



# **Invesco Mortgage Capital Inc.**

## 2015 Fourth Quarter Earnings Call

### February 23, 2016

**Richard King**  
President & Chief Executive Officer

**Rob Kuster**  
Chief Operating Officer

**John Anzalone**  
Chief Investment Officer

**Lee Phegley**  
Chief Financial Officer



**IVR**

**Invesco Mortgage Capital Inc.**

# Cautionary Notice Regarding Forward-Looking Statements



This presentation and comments made in the associated conference call, may include statements and information that constitute “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, our financial performance, including our core earnings, economic return, comprehensive income and changes in our book value, our ability to continue performance trends, the stability of portfolio yields, interest rates, credit spreads, prepayment trends, financing sources, cost of funds, our 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).

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All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be constructed 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 December 31, 2015, unless otherwise noted.

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

## Q4 2015 Financial Highlights

Dividend per common share	\$0.40
Core EPS <sup>(1)</sup>	\$0.42
Basic EPS	\$0.88
Book value per diluted common share <sup>(2)</sup>	\$17.14
Comprehensive (loss) per common share	(\$0.35)
Economic return <sup>(3)</sup>	(0.68%)
Share Repurchases	\$75.6M

Equity allocated to benefit from improving real estate markets

37% Agency RMBS

33% Commercial Credit

30% Residential Credit

- Core EPS<sup>(1)</sup> of \$0.42 in Q4 2015
  - Increase of \$0.02 per share from Q3 due to higher equity in earnings, lower general and administrative expenses and share repurchases
- Book value per diluted common share<sup>(2)</sup> declined \$0.52 or 2.9%
  - Driven by modest spread widening in our portfolio relative to swap rates
- Economic returns <sup>(3)</sup>
  - (0.68%) in Q4 2015
  - 0.11% for the year ended December 31, 2015
- Q4 portfolio highlights
  - Reinvested maturities and prepayments into
    - Share repurchases of \$75.6 million
    - Commercial real estate mezzanine loan of \$52 million
  - Deconsolidated residential securitizations
  - Asset seasoning and higher real estate valuations continue to enhance credit quality

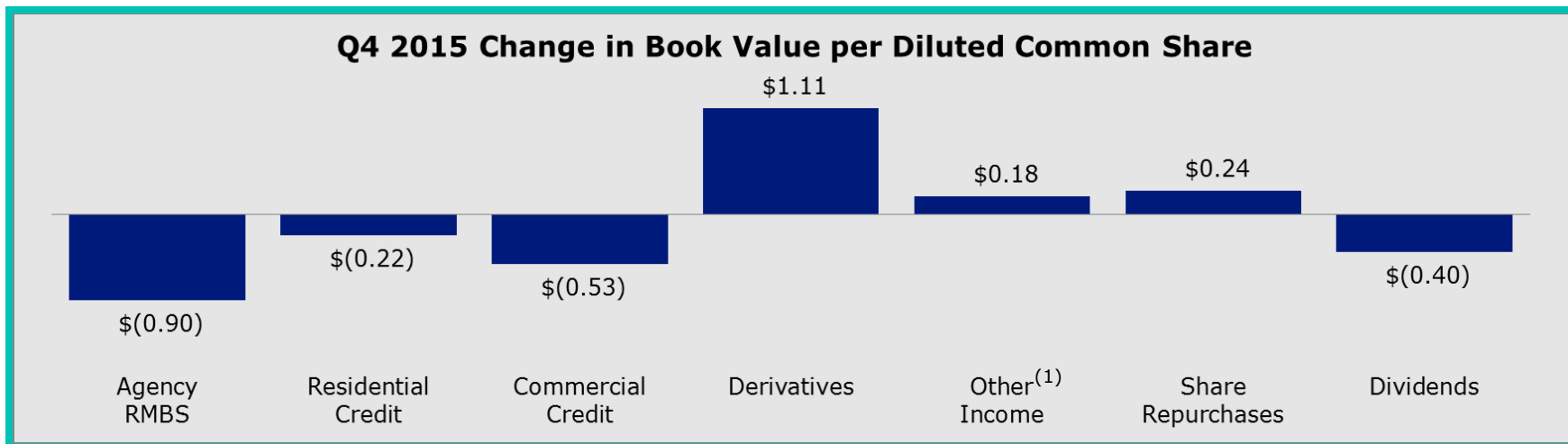
All per share amounts are per common share

(1) Core EPS is a non-GAAP financial measure. See Slide 14 for non-GAAP reconciliation.

(2) Book value per diluted common share is calculated as total equity less the liquidation preference of our Series A Preferred Stock (\$140.0 million) and Series B Preferred Stock (\$155.0 million); divided by total common shares outstanding plus Operating Partnership Units convertible into shares of common stock (1,425,000 shares).

(3) Economic return for the quarter ended December 31, 2015 is defined as the change in book value per diluted common share from September 30, 2015 to December 31, 2015 of (\$0.52); plus dividends declared of \$0.40 per common share; divided by September 30, 2015 book value per diluted common share of \$17.66. Economic return year to date is defined as the change in book value per diluted common share from December 31, 2014 to December 31, 2015 of (\$1.68); plus dividends declared of \$1.70 per common share; divided by December 31, 2014 book value per diluted common share of \$18.82.

# Book Value Performance



We seek to provide stockholders with attractive income and long term book value stability

- Book value impacted by wider yield spreads
  - Q4 book value per diluted common share declined \$0.52 or 2.9%
  - Share repurchases added \$0.24 to book value per common diluted share in Q4 2015
  - While swap hedges added \$1.11 to book value per diluted common share, wider spreads caused a larger decline in our Agency and CMBS portfolio totaling \$1.43 per share
  - Deconsolidation of residential securitizations generated most of the book value loss in the residential credit portfolio
- Key strategies aimed at capital preservation and reduced book value volatility
  - Hedging to limit interest rate risk
  - Maintain strong asset quality to reduce the risk of credit losses
  - Support dividend through prudent credit spread capture
  - Opportunistically modulate sector exposures and maintain diverse sources of return
  - Strategically allocate capital to benefit book value

(1) Other income excludes loss on residential securitization deconsolidation, realized gain/(loss) on sale of investments and swap valuation

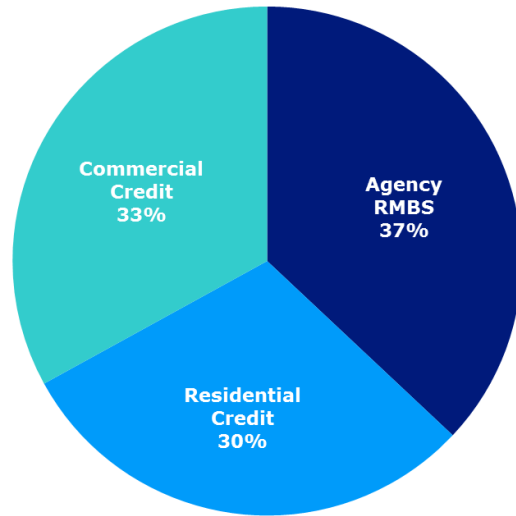
# The IVR Portfolio



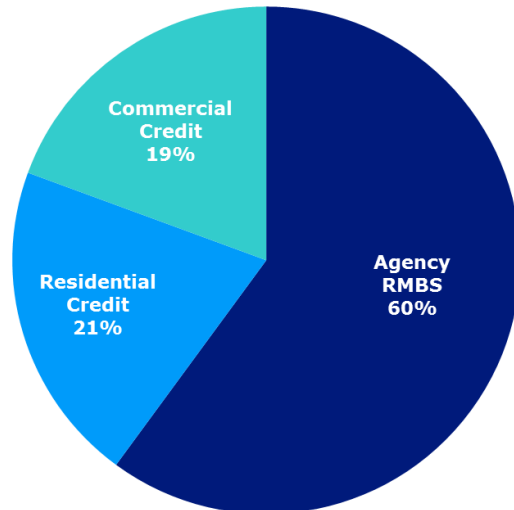
# Q4 2015 Portfolio Update



## Equity Allocation



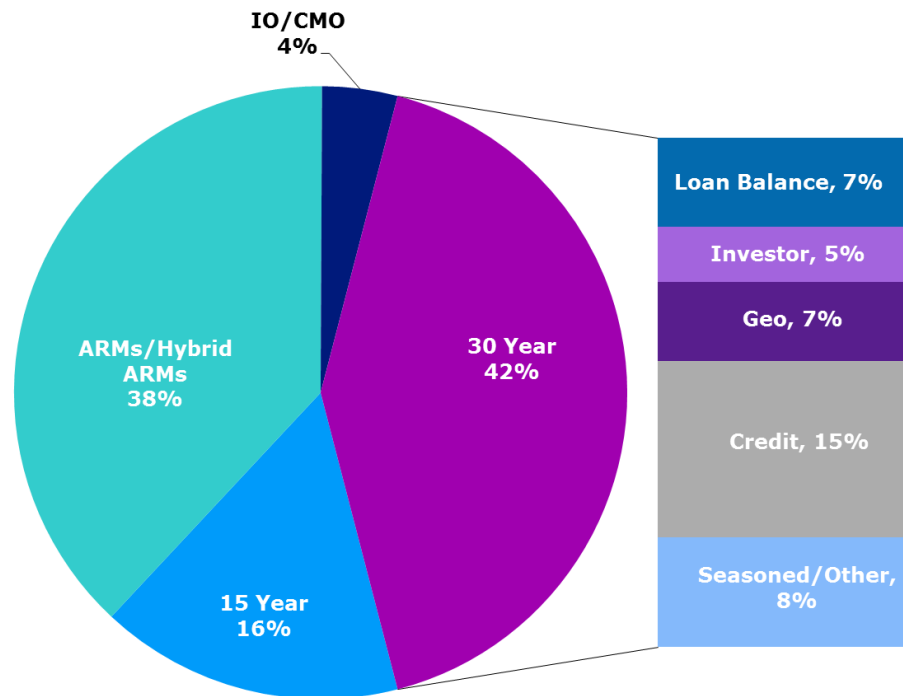
## Asset Allocation



## Highlights:

- We believe the portfolio is well positioned for improving real estate fundamentals
- 63% of equity and 40% of assets are allocated to credit
  - Both residential and commercial credit fundamentals remain strong
  - Credit assets exhibit significantly less convexity risk than Agency RMBS
- Spreads were modestly wider across our portfolio, as global macro concerns continued to build
- Swap spreads tightened during the quarter, as central bank repositioning continued

# Agency RMBS



## Highlights:

- Agency portfolio predominantly shorter bonds and up in coupon with collateral attributes that temper prepayments
- Prolonged interest rate rally to new lows would cause higher prepayments, albeit muted relative to past cycles

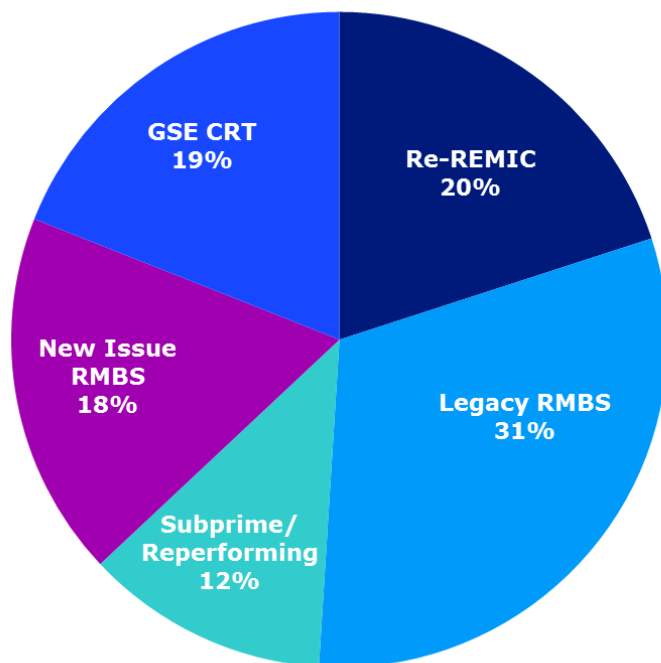
	CPR <sup>(1)</sup>	Net Wtd Avg Coupon <sup>(2)</sup>	Period-end Wtd Avg Yield <sup>(3)</sup>
15 Year	10.7	3.72%	2.47%
30 Year	12.5	4.24%	2.81%
Hybrid ARMs	13.9	2.73%	2.56%

(1) Constant Prepayment Rate

(2) Net weighted average coupon as of December 31, 2015 is presented net of servicing and other fees.

(3) Period-end weighted average yield is based on amortized cost as of December 31, 2015 and incorporates future prepayment and loss assumptions but excludes changes in anticipated interest rates.

# Residential Credit



## Highlights:

- Housing fundamentals remained healthy during the fourth quarter
- Legacy RMBS and GSE CRT outperformed high yield during the quarter, with spreads widening only modestly
- We retained certain securities related to the residential securitizations that were deconsolidated during the quarter, which increased our allocation to new issue RMBS from 8% in Q3 2015 to 18% in Q4 2015

	Duration	Period-end Wtd Avg Yield <sup>(1)</sup>
Re-REMIC	0.5	3.92%
Legacy RMBS	0.3	3.87%
Subprime / Reperforming	0.8	3.82%
New Issue RMBS <sup>(2)</sup>	3.0	4.42%
GSE CRT <sup>(3)</sup>	0.0	4.43%

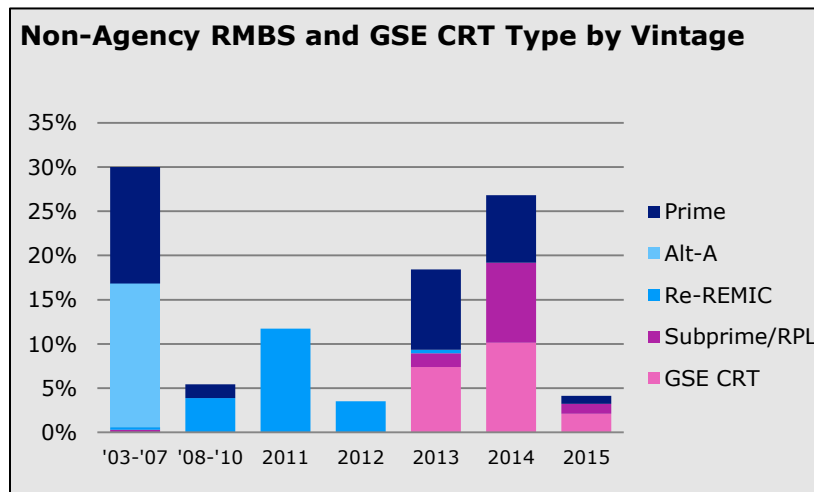
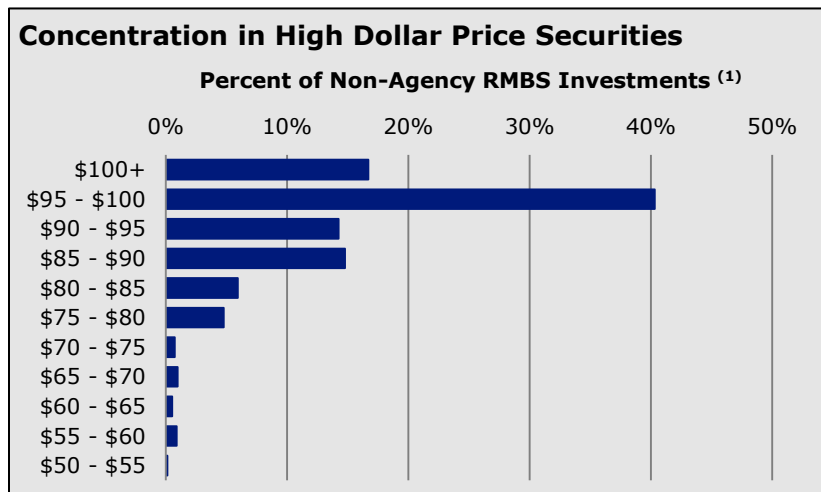
(1) Period-end weighted average yield is based on amortized cost as of December 31, 2015 and incorporates future prepayment and loss assumptions but excludes changes in anticipated interest rates.

(2) RMBS issued after 2010

(3) GSE CRT effective yield includes embedded coupon interest recorded as realized and unrealized credit derivative income



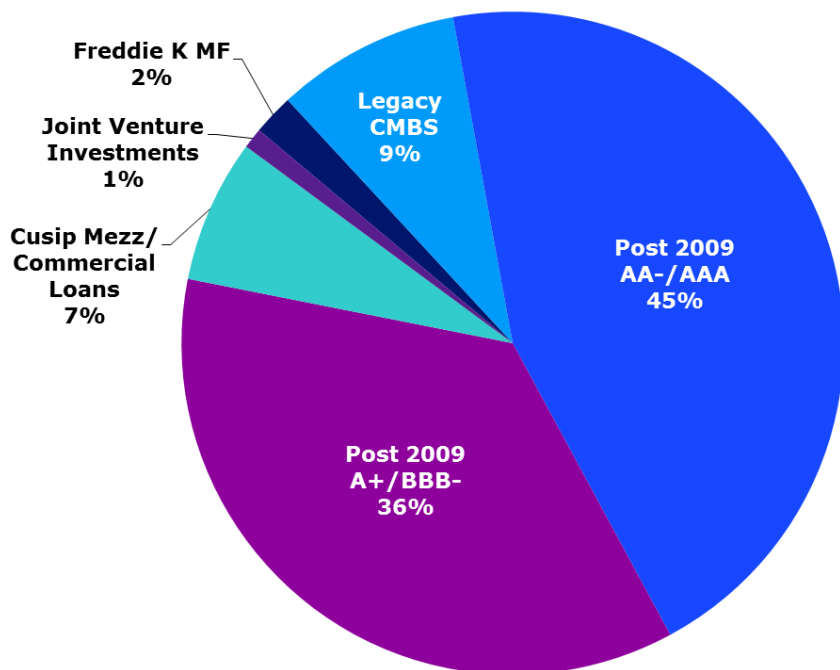
# Residential Credit Investment Quality



- Over 70% of Non-Agency RMBS holdings have dollar prices that are equal to or above \$90
- High dollar price bonds generally have limited exposure to collateral performance issues, lower price volatility and are more attractive to finance
- Low dollar price bonds are more volatile, often unattractive to finance and highly sensitive to servicer practices
- Legacy investments are focused in Prime and Alt-A securities as well as senior Re-REMICs
- GSE CRT holdings are largely 2013 and 2014 vintage
  - These seasoned transactions demonstrate lower price volatility relative to more recent issuance
  - Reference loans have significant embedded home price appreciation

(1) Excludes GSE CRT and IO securities. As of 12/31/15.

# Commercial Credit



## Highlights:

- Favorable trends in property fundamentals provide positive support for commercial mortgage credit investments
- Heightened macro volatility resulted in credit spread widening
- Closed a \$52 million mezzanine loan in Q4 2015, bringing our total commercial loan and joint venture investments to \$247 million at December 31, 2015
- Not originating loans for securitization or relying on loan warehouse financing to achieve target returns

	Duration	Period-end Wtd Avg Yield <sup>(1)</sup>
Freddie K MF <sup>(2)</sup>	4.1	5.95%
Legacy CMBS <sup>(3)</sup>	0.6	4.83%
Post 2009 AA-/AAA <sup>(4)</sup>	6.1	3.65%
Post 2009 A+/BBB- <sup>(5)</sup>	4.9	4.89%
Cusip Mezz	0.0	5.24%
Commercial Loans	0.0	7.33%

(1) Period-end weighted average yield is based on amortized cost as of December 31, 2015 and incorporates future prepayment and loss assumptions but excludes changes in anticipated interest rates.

(2) Subordinate CMBS collateralized by multi-family loans issued by Freddie Mac which do not benefit from a guarantee.

(3) CMBS issued prior to 12/31/2008.

(4) CMBS originally rated between AA- and AAA (or an equivalent/comparable ratings by a nationally recognized statistical rating organization) issued after 2009

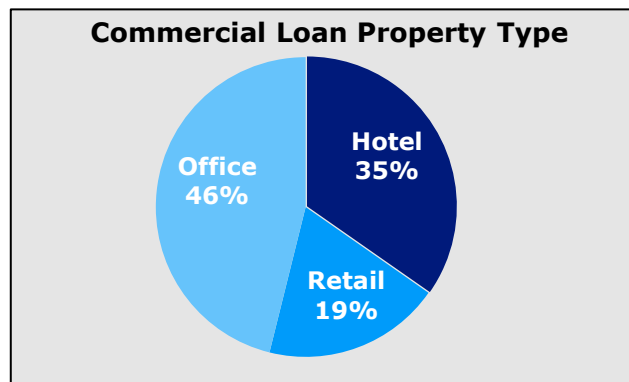
(5) CMBS originally rated between A+ and BBB- (or an equivalent/comparable rating by a nationally recognized statistical rating organization) issued after 2009

# Commercial Loan & Joint Venture Investments



Investment Type	Property Type	Location	Commitment <sup>(1)</sup>	Borrower	Rate Type	Loan Status
Mezzanine Loan	Retail	New York, NY	\$41,013,463	Public REIT	Floating	Current
Mezzanine Loan	Office	New York, NY	\$15,000,000	Institutional Investor	Floating	Current
Mezzanine Loan	Office	Atlanta, GA	\$49,700,000	Institutional Investor	Floating	Current
Mezzanine Loan	Hotel	Fort Lauderdale, FL	\$21,000,000	Private REIT	Floating	Current
Mezzanine Loan	Office	Phoenix, AZ	\$33,977,900	Institutional Investor	Floating	Current
Mezzanine Loan	Hotel	London, UK	\$52,205,400	Institutional Investor	Fixed	Current
Mezzanine Loan	Retail	Aventura, FL	\$28,000,000	Institutional Investor	Floating	Closed Q1-16
Joint Venture Investments <sup>(2)</sup>	Various	U.S. / Ireland	\$121,723,000	Various	Floating	NA
Whole Loan	Hotel	Palm Beach, FL	\$22,000,000	Regional Developer	Floating	Paid Off
Preferred Equity	Office	Chicago, IL	\$23,000,000	Institutional Investor	Floating	Paid Off
B-Note	Office	London, UK	\$33,892,396	Institutional Investor	Floating	Paid Off
Mezzanine Loan	Hotel	Various	\$18,500,000	Institutional Investor	Floating	Paid Off

As of February 12, 2016



As of December 2015. Joint venture investment property types are not included.

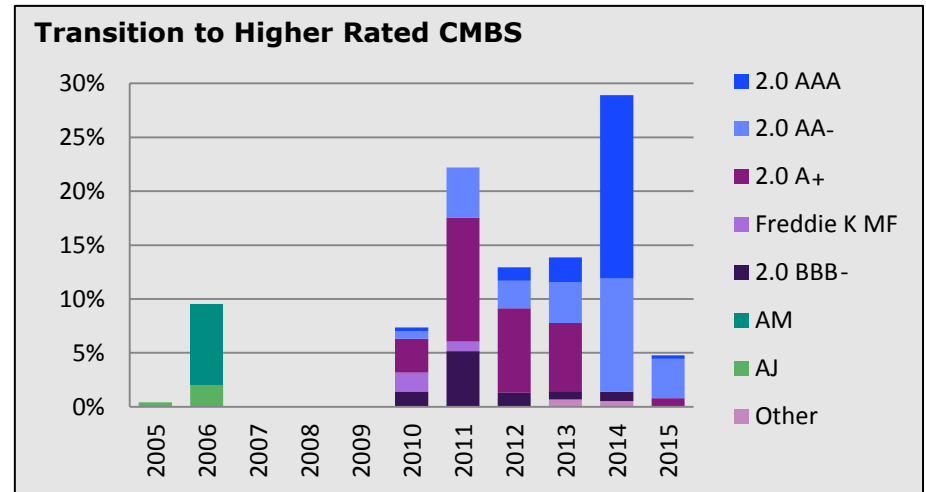
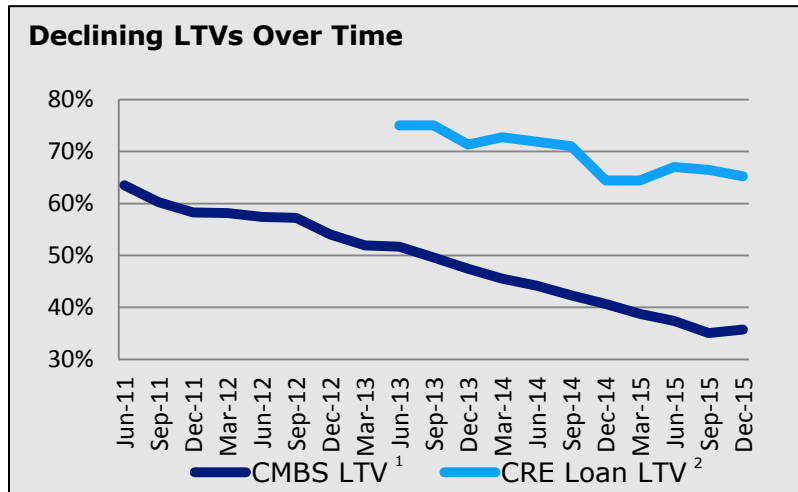
## Portfolio Highlights

- Year-end portfolio of \$247 million
- \$97 million of principal has been returned through realization of borrower business plans
- No delinquencies and weighted average LTV of 65% as of December 31, 2015
- Closed one mezzanine loan of \$28 million and scheduled to fund an additional \$67 million of floating rate closings in Q1 2016

(1) As of December 31, 2015 the Company's undrawn commitments in commercial loans and joint venture investments were \$2.1M and \$21.1M, respectively

(2) As of December 31, 2015 the Company has received distributions totaling \$145.2 million from joint venture investments. As of December 31, 2015 the company's investment balance in joint ventures was \$38.4 million

# Improvement in Commercial Mortgage Investment Credit Quality



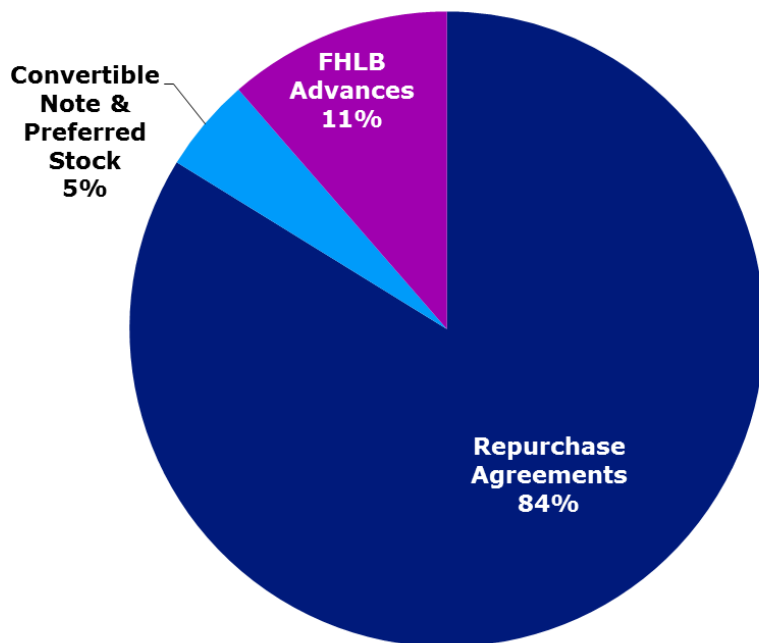
- CMBS LTV <sup>(1)</sup> of 36% and CRE Loan LTV <sup>(2)</sup> of 65%
- 95% of CMBS is collateralized by loans originated during or prior to 2014, which we believe we will continue to benefit from notable underlying property price appreciation
- Recent vintage CMBS are almost entirely triple and double-A classes having substantial subordination and FHLB financing
- Commercial loans are collateralized by institutional quality properties and strong borrowers

Source: Trepp as of December 2015.

- (1) The product of (a) the weighted average current loan-to-value ratio of the CMBS collateral pool of which the value of the property is adjusted for price appreciation using Moody's/RCA CPPI, multiplied by (b) a fraction, the numerator of which is the total principal balance of the subject class and all other classes senior to such class (if any) less the aggregate balance of underlying defeased loans and the denominator of which is the total principal balance of all classes of the transaction less the aggregate balance of underlying defeased loans. Values are as of December 31, 2015.
- (2) The weighted average loan-to-value ratio for each commercial real estate loan investment with property values adjusted to reflect the most recently obtained appraisals.

## Highlights:

- Funding sources include:
  - Secured financing: repurchase agreements, debt facility, FHLBI advances
  - Exchangeable senior notes
  - Preferred equity
- 26 active repo counterparties
- No impact to existing FHLBI advances due to new FHFA rule to exclude captive insurance companies
- Cost of funds were modestly higher during the quarter primarily due to Fed rate hike



Average Cost of Funds <sup>(1)</sup>	Q4 2015	Q3 2015
Agency RMBS <sup>(2)</sup>	0.45%	0.40%
CMBS <sup>(2)</sup>	0.98%	0.93%
Non-Agency RMBS	1.65%	1.60%
GSE CRT	1.83%	1.75%

(1) Average cost of funds is calculated by dividing annualized interest expense by the Company's average borrowings. Refer to the Average Balances table in the earnings release for more average balances.

(2) Agency RMBS and CMBS average borrowing and cost of funds include borrowings under repurchase agreements and secured loans.

# 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 stockholders adjusted for gain (loss) on investments, net; realized gain (loss) on derivative instruments, net (excluding contractual net interest on interest rate swaps); unrealized gain (loss) on derivative instruments, net; realized and unrealized change in fair value of GSE CRT credit derivative income (loss), net; gain (loss) on foreign currency transactions, net; reclassification of amortization of net deferred swap losses on de-designated interest rate swaps to repurchase agreements interest expense.

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 mortgage-backed securities in other comprehensive income on its consolidated balance sheets. Changes in the fair value of the Company’s derivative instruments are recorded in gain (loss) on derivative instruments, net in the Company’s consolidated statement of operations.

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.

<b>\$ in thousands, except per share data</b>	Years Ended December 31,		
	2015	2014	2013
Net income (loss) attributable to common stockholders	81,106	(245,484)	147,304
Adjustments:			
(Gain) loss on investments, net	21,212	87,168	182,733
Realized (gain) loss on derivative instruments, net (excluding contractual net interest on interest rate swaps of \$184,373, \$199,783, and \$0, respectively)	44,272	72,187	(53,926)
Unrealized (gain) loss on derivative instruments, net	(9,597)	215,499	13,923
Realized and unrealized change in fair value of GSE CRT embedded derivatives, net	6,411	21,495	-
(Gain) loss on foreign currency transactions, net	1,875	2,746	-
Reclassification of amortization of net deferred swap losses on de-designated interest rate swaps to repurchase agreements interest expense	66,757	85,176	-
Subtotal	130,930	484,271	142,730
Adjustment attributable to non-controlling interest	(1,500)	(5,532)	(1,559)
Core earnings	210,536	233,255	288,475
Basic earnings (loss) per common share	0.67	(1.99)	1.11
Core earnings per share attributable to common stockholders	1.73	1.89	2.17