1,398)	(116,144)	14,203	(352,960)	Net income (loss) attributable to common stockholders	(74,024)	(94,602)	(59,821)	(447,562)
Earnings (loss) per share:	Earnings (loss) per share:					Earnings (loss) per share:				
Net income (loss) attributable to common stockholders	Net income (loss) attributable to common stockholders					Net income (loss) attributable to common stockholders				
Basic	Basic	(0.03)	(3.52)	0.35	(10.70)	Basic	(1.62)	(2.78)	(1.40)	(13.42)
Diluted	Diluted	(0.03)	(3.52)	0.35	(10.70)	Diluted	(1.62)	(2.78)	(1.40)	(13.42)
Weighted average number of shares of common stock:	Weighted average number of shares of common stock:					Weighted average number of shares of common stock:				
Basic	Basic	42,391,477	32,990,319	41,007,107	32,987,678	Basic	45,746,840	34,050,718	42,604,379	33,345,920
Diluted	Diluted	42,391,477	32,990,319	41,008,028	32,987,678	Diluted	45,746,840	34,050,718	42,604,379	33,345,920

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 and six nine months ended June 30, 2023 September 30, 2023 and 2022.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	$ in thousands	2023	2022	2023	2022	$ in thousands	2023	2022	2023	2022
Average earning assets (1)	Average earning assets (1)	5,285,794	4,663,313	5,265,654	5,827,797	Average earning assets (1)	5,498,298	4,568,855	5,344,055	5,403,538
Average earning asset yields (2)	Average earning asset yields (2)	5.41 %	3.82 %	5.34 %	2.98 %	Average earning asset yields (2)	5.47 %	4.35 %	5.39 %	3.37 %

(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 $5.3 billion $5.5 billion for the three months ended June 30, 2023 (June September 30, 2023 (September 30, 2022: $4.7 billion $4.6 billion) and $5.3 billion for the six nine months ended June 30, 2023 (June September 30, 2023 (September 30, 2022: $5.8 billion $5.4 billion). Average earnings assets were higher for the three months ended June 30, 2023 September 30, 2023 relative to the same period in 2022 primarily due to higher leverage. The decrease in average Average earning assets were relatively unchanged for the six nine months ended June 30, 2023 September 30, 2023 compared to 2022 is primarily due to a reduction in the size of our investment portfolio and related repurchase agreement borrowings during the first half of 2022 given expectations that elevated market volatility could result in lower valuations as we focused on our assets, while maintaining objective to maintain appropriate levels of leverage following declines in stockholders' equity. Average earning asset yields increased for the three and six nine months ended June 30, 2023 September 30, 2023 compared to 2022 primarily due to our rotation into higher yielding Agency RMBS.

We earned total interest income of $71.4 million $75.1 million and $140.7 million $215.8 million for the three and six nine months ended June 30, 2023 September 30, 2023, respectively (June (September 30, 2022: $44.6 million $49.7 million and $86.7 million $136.5 million). Our interest income includes coupon interest and net (premium amortization) discount accretion on mortgage-backed and other securities as well as interest income on our commercial loan as shown in the table below.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	$ in thousands	2023	2022	2023	2022	$ in thousands	2023	2022	2023	2022
Interest Income	**Interest Income**					**Interest Income**				
Mortgage-backed and other securities - coupon interest	Mortgage-backed and other securities - coupon interest	70,119	43,220	139,235	91,449	Mortgage-backed and other securities - coupon interest	72,200	49,224	211,435	140,673
Mortgage-backed and other securities - net (premium amortization) discount accretion	Mortgage-backed and other securities - net (premium amortization) discount accretion	1,309	774	1,480	(5,818)	Mortgage-backed and other securities - net (premium amortization) discount accretion	2,932	(166)	4,412	(5,984)
Mortgage-backed and other securities - interest income	Mortgage-backed and other securities - interest income	71,428	43,994	140,715	85,631	Mortgage-backed and other securities - interest income	75,132	49,058	215,847	134,689
Commercial loan	Commercial loan	—	561	—	1,098	Commercial loan	—	670	—	1,768
Total interest income	Total interest income	71,428	44,555	140,715	86,729	Total interest income	75,132	49,728	215,847	136,457

Mortgage-backed and other securities interest income increased $27.4 million $26.1 million and $55.1 million $81.2 million for the three and six nine months ended June 30, 2023 September 30, 2023, respectively, compared to 2022 primarily due to a 159 112 and 236 202 basis point increase in average earning asset yields, respectively. Our commercial loan investment was fully repaid in October 2022.

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. In an environment of rising interest rates, prepayment speeds will generally decrease as homeowners are not as incentivized to refinance. 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.

The following table presents net (premium amortization) discount accretion recognized on our mortgage-backed and other securities portfolio for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	**$ in thousands**	**2023**	**2022**	**2023**	**2022**	**$ in thousands**	**2023**	**2022**	**2023**	**2022**
Agency RMBS	Agency RMBS	1,138	422	1,152	(6,506)	Agency RMBS	2,465	(355)	3,616	(6,861)
Non-Agency CMBS	Non-Agency CMBS	296	509	587	1,012	Non-Agency CMBS	301	328	888	1,340
Non-Agency RMBS	Non-Agency RMBS	(125)	(132)	(259)	(283)	Non-Agency RMBS	(126)	(139)	(384)	(422)
U.S. Treasury Securities	U.S. Treasury Securities	—	(25)	—	(41)	U.S. Treasury Securities	292	—	292	(41)
Net (premium amortization) discount accretion	Net (premium amortization) discount accretion	1,309	774	1,480	(5,818)	Net (premium amortization) discount accretion	2,932	(166)	4,412	(5,984)

Net discount accretion was $1.3 million $2.9 million for the three months ended June 30, 2023 September 30, 2023 compared to $774,000 net premium amortization of $166,000 for the same period in 2022. Net discount accretion was $1.5 million $4.4 million for the six nine months ended June 30, 2023 September 30, 2023 compared to net premium amortization of $5.8 million $6.0 million for the same period in 2022. The change in net (premium amortization) discount accretion for the six three and nine months ended June 30, 2023 September 30, 2023 compared to 2022 was primarily the result of 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 information related to our borrowings and cost of funds for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	**$ in thousands**	**2023**	**2022**	**2023**	**2022**	**$ in thousands**	**2023**	**2022**	**2023**	**2022**
Total average borrowings (1)	Total average borrowings (1)	4,791,720	4,059,423	4,764,748	5,133,591	Total average borrowings (1)	4,902,400	3,907,724	4,811,136	4,720,478
Maximum borrowings during the period (2)	Maximum borrowings during the period (2)	4,959,388	4,902,191	4,959,388	6,636,913	Maximum borrowings during the period (2)	4,987,006	4,165,996	4,987,006	6,636,913
Cost of funds (3)	Cost of funds (3)	4.93 %	0.34 %	4.56 %	0.05 %	Cost of funds (3)	5.36 %	1.84 %	4.83 %	0.55 %

(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.

Total average borrowings increased $732.3 million $994.7 million and $90.7 million for the three and nine months ended June 30, 2023 September 30, 2023 compared to the same period in 2022, respectively, primarily due to higher leverage. Total average borrowings decreased $368.8 million for the six months ended June 30, 2023 compared to the same period in 2022 primarily due to a reduction in the size of our investment portfolio and related repurchase agreement borrowings during the first half of 2022 given expectations that elevated market volatility could result in lower valuations on our assets, while maintaining appropriate levels of leverage following declines in stockholders' equity. Our average cost of funds increased 459 352 and 451 428 basis points for the three and six nine months ended June 30, 2023 September 30, 2023, respectively, compared to

2022 as the FOMC has consistently raised the Federal Funds target rate from a range of 0.0% to 0.25% as of January 1, 2022 to a range of 5.0% 5.25% to 5.25% 5.50% as of June 30, 2023 September 30, 2023.

The table below presents the components of interest expense for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	**$ in thousands**	**2023**	**2022**	**2023**	**2022**	**$ in thousands**	**2023**	**2022**	**2023**	**2022**
Interest Expense	**Interest Expense**					**Interest Expense**				
Interest expense on repurchase agreement borrowings	Interest expense on repurchase agreement borrowings	62,223	8,257	116,443	11,349	Interest expense on repurchase agreement borrowings	67,511	22,863	183,954	34,212
Amortization of net deferred (gain) loss on de-designated interest rate swaps	Amortization of net deferred (gain) loss on de-designated interest rate swaps	(3,201)	(4,802)	(7,695)	(9,998)	Amortization of net deferred (gain) loss on de-designated interest rate swaps	(1,810)	(4,855)	(9,505)	(14,853)
Repurchase agreements interest expense	Repurchase agreements interest expense	59,022	3,455	108,748	1,351	Repurchase agreements interest expense	65,701	18,008	174,449	19,359
Total interest expense	Total interest expense	59,022	3,455	108,748	1,351	Total interest expense	65,701	18,008	174,449	19,359

Our repurchase agreements interest expense, which equals our total interest expense, increased $55.6 million $47.7 million and $107.4 million $155.1 million for the three and six nine months ended June 30, 2023 September 30, 2023, respectively, compared to 2022 primarily due to a higher cost of funds.

Our repurchase agreements 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 $3.2 million $1.8 million and $7.7 million $9.5 million during the three and six nine months ended June 30, 2023 September 30, 2023 respectively, and $4.8 million $4.9 million and $10.0 million $14.9 million during the three and six nine months ended June 30, 2022 September 30, 2022, respectively. Amounts recorded in accumulated other comprehensive income 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 expect that the remaining $2.7 million $900,000 of net deferred gains on de-designated interest rate swaps will be reclassified from accumulated other comprehensive income and recorded as a decrease to interest expense over a period in the fourth quarter of time through December 15, 2023. 2023.

Net Interest Income

The table below presents the components of net interest income for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	**$ in thousands**	**2023**	**2022**	**2023**	**2022**	**$ in thousands**	**2023**	**2022**	**2023**	**2022**
Interest Income	**Interest Income**					**Interest Income**				
Mortgage-backed and other securities	Mortgage-backed and other securities	71,428	43,994	140,715	85,631	Mortgage-backed and other securities	75,132	49,058	215,847	134,689
Commercial loan	Commercial loan	—	561	—	1,098	Commercial loan	—	670	—	1,768
Total interest income	Total interest income	71,428	44,555	140,715	86,729	Total interest income	75,132	49,728	215,847	136,457
Interest Expense	**Interest Expense**					**Interest Expense**				

Interest expense on repurchase agreement borrowings	Interest expense on repurchase agreement borrowings	62,223	8,257	116,443	11,349	Interest expense on repurchase agreement borrowings	67,511	22,863	183,954	34,212
Amortization of net deferred (gain) loss on de-designated interest rate swaps	Amortization of net deferred (gain) loss on de-designated interest rate swaps	(3,201)	(4,802)	(7,695)	(9,998)	Amortization of net deferred (gain) loss on de-designated interest rate swaps	(1,810)	(4,855)	(9,505)	(14,853)
Repurchase agreements interest expense	Repurchase agreements interest expense	59,022	3,455	108,748	1,351	Repurchase agreements interest expense	65,701	18,008	174,449	19,359
Total interest expense	Total interest expense	59,022	3,455	108,748	1,351	Total interest expense	65,701	18,008	174,449	19,359
Net interest income	**Net interest income**	12,406	41,100	31,967	85,378	**Net interest income**	9,431	31,720	41,398	117,098
Net interest rate margin	**Net interest rate margin**	0.48 %	3.48 %	0.78 %	2.93 %	**Net interest rate margin**	0.11 %	2.51 %	0.56 %	2.82 %

Our net interest income, which equals interest income less interest expense, totaled $12.4 million $9.4 million and $32.0 million $41.4 million for the three and six nine months ended June 30, 2023 September 30, 2023, respectively (June (September 30, 2022: $41.1 million $31.7 million and $85.4 million $117.1 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 0.48% 0.11% and 0.78% 0.56% for the three and six nine months ended June 30, 2023 September 30, 2023, respectively (June (September 30, 2022: 3.48% 2.51% and 2.93% 2.82%). The decrease in net interest income for the three and six nine months ended June 30, 2023 September 30, 2023 compared to 2022 was primarily due to a higher cost of funds related to increases in the Federal Funds target rate, which was partially offset by higher interest income. The decrease in net interest rate margin for the three and six nine months ended June 30, 2023 September 30, 2023 compared to 2022 was primarily due to a higher cost of funds, which was partially offset by our rotation into higher yielding Agency RMBS. Our short-term borrowings are generally more sensitive to changes in interest rates than our investment portfolio, which is largely comprised of 30 year fixed-rate Agency RMBS.

Gain (Loss) on Investments, net

The table below summarizes the components of gain (loss) on investments, net for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	**$ in thousands**	**2023**	**2022**	**2023**	**2022**	**$ in thousands**	**2023**	**2022**	**2023**	**2022**
Net realized gains (losses) on sale of MBS	Net realized gains (losses) on sale of MBS	(10,484)	(535,056)	(24,249)	(854,026)	Net realized gains (losses) on sale of MBS	(33,157)	(120,418)	(57,406)	(974,444)
Net unrealized gains (losses) on MBS accounted for under the fair value option	Net unrealized gains (losses) on MBS accounted for under the fair value option	(89,195)	224,464	(23,474)	58,997	Net unrealized gains (losses) on MBS accounted for under the fair value option	(191,752)	(140,590)	(215,226)	(81,593)
Net unrealized gains (losses) on commercial loan	Net unrealized gains (losses) on commercial loan	—	87	—	(37)	Net unrealized gains (losses) on commercial loan	—	171	—	134
Net unrealized gains (losses) on U.S. Treasury securities		—	19,827	—	—					

Net realized gains (losses) on U.S. Treasury securities	Net realized gains (losses) on U.S. Treasury securities	—	(34,198)	—	(34,198)	Net realized gains (losses) on U.S. Treasury securities	12	—	12	(34,198)
Total gain (loss) on investments, net	Total gain (loss) on investments, net	(99,679)	(324,876)	(47,723)	(829,264)	Total gain (loss) on investments, net	(224,897)	(260,837)	(272,620)	(1,090,101)

During the three and six nine months ended June 30, 2023 September 30, 2023, we sold MBS and realized net losses of $10.5 million $33.2 million and $24.2 million $57.4 million, respectively (June (September 30, 2022: net losses of $535.1 million $120.4 million and $854.0 million). $974.4 million, respectively). Net realized losses during the three and six nine months ended June 30, 2023 September 30, 2023 and 2022 primarily reflect the repositioning of Agency RMBS coupon allocations and sales of lower yielding Agency RMBS to purchase higher yielding Agency RMBS in an effort to improve the earnings power of the portfolio.

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 June 30, 2023 September 30, 2023, $5.5 billion $5.4 billion (December 31, 2022: $4.7 billion) or 99% (December 31, 2022: 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 $89.2 million $191.8 million and $23.5 million $215.2 million in the three and six nine months ended June 30, 2023 September 30, 2023, respectively, compared to net unrealized gains losses of $224.5 million $140.6 million and $59.0 million $81.6 million in the three and six nine months ended June 30, 2022 September 30, 2022, respectively. Net unrealized losses in the three and six nine months ended June 30, 2023 September 30, 2023 were primarily due to lower valuations on our Agency RMBS given higher interest rates and wider interest rate spreads on our holdings. Net unrealized gains losses in the three and six nine months ended June 30, 2022 were September 30, 2022 primarily driven by reversals of unrealized losses upon sale. reflect wider interest rate spreads on our Agency assets.

We recorded an unrealized gain gains of $87,000 $171,000 and an unrealized loss of $37,000 $134,000 on our commercial loan investment in the three and six nine months ended June 30, 2022 September 30, 2022, respectively. We valued our commercial loan based upon a valuation from an independent pricing service.

We did not hold any U.S. Treasury securities during the six months ended June 30, 2023 . We recorded net realized and unrealized losses of $14.4 million and $34.2 million on U.S. Treasury securities during the three and six nine months ended June 30, 2022 September 30, 2022, respectively, due to rising interest rates.

(Increase) Decrease in Provision for Credit Losses

As of June 30, 2023 September 30, 2023, $42.4 million $31.5 million of our MBS are classified as available-for-sale and subject to evaluation for credit losses (December 31, 2022: $42.5 million). During the three and six nine months ended June 30, 2023 September 30, 2023, we recorded a $169,000 $43,000 and a $212,000 provision for credit losses, respectively, on a single non-Agency CMBS based on a comparison of the security's amortized cost basis to discounted expected cash flows. We did not record any provisions for credit losses during the three and six nine months ended June 30, 2022 September 30, 2022.

Equity in Earnings (Losses) of Unconsolidated Ventures

For the three and six nine months ended June 30, 2023 September 30, 2023 we recorded equity in earnings of unconsolidated ventures of $2,000. (June $2,000 and $4,000, respectively. (September 30, 2022: equity in losses of $352,000 $6,000 and $281,000, $287,000, respectively). Earnings and losses of unconsolidated ventures were driven primarily 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	$ in thousands	Three months ended June 30, 2023				$ in thousands	Three months ended September 30, 2023			
Derivative not designated as hedging instrument	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	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	Interest Rate Swaps	27,893	63,437	5,312	96,642	Interest Rate Swaps	84,565	72,126	(5,002)	151,689
Currency Forward Contracts		(18)	—	—	(18)					
TBAs		(929)	—	929	—					

Total	Total	26,946	63,437	6,241	96,624	Total	84,565	72,126	(5,002)	151,689

$ in thousands	$ in thousands	Three months ended June 30, 2022				$ in thousands	Three months ended September 30, 2022			
Derivative not designated as hedging instrument	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	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	Interest Rate Swaps	209,913	13,566	(2,966)	220,513	Interest Rate Swaps	71,862	30,145	36,930	138,937
Currency Forward Contracts	Currency Forward Contracts	486	—	(177)	309	Currency Forward Contracts	187	—	14	201
TBAs	TBAs	(69,167)	—	30,087	(39,080)	TBAs	(9,172)	—	3,583	(5,589)
Total	Total	141,232	13,566	26,944	181,742	Total	62,877	30,145	40,527	133,549

$ in thousands	$ in thousands	Six months ended June 30, 2023				$ in thousands	Nine months ended September 30, 2023			
Derivative not designated as hedging instrument	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	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	Interest Rate Swaps	(63,056)	117,901	(2,656)	52,189	Interest Rate Swaps	21,509	190,027	(7,658)	203,878
Currency Forward Contracts	Currency Forward Contracts	(18)	—	—	(18)	Currency Forward Contracts	(18)	—	—	(18)
TBAs	TBAs	(1,880)	—	1,438	(442)	TBAs	(1,880)	—	1,438	(442)
Total	Total	(64,954)	117,901	(1,218)	51,729	Total	19,611	190,027	(6,220)	203,418

$ in thousands	$ in thousands	Six months ended June 30, 2022				$ in thousands	Nine months ended September 30, 2022			
Derivative not designated as hedging instrument	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	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	Interest Rate Swaps	553,222	14,850	(14,365)	553,707	Interest Rate Swaps	625,084	44,995	22,565	692,644
Currency Forward Contracts	Currency Forward Contracts	679	—	(218)	461	Currency Forward Contracts	866	—	(204)	662
TBAs	TBAs	(129,240)	—	(4,326)	(133,566)	TBAs	(138,412)	—	(743)	(139,155)
Total	Total	424,661	14,850	(18,909)	420,602	Total	487,538	44,995	21,618	554,151

During the six nine months ended June 30, 2023 September 30, 2023, we entered into interest rate swaps with a notional amount of $2.7 billion and terminated existing interest rate swaps with a notional amount of $775.0 million $4.0 billion. In addition, one of our Forward starting swaps are excluded from the additions and terminations above until they begin to bear interest. We did not have any forward starting swaps held as of December 31, 2022 with a notional amount of $500.0 million began to bear interest during the six months ended June 30, 2023 September 30, 2023. The remainder of our forward starting swaps begin to bear interest in July 2023. We recorded net gains of $96.6 million $151.7 million and $52.2 million $203.9 million on interest rate swaps for the three and six nine months ended June 30, 2023 September 30, 2023, respectively, (June (September 30, 2022: $220.5 million $138.9 million and $553.7 million) $692.6 million, respectively) primarily due to changes in forward interest rate expectations.

As of June 30, 2023 September 30, 2023, we had $5.0 billion of repurchase agreement borrowings with a weighted average remaining maturity of 49 24 days. We typically refinance each repurchase agreement at market interest rates upon maturity. We use interest rate swaps to manage our exposure to changing interest rates and add stability to interest rate expense.

As of June 30, 2023 September 30, 2023 and December 31, 2022, we held the following interest rate swaps whereby we pay fixed rate interest and receive floating rate interest based upon SOFR.

$ in thousands Derivative instrument	$ in thousands Derivative instrument	As of June 30, 2023 Notional Amount	Weighted Average Fixed Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity	As of December 31, 2022 Notional Amount	Weighted Average Fixed Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity	$ in thousands Derivative instrument	As of September 30, 2023 Notional Amount	Weighted Average Fixed Pay Rate	Weighted Average Floating Receive Rate	Weighted Average Years to Maturity	As of December 3 Notional Amount	Weighted Average Fixed Pay Rate	Wei Ave Flo Rec R
Interest Rate Swaps (1)	Interest Rate Swaps (1)	6,300,000	0.45 %	5.09 %	5.5	5,800,000	0.45 %	4.30 %	6.3	Interest Rate Swaps (1)	5,900,000	0.79 %	5.31 %	7.7	5,800,000	0.45 %	4.3

(1) Excludes $475.0 million As of December 31, 2022, we held $975.0 million notional amount of SOFR-based pay fixed and receive floating interest rate swaps with forward start dates as of June 30, 2023 that will receive floating interest based upon SOFR (December 31, 2022: $975.0 million). As of June 30, 2023, these interest rate swaps had a weighted average maturity of 30.1 16.5 years (December 31, 2022: 16.5 years) and a weighted average fixed pay rate of 1.33% (December 31, 2022: 0.89%). that are excluded from the table above.

As of June 30, 2023 September 30, 2023 and December 31, 2022, we held the following interest rate swaps whereby we pay floating rate interest based upon SOFR and receive fixed rate interest.

$ in thousands Derivative instrument	$ in thousands Derivative instrument	As of June 30, 2023 Notional Amount	Weighted Average Floating Pay Rate	Weighted Average Fixed Receive Rate	Weighted Average Years to Maturity	As of December 31, 2022 Notional Amount	Weighted Average Floating Pay Rate	Weighted Average Fixed Receive Rate	Weighted Average Years to Maturity	$ in thousands Derivative instrument	As of September 30, 2023 Notional Amount	Weighted Average Floating Pay Rate	Weighted Average Fixed Receive Rate	Weighted Average Years to Maturity	As of December 31, Notional Amount	Weighted Average Floating Pay Rate	Weigh Avera Fixe Rece Rat
Interest Rate Swaps (1)	Interest Rate Swaps (1)	1,575,000	5.09 %	2.69 %	9.9	2,350,000	4.30 %	2.78 %	9.3	Interest Rate Swaps (1)	950,000	5.31 %	5.30 %	0.7	2,350,000	4.30 %	2.78

(1) Excludes As of December 31, 2022, we held $275.0 million notional amount of SOFR-based pay floating and receive fixed interest rate swaps with forward start dates as of June 30, 2023that will pay floating interest based upon SOFR (December 31, 2022: $275.0 million). As of June 30, 2023, these interest rate swaps had a weighted average maturity of 15.5 16.0 years (December 31, 2022: 16.0 years) and a weighted average fixed receive rate of 2.63% (December 31, 2022: 2.63%). that are excluded from that table above.

We historically used currency forward contracts to help mitigate the potential impact of changes in foreign currency exchange rates. As of June 30, 2023 September 30, 2023 and December 31, 2022, we did not have any currency forward contracts outstanding. During the three and six nine months ended June 30, 2022 September 30, 2022, we settled currency forward contracts of €6.5 €5.8 million and €24.1 million €29.9 million, respectively, or $7.4 $6.2 million and $27.8 million $34.0 million, respectively, in notional amount related to our investment in an unconsolidated venture and realized net gains of $486,000 $187,000 and $679,000, respectively.$866,000, respectively.

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 June 30, 2023 September 30, 2023 and December 31, 2022, we had no investments or immaterial investments in TBAs. We recorded $442,000 of net realized and unrealized losses on TBAs during the six nine months ended June 30, 2023 September 30, 2023. We recorded $39.1 million $5.6 million and $133.6 million $139.2 million of net realized and unrealized losses on TBAs during the three and six nine months ended June 30, 2022 September 30, 2022, respectively. Net realized and unrealized losses on TBAs for the three and six nine months ended June 30, 2022 September 30, 2022 primarily reflect 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 and six nine months ended June 30, 2023 September 30, 2023 and 2022 consisted of foreign currency transaction gains and losses. Other investment income (loss) for the six nine months ended June 30, 2023 September 30, 2023 also includes the reclassification of our foreign currency translation adjustment that was previously recorded in accumulated other comprehensive income related to an unconsolidated venture that was liquidated during the first quarter of 2023.

Expenses

We incurred management fees of $3.2 million $3.1 million and $6.1 million $9.2 million for the three and six nine months ended June 30, 2023 September 30, 2023, respectively (June (September 30, 2022: $4.6 million $3.8 million and $9.9 million). $13.7 million, respectively). Management fees decreased for the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods in 2022 due to a lower stockholders' equity management fee base. Refer to Note 11 – "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 $1.7 million and $4.1 million $5.7 million for the three and six nine months ended June 30, 2023 September 30, 2023, respectively (June (September 30, 2022: $2.5 million $2.0 million and $4.5 million). $6.6 million, respectively). 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.

Gain on Repurchase and Retirement of Preferred Stock

In May 2022, our board of directors approved a share repurchase program for our Series B and Series C Preferred Stock. During the three and six nine months ended June 30, 2023 September 30, 2023, we repurchased and retired 37,788 34,432 and 72,220 shares of Series B Preferred Stock, respectively. During the three and 42,696 nine months ended September 30, 2023, we repurchased and retired 92,563 and 135,259 shares of Series C Preferred Stock. Stock, respectively. During the three and six nine months ended June 30, 2022 September 30, 2022, we repurchased and retired 43,820 1,618,546 and 1,662,366 shares of Series B Preferred Stock, respectively. During the three and 620,141 nine months ended September 30, 2022 we repurchased and retired 3,063,389 and 3,683,530 shares of Series C Preferred Stock. Stock, respectively. Gains on repurchases and retirements of preferred stock represent the difference between the consideration transferred and the carrying value of the preferred stock.

Net Income (Loss) attributable to Common Stockholders

For the three months ended June 30, 2023 September 30, 2023, our net loss attributable to common stockholders was $1.4 million (June $74.0 million (September 30, 2022: $116.1 million $94.6 million) or $0.03 $1.62 basic and diluted net loss per average share available to common stockholders (June (September 30, 2022: $3.52) $2.78). The change in net loss attributable to common stockholders was primarily due to (i) net losses on investments of $99.7 million $224.9 million in the 2023 period compared to $324.9 million $260.8 million in the 2022 period; (ii) net gains on derivative instruments of $96.6 million $151.7 million in the 2023 period compared to $181.7 million $133.5 million in the 2022 period; and (iii) a $28.7 million $22.3 million decrease in net interest income.

For the six nine months ended June 30, 2023 September 30, 2023, our net income loss attributable to common stockholders was $14.2 million (June $59.8 million (September 30, 2022: $353.0 million net loss attributable to common stockholders) $447.6 million) or $0.35 basic and diluted net income per average share available to common stockholders (June 30, 2022: $10.70 $1.40 basic and diluted net loss per average share available to common stockholders) stockholders (September 30, 2022: $13.42). The change in net income (loss) attributable to common stockholders was primarily due to (i) net losses on investments of $47.7 million $272.6 million in the 2023 period compared to $829.3 million $1.1 billion in the 2022 period; (ii) net gains on derivative instruments of $51.7 million $203.4 million in the 2023 period compared to $420.6 million $554.2 million in the 2022 period; and (iii) a $53.4 million $75.7 million decrease in net interest income.

For further information on the changes in net gain (loss) on investments, net gain (loss) on derivative instruments, and 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 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, 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.

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.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Mon Ended Septembe
$ in thousands, except per share data	**$ in thousands, except per share data**	**2023**	**2022**	**2023**	**2022**	**$ in thousands, except per share data**	**2023**	**2022**	**2023**
Net income (loss) attributable to common stockholders	Net income (loss) attributable to common stockholders	(1,398)	(116,144)	14,203	(352,960)	Net income (loss) attributable to common stockholders	(74,024)	(94,602)	(59,821)
Adjustments:	Adjustments:					Adjustments:			
(Gain) loss on investments, net	(Gain) loss on investments, net	99,679	324,876	47,723	829,264	(Gain) loss on investments, net	224,897	260,837	272,620
Realized (gain) loss on derivative instruments, net (1)	Realized (gain) loss on derivative instruments, net (1)	(26,946)	(141,232)	64,954	(424,661)	Realized (gain) loss on derivative instruments, net (1)	(84,565)	(62,877)	(19,611)
Unrealized (gain) loss on derivative instruments, net (1)	Unrealized (gain) loss on derivative instruments, net (1)	(6,241)	(26,944)	1,218	18,909	Unrealized (gain) loss on derivative instruments, net (1)	5,002	(40,527)	6,220
TBA dollar roll income (2)	TBA dollar roll income (2)	—	11,855	697	25,256	TBA dollar roll income (2)	—	2,159	697
Gain on repurchase and retirement of preferred stock	Gain on repurchase and retirement of preferred stock	(364)	(1,491)	(364)	(1,491)	Gain on repurchase and retirement of preferred stock	(347)	(12,688)	(711)
Foreign currency (gains) losses, net (3)	Foreign currency (gains) losses, net (3)	(27)	11	66	(44)	Foreign currency (gains) losses, net (3)	—	—	66
Amortization of net deferred (gain) loss on de-designated interest rate swaps (4)	Amortization of net deferred (gain) loss on de-designated interest rate swaps (4)	(3,201)	(4,802)	(7,695)	(9,998)	Amortization of net deferred (gain) loss on de-designated interest rate swaps (4)	(1,810)	(4,855)	(9,505)
Subtotal	Subtotal	62,900	162,273	106,599	437,235	Subtotal	143,177	142,049	249,776
Earnings available for distribution	Earnings available for distribution	61,502	46,129	120,802	84,275	Earnings available for distribution	69,153	47,447	189,955

Basic income (loss) per common share	Basic income (loss) per common share	(0.03)	(3.52)	0.35	(10.70)	Basic income (loss) per common share	(1.62)	(2.78)	(1.40)	
Earnings available for distribution per common share (5)	Earnings available for distribution per common share (5)	1.45	1.40	2.95	2.55	Earnings available for distribution per common share (5)	1.51	1.39	4.46	

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

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	**$ in thousands**	**2023**	**2022**	**2023**	**2022**	**$ in thousands**	**2023**	**2022**	**2023**	**2022**
Realized gain (loss) on derivative instruments, net	Realized gain (loss) on derivative instruments, net	26,946	141,232	(64,954)	424,661	Realized gain (loss) on derivative instruments, net	84,565	62,877	19,611	487,538
Unrealized gain (loss) on derivative instruments, net	Unrealized gain (loss) on derivative instruments, net	6,241	26,944	(1,218)	(18,909)	Unrealized gain (loss) on derivative instruments, net	(5,002)	40,527	(6,220)	21,618
Contractual net interest income (expense) on interest rate swaps	Contractual net interest income (expense) on interest rate swaps	63,437	13,566	117,901	14,850	Contractual net interest income (expense) on interest rate swaps	72,126	30,145	190,027	44,995
Gain (loss) on derivative instruments, net	Gain (loss) on derivative instruments, net	96,624	181,742	51,729	420,602	Gain (loss) on derivative instruments, net	151,689	133,549	203,418	554,151

(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 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 our 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 repurchase agreements interest expense on the condensed consolidated statements of operations includes the following components.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	**$ in thousands**	**2023**	**2022**	**2023**	**2022**	**$ in thousands**	**2023**	**2022**	**2023**	**2022**
Interest expense on repurchase agreement borrowings	Interest expense on repurchase agreement borrowings	62,223	8,257	116,443	11,349	Interest expense on repurchase agreement borrowings	67,511	22,863	183,954	34,212
Amortization of net deferred (gain) loss on de-designated interest rate swaps	Amortization of net deferred (gain) loss on de-designated interest rate swaps	(3,201)	(4,802)	(7,695)	(9,998)	Amortization of net deferred (gain) loss on de-designated interest rate swaps	(1,810)	(4,855)	(9,505)	(14,853)

Repurchase agreements interest expense	Repurchase agreements interest expense	59,022	3,455	108,748	1,351	Repurchase agreements interest expense	65,701	18,008	174,449	19,359

(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.

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
$ in thousands	**$ in thousands**	**2023**	**2022**	**2023**	**2022**	**$ in thousands**	**2023**	**2022**	**2023**	**2022**
Effective net interest income (1)	Effective net interest income (1)	72,642	49,864	142,173	90,230	Effective net interest income (1)	79,747	57,010	221,920	147,240
TBA dollar roll income	TBA dollar roll income	—	11,855	697	25,256	TBA dollar roll income	—	2,159	697	27,415
Equity in earnings (losses) of unconsolidated ventures	Equity in earnings (losses) of unconsolidated ventures	—	(352)	2	(281)	Equity in earnings (losses) of unconsolidated ventures	2	(6)	4	(287)
(Increase) decrease in provision for credit losses	(Increase) decrease in provision for credit losses	(169)	—	(169)	—	(Increase) decrease in provision for credit losses	(43)	—	(212)	—
Total expenses	Total expenses	(5,131)	(7,138)	(10,199)	(14,436)	Total expenses	(4,781)	(5,854)	(14,980)	(20,290)
Subtotal	Subtotal	67,342	54,229	132,504	100,769	Subtotal	74,925	53,309	207,429	154,078
Dividends to preferred stockholders	Dividends to preferred stockholders	(5,840)	(8,100)	(11,702)	(16,494)	Dividends to preferred stockholders	(5,772)	(5,862)	(17,474)	(22,356)
Earnings available for distribution	Earnings available for distribution	61,502	46,129	120,802	84,275	Earnings available for distribution	69,153	47,447	189,955	131,722

(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 and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods in 2022 primarily due to an increase in effective net interest income, which was partially offset by a reduction in our TBA notional amount and related TBA dollar roll activity.

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 borrowings. We add back the net payments or receipts 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.

	Three Months Ended June 30,			Three Months Ended September 30,	
	2023	**2022**		**2023**	**2022**

$ in thousands	$ in thousands	Reconciliation	Cost of Funds / Effective Cost of Funds	Reconciliation	Cost of Funds / Effective Cost of Funds	$ in thousands	Reconciliation	Cost of Funds / Effective Cost of Funds	Reconciliation	Cost of Funds / Effective Cost of Funds
Total interest expense	Total interest expense	59,022	4.93 %	3,455	0.34 %	Total interest expense	65,701	5.36 %	18,008	1.84 %
Add: Amortization of net deferred gain (loss) on de-designated interest rate swaps	Add: Amortization of net deferred gain (loss) on de-designated interest rate swaps	3,201	0.27 %	4,802	0.47 %	Add: Amortization of net deferred gain (loss) on de-designated interest rate swaps	1,810	0.15 %	4,855	0.50 %
Less: Contractual net interest expense (income) on interest rate swaps recorded as gain (loss) on derivative instruments, net	Less: Contractual net interest expense (income) on interest rate swaps recorded as gain (loss) on derivative instruments, net	(63,437)	(5.30) %	(13,566)	(1.34) %	Less: Contractual net interest expense (income) on interest rate swaps recorded as gain (loss) on derivative instruments, net	(72,126)	(5.88) %	(30,145)	(3.09) %
Effective interest expense	Effective interest expense	(1,214)	(0.10) %	(5,309)	(0.53) %	Effective interest expense	(4,615)	(0.37) %	(7,282)	(0.75) %

		Six Months Ended June 30,					Nine Months Ended September 30,			
		2023		2022			2023		2022	
$ in thousands	$ in thousands	Reconciliation	Cost of Funds / Effective Cost of Funds	Reconciliation	Cost of Funds / Effective Cost of Funds	$ in thousands	Reconciliation	Cost of Funds / Effective Cost of Funds	Reconciliation	Cost of Funds / Effective Cost of Funds
Total interest expense	Total interest expense	108,748	4.56 %	1,351	0.05 %	Total interest expense	174,449	4.83 %	19,359	0.55 %
Add: Amortization of net deferred gain (loss) on de-designated interest rate swaps	Add: Amortization of net deferred gain (loss) on de-designated interest rate swaps	7,695	0.32 %	9,998	0.39 %	Add: Amortization of net deferred gain (loss) on de-designated interest rate swaps	9,505	0.26 %	14,853	0.42 %
Less: Contractual net interest expense (income) on interest rate swaps recorded as gain (loss) on derivative instruments, net	Less: Contractual net interest expense (income) on interest rate swaps recorded as gain (loss) on derivative instruments, net	(117,901)	(4.95) %	(14,850)	(0.58) %	Less: Contractual net interest expense (income) on interest rate swaps recorded as gain (loss) on derivative instruments, net	(190,027)	(5.27) %	(44,995)	(1.27) %
Effective interest expense	Effective interest expense	(1,458)	(0.07) %	(3,501)	(0.14) %	Effective interest expense	(6,073)	(0.18) %	(10,783)	(0.30) %

Our effective interest expense and effective cost of funds increased modestly in the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods in 2022 as significant increases in U.S. GAAP interest expense, which were driven by increases in the Federal Funds target rate, were largely offset by increases in contractual net interest income on interest rate swaps.

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 June 30,					Three Months Ended September 30,			
		2023		2022			2023		2022	
$ in thousands	$ in thousands	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin	$ in thousands	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin
Net interest income	Net interest income	12,406	0.48 %	41,100	3.48 %	Net interest income	9,431	0.11 %	31,720	2.51 %
Less: Amortization of net deferred (gain) loss on de-designated interest rate swaps	Less: Amortization of net deferred (gain) loss on de-designated interest rate swaps	(3,201)	(0.27) %	(4,802)	(0.47) %	Less: Amortization of net deferred (gain) loss on de-designated interest rate swaps	(1,810)	(0.15) %	(4,855)	(0.50) %
Add: Contractual net interest income (expense) on interest rate swaps recorded as gain (loss) on derivative instruments, net	Add: Contractual net interest income (expense) on interest rate swaps recorded as gain (loss) on derivative instruments, net	63,437	5.30 %	13,566	1.34 %	Add: Contractual net interest income (expense) on interest rate swaps recorded as gain (loss) on derivative instruments, net	72,126	5.88 %	30,145	3.09 %
Effective net interest income	Effective net interest income	72,642	5.51 %	49,864	4.35 %	Effective net interest income	79,747	5.84 %	57,010	5.10 %

		Six Months Ended June 30,					Nine Months Ended September 30,			
		2023		2022			2023		2022	
$ in thousands	$ in thousands	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin	$ in thousands	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin	Reconciliation	Net Interest Rate Margin / Effective Interest Rate Margin
Net interest income	Net interest income	31,967	0.78 %	85,378	2.93 %	Net interest income	41,398	0.56 %	117,098	2.82 %
Less: Amortization of net deferred (gain) loss on de-designated interest rate swaps	Less: Amortization of net deferred (gain) loss on de-designated interest rate swaps	(7,695)	(0.32) %	(9,998)	(0.39) %	Less: Amortization of net deferred (gain) loss on de-designated interest rate swaps	(9,505)	(0.26) %	(14,853)	(0.42) %

Add: Contractual net interest income (expense) on interest rate swaps recorded as gain (loss) on derivative instruments, net	Add: Contractual net interest income (expense) on interest rate swaps recorded as gain (loss) on derivative instruments, net	117,901	4.95 %	14,850	0.58 %	Add: Contractual net interest income (expense) on interest rate swaps recorded as gain (loss) on derivative instruments, net	190,027	5.27 %	44,995	1.27 %
Effective net interest income	Effective net interest income	142,173	5.41 %	90,230	3.12 %	Effective net interest income	221,920	5.57 %	147,240	3.67 %

Our effective net interest income and effective interest rate margin increased in the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods in 2022 primarily due to higher interest income resulting from our rotation into higher yielding Agency RMBS during 2022. RMBS. Effective interest expense and effective cost of funds had a less significant impact on effective net interest income and effective interest rate margin as higher U.S. GAAP interest expense was largely offset by an increase in contractual net interest income 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 June 30, 2023 September 30, 2023 and December 31, 2022. 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 June 30, 2023 September 30, 2023, approximately 95% 96% 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 of other mortgage REITs who also invest in TBAs and present a similar non-GAAP measure of leverage.

As of June 30, 2023 September 30, 2023

$ in thousands	**$ in thousands**	**Agency RMBS**	**Credit Portfolio (1)**	**Total**	**$ in thousands**	**Agency RMBS**	**Credit Portfolio (1)**	**Total**
Mortgage-backed securities	Mortgage-backed securities	5,462,474	44,986	5,507,460	Mortgage-backed securities	5,409,976	33,952	5,443,928
Cash and cash equivalents (2)	Cash and cash equivalents (2)	209,036	—	209,036	Cash and cash equivalents (2)	173,921	—	173,921
Restricted cash (3)	Restricted cash (3)	124,669	—	124,669	Restricted cash (3)	185,824	—	185,824
Other assets	Other assets	24,298	766	25,064	Other assets	25,500	2,170	27,670
Total assets	Total assets	5,820,477	45,752	5,866,229	Total assets	5,795,221	36,122	5,831,343
Repurchase agreements	Repurchase agreements	4,959,388	—	4,959,388	Repurchase agreements	4,987,006	—	4,987,006
Derivative liabilities, at fair value (3)	Derivative liabilities, at fair value (3)	2,635	—	2,635	Derivative liabilities, at fair value (3)	7,637	—	7,637
Other liabilities	Other liabilities	61,484	1,838	63,322	Other liabilities	49,848	1,827	51,675
Total liabilities	Total liabilities	5,023,507	1,838	5,025,345	Total liabilities	5,044,491	1,827	5,046,318
Total stockholders' equity (allocated)	Total stockholders' equity (allocated)	796,970	43,914	840,884	Total stockholders' equity (allocated)	750,730	34,295	785,025
Debt-to-equity ratio (4)	Debt-to-equity ratio (4)	6.2	—	5.9	Debt-to-equity ratio (4)	6.6	—	6.4
Economic debt-to-equity ratio (5)	Economic debt-to-equity ratio (5)	6.2	—	5.9	Economic debt-to-equity ratio (5)	6.6	—	6.4

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(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 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 to total stockholders' equity. We did not have any TBAs outstanding as of June 30, 2023 September 30, 2023.

As of December 31, 2022

$ in thousands	Agency RMBS	Credit Portfolio (1)	Total
Mortgage-backed securities	4,746,693	45,200	4,791,893
Cash and cash equivalents (2)	175,535	—	175,535
Restricted cash (3)	103,246	—	103,246
Derivative assets, at fair value (3)	662	—	662
Other assets	25,252	807	26,059
Total assets	5,051,388	46,007	5,097,395
Repurchase agreements	4,234,823	—	4,234,823
Derivative liabilities, at fair value (3)	2,079	—	2,079
Other liabilities	53,980	2,438	56,418
Total liabilities	4,290,882	2,438	4,293,320
Total stockholders' equity (allocated)	760,506	43,569	804,075
Debt-to-equity ratio (4)	5.6	—	5.3
Economic debt-to-equity ratio (5)	5.6	—	5.3

(1) Investments in non-Agency CMBS, non-Agency RMBS 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 ($1.4 million as of December 31, 2022) to total stockholders' equity.

Liquidity and Capital Resources

Liquidity is a measure 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 $333.7 million $359.7 million as of June 30, 2023 (June September 30, 2023 (September 30, 2022: $330.8 million $264.4 million). Our cash, cash equivalents and restricted cash change 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 $153.7 million $206.1 million for the six nine months ended June 30, 2023 (June September 30, 2023 (September 30, 2022: $80.8 million $126.8 million).

Our investing activities used net cash of $830.0 million $899.8 million in the six nine months ended June 30, 2023 September 30, 2023 compared to net cash provided by investing activities of $3.5 billion $2.8 billion in the six nine months ended June 30, 2022 September 30, 2022. We used cash of $2.4 billion $4.5 billion to purchase MBS and $48.7 million to purchase U.S. Treasury securities during the six nine months ended June 30, 2023 (June September 30, 2023 (September 30, 2022: $14.4 billion $20.7 billion to purchase MBS and $502.3 million to purchase U.S. Treasury securities). We used cash of $65.0 million to settle derivative contracts in the six months ended June 30, 2023 (June 30, 2022: received cash of $424.7 million). Our primary source of cash from investing activities for the six nine months ended June 30, 2023 September 30, 2023 was proceeds from sales of MBS of $1.5 billion (June $3.3 billion and proceeds from sales of U.S. Treasury securities of $49.0 million (September 30, 2022: $17.3 billion $22.8 billion from the sales of MBS and $468.1 million from the sales of U.S. Treasury securities). We also generated $144.5 million $260.9 million from principal payments of MBS during the six nine months ended June 30, 2023 (June September 30, 2023 (September 30, 2022: $264.8 million $330.6 million). We received cash of $19.6 million to settle derivative contracts in the nine months ended September 30, 2023 (September 30, 2022: $487.5 million).

Our financing activities provided net cash of $731.2 million $774.6 million for the six nine months ended June 30, 2023 (June 30, 2022: September 30, 2023 compared to net cash used by financing activities of $3.8 billion). $3.3 billion in the nine months ended September 30, 2022. During the six nine months ended June 30, 2023 September 30, 2023, we received cash for net proceeds on our repurchase agreements of $724.6 million (June $752.2 million (September 30, 2022: net cash used of $3.7 billion $3.1 billion). We also used cash of $53.5

million $77.1 million for the six nine months ended June 30, 2023 September 30, 2023 to pay dividends (June (September 30, 2022: $75.9 million $111.5 million). Proceeds from issuance of common stock provided $66.8 million $109.1 million for the six nine months ended June 30, 2023. September 30, 2023 (September 30, 2022: $38.7 million).

As of June 30, 2023 September 30, 2023, the average margin requirement (weighted by borrowing amount), or the haircut, under our repurchase agreements was 4.6% for Agency RMBS. The haircuts ranged from a low of 3% to a high of 5% for Agency RMBS. 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 June 30, 2023 September 30, 2023, we held $5.2 billion of Agency securities that are financed by repurchase agreements. We also had approximately $283.3 million $218.3 million of unencumbered investments and unrestricted cash of $209.0 million $173.9 million as of June 30, 2023 September 30, 2023. As of June 30, 2023 September 30, 2023, our known contractual obligations primarily consisted of $5.0 billion of repurchase agreement borrowings with a weighted average remaining maturity of 49 24 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 $2.9 million in additional capital to our unconsolidated joint ventures venture 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.

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 June 30, 2023 September 30, 2023, no counterparties held collateral that exceeded the amounts borrowed under the related repurchase agreements by more than $42.0 million $39.3 million, or 5% of our stockholders' equity. The following table summarizes our exposure to counterparties by geographic concentration as of June 30, 2023 September 30, 2023. 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	$ in thousands	Number of Counterparties	Repurchase Agreement Financing	Exposure	$ in thousands	Number of Counterparties	Repurchase Agreement Financing	Exposure
North America	North America	12	2,527,454	128,845	North America	13	2,653,139	128,963
Europe (excluding United Kingdom)	Europe (excluding United Kingdom)	3	638,824	28,838	Europe (excluding United Kingdom)	3	724,294	31,705
Asia	Asia	3	1,226,112	66,307	Asia	4	971,652	48,085
United Kingdom	United Kingdom	1	566,998	22,743	United Kingdom	1	637,921	25,838
Total	Total	19	4,959,388	246,733	Total	21	4,987,006	234,591

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, 2022.

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 June 30, 2023 September 30, 2023, 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, 2023.

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 June 30, 2023 September 30, 2023, we conducted our business so as not to be regulated as an investment company under the 1940 Act.

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, see Part I. Item 1 - Risk Factors of our annual report on Form 10-K for the year ended December 31, 2022.

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 refer to the difference between interest rates on our investments and interest rates on risk free instruments as spreads. 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. 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 seeking to maintain 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.

Elevated inflation, monetary policy tightening by the FOMC and concerns surrounding the health of the regional banking system have impacted and may continue to impact credit spreads.

Prepayment Risk

As we receive prepayments of principal on our investments, premiums or discounts 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.

Increased inflation, elevated interest rate volatility 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, unprecedented fiscal and monetary policy responses to the COVID-19 pandemic, and the ongoing normalization of such policy responses 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. When these or similar market conditions are present, margin call risk is 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, as of June 30, 2023 September 30, 2023 and December 31, 2022, 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.

		As of June 30, 2023		As of December 31, 2022			As of September 30, 2023	
Change in Interest Rates	Change in Interest Rates	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	Change in Interest Rates	Percentage Change in Projected Net Interest Income	Percentage Change in Projected Portfolio Value
+1.00%	+1.00%	0.05 %	(1.30) %	(2.97) %	(1.15) %	+1.00%	(0.07) %	(0.36) %
+0.50%	+0.50%	0.02 %	(0.56) %	(1.54) %	(0.48) %	+0.50%	(0.12) %	(0.11) %
-0.50%	-0.50%	(0.15) %	0.31 %	1.56 %	0.22 %	-0.50%	0.28 %	(0.09) %
-1.00%	-1.00%	(0.46) %	0.30 %	2.90 %	0.13 %	-1.00%	0.56 %	(0.45) %

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 as of June 30, 2023 September 30, 2023 and December 31, 2022. 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. When applicable, our scenario analysis assumes a floor of 0% for U.S. Treasury yields and, to be consistent, we also apply a floor of 0% for all related funding costs.

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.

Given deteriorating fundamentals and tightening lending conditions, borrowers may experience difficulties meeting their obligations and refinancing loans upon scheduled maturities. Loans may experience increasing 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.

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 June 30, 2023 September 30, 2023. 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 June 30, 2023 September 30, 2023 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 June 30, 2023 September 30, 2023, we were not involved in any such legal proceedings.

ITEM 1A. RISK FACTORS.

There were no material changes during the period covered by this Quarterly Report to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on February 21, 2023. 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.

The following tables sets forth information with respect to our repurchases of Series B Preferred Stock during the three months ended June 30, 2023 September 30, 2023.

Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number at end of period of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 1, 2023 to April 30, 2023	—	—	—	1,337,634
May 1, 2023 to May 31, 2023	18,779	19.72	18,779	1,318,855
June 1, 2023 to June 30, 2023	19,009	20.34	19,009	1,299,846
	37,788	20.03	37,788	

Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number at end of period of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1, 2023 to July 31, 2023	15,469	22.13	15,469	1,284,377
August 1, 2023 to August 31, 2023	9,843	22.30	9,843	1,274,534
September 1, 2023 to September 30, 2023	9,120	21.93	9,120	1,265,414
	34,432	22.12	34,432	

The following tables sets forth information with respect to our repurchases of Series C Preferred Stock during the three months ended June 30, 2023 September 30, 2023.

Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number at end of period of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 1, 2023 to April 30, 2023	—	—	—	1,316,470
May 1, 2023 to May 31, 2023	15,634	19.15	15,634	1,300,836
June 1, 2023 to June 30, 2023	27,062	19.41	27,062	1,273,774
	42,696	19.31	42,696	

Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number at end of period of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1, 2023 to July 31, 2023	51,360	21.26	51,360	1,222,414
August 1, 2023 to August 31, 2023	30,071	21.38	30,071	1,192,343
September 1, 2023 to September 30, 2023	11,132	20.43	11,132	1,181,211
	92,563	21.20	92,563	

(1) In May 2022, our board of directors approved a share repurchase program under which we may purchase up to 3,000,000 shares of our Series B Preferred Stock and 5,000,000 shares of our Series C Preferred Stock with no stated expiration date. The shares may be repurchased from time to time through privately negotiated transactions or open market transactions, including under a trading plan in accordance with Rules 10b5-1 and 10b-18 under Exchange Act or by any combination of such methods. The manner, price, number and timing of share repurchases are subject to a variety of factors, including market conditions and applicable SEC rules.

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.

August 3, November 6, 2023	By:	/s/ John M. Anzalone
		John M. Anzalone
		Chief Executive Officer
August 3, November 6, 2023	By:	/s/ R. Lee Phegley, Jr.
		R. Lee Phegley, Jr.
		Chief Financial Officer

EXHIBIT INDEX

Item 6. Exhibits

Exhibit No.	Description
3.1	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).
3.2	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).
3.3	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).
3.4	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).
3.5	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).
3.6	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).
3.7	Articles of Amendment 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 June 3, 2022).
3.8	Articles of Amendment of Invesco Mortgage Capital Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K, filed with the SEC on June 3, 2022).
3.9	Articles of Amendment (Authorized shares) (incorporated by reference to Exhibit 3.9 to the Quarterly Report on Form 10-Q, filed with the SEC on August 4, 2022).
3.10	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).
31.1	Certification of John M. Anzalone pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	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.
32.1	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.
32.2	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.
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)

EXHIBIT 31.1

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.

August 3, November 6, 2023

/s/ John M. Anzalone

John M. Anzalone
Chief Executive Officer

EXHIBIT 31.2

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.

August 3, November 6, 2023

/s/ R. Lee Phegley, Jr.

R. Lee Phegley, Jr.
Chief Financial Officer

EXHIBIT 32.1

**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 June 30, 2023 September 30, 2023 (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.

August 3, November 6, 2023

/s/ John M. Anzalone

John M. Anzalone
Chief Executive Officer

EXHIBIT 32.2

**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 June 30, 2023 September 30, 2023 (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.

August 3, November 6, 2023

/s/ R. Lee Phegley, Jr.

R. Lee Phegley, Jr.
Chief Financial Officer