



Invesco Mortgage Capital Inc.

2014 First Quarter Earnings Call

May 5, 2014

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Invesco Mortgage Capital Inc.

Forward-looking statements



This presentation, and comments made in the associated conference call today, may include “forward-looking statements” within the meaning of the U.S. securities laws as defined in the Private Securities Litigation Reform Act of 1995, and such statements are intended to be covered by the safe harbor provided by the same. Forward-looking statements include our views on the risk positioning of our portfolio, domestic and global market conditions (including the residential and commercial real estate market), the market for our target assets, mortgage reform programs, the positioning of our portfolio to meet current or future economic conditions, our core earnings, our views on the change in our book value, our ability to continue performance trends, the stability of portfolio yields, our views on interest rates, prepayment trends, and cost of funds 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.

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.

Key First Quarter 2014 Developments

- Achieved continued stability and growth of book value
- Advanced strategic objectives

\$ in millions	Q1 Add	Total
GSE Credit Risk Transfer ("CRT")	\$182.0	\$350.0
CRE Loans and Mezzanine Certificates	\$28.1	\$139.5
Residential Securitizations	\$260.2	\$2,070.5

Financial Highlights

- Dividend \$0.50
- Core EPS⁽¹⁾ \$0.46
- GAAP EPS \$(0.60)
- Book Value \$18.53
- Comprehensive income⁽²⁾ \$1.02

(1) Core EPS is a non-GAAP financial measure. See slide 10 for non-GAAP reconciliation.

(2) Comprehensive income attributable to common shareholders

1Q14 Investment Environment



Economic and Financial Conditions

- Financial conditions improved in Q1; lower interest rates, volatility, and credit spreads
- Employment is improving, despite softness in part due to weather
- Core inflation remains quite low allowing continued near zero Fed rate policy
- Consensus GDP forecast is ~2.7%, slightly lower since year end

Interest Rates

- Long term interest rates declined even as the Federal Reserve tapered purchases
- Intermediate term rates (2 to 4 Year) increased slightly
- MBS prices improved given lower term rates, lower volatility and slower prepayments
- Agency 1 mo. repo rates declined to ~33 bps from high 30's

Real Estate Markets

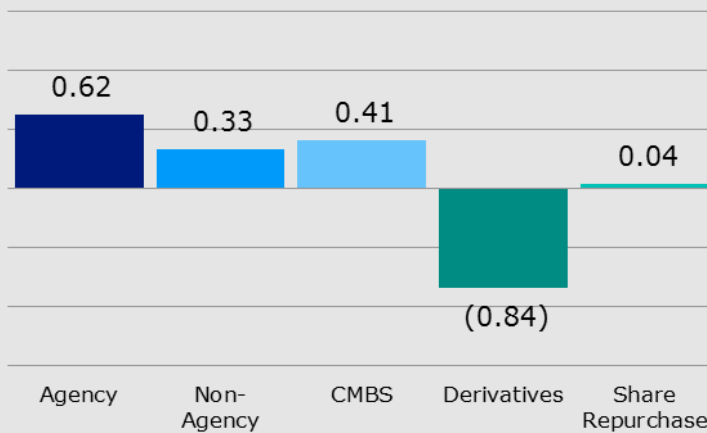
- House price appreciation is probably moderating from >10% to ~5% annually
- Legacy residential loan performance continues to improve
- CRE fundamentals continue to improve (property valuations, rents, loan delinquencies)

Performance



Objective: Stability and Growth

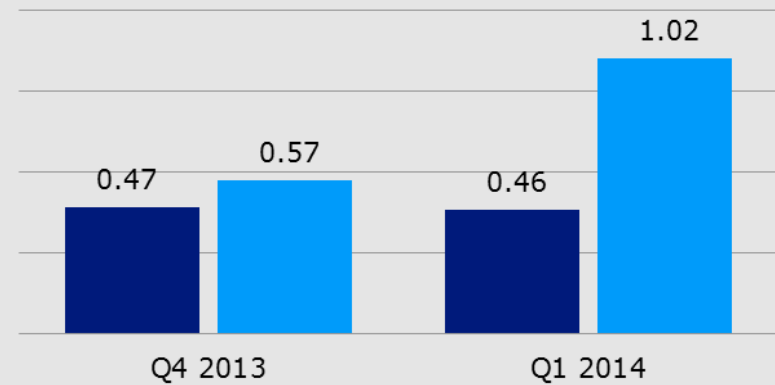
Q1 Book Value Change



- Book value increased 3.1%
- Swap hedges offset the impact from lower rates
- Tighter credit spreads lifted CMBS and Non-Agency prices
- Modest share repurchases in early January

Core Earnings and Comprehensive Income

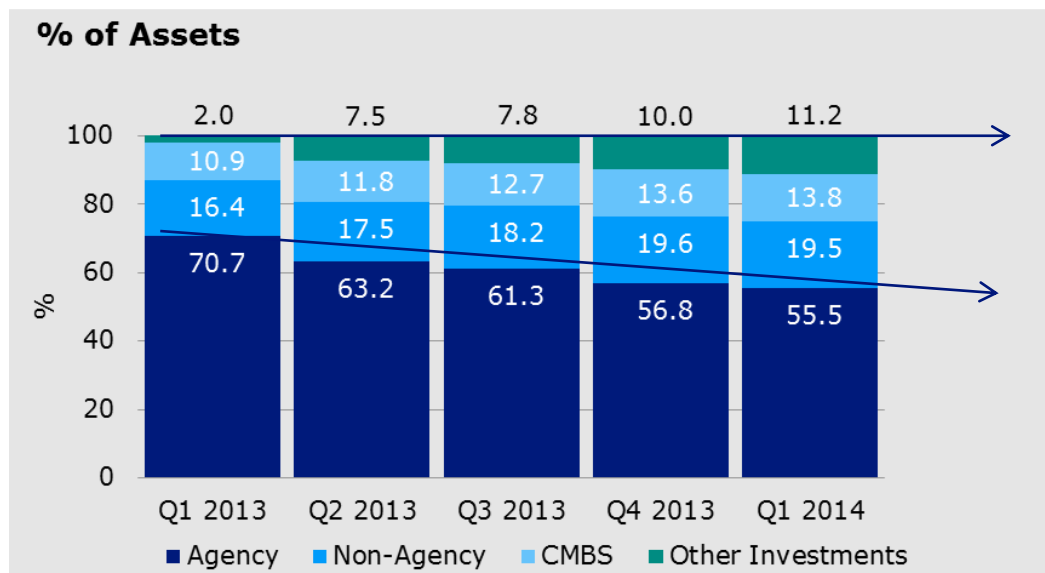
■ Core Earnings* ■ Comprehensive Income



- Core earnings down slightly with reduced credit leverage
- Current focus on restructuring and improving funding costs
- Taxable earnings carry over from 2013 will help maintain dividend

*See slide 10 for non-GAAP reconciliation

Portfolio Update



Continued increase in exposure to credit sensitive assets

Continued reduction in interest rate sensitive assets

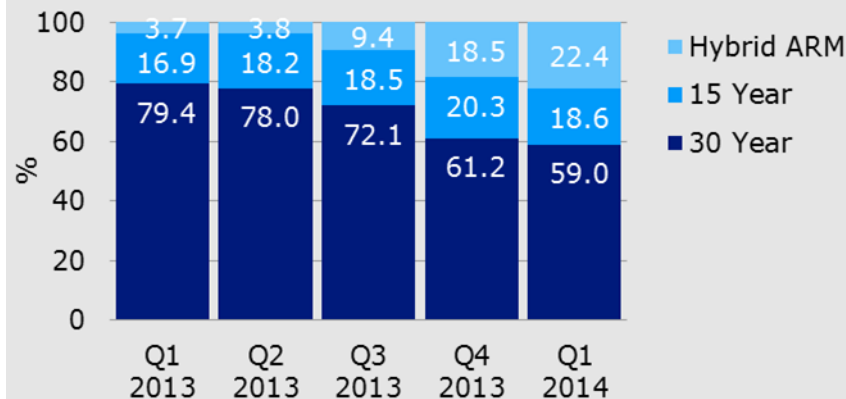
In the first quarter, we continued to migrate the portfolio away from interest rate risk and toward credit exposure

- Reduced Interest Rate Exposure
 - Agency fixed rate run off was not reinvested (~500M)
 - Instead we purchased hybrid arms (~400M)
 - Key rate duration positioning benefitted from the flatter yield curve
- Increased Exposure to Credit
 - Asset appreciation has been significant
 - Added GSE CRT, new jumbo prime origination and CRE Loans/CMBS
 - Incremental dollars will continue to be invested in these channels

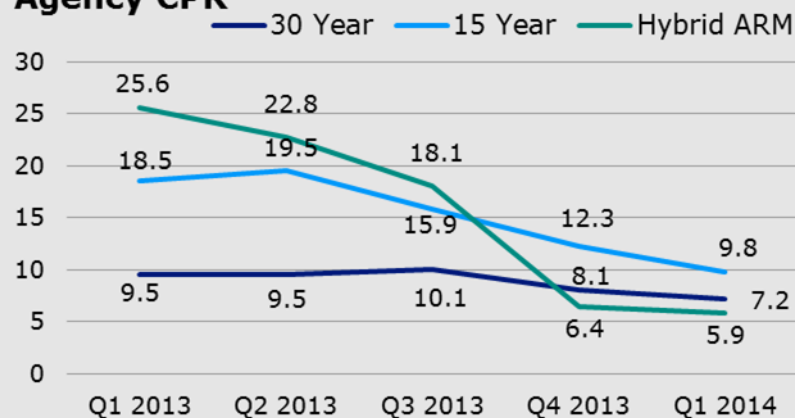
Highlights:

- Reduced equity exposure by 12.5%
- Reduced 30yr fixed and added hybrids
- Asset appreciation offset asset reduction
- Prepayments remained low
- Leverage increased on reduced equity to 10.9x

Agency Detail (% of Agency)



Agency CPR

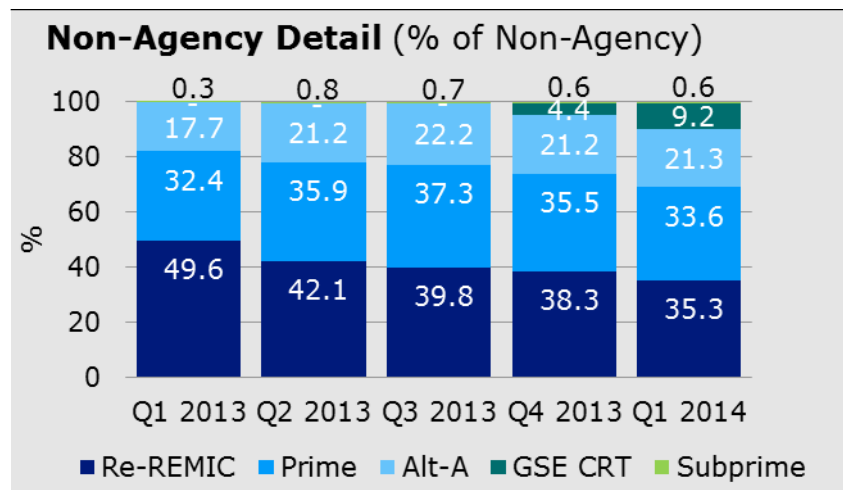


Non-agency



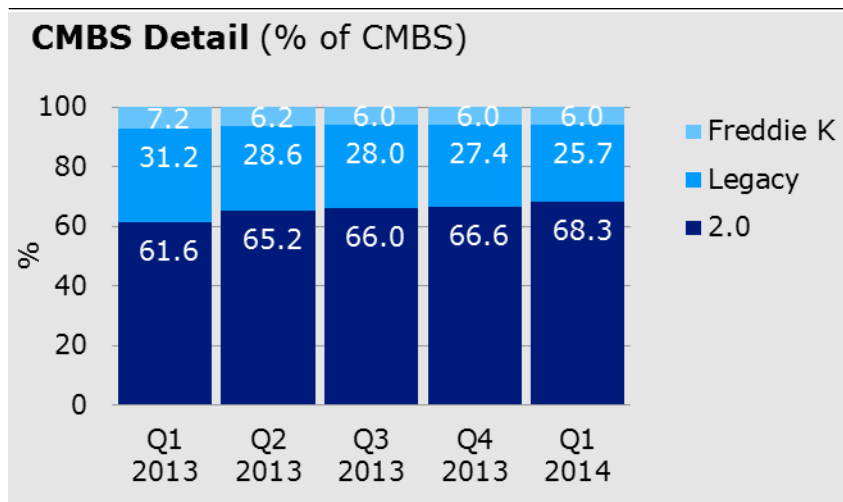
Highlights:

- Added \$182M in GSE CRT
- Reduced leverage from 3.5x to 2.7x
- Added \$287M in jumbo prime
 - CSMC 2014-IVR1
 - CSMC 2014-IVR2, to settle Q2
- Legacy collateral and securities continue to perform well



Highlights:

- CMBS increased \$70.1 million
- Reduced leverage to 3.1x from 3.6x
- Capitalized on market conditions to reduce subordinate exposure to underperforming retail assets
- Purchased securities that have since benefitted from further credit curve flattening



Appendix — Non-GAAP Financial Information



In addition to the results presented in accordance with U.S. GAAP, this presentation contains the non-GAAP financial measures of “core earnings”. The Company’s management uses core earnings in its internal analysis of results and believes this information is useful to investors for the reasons explained below.

These non-GAAP financial measures should not be considered as substitutes for any measures derived in accordance with U.S. GAAP and may not be comparable to other similarly titled measures of other companies. An analysis of any non-GAAP financial measure should be made in conjunction with results presented in accordance with U.S. GAAP. Additional reconciling items may be added to the non-GAAP measures if deemed appropriate.

The Company calculates core earnings as U.S. GAAP net income attributable to common shareholders adjusted for gain (loss) on sale of investments, net, realized gain on interest rate derivative instruments (excluding contractual net interest on interest rate swaps), unrealized loss on interest rate derivative instruments, amortization of deferred swap losses from de-designation and adjustments attributable to non-controlling interest.

The Company believes the presentation of core earnings allows investors to evaluate and compare the performance of the Company to that of its peers because core earnings measures investment portfolio performance over multiple reporting periods by removing realized and unrealized gains and losses. The Company records changes in the valuation of its investment portfolio, and through December 31, 2013 certain interest rate swaps, in other comprehensive income. Effective December 31, 2013, the Company elected to discontinue hedge accounting for its interest rate swaps. As a result of its election, starting January 1, 2014, the change in market value of its interest rate swaps and the amortization of deferred swap losses remaining in other comprehensive income at December 31, 2013 are included in U.S. GAAP net income. In addition, the Company uses swaptions, invests in to-be-announced securities and U.S. Treasury futures that do not qualify under U.S. GAAP for inclusion in other comprehensive income, and, as such, the changes in valuation are recorded in the period in which they occur. For internal portfolio analysis, the Company’s management deducts these gains and losses from U.S. GAAP net income to provide a consistent view of investment portfolio performance across reporting periods. As such, the Company believes that the disclosure of core earnings is useful and meaningful to its investors.

However, the Company cautions that core earnings should not be considered as an alternative to net income (determined in accordance with U.S. GAAP), or an indication of the Company’s cash flow from operating activities (determined in accordance with U.S. GAAP), a measure of the Company’s liquidity, or an indication of amounts available to fund its cash needs, including its ability to make cash distributions.

Reconciliation of U.S. GAAP net income attributable to common shareholders to core earnings	Three Months Ended		
	March 31, 2014	December 31, 2013	March 31, 2013
\$ in thousands, except per share data			
Net income (loss) attributable to common shareholders	(74,440)	(83,384)	83,992
Adjustments			
(Gain) Loss on sale of investments, net	11,718	142,530	(6,712)
Realized loss on interest rate derivative instruments (excluding contractual net interest on interest rate swaps of \$51,441 and \$0, respectively)	18,824	12,308	-
Unrealized (gain) loss on interest rate derivative instruments	81,047	(7,887)	2,003
Amortization of deferred swap losses from de-designation	21,296	-	-
Subtotal	132,885	146,951	(4,709)
Adjustment attributable to non-controlling interest	(1,511)	(1,608)	50
Core earnings	56,934	61,959	79,333
Basic earnings (loss) per common share	(0.60)	(0.63)	0.65
Core earnings per share attributable to common shareholders	0.46	0.47	0.62