

# **Invesco Mortgage Capital Inc.**

## **2013 First Quarter Earnings Call**

**May 2, 2013**

**Richard J. King**  
**President & Chief Executive Officer**

**John M. Anzalone**  
**Chief Investment Officer**

**Donald R. Ramon**  
**Chief Financial Officer**

**Rob Kuster**  
**Chief Operating Officer**



# Forward-Looking Statements

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This presentation, and comments made in the associated conference call today, may include “forward-looking statements.” Forward-looking statements include statements regarding our views on the economy, the positioning of our portfolio to meet current or future economic conditions, the stability of our earnings, dividends and book value, our ability to continue performance trends, the stability of our portfolio yields, and our views on leverage and equity allocation. In addition, words such as “believes,” “expects,” “anticipates,” “intends,” “plans,” “estimates,” “projects,” “forecasts,” and future or conditional verbs such as “will,” “may,” “could,” “should,” and “would” as well as any other statement that necessarily depends on future events, are intended to identify forward-looking statements.

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

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

# Q1 Overview

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## Results

- EPS: \$0.65
- Dividend: \$0.65
- Book Value: \$20.42

## Current Market Conditions

- Low rates, low volatility, constrained prepayment speeds
- Strong liquidity
- Improving housing market and credit fundamentals
- Growing opportunities in our target assets

## Current Portfolio Positioning

- Deployed raise opportunistically
- Maintaining disciplined duration gap
  - Asset selection
  - Hedging strategy
- Diversified and extended funding

## Future Market Conditions

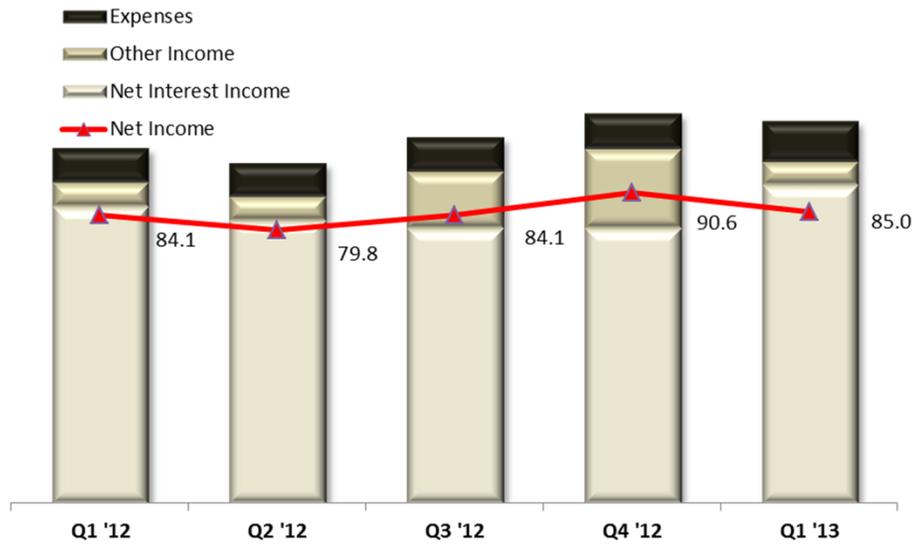
- Reduced government role in MBS
  - Conforming balances and G-Fees
  - Risk sharing transactions
- Regulatory and capital constraints- banks retain less credit risk
- Higher interest rates eventually

## Strategy Progression

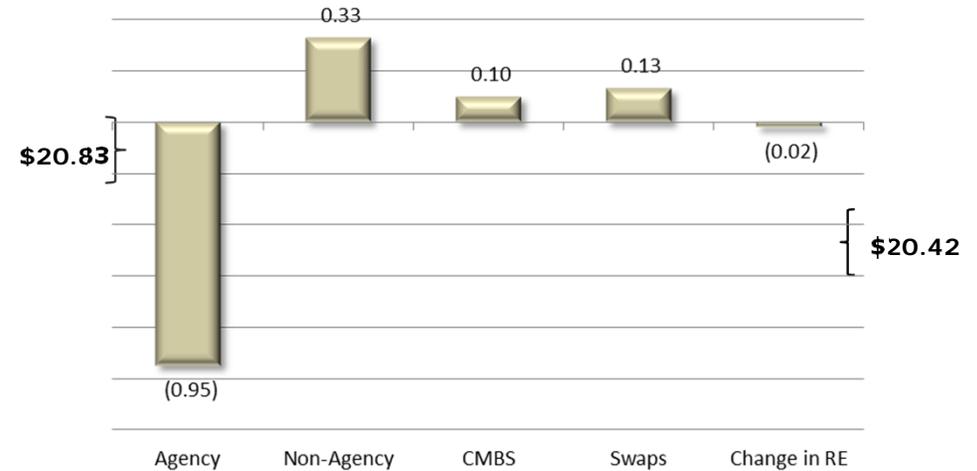
- ✓ Increase credit assets
  - Residential securitization
  - GSE credit assets (risk sharing)
  - Commercial loans
- ✓ Longer term financing with less reliance on repo

# Quarterly Performance

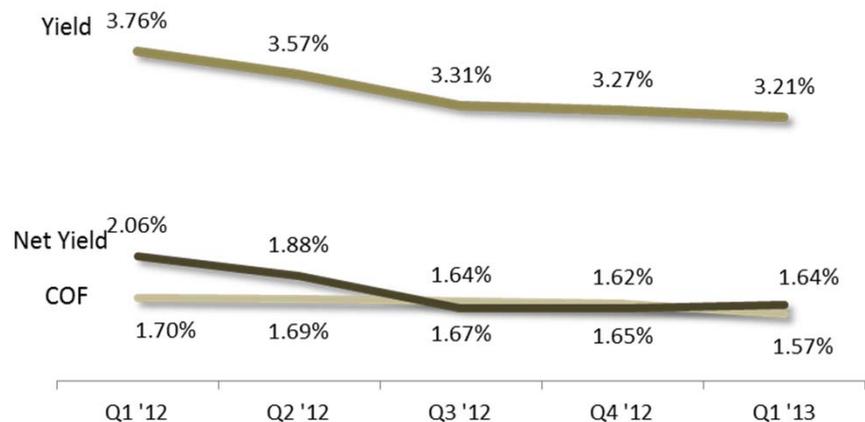
## Net Income (\$ in millions)



## Q1 Book Value Change



## Yield

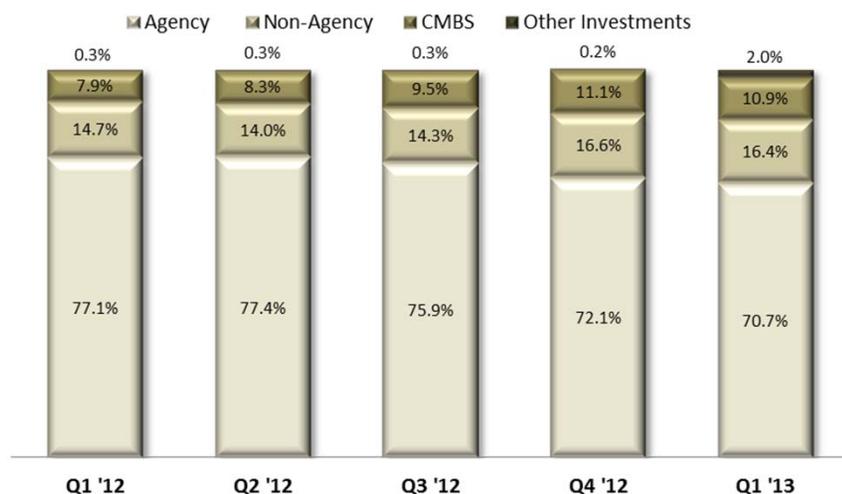


Prior period yields were adjusted to conform with presentation in our quarterly SEC filings

- Net income declined to \$85mm on lower asset sales
- Asset values have generally increased since quarter-end reversing the Q1 book value decline
- Net portfolio yield was stable but NIM compression continues in low rate environment

# Portfolio Update

## % of Assets



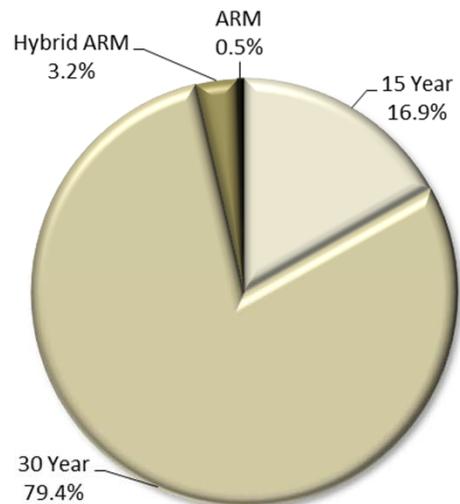
- Total MBS portfolio increased 15% to \$21.2bn
  - Non-Agency RMBS increased \$476mm
  - CMBS increased \$324mm
- Completed residential loan securitization
- Extended financing with \$400mm exchangeable senior notes

## Equity Allocation and Leverage (\$ in thousands)

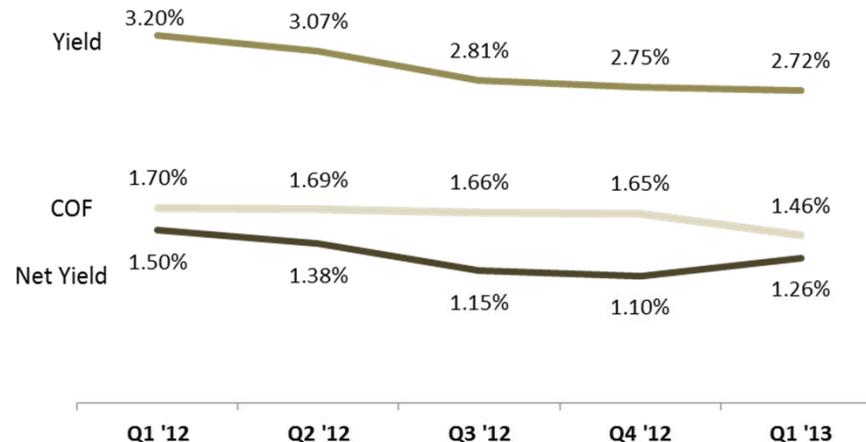
	Agency	Non-Agency	CMBS	Unconsolidated Ventures	Residential Loans	Corporate Liability	Total
Repurchase agreements	13,545,701	2,520,515	1,807,040	-	-	-	17,873,256
Asset-backed securities	-	-	-	-	374,196	-	374,196
Exchangeable note	-	-	-	-	-	400,000	400,000
Allocated equity	1,492,451	1,139,988	615,041	36,769	31,209	(400,000)	2,915,458
Debt / Equity	9.1x	2.2x	2.9x	-	12.0x	-	6.4x
% of Total equity	51.2%	39.1%	21.1%	1.2%	1.1%	-13.7%	100%

# Agency

## Agency Detail (% of Total Agency)

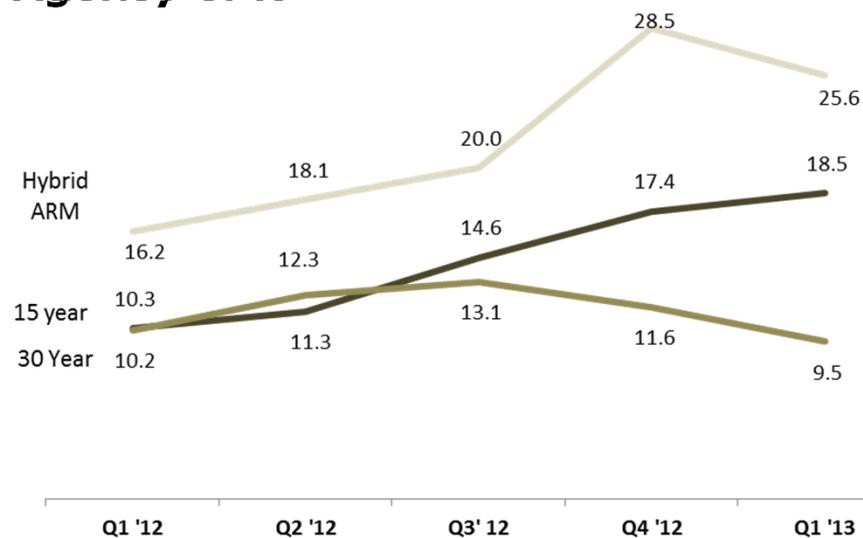


## Yield



Prior period yields were adjusted to conform with presentation in our quarterly SEC filings

## Agency CPR

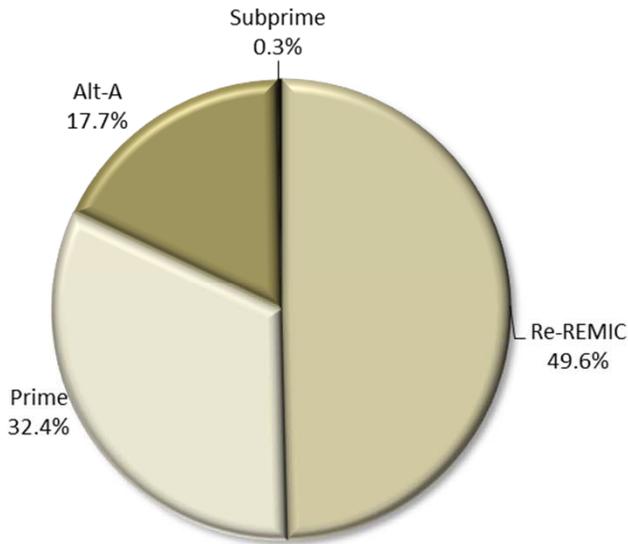


- Prepayment protected fixed rate loans continue to perform well
- Net yield increased 16bps on lower borrowing costs on new assets with forward starting swaps
- Portfolio yield was steady with new asset additions

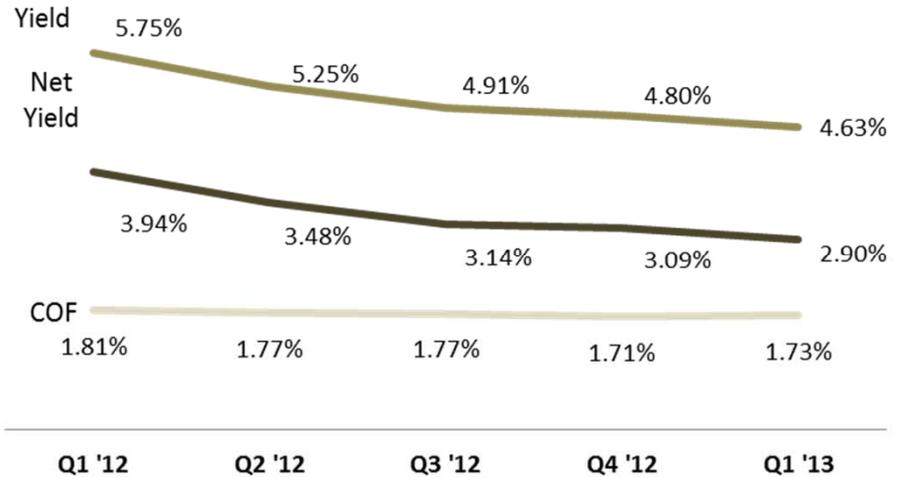
	<u>3 Month CPR</u>	<u>IVR</u>	<u>Cohort</u>
15 Year		18.5	27.5
30 year		9.5	19.5

# Non-Agency

## Non-Agency Detail (% of Total Non-Agency)

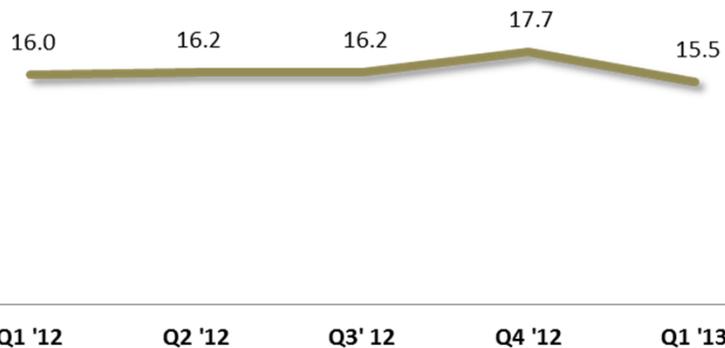


## Yield



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## Non-Agency CPR

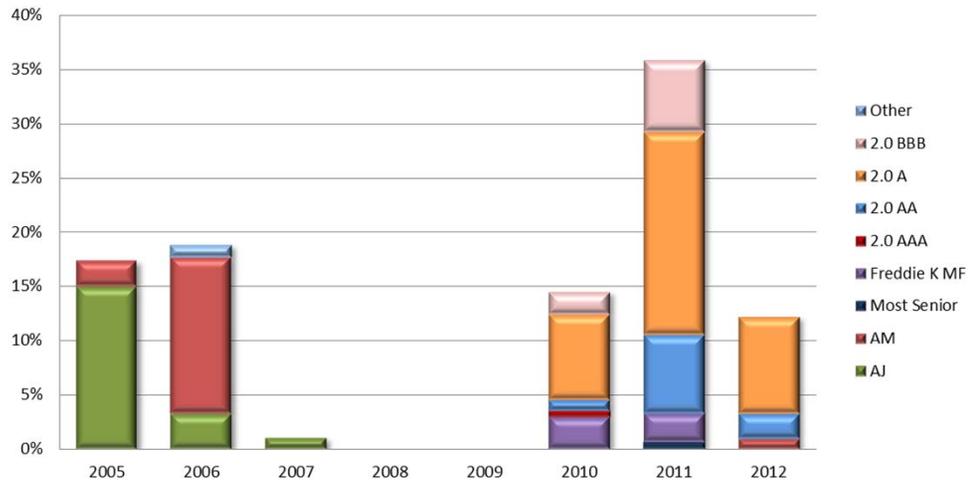


- Non-Agency RMBS increased \$476mm
- Housing fundamentals continue to improve while technicals remain supportive
- Favorable return profile in a rising rate environment
- Yields declined as hybrid ARM coupons reset lower and new positions were added at lower nominal yields

# CMBS

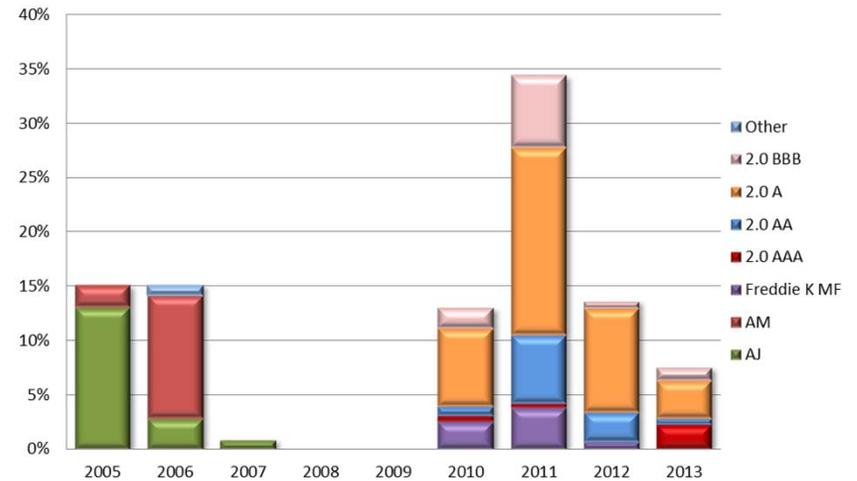
## Q4 2012

IVR CMBS by Vintage

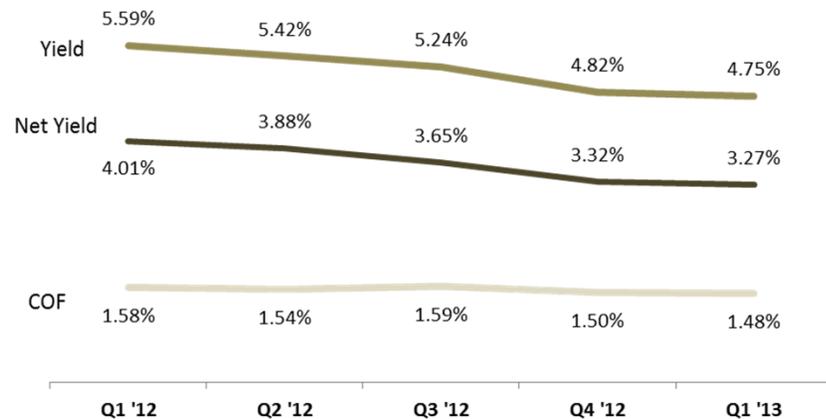


## Q1 2013

IVR CMBS by Vintage



## Yields



Prior period yields were adjusted to conform with presentation in our quarterly SEC filings

- CMBS increased \$324mm
- Purchases focused on new issue 2.0 subordinates
- Supportive technicals - negative net supply and strong investor demand
- Continued improvement in CRE fundamentals