

# **Invesco Mortgage Capital Inc.**

## **2012 Fourth Quarter Earnings Call**

**February 6, 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 information concerning future results of operations, our ability to maintain or improve book value, the stability of earnings and dividends, our views on the economy, the positioning of our portfolio to meet current or future economic conditions, our ability to continue performance trends, our ability to select assets with slower prepayment speeds, the credit quality of our assets and the deployment of capital from the stock offering. 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.

# 2012 Overview

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## Results

- EPS: \$2.89
- Dividend: \$2.60
- Book Value: \$20.83

## 2012 Goals

### Improve Book Value

- ✓ Investors' need for yield drove our prices up in 2012
- ✓ MBS, CMBS, and non-Agency RMBS all contributed to the improvement
- ✓ Book value increased \$4.42 or 26.9%

### Maintain Stable Dividend

- ✓ Paid \$0.65 dividend each quarter
- ✓ Increased earning assets by \$4.3B
- ✓ Undistributed earnings were \$0.16 per share at year-end

# Q4 Overview

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## Results

- EPS: \$0.77
- Dividend: \$0.65
- Book Value: \$20.83

## Q4 Goals

### Maintain Book Value and Strengthen Balance Sheet

- ✓ Book value decreased \$0.10 or 0.5%
- ✓ Agency MBS spread widening offset by improvement in credit assets
- ✓ Improved liquidity in front of political risk

### Maintain Stable Dividend

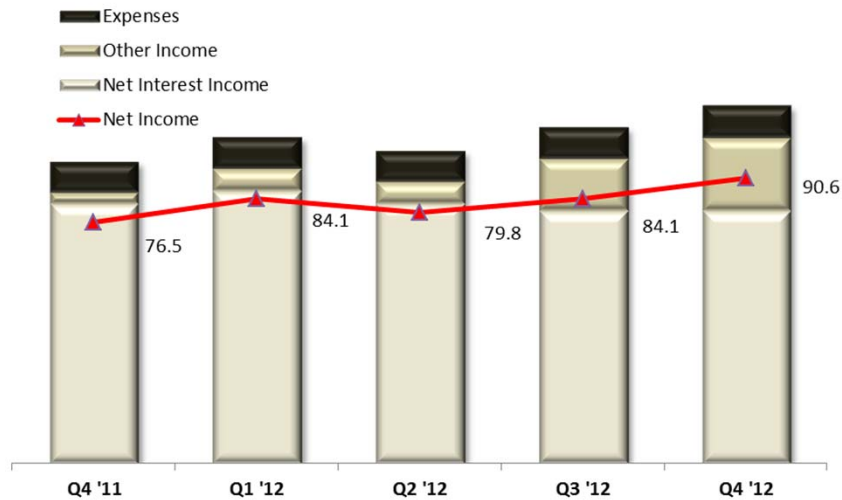
- ✓ Paid \$0.65 dividend while earning \$0.77 per share

### Move Equity Allocation Towards Credit Assets

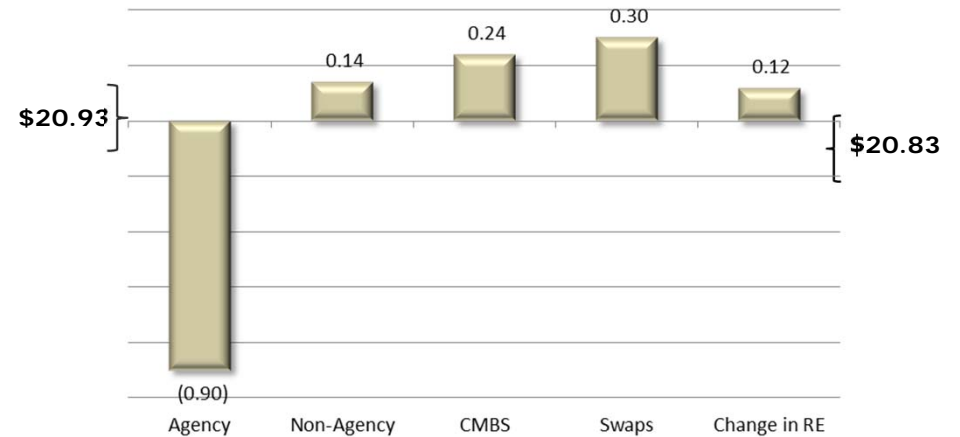
- ✓ Agency MBS allocation declined to 49%
- ✓ Credit allocation increased to 50%

# Quarterly Performance

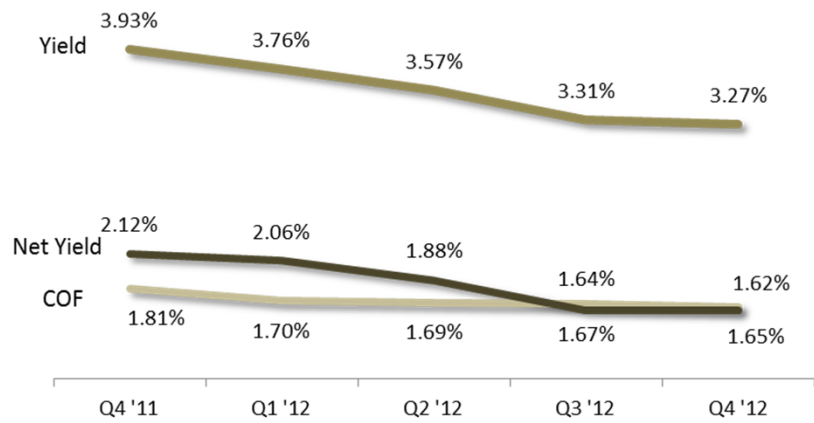
## Net Income (\$ in millions)



## Q4 Book Value Change



## Yield



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

- Increased net income
- Stable net yield
- Stable book value
- Credit asset appreciation offset spread widening in Agency MBS

# 2013 Outlook

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## Views for 2013

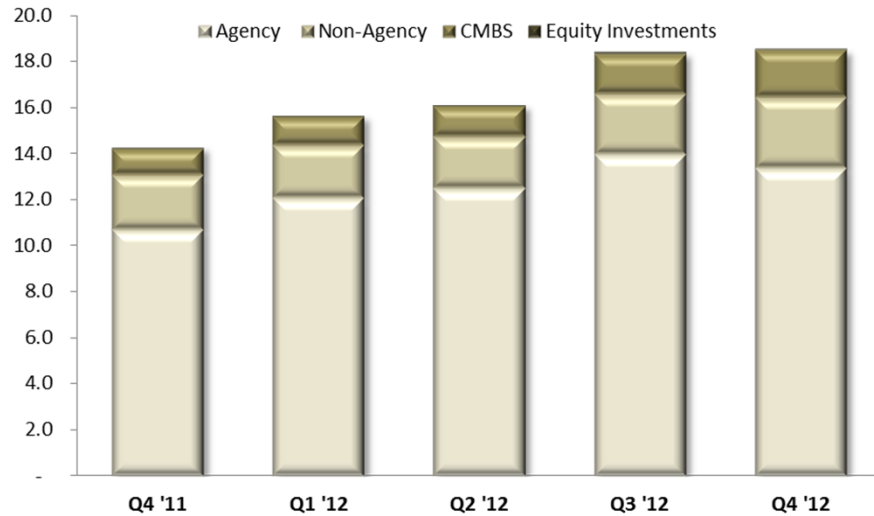
- ✓ Housing recovery will continue
- ✓ Private label securitization will gradually gain market share
- ✓ Risk sharing pilot programs for Agency MBS to begin

## Goals for 2013

- ✓ Maintain or improve book value
- ✓ Attractive and stable dividend
- ✓ Shift asset allocation to benefit from housing recovery
- ✓ Position for new opportunities in a growing housing finance market

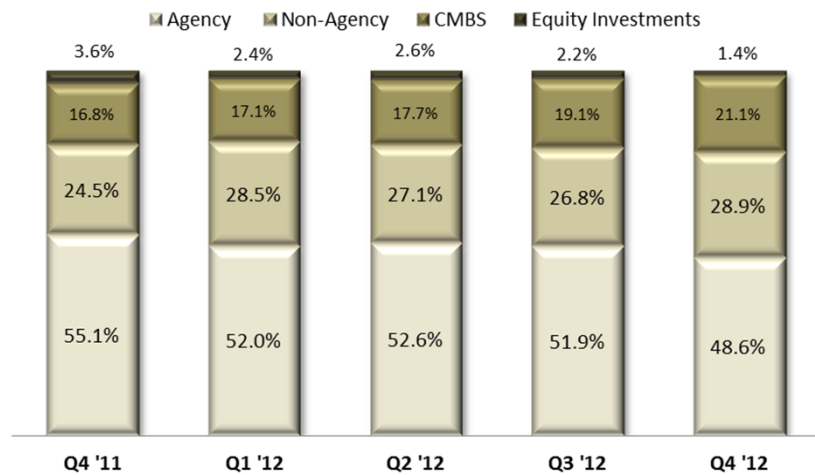
# Portfolio Update

## Portfolio (\$ in billions)

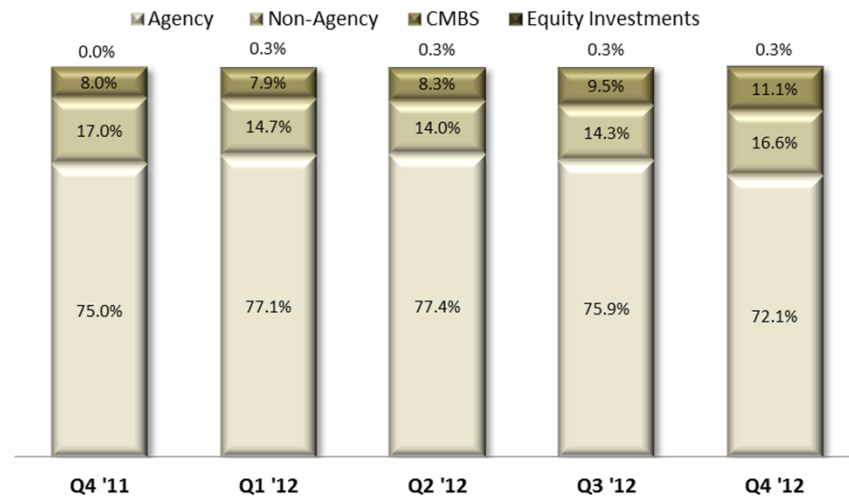


- Agency MBS decreased \$604mm
- Non-Agency RMBS increased \$453mm
- CMBS increased \$297mm
- Total leverage increased from 5.8x to 6.1x
- Recent raise is ~85% invested

## % of Equity

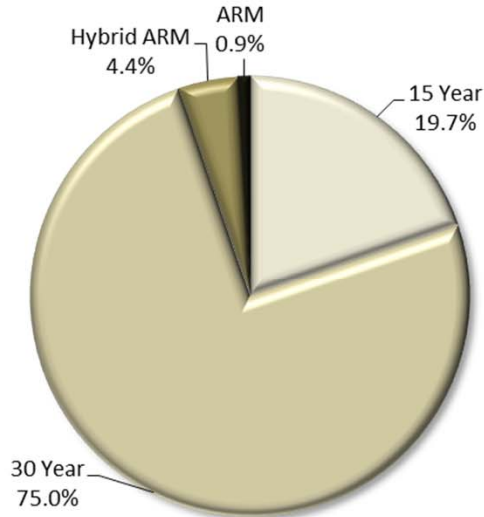


## % of Assets

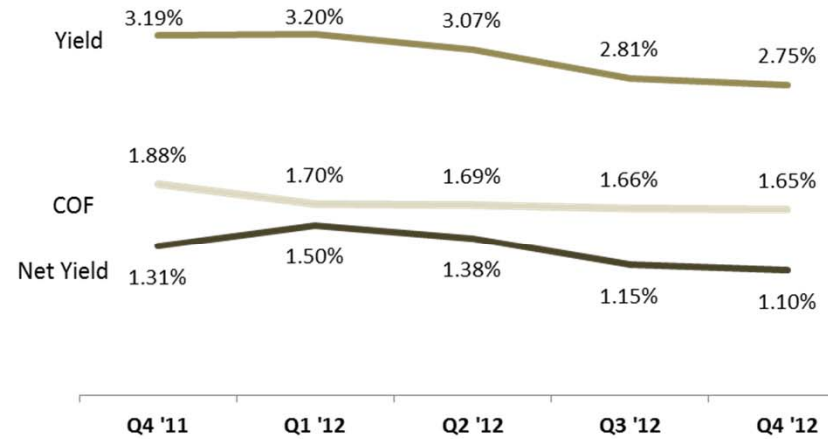


# Agency

## Agency Detail (% of Total Agency)

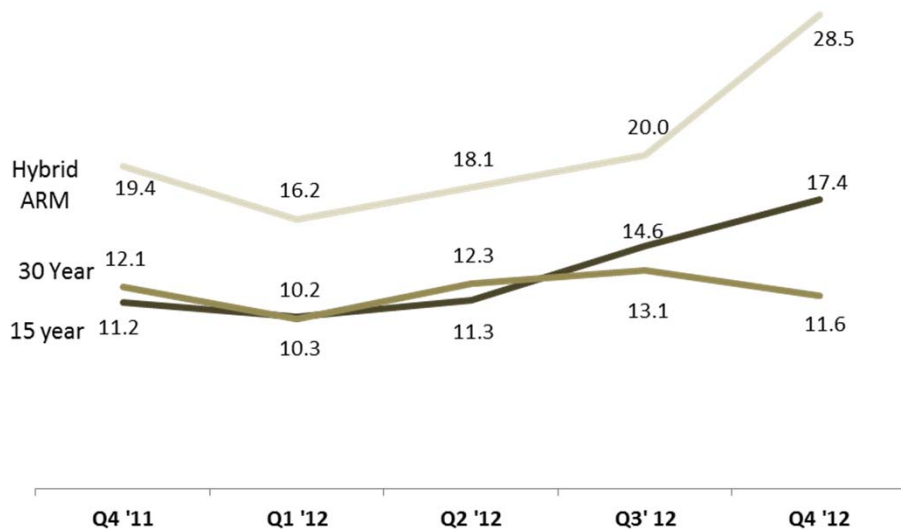


## Yield



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

## Agency CPR



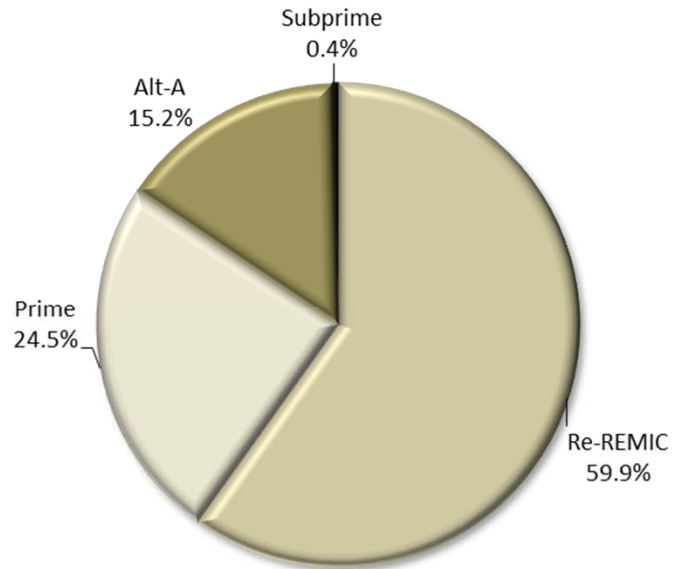
- ~ 90% of fixed-rate pools are prepayment protected
- Sold higher coupon investor pools
- Purchased lower coupon loan balance and geographic pools
- Reallocation resulted in \$20mm in gains
- Leverage is 9.3x

	<u>3 Month CPR</u>	<u>IVR</u>	<u>Cohort</u>
15 Year		17.4	26.5
30 year		11.6	20.9

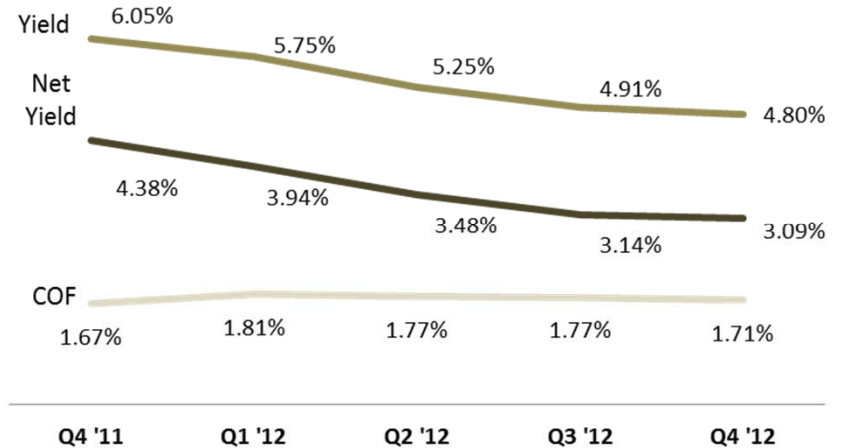


# Non-Agency

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

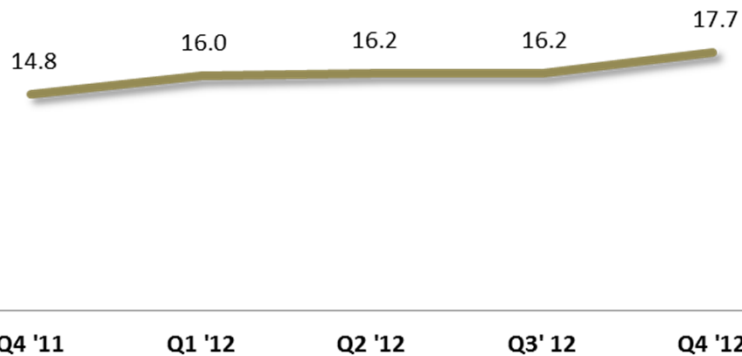


## Yield



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

## Non-Agency CPR

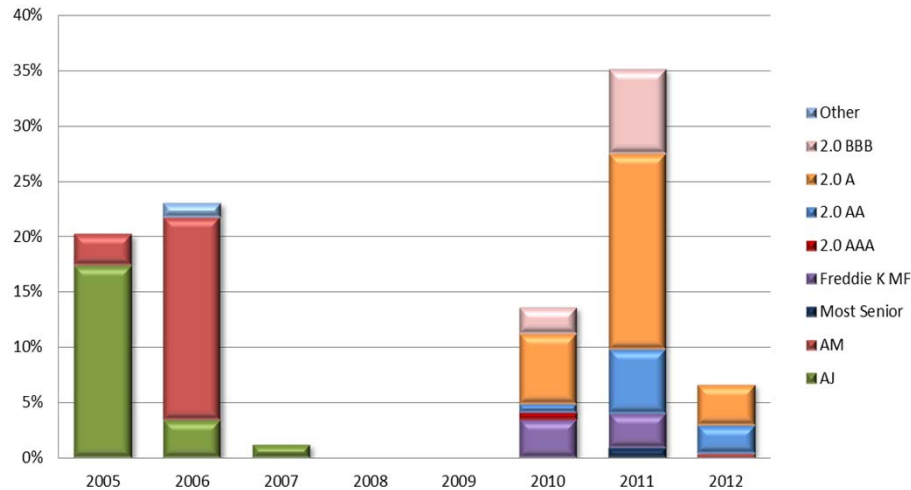


- Non-Agency RMBS increased \$453mm
- Housing fundamentals continue to improve while technicals remain favorable
- Favorable return profile in a rising rate environment
- Yields declined as hybrid ARM coupons reset lower and new positions were added at lower nominal yields
- Leverage was 3.3x

# CMBS

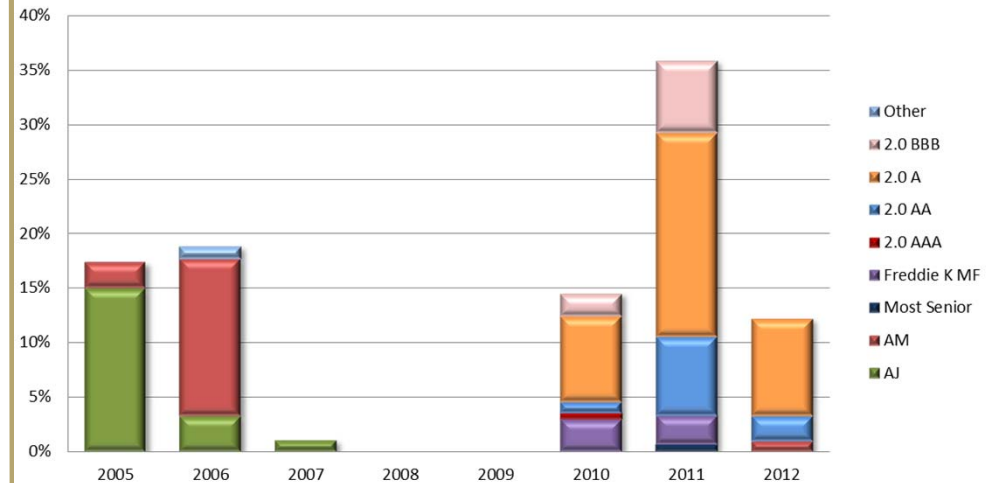
## Q3 2012

IVR CMBS by Vintage

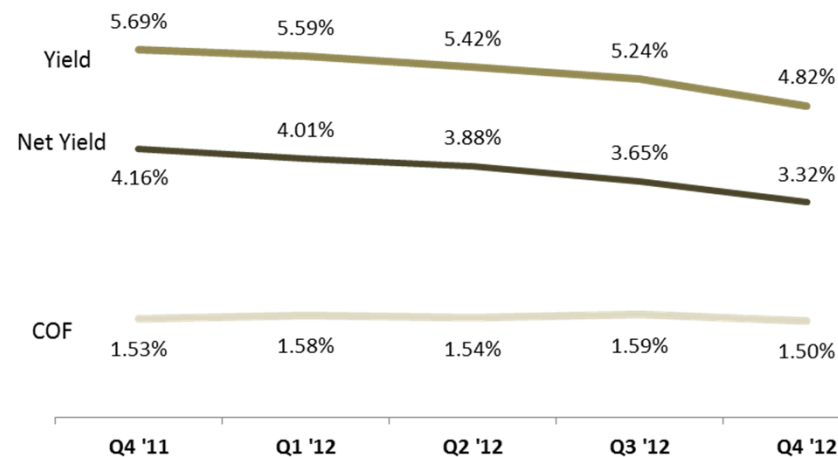


## Q4 2012

IVR CMBS by Vintage



## Yields



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

- CMBS increased \$297mm
- Purchases focused on new issue 2.0 single-A
- Supportive technicals - negative net supply and strong investor demand
- Continued improvement in CRE fundamentals
- Leverage was 2.9x