# Invesco Mortgage Capital Inc.

## 2014 Second Quarter Earnings Call
## July 30, 2014


**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.

# 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 and our views on comprehensive income, economic return, our ability to continue performance trends, the stability of portfolio yields, our views on interest rates, credit spreads, prepayment trends, financing sources , cost of funds, 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.

# Overview

## Key Second Quarter 2014 Developments

- 4th consecutive $0.50 per share dividend
- Book value increase of $1.27 per share
- Advanced strategic objectives
  - Added a 7th consolidated loan securitization
  - Continued to reduce 30 Yr. Agency MBS
  - Steady progress on improving our funding mix

## Financial Highlights

| | |
|---|---|
| Dividend | $0.50 |
| Core EPS (1) | $0.50 |
| GAAP EPS | $(0.76) |
| Book Value | $19.80 |
| Comprehensive income (2) | $1.77 |
| Economic Return (3) | 9.55% |

## Selected Balance Sheet Data

| % of Total Porfolio | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 |
|---|---|---|---|---|---|---|
| 30 Year MBS | 56.1% | 49.3% | 44.2% | 34.8% | 32.8% | 30.2% |
| Agency Hybrids/ARMs | 2.6% | 2.4% | 5.8% | 10.5% | 12.4% | 15.4% |
| Initiatives(4) | 1.9% | 7.3% | 7.6% | 9.7% | 12.8% | 14.1% |

(1) Core EPS is a non-GAAP financial measure. See slide 12 for non-GAAP reconciliation.
(2) Comprehensive income attributable to common shareholders
(3) Economic return for the quarter ending June 30, 2014 is defined as the increase in book value per diluted share, from March 31, 2014 to June 30, 2014 of $1.27, plus the dividend declared of $0.50 per share, divided by March 31, 2014 diluted book value of $18.53
(4) Includes residential loans, CRE loans, mezzanine certificates and CRT

# 2Q14 Investment Environment

## Economic and Financial Conditions

- Financial conditions improved in Q2; lower interest rates, volatility, and credit spreads
- Monthly payrolls averaged ~272,000 for the last 3 months, a substantial increase vs. Q1
- Inflation remains quite low despite a modest rise in Q2, YOY core prices are up 1.5%
- Consensus 2014 GDP forecast reduced to ~1.7%, but balance of 2014 and 2015 is 3% or higher

## Interest Rates

- Long term interest rates declined even as employment and inflation rose
- Long rates (> 10 years) declined ~20 basis points, while 2 year rates were up slightly
- MBS prices improved given lower term rates, a muted prepayment response, and lower volatility
- Agency 1 mo. repo rates declined modestly again in Q2

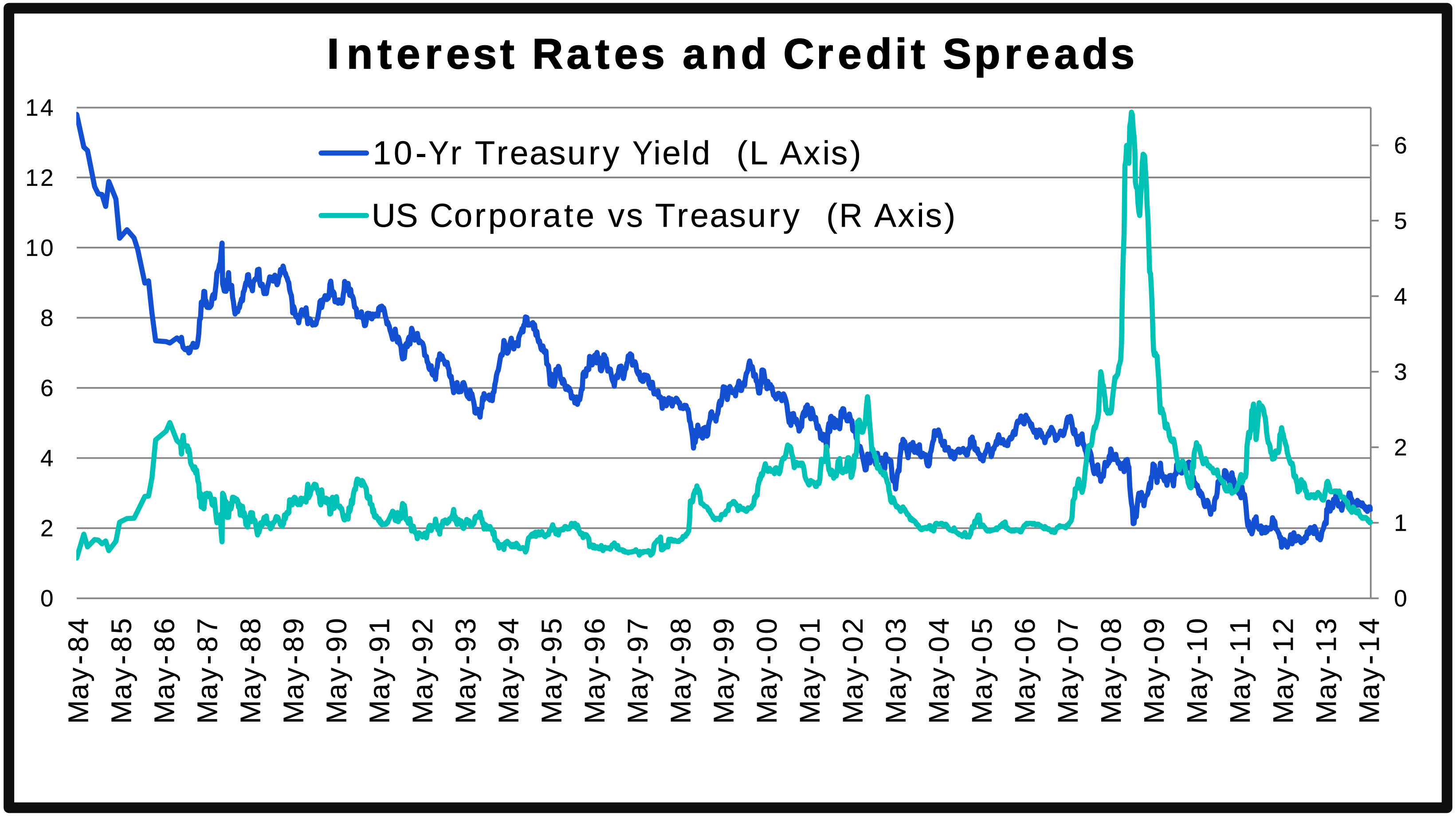
## Real Estate Markets

- House price appreciation is probably moderating to ~5% for 2014
- Further improvement in legacy residential loan performance
- CRE fundamentals continue to improve (property valuations, rents, loan delinquencies)

# Investment Strategy

## Interest rates trend but credit spreads are cyclical

- IVR's strategy is to capture and magnify the most attractive credit spreads in residential and commercial mortgage markets
- Mortgage credit spreads remain attractive relative to pre-crisis while the quality of newly underwritten mortgage loans is markedly better than pre-crisis



# Financing

## Steady progress on increasing financial flexibility

### Diversification of Funding Sources

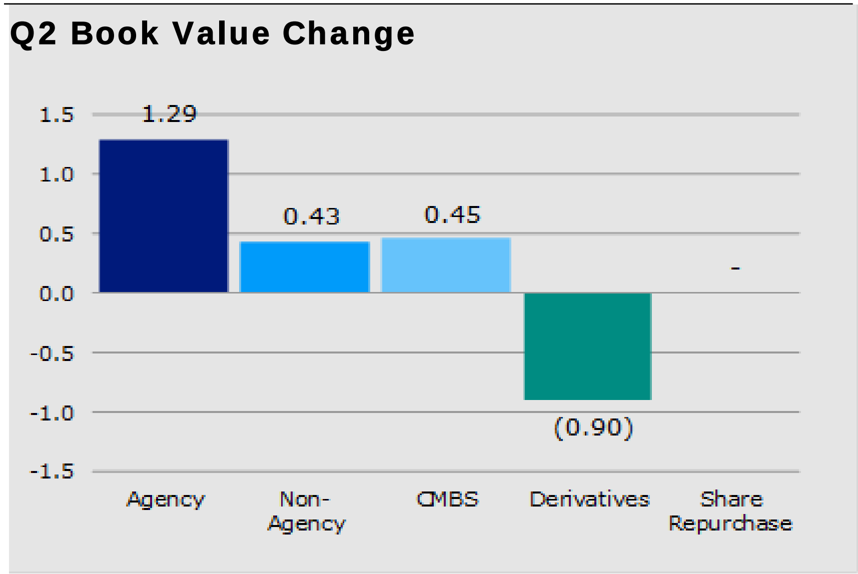
| IVR Financing Mix | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Repurchase Agreements | X | X | X | X | X | X |
| IVR Preferred A | | | | X | X | X |
| Asset Backed Securities | | | | | X | X |
| Exchangeable Senior Notes | | | | | X | X |
| FHLB Advances | | | | | | X |

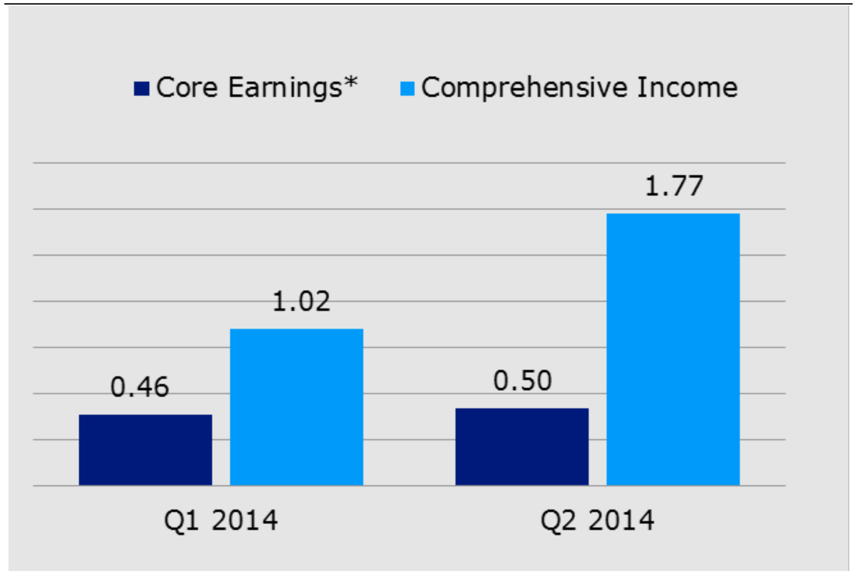
### Reduction of Short-Term Repurchase Agreement Financing

| Repurchase Agreements ($ in millions) | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 |
|---|---|---|---|---|---|---|
| Agency MBS | $13,546 | $12,901 | $10,959 | $10,281 | $9,746 | $10,032 |
| CMBS | $1,807 | $2,023 | $1,943 | $2,082 | $2,039 | $1,632 |
| Residential (RMBS and CRT) | $2,521 | $2,955 | $2,995 | $3,088 | $3,067 | $3,059 |

# Performance

## Objectives: Stability and Growth



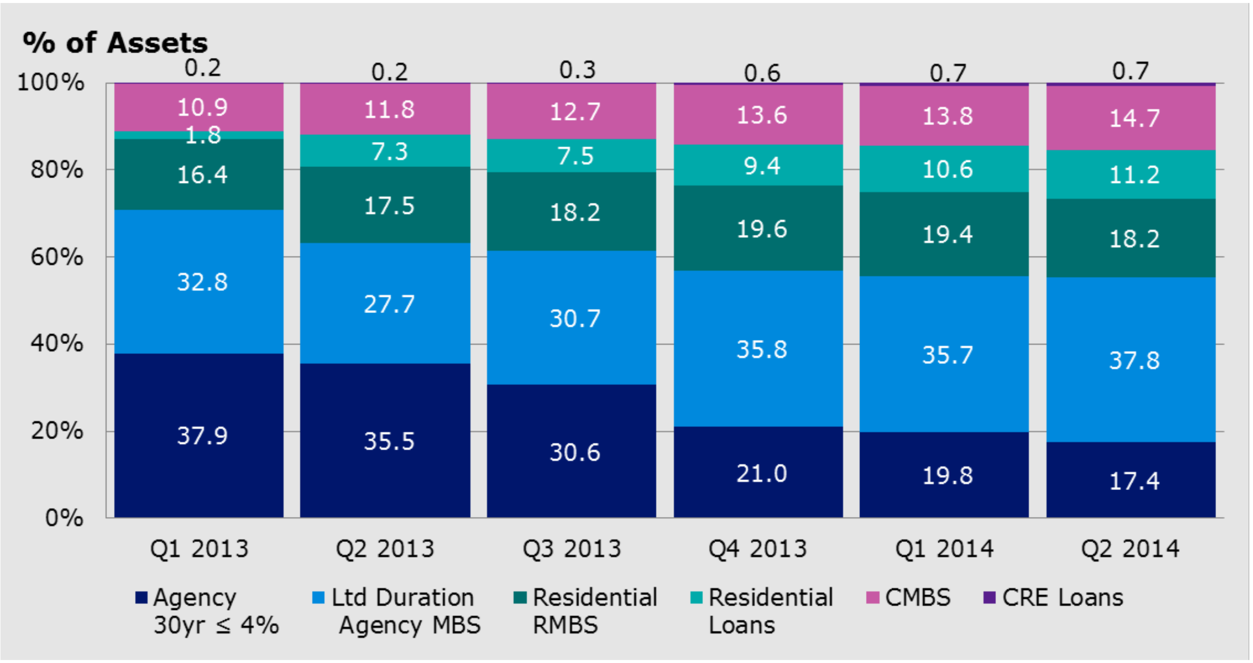




- Book value increased 6.9% in Q2, 10.7% YOY
- MBS and CMBS outperformed hedges adding to book value
- Tighter credit spreads and lower interest rates lifted CMBS and Non-Agency valuations

- Core earnings are higher in Q2 due to better yield on credit assets and lower cost of funds
- Our focus on restructuring liabilities to improve funding costs continues
- Two strong quarters of increase in fair value of assets is driving YTD comprehensive income growth of $2.79 per share

*See slide 12 for non-GAAP reconciliation

# Portfolio Update




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

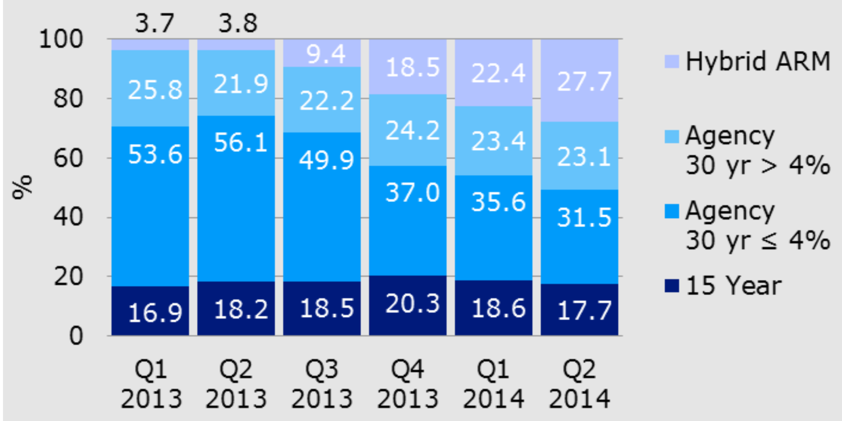
- Reduced interest rate exposure
  - Agency fixed rate principal balance has declined ~$650M YTD through sales and run-off
  - We increased the principal balance of hybrid arms ~$800M YTD
  - Key rate duration positioning benefitted from the flatter yield curve
- Increased exposure to credit
  - Asset appreciation has been significant
  - Added 7th jumbo prime securitization in Q2 and will close at least one more in Q3
  - CRE loan pipeline is growing

# Agency

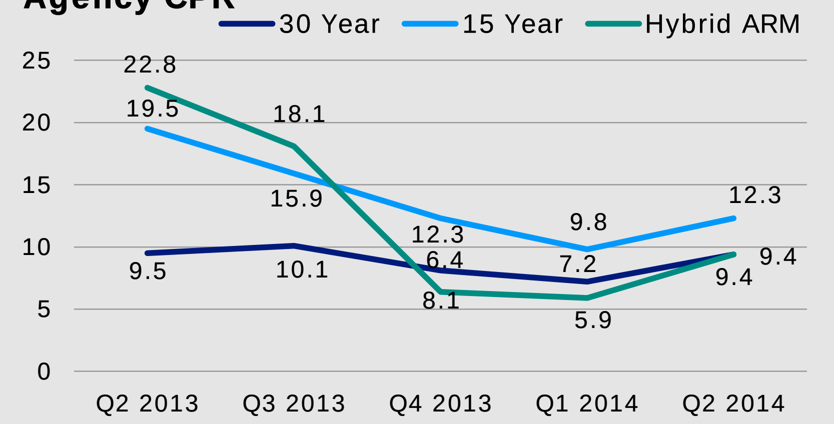
## Highlights:

- Reduced 30yr fixed and added hybrids
- Asset sales focused on 3½% coupon
- Average 30 year fixed coupon is 4.17%
- Average 15 year fixed coupon is 4.04%
- Agency MBS leverage decreased to 9.8x

**Agency Detail** (% of Agency)



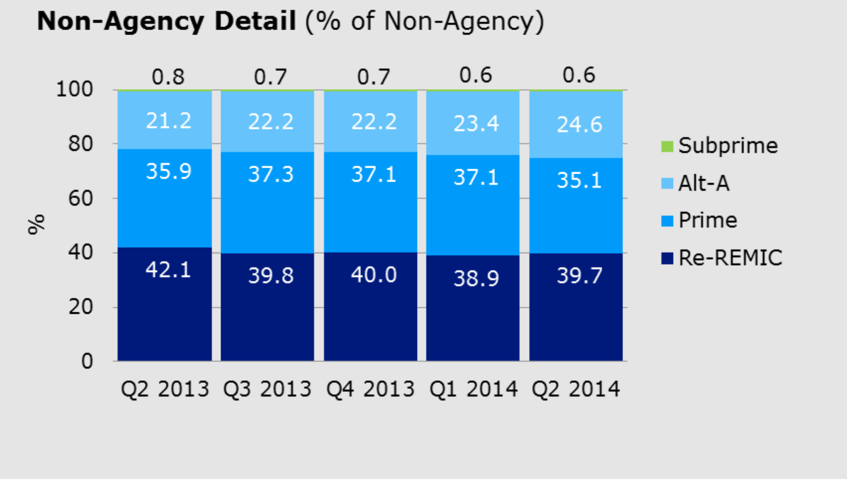

**Agency CPR**

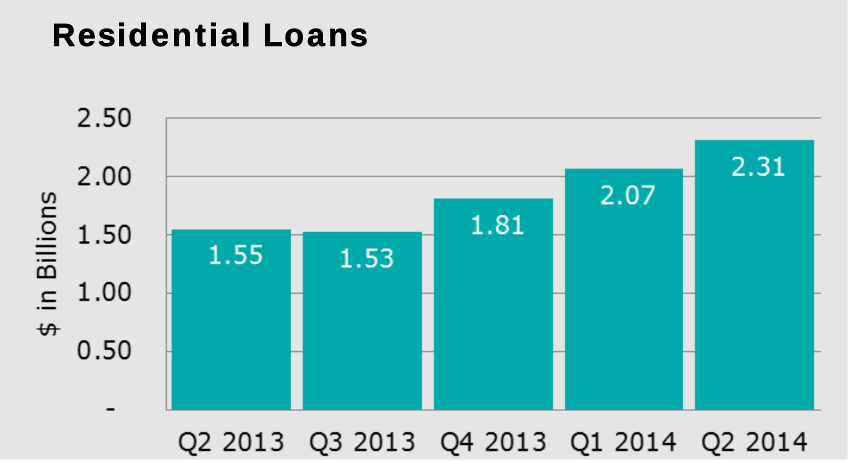


# Residential Mortgage Credit

## Highlights:

- Purchased additional legacy Non-Agency RMBS positioned to benefit from further improvement in borrower and collateral performance
- Added $272M of exposure to jumbo prime loans through CSMC 2014-IVR2, with an additional securitization of $401M expected to settle in Q3
- Jumbo prime loan performance remains exceptional, with no loans 60 or more days delinquent
- GSE Credit Risk Transfer investments increased by $157M, with spreads continuing to tighten during the quarter

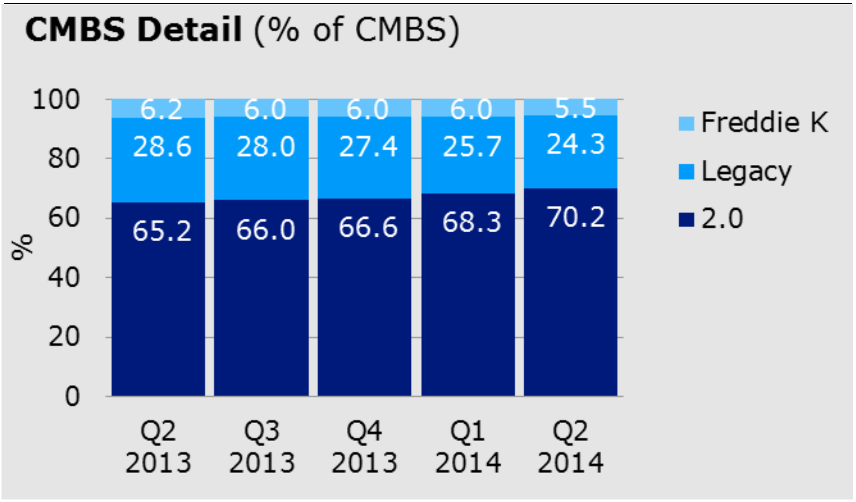


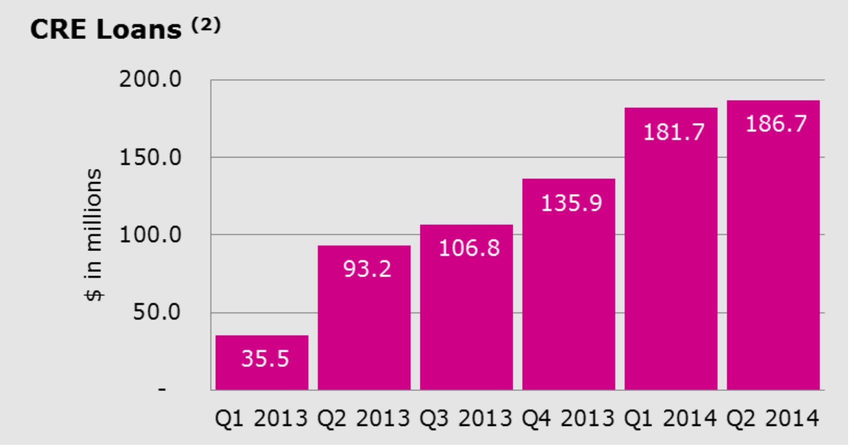



# Commercial Mortgage Credit

## Highlights:

- CMBS increased by $338.9 mm via purchases of triple and double-A rated classes and credit spread tightening
- Commercial mortgage credit [1] now comprises 15.4% of total portfolio
- CRE loans, mezzanine certificates and JV interests total approximately $187mm
- Portfolio continues to benefit from improving commercial real estate fundamentals




(1) Includes CMBS, commercial real estate loans , mezzanine certificates and commercial real estate joint ventures

(2) Includes commercial real estate loans , mezzanine certificates and commercial real estate joint ventures

# 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 June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| **$ in thousands, except per share data** | **2014** | **2013** | **2014** | **2013** |
| Net income (loss) attributable to common shareholders | (94,052) | 138,847 | (168,492) | 222,838 |
| Adjustments | | | | |
| (Gain) loss on sale of investments, net | 20,766 | (5,692) | 32,484 | (12,404) |
| Realized loss on interest rate derivative instruments (excluding contractual net interest on interest rate swaps of $52,205, $0, and $103,646 and $0, respectively) | 15,037 | (27,159) | 33,861 | (27,159) |
| Unrealized (gain) loss on interest rate derivative instruments | 100,574 | (26,155) | 181,621 | (24,152) |
| Amortization of deferred swap losses from de-designation | 21,532 | - | 42,828 | - |
| Subtotal | 157,909 | (59,006) | 290,794 | (63,715) |
| Adjustment attributable to non-controlling interest | (1,807) | 613 | (3,318) | 663 |
| Core earnings | 62,050 | 80,454 | 118,984 | 159,786 |
| Basic earnings (loss) per common share | (0.76) | 1.03 | (1.37) | 1.69 |
| Core earnings per share attributable to common shareholders | 0.50 | 0.60 | 0.97 | 1.22 |