



Invesco Mortgage Capital Inc.

2017 First Quarter Earnings Call

May 5, 2017

John Anzalone
Chief Executive Officer

Jason Marshall
Chief Investment Officer

Rob Kuster
President & Chief Operating Officer

Lee Phegley
Chief Financial Officer



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Invesco Mortgage Capital Inc.

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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.

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

Q1 2017 Financial Highlights

Dividend per common share	\$0.40
Basic EPS	\$0.78
Core EPS ⁽¹⁾	\$0.40
Book value per diluted common share ⁽²⁾	\$17.95
Comprehensive income per common share	\$0.87
Economic return ⁽³⁾	5.0%

Equity allocation remains diversified

39% Agency RMBS

33% Commercial Credit

28% Residential Credit

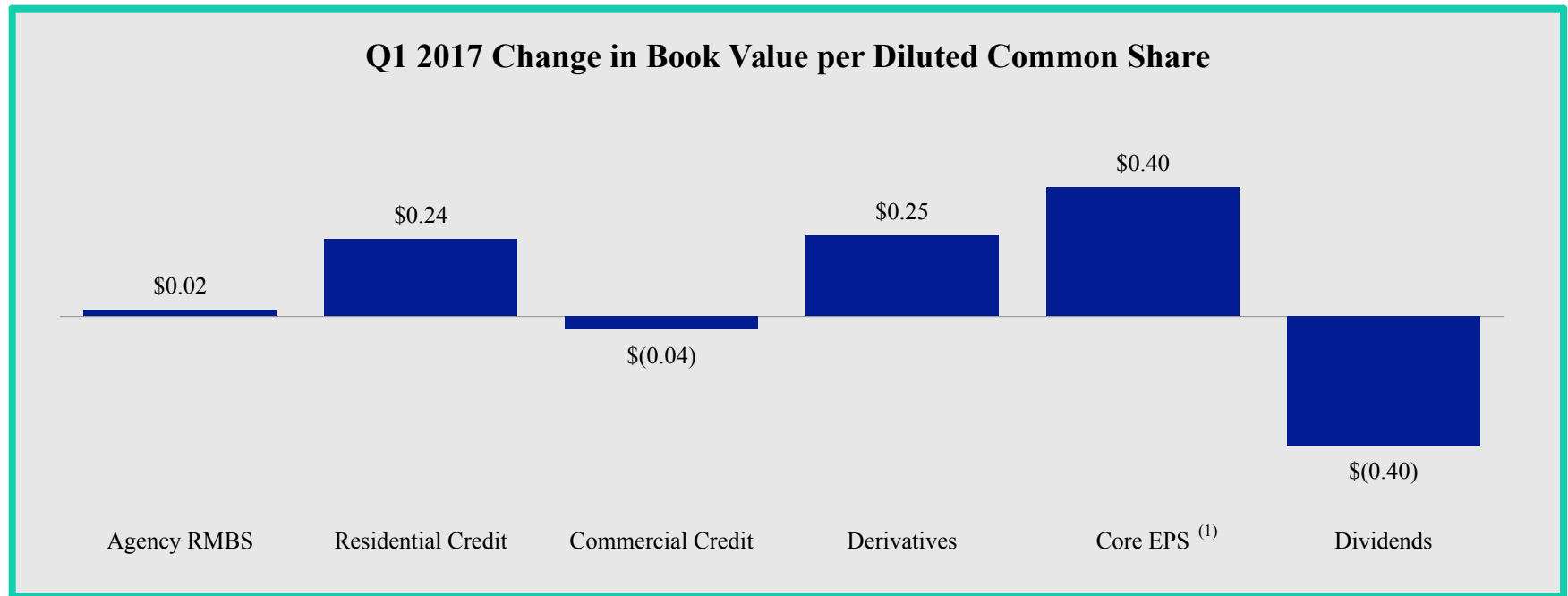
- Core EPS ⁽¹⁾ of \$0.40 in Q1 2017
 - Increased from Q4 2016 primarily due to an increase in net effective interest income as a result of slower prepayment speeds and higher average earning assets
- Book value per diluted common share ⁽²⁾ increased by \$0.47 or 2.7% to \$17.95 in Q1 2017
- Q1 2017 portfolio highlights
 - Asset seasoning and improved real estate valuations continue to enhance credit quality
 - Increased average earning assets by \$835 million in Q1 2017 primarily through the purchase of 30 year fixed-rate Agency RMBS

(1) Core EPS is a non-GAAP financial measure. See Slide 15 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 March 31, 2017 is defined as change in book value per diluted common share from December 31, 2016 to March 31, 2017 of \$0.47; plus dividends declared of \$0.40 per common share; divided by December 31, 2016 book value per diluted common share of \$17.48.

Book Value Performance



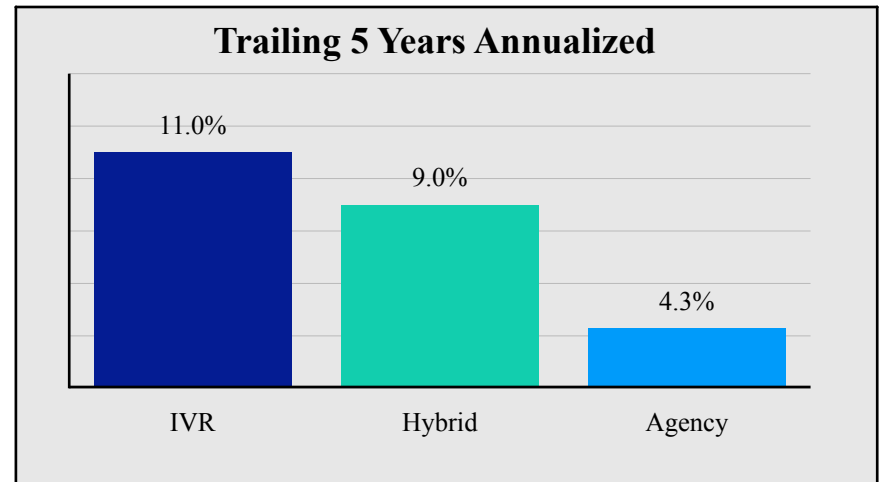
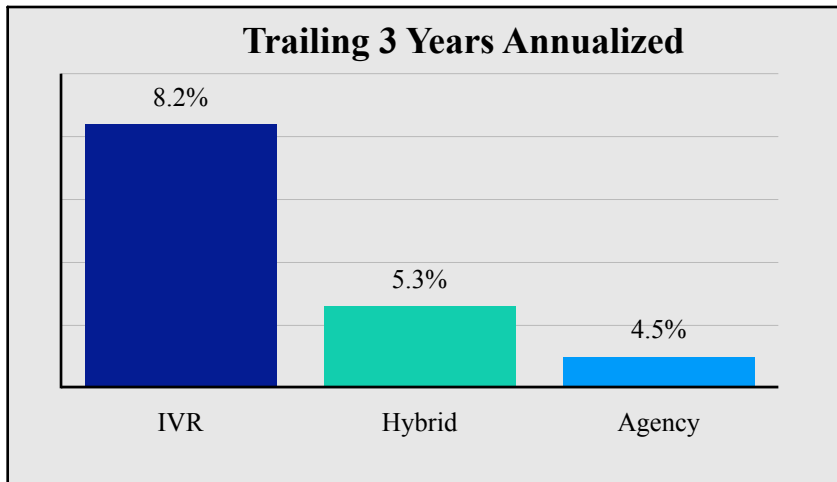
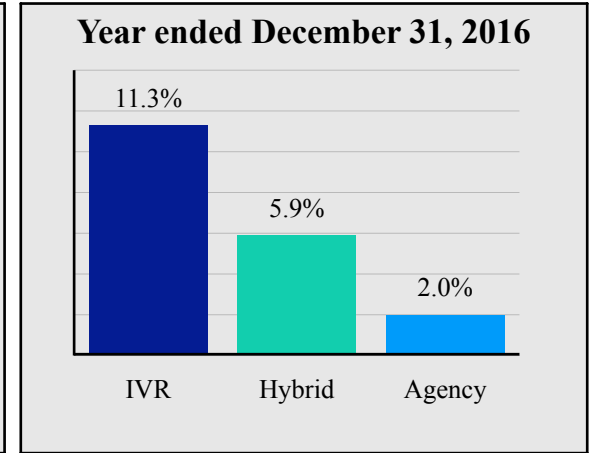
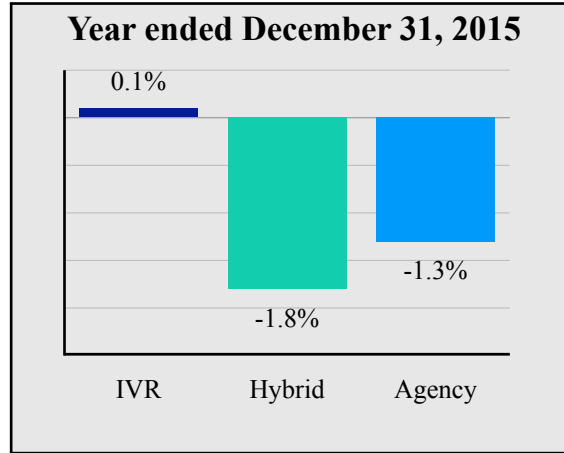
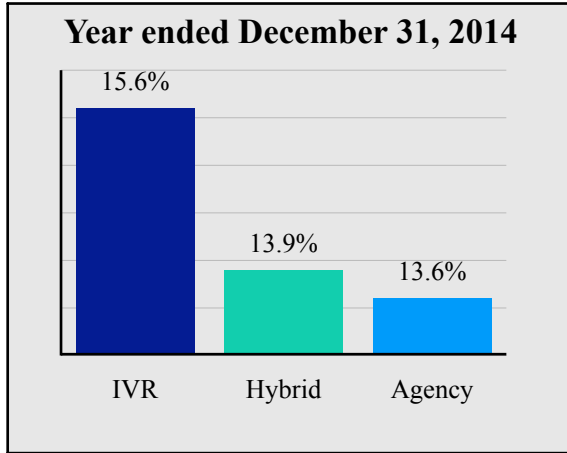
We seek to provide stockholders with attractive income and long term book value stability

- Q1 2017 book value per diluted common share ("BVPS") increased by \$0.47 or 2.7% over Q4 2016
 - Residential credit added \$0.24 to our BVPS, of which \$0.19 was due to GSE CRT
 - Derivatives increased our BVPS by \$0.25 due to a widening of interest rate swap spreads
 - Agency Hybrid ARMs and 15 year fixed-rate Agency RMBS outperformed swap hedges during Q1 2017

Economic Return Relative to Competitors



Economic return⁽¹⁾⁽²⁾: IVR vs. mREIT sector



Source: Bloomberg as of 12/31/2016

- (1) Hybrid residential mortgage REITs include AI, CIM, DX, EARN, EFC, MFA, MITT, MTGE, NLY, TWO and WMIC. Agency residential REITs include AGNC, ANH, ARR, CMO, and CYS. Indices are equal-weighted economic returns for each peer group
- (2) Economic return is defined as the change in BVPS plus total cumulative dividends divided by the beginning BVPS

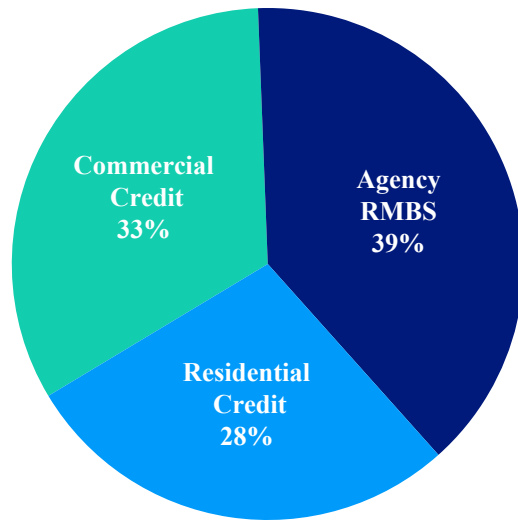
The IVR Portfolio



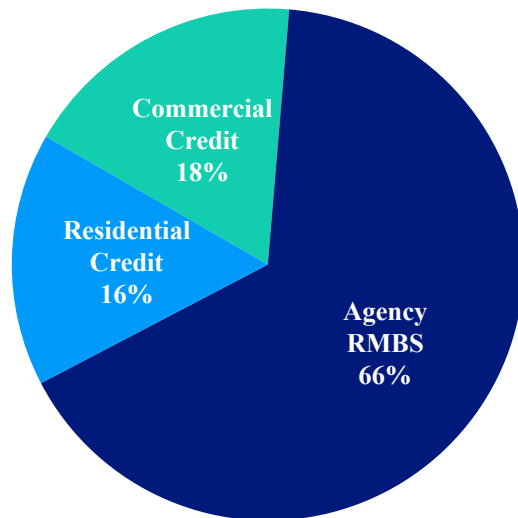
Q1 2017 Portfolio Update



Equity Allocation

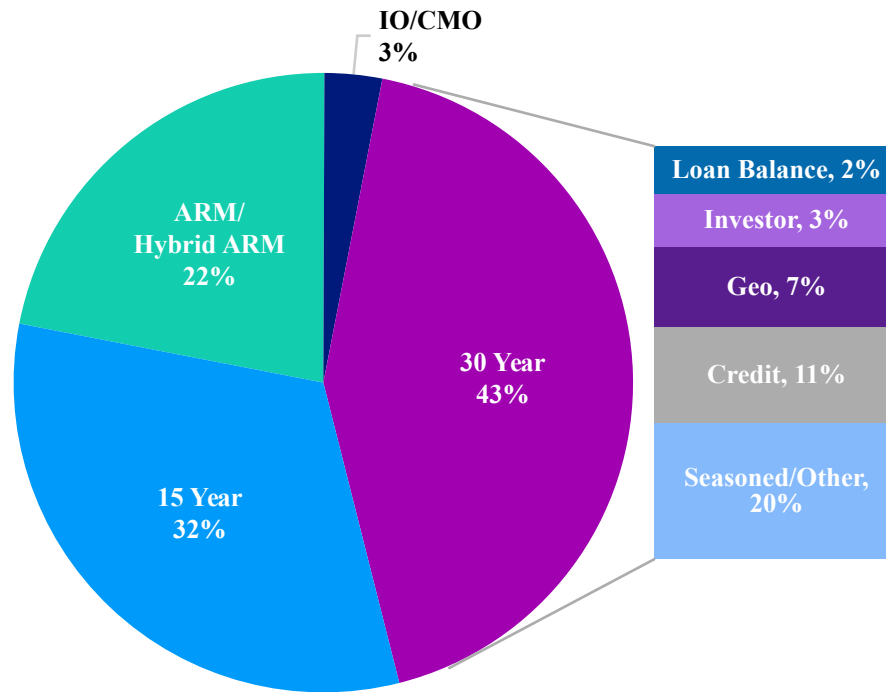


Asset Allocation



Highlights:

- Our liquidity allowed us to capitalize on opportunities to improve investment returns
- 61% of equity and 34% of assets are allocated to credit
 - Both residential and commercial credit fundamentals remain strong
 - Credit assets exhibit significantly less convexity risk than Agency RMBS
- Rising rates led us to increase our allocation to 30 year fixed-rate Agency RMBS as they lagged the spread tightening in hybrid ARM's and 15 year fixed-rate sectors



	CPR ⁽¹⁾	Net Wtd Avg Coupon ⁽²⁾	Period-end Wtd Avg Yield ⁽³⁾
15 Year	8.1	3.10%	2.19%
30 Year	10.8	4.04%	2.95%
Hybrid ARM	15.7	2.69%	2.53%

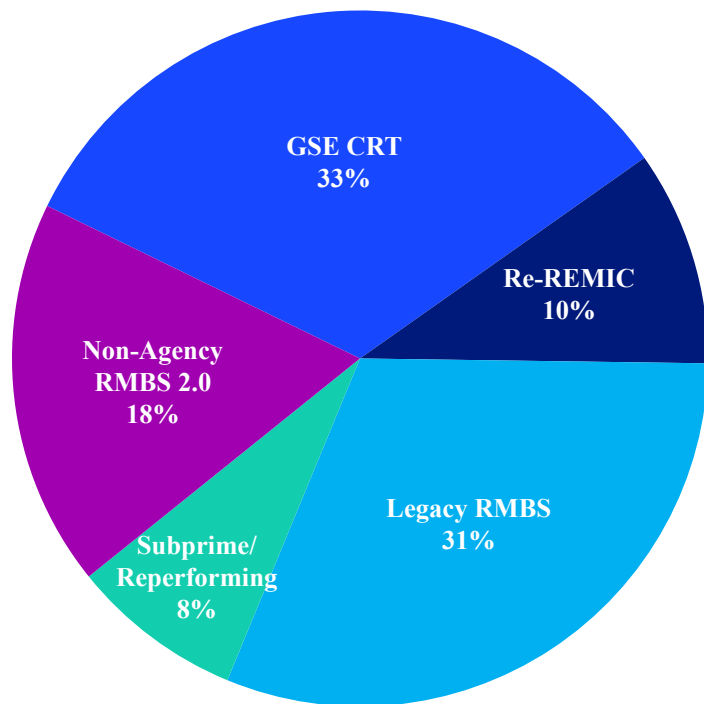
Highlights:

- Portfolio Characteristics
 - Added \$1.7 billion of 30 year 3.5% coupon specified pools during the quarter due to attractive duration hedged ROE
 - Hybrid ARMs and 15 year fixed-rate outperformed 30 year fixed-rate
- Agency prepayment speeds should remain stable over the next several months if primary mortgage rates remain in the 4% area
- Higher leverage is maintained on Agency RMBS due to lower volatility and cost of funds

(1) Constant Prepayment Rate

(2) Net weighted average coupon as of March 31, 2017 is presented net of servicing and other fees.

(3) Period-end weighted average yield is based on amortized cost as of March 31, 2017 and incorporates future prepayment and loss assumptions.



Highlights:

- Home prices continued to benefit from limited inventory and improving demand
- The credit performance of loans collateralizing GSE CRT and Non-Agency RMBS 2.0 securities has been exceptional
- GSE CRT spreads tightened significantly during the quarter as investors sought floating-rate credit assets linked to the housing market
- Legacy RMBS prices also gained, supported by demand from reinvestment of paydowns
- Residential credit leverage remains moderate at 2.7x

	Duration	Period-end Wtd Avg Yield ⁽¹⁾
Re-REMIC	0.6	5.28%
Legacy RMBS ⁽²⁾	0.5	7.29%
Subprime/Reperforming	1.5	4.58%
Non-Agency RMBS 2.0 ⁽³⁾	3.7	4.06%
GSE CRT ⁽⁴⁾	0.0	6.22%

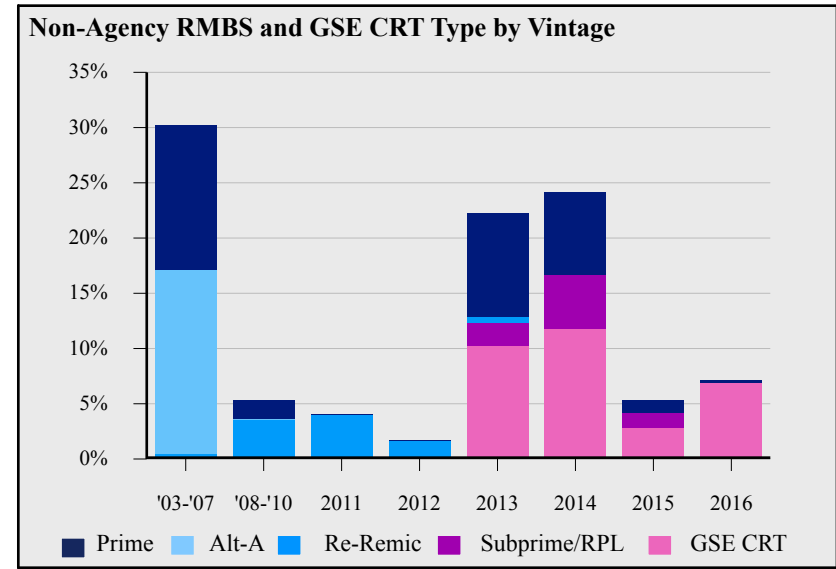
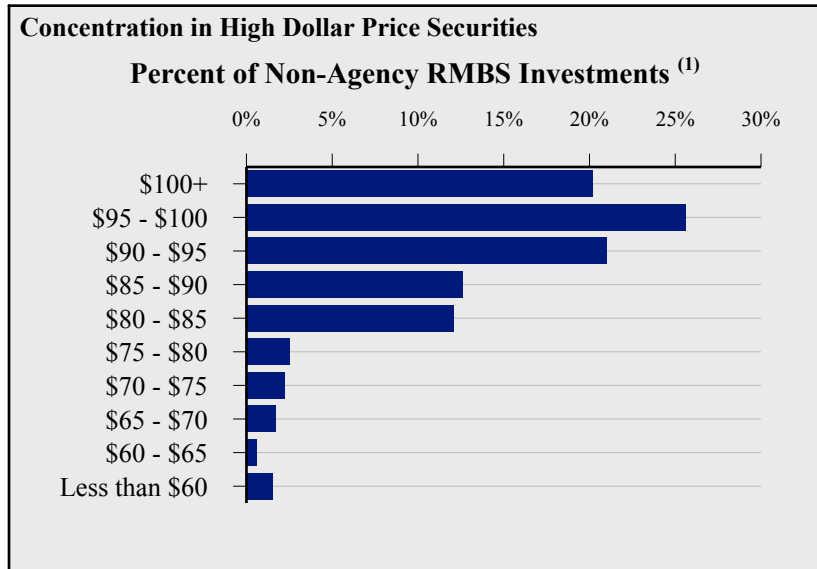
(1) Period-end weighted average yield is based on amortized cost as of March 31, 2017 and incorporates future prepayment and loss assumptions.

(2) Non-Agency RMBS issued prior to 2009

(3) Non-Agency RMBS issued after 2010

(4) GSE CRT period-end weighted average yield includes embedded coupon interest recorded as realized and unrealized credit derivative income under U.S. GAAP. Excluding embedded coupon interest recorded as realized and unrealized credit derivative income, the Company's period-end weighted average yield for GSE CRT was 2.31%

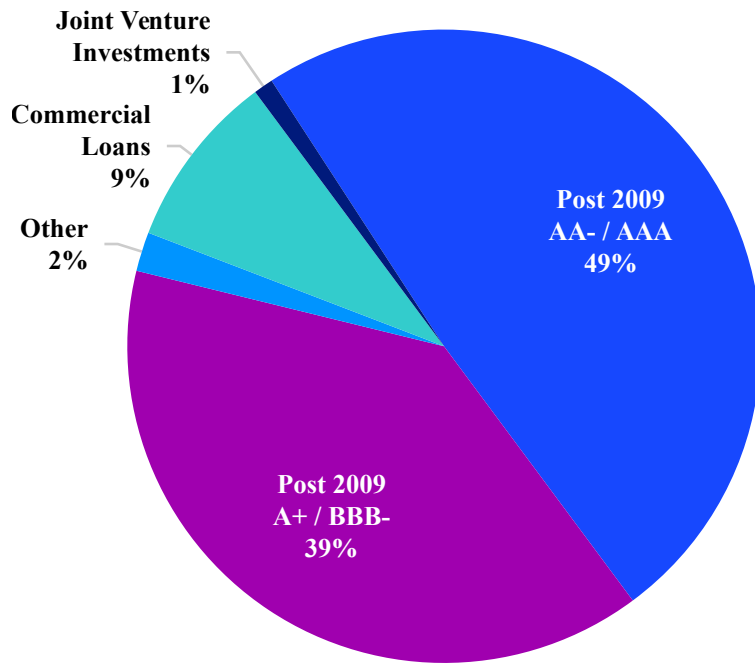
Residential Credit Investment Quality



- 67% of Non-Agency RMBS holdings have dollar prices above \$90, and 91% above \$80
- These high dollar prices generally reflect lower exposure to collateral performance issues, demonstrate less price volatility and are more attractive to finance
- Low dollar price bonds demonstrate greater price volatility, are often unattractive to finance, and are sensitive to changes in servicer advancing and property disposition strategies

- Legacy Non-Agency RMBS investments are focused in securities backed by Prime and Alt-A loans as well as Re-REMICs
- GSE CRT holdings are concentrated in early vintages
 - These seasoned transactions have experienced significant rating agency upgrades
 - Reference loans have significant embedded home price appreciation

10 ⁽¹⁾ Excludes GSE CRT and interest-only securities. As of March 31, 2017



	Duration	Period-end Wtd Avg Yield ⁽¹⁾
Post 2009 AA- / AAA ⁽²⁾	5.3	3.77%
Post 2009 A+ / BBB- ⁽³⁾	4.4	5.13%
Other ⁽⁴⁾	3.4	5.94%
Commercial Loans	0.0	8.50%

Highlights:

- CMBS spreads benefited from increased investor risk appetite and lower new issue supply during the quarter
- Favorable trends in property fundamentals provide positive support for commercial mortgage credit investments
- CMBS positions continued to benefit from rating agency upgrades and underlying property price appreciation
- Commercial credit leverage was 2.6x at quarter end

(1) Period-end weighted average yield is based on amortized cost as of March 31, 2017 and incorporates future prepayment and loss assumptions.

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

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

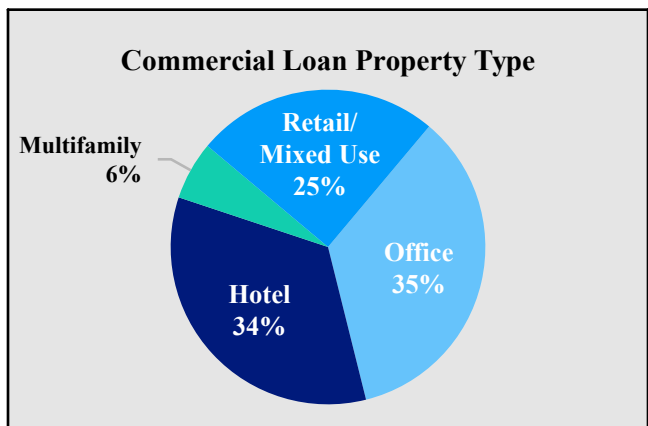
11 (4) Below investment grade CMBS originally issued after 2009, including bonds issued from risk retention compliant transactions

Commercial Loan & Joint Venture Investments



Investment Type	Property Type	Location	Commitment ⁽¹⁾	Borrower	Rate Type	Loan Status
Mezzanine Loan	Retail/Mixed Use	New York, NY	\$41,013,463	Public REIT	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	\$49,598,925	Institutional Investor	Fixed	Current
Mezzanine Loan	Retail/Mixed Use	Aventura, FL	\$28,000,000	Institutional Investor	Floating	Current
Mezzanine Loan	Hotel	San Antonio, TX	\$25,000,000	Institutional Investor	Floating	Current
Mezzanine Loan	Multifamily	Apopka, FL	\$10,000,000	Institutional Investor	Floating	Current
Mezzanine Loan	Multifamily	Irving, TX	\$7,000,000	Institutional Investor	Floating	Current
Mezzanine Loan	Office	Oakland, CA	\$25,000,000	Institutional Investor	Floating	Current
Joint Venture Investments ⁽²⁾	Various	U.S. / Ireland	\$121,723,000	Various	Floating	NA
Mezzanine Loan	Office	New York, NY	\$15,000,000	Institutional Investor	Floating	Paid Off
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 April 2017



As of March 31, 2017. Joint venture investment property types are not included.

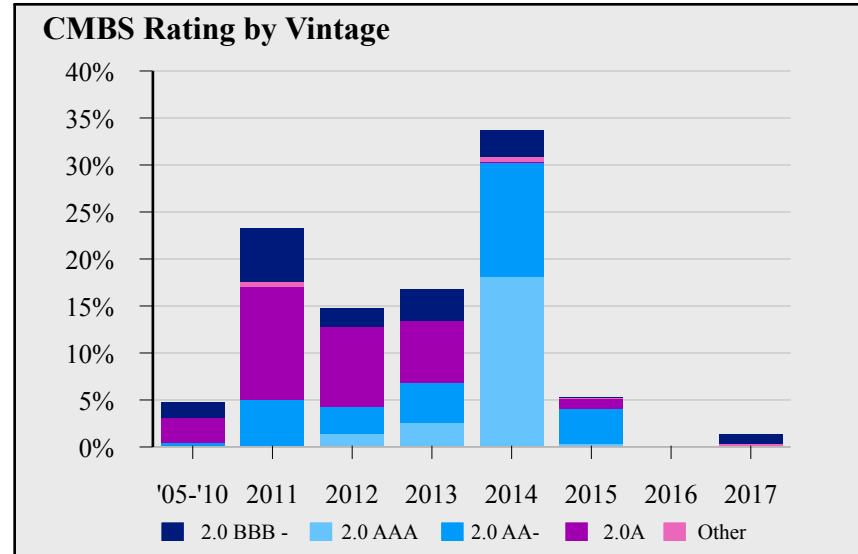
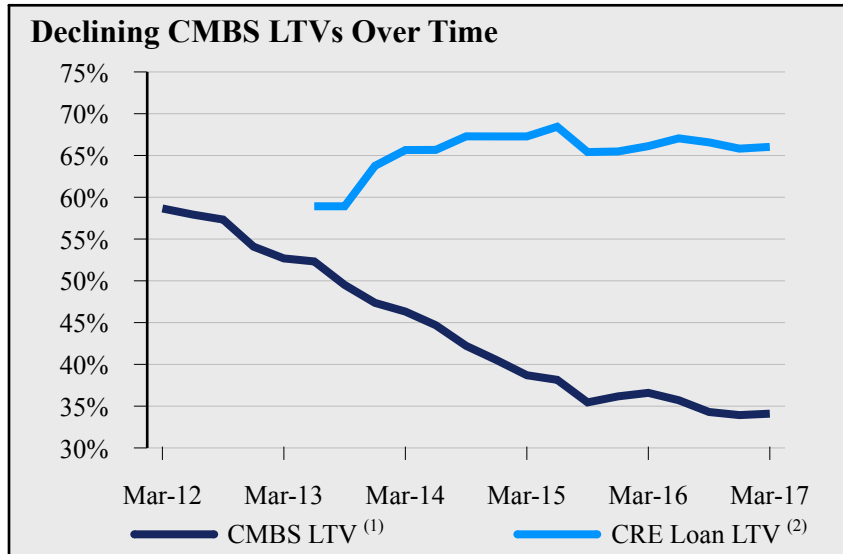
Portfolio Highlights

- Quarter-end portfolio of \$303.3 million
- \$112 million of principal has been returned through realization of borrower business plans
- No delinquencies as of March 31, 2017
- Investments behind five different balance sheet lenders

(1) As of March 31, 2017 the Company's undrawn commitments in commercial loans and joint venture investments were \$7.6 million and \$13.2 million, respectively

(2) As of March 31, 2017 the Company has received cumulative distributions totaling \$166.7 million from joint venture investments. As of March 31, 2017, the Company's joint venture investment balance was \$33.3 million

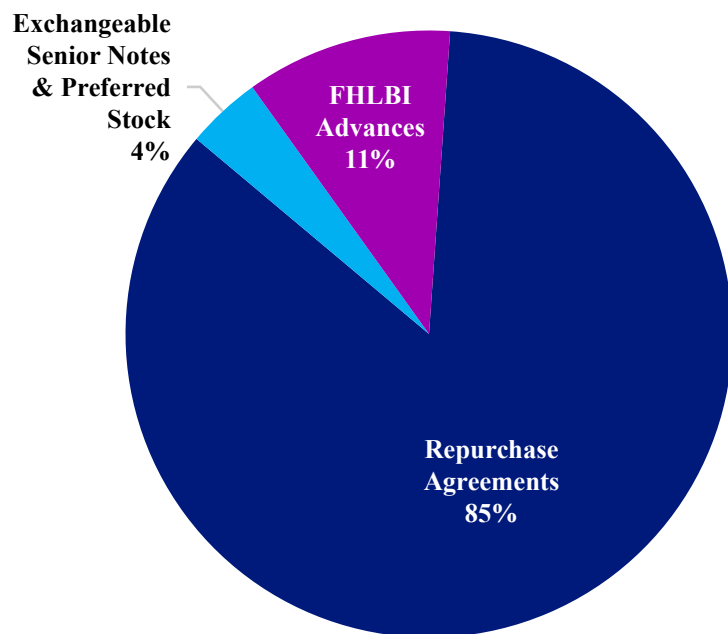
Improvement in Commercial Mortgage Investment Credit Quality



- CMBS LTV ⁽¹⁾ of 34% and CRE Loan LTV ⁽²⁾ of 66%
- Over 80% of CMBS portfolio is rated single-A or higher
- Current portfolio is positioned to navigate growth in e-commerce
 - Retail mall exposure represents only ~1% of total portfolio assets
 - Substantial CMBS subordination (weighted average of ~20%) provides additional protection
- Improved loan underwriting in risk retention compliant CMBS transactions has created new opportunities to invest

Source: Trepp as of March 31, 2017

- (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 March 31, 2017.
- (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.



Average Cost of Funds ⁽¹⁾	Q1 2017	Q4 2016
Agency RMBS ⁽²⁾	0.87%	0.80%
CMBS ⁽²⁾	1.34%	1.18%
Non-Agency RMBS	2.20%	2.03%
GSE CRT	2.27%	2.15%

Highlights:

- Funding sources include:
 - Secured financing: repurchase agreements, debt facility, FHLBI advances
 - Exchangeable senior notes
 - Preferred equity
- 25 active repurchase agreement counterparties
- Retired \$150 million of our Exchangeable Senior Notes in March 2017
- The March 2017 rate hike increased Agency RMBS cost of funds to ~1.00% in early Q2 2017

(1) Average cost of funds is calculated by dividing annualized interest expense by the Company's average borrowings.

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

Appendix — Non-GAAP Financial Information



In addition to the results presented in accordance with U.S. GAAP, this presentation contains the non-GAAP financial measure of “core earnings”. We use core earnings in our internal analysis of results and believe this information is useful to investors for the reasons explained below.

Core earnings should not be considered a substitute 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 in the future to non-GAAP measures if deemed appropriate.

We calculate core earnings as U.S. GAAP net income (loss) attributable to common stockholders adjusted for (gain) loss on investments, net; realized (gain) loss on derivative instruments, net; unrealized (gain) loss on derivative instruments, net; realized and unrealized (gain) loss on GSE CRT embedded derivatives, net; (gain) loss on foreign currency transactions, net; amortization of net deferred (gain) loss on de-designated interest rate swaps; net loss on extinguishment of debt; and cumulative adjustments attributable to non-controlling interest. We record changes in the valuation of our mortgage-backed securities, excluding securities for which we elected the fair value option and the valuation assigned to the debt host contract associated with our GSE CRTs, in other comprehensive income on our consolidated balance sheets.

We believe the presentation of core earnings provides a consistent measure of operating performance by excluding the impact of gains and losses described above from operating results. We believe that providing transparency into core earnings enables our investors to consistently measure, evaluate and compare our operating performance to that of our peers over multiple reporting periods. However, we caution that core earnings should not be considered as an alternative to net income (determined in accordance with U.S. GAAP), or as an indication of our cash flow from operating activities (determined in accordance with U.S. GAAP), a measure of our liquidity, or as an indication of amounts available to fund our cash needs, including our ability to make cash distributions.

	Three Months Ended		
	March 31, 2017	December 31, 2016	March 31, 2016
\$ in thousands, except per share data			
Net income (loss) attributable to common stockholders	87,130	270,105	(156,160)
Adjustments:			
(Gain) loss on investments, net	1,853	23,402	(11,601)
Realized (gain) loss on derivative instruments, net	(14,918)	(4,279)	42,985
Unrealized (gain) loss on derivative instruments, net	(13,438)	(250,774)	166,467
Realized and unrealized (gain) loss on GSE CRT embedded derivatives, net	(14,148)	2,376	(2,096)
(Gain) loss on foreign currency transactions, net	(513)	2,180	1,125
Amortization of net deferred (gain) loss on de-designated interest rate swaps	(6,298)	(6,177)	12,924
Net loss on extinguishment of debt	4,711	—	—
Subtotal	(42,751)	(233,272)	209,804
Cumulative adjustments attributable to non-controlling interest	539	2,942	(2,597)
Core earnings	44,918	39,775	51,047
Basic income (loss) per common share	0.78	2.42	(1.38)
Core earnings per share attributable to common stockholders	0.40	0.36	0.45