

# **Invesco Mortgage Capital Inc.**

**Morgan Stanley Financial Services Conference**

**February 2011**



# Forward-looking statements

This presentation, and comments made in the associated Q&A, may include “forward-looking statements” and information that constitute “forward-looking statements” within the meaning of the U.S. securities laws. Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, targets, expectations, anticipations, assumptions, estimates, intentions and future performance. Forward-looking statements also include statements regarding the success of the hybrid REIT strategy, investment opportunities in the mortgage market, our ability to allocate equity to each projected asset class, our ability to maintain a stable book value, our proven management team, our ability to quickly deploy capital from follow-on common stock offerings, our ability to access financing and the adequacy of our current financing, our ability to replicate trends in average return on equity (“ROE”), gross ROE, portfolio yields and reductions in our expense ratio, interest rates and their effect on prepayment risk and premium agency positions, the PPIP Fund’s performance, our potential performance in a changing interest rate environment, shareholder benefit from our diversified investment strategy and manager’s experience and our ability to assess credit risk. In addition, words such as “anticipate,” “believe,” “will,” “expects” and “plans,” 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 described in our most recent Form 10-K and subsequent Forms 10-Q, filed with the Securities and Exchange Commission. You may obtain these reports from the SEC’s website at [www.sec.gov](http://www.sec.gov). We expressly disclaim any obligation to update the information in any public disclosure if any forward-looking statement later turns out to be inaccurate.

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any securities and should not be relied upon as the sole factor in an investment-making decision. As with all investments, there are associated inherent risks. Please obtain and review all financial material carefully before investing. All data is as of September 30, 2010, unless otherwise noted.

The opinions expressed are based on current market conditions and are subject to change without notice.



# Invesco Mortgage Capital Inc.

## Potential For Exciting Opportunities in 2011

- Steep Yield Curve
- GSE Reform
- Basel III
- Re emergence of CMBS and RMBS markets

## Hybrid Mortgage REIT

- Unique ability to invest across mortgage markets
- Utilize diversification to balance risks and lower hedging costs
- Focus on leveraging mortgage spread and hedging rate risk

## Successful Track Record

- 24.7% annualized total return since IPO<sup>(1)</sup>
- Priorities include stable book value and high dividend yield

## Externally Managed by Invesco Advisers, Inc.

- Platform provides scale and investment experience

<sup>(1)</sup> Source Bloomberg as of 1/27/2011. Initial Public Offering ("IPO") 6/26/2009

Past performance is not a guarantee of future results

# Recent Activity

## IVR completed two follow-on offerings in the 4<sup>th</sup> Qtr 2010

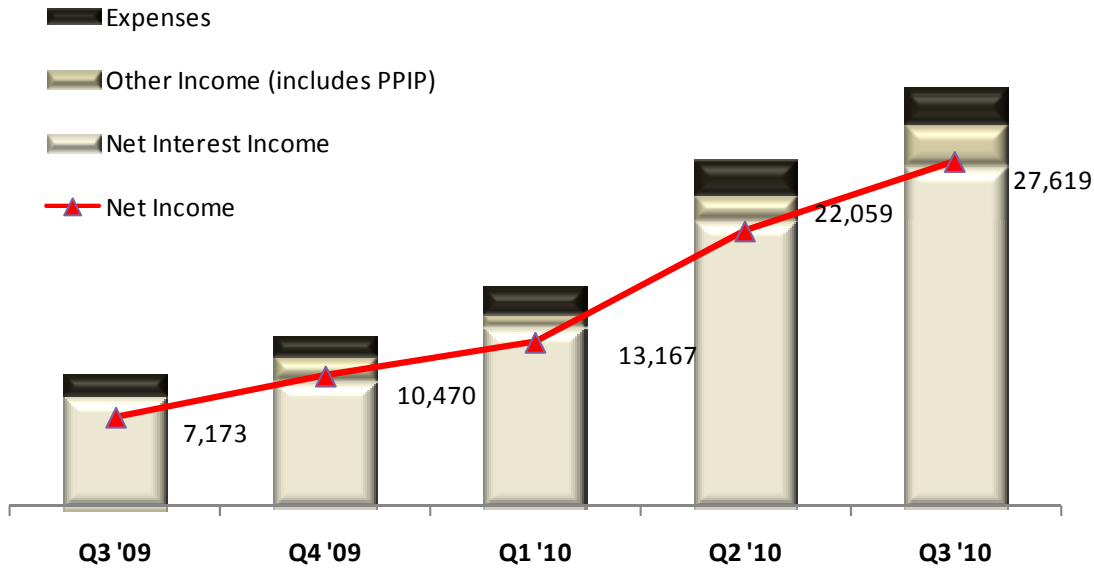
- Average dollar price of \$21.40
- Total net proceeds of ~\$485M
- Target equity allocation between the two raises of:
  - ~40% Agency RMBS
  - ~40% Residential
  - ~10% Commercial
  - ~10% PPIP
- Target gross ROE of ~16-18%

## 4<sup>th</sup> Qtr Market Themes

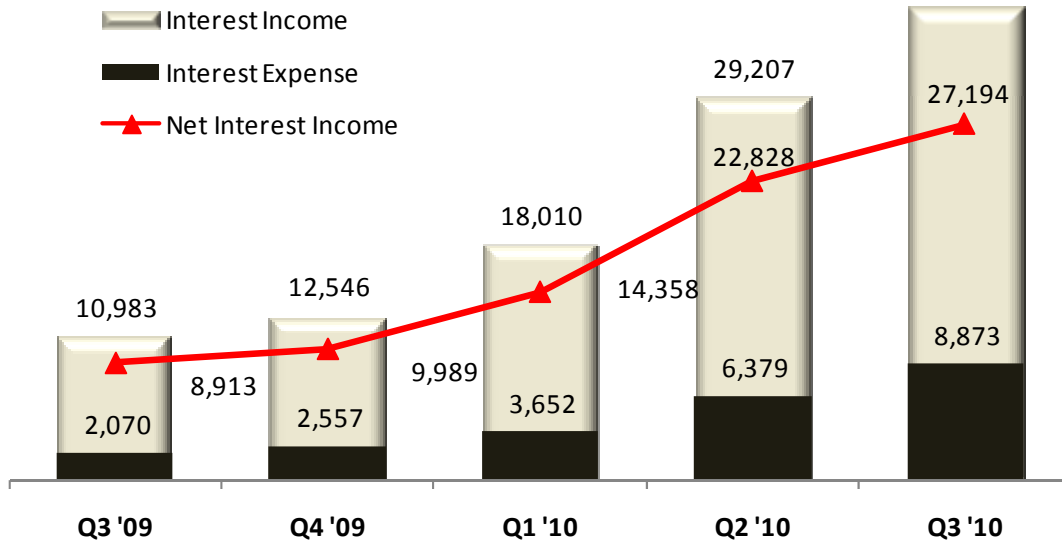
- Attractive hedging environment early followed by steadily rising rates
- Wider Agency spreads
- Significant CMBS spread tightening – continued improvement in funding terms
- Continuation of attractive technical's in the Non-Agency market
- Foreclosure moratorium headlines had little impact on market prices
- Attractive year end opportunities present as expected

# Q3 Performance

## Net Income



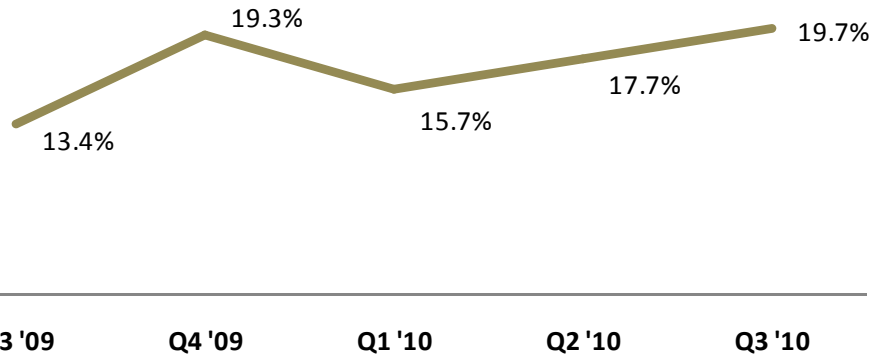
## Net Interest Income



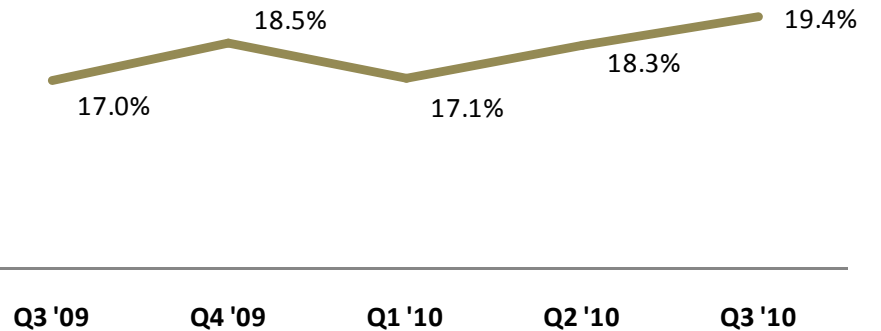
- Four capital raises in 2010 and active asset allocation have driven net income growth
- \$3.49 Dividend in 2010
- Steep yield curve and low borrowing costs should facilitate attractive NIM
- Credit tiering expected to become pronounced in 2011
- Funding for credit assets should continue to improve with an improving economic outlook and financials recovery

# Performance

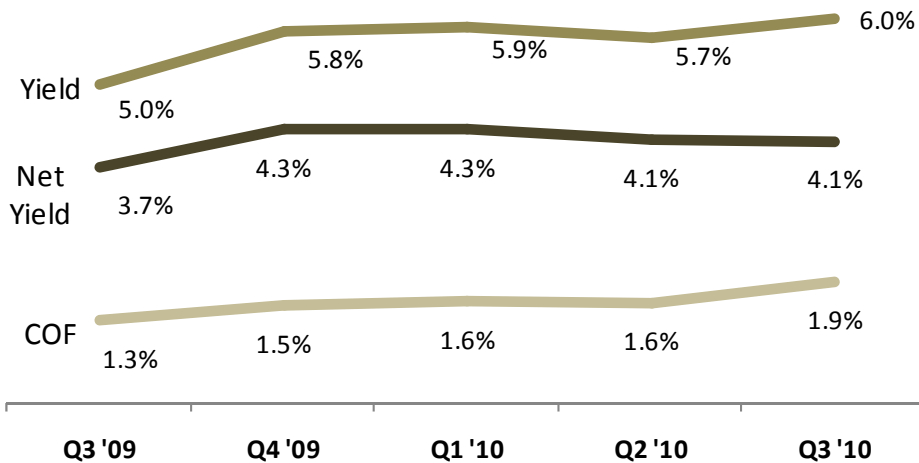
## Average ROE analysis



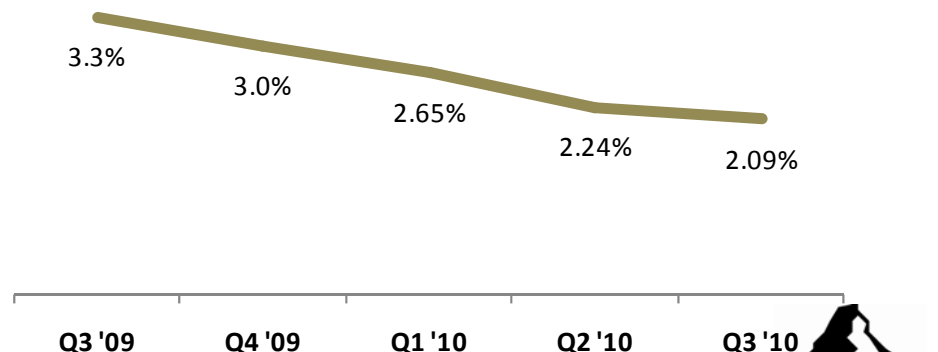
## Gross ROE



## Yields



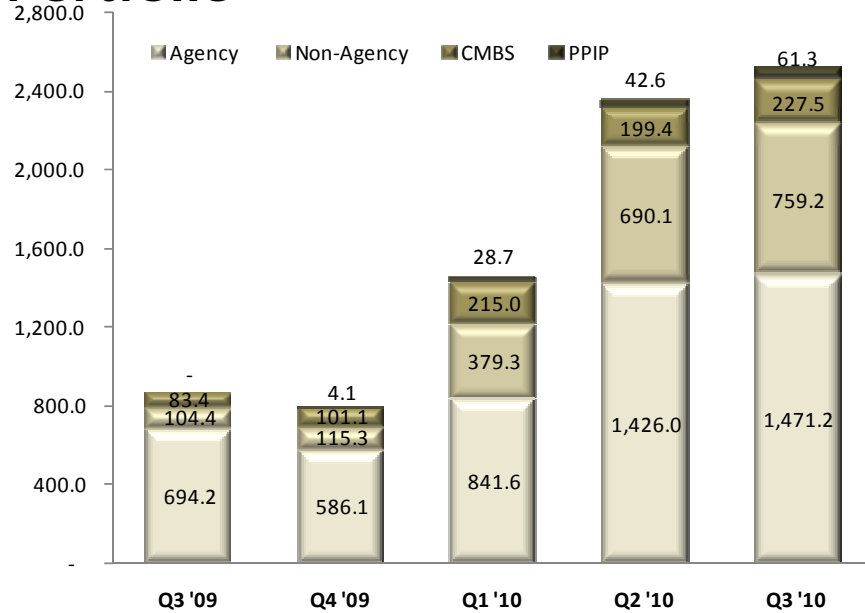
## G&A Expense (% of equity)



# Portfolio Update

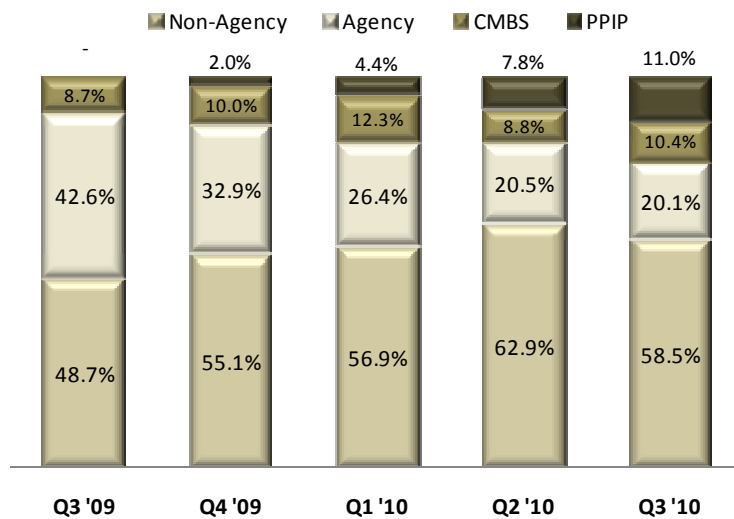
(\$ in millions)

## Portfolio

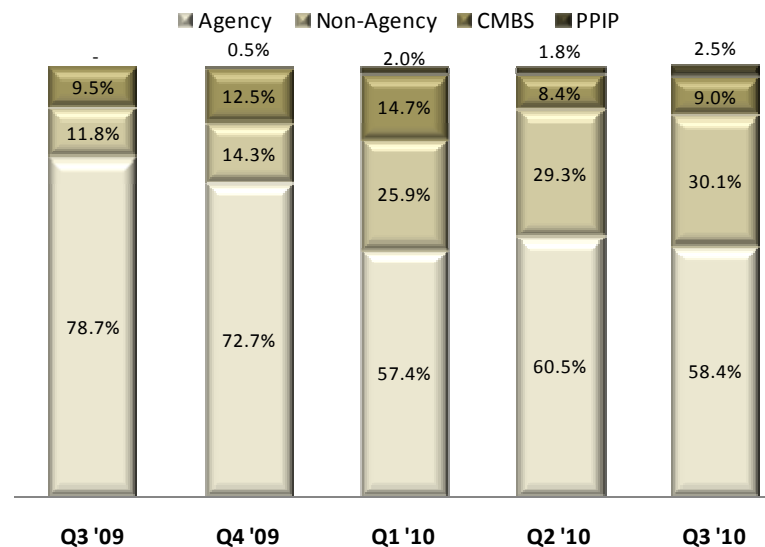


- Agency prepayments continue to outperform the cohort
- Non-agency RMBS collateral has performed as expected
- Increased allocation to CMBS with improved funding and new bond issuance
- PPIP has generated strong returns and funding advantage

## % of Equity



## % of Assets

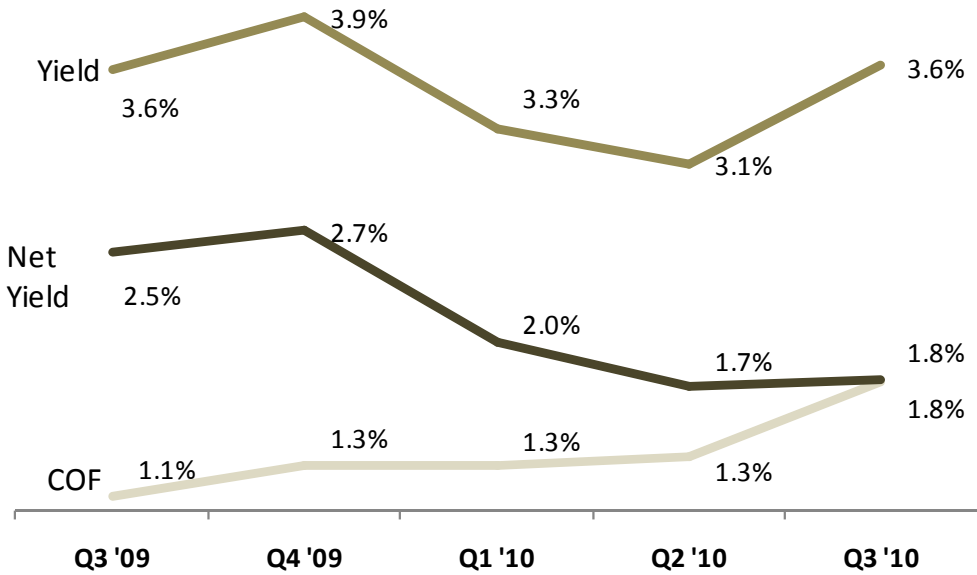


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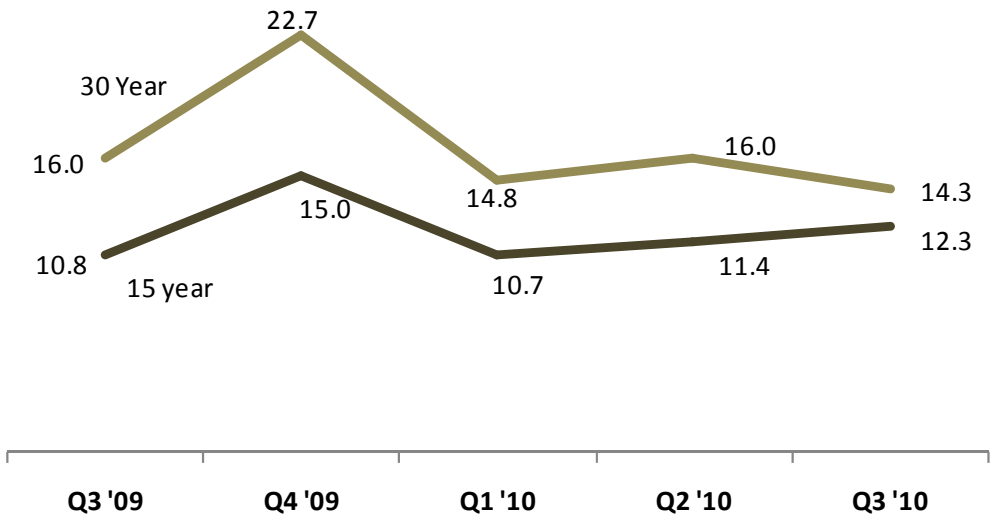


# Agency

## Yields



## Agency CPR



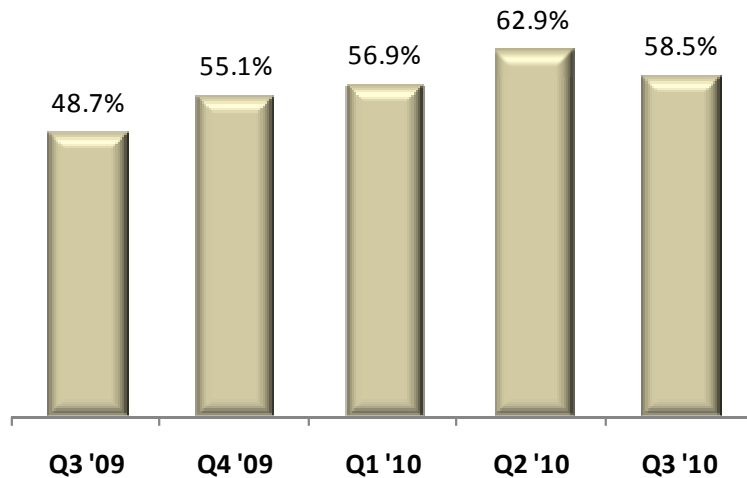
- Q3 agency leverage of 11.6x, unchanged from Q2
  - Balancing overall leverage at 3.4x
  - Leverage would decrease with increased allocation – target 6-8X
- Prepayment speeds remain very well contained
- Continued focus on reasonably priced prepay protection stories such as credit impairment, low to moderate loan balances and investor pools in both 15 and 30 year collateral
- Maintain a .5 to 1yr portfolio duration gap by hedging approximately 70% of the agency liabilities



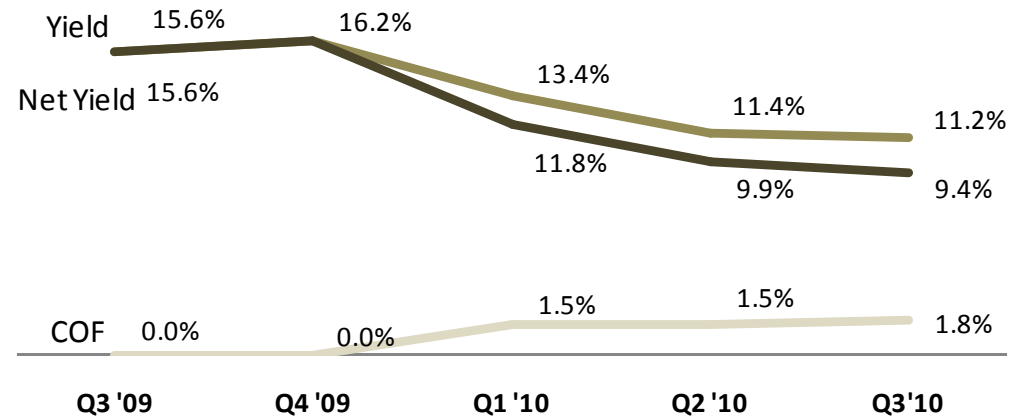


# Non-Agency

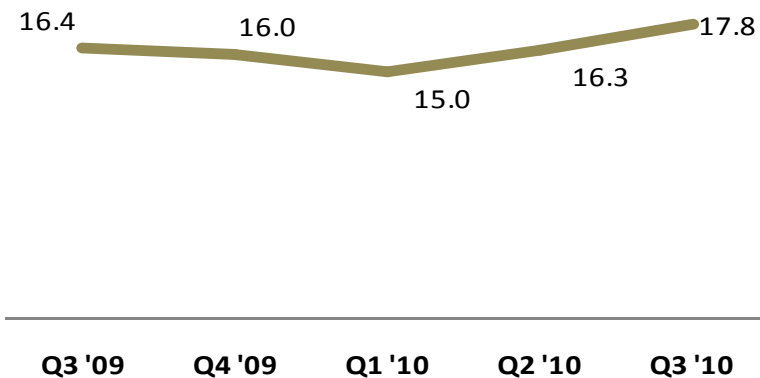
## Balance (% of equity)



## Yield



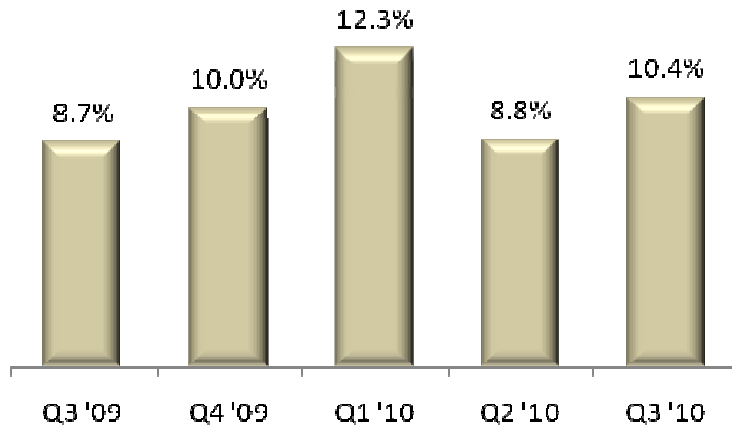
## Non-Agency CPR



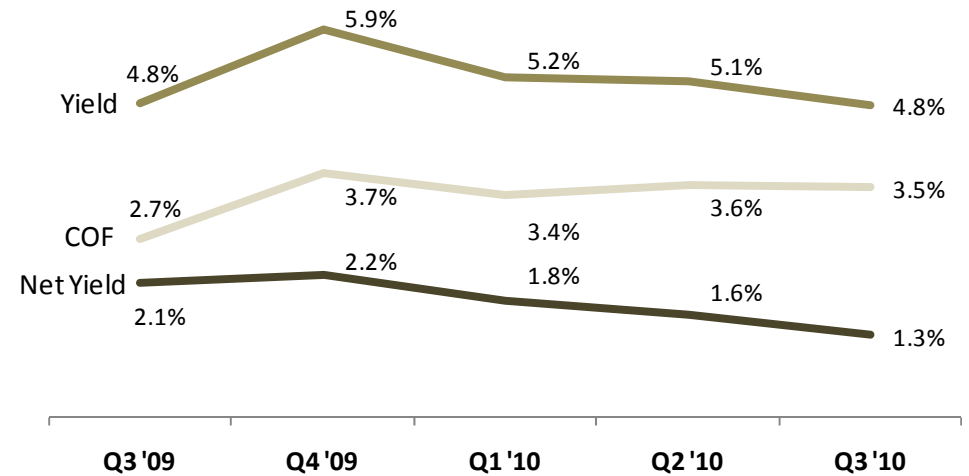
- Compelling opportunities in senior tranches of Prime and Alt-A Non Agency RMBS and Re-remics
- Leverage target 2-3X
- Funding rates and haircuts have continued to improve but remain bond dependent
- IVR continues to monitor evolving securitization strategies

# CMBS

## Portfolio (% of equity)



## Yields



- We believe value exists in legacy senior CMBS (AM's, AJ's) and new issue subordinate tranches
- Potential for mid to high teen returns with improved financing
- Leverage target 3 to 4X
- Loan origination and new issue CMBS opportunities should increase as existing loans mature
- \$13B in CMBS supply expected in Q1 and \$35B expected in 2011

# Invesco Mortgage Capital Inc.

## **Proven ability to execute on strategy**

- ✓ Delivered attractive total returns to shareholders
- ✓ Focus on risk management to protect book value

## **Nimble structure and experienced management team ideally positioned to benefit from various market cycles**

- ✓ Flexibility to invest in the most compelling opportunities across the U.S. mortgage market

## **Opportunity to partner with a market leader**

- ✓ Extensive resources of a leading asset manager