

# **Invesco Mortgage Capital Inc.**

## **2010 Third Quarter Earnings Call**

**November 8, 2010**

**Richard J. King**

**President & Chief Executive Officer**

**John M. Anzalone**

**Chief Investment Officer**

**Donald R. Ramon**

**Chief Financial Officer**



# Forward-Looking Statements

This presentation, and comments made in the associated conference call today, may include 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 our ability to deploy capital from follow-on common stock offerings and our ability to minimize earnings drag, our ability to repeat performance trends in net income, net interest income, return on equity, portfolio yields and expense ratios, improved stock liquidity, interest rates and their effect on prepayment risk, our ability to generate future dividends, the impact of the foreclosure moratorium, the impact of the Federal Reserve’s quantitative easing strategy, opportunities in the mortgage loan area and our ability to capitalize on those opportunities, the availability of financing, repurchase agreement funding costs and terms, our portfolio composition and our ability to adjust it to generate targeted returns, the constant prepayment rates of mortgage-backed securities, our ability to reduce risk through our hybrid REIT strategy, the level of investments in the Invesco public-private investment fund and our ability to fund these commitments, credit performance of mortgage-backed securities and commercial loans, changes and opportunity in the mortgage loan area, and advantages mortgage REITs have over financial institutions. In addition, words such as “anticipates,” “believes,” “will,” “expects” and “plans,” as well as any other statements that necessarily depend 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.

# Overview

## Strong third quarter results

- ✓ Grew earnings per share ("EPS") to \$1.01
- ✓ Paid \$1.00 dividend
- ✓ Improved book value to \$20.28

## Equity raise completed October 2010

- ✓ Raised \$275MM (net of issuance costs)
- ✓ Invested preponderance of new capital in approximately three weeks
- ✓ Reduced expense ratio, improved liquidity in shares, and improved our scale

## Economic update

- ✓ Foreclosure moratorium and put-backs
- ✓ QE2\*

## Opportunities

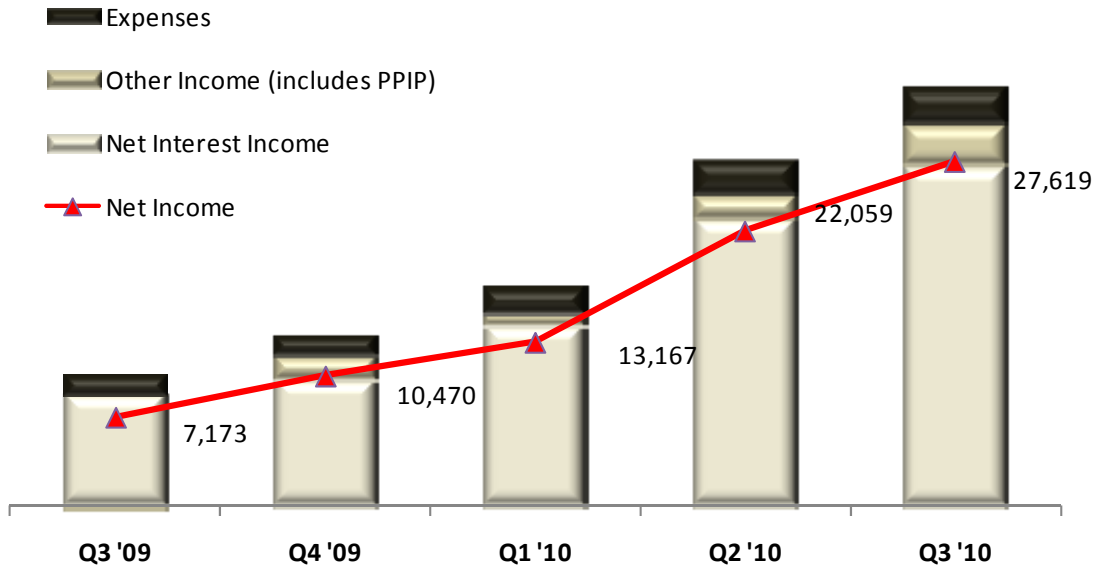
- ✓ Residential Loans
- ✓ Commercial Loans
- ✓ RMBS\*
- ✓ CMBS\*

\* The federal Reserve Policy on Quantitative Easing ("QE2"), residential and commercial mortgage-backed securities ("RMBS" and "CMBS")

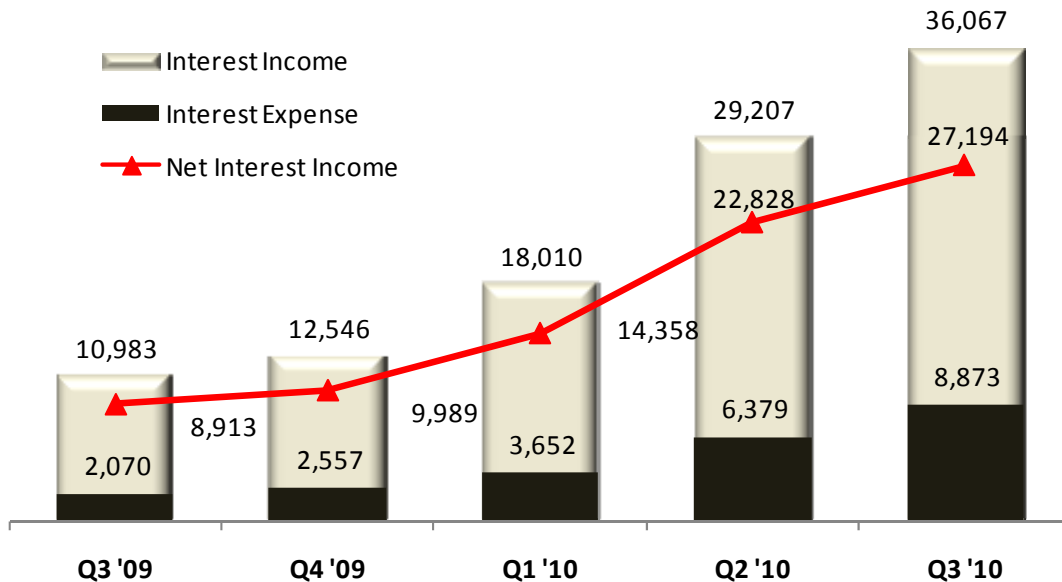


# Q3 Performance

## Net Income



## Net Interest Income

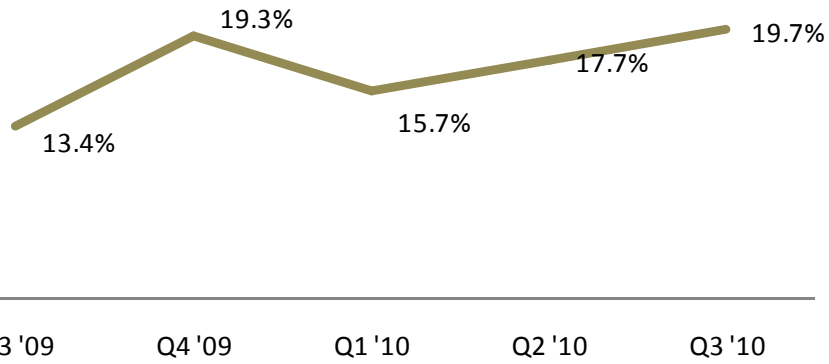


## Comments

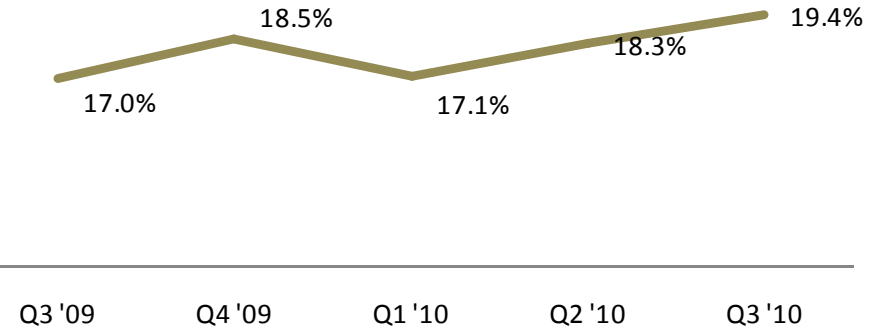
- Net income increased \$5.6MM to \$27.6MM
- Net interest income was \$36.1MM
- Key drivers:
  - Higher average portfolio balance
  - Improved PPIP income
- Q3 EPS was \$1.01 ~ 11.0% increase
- Dividend Q3 \$1.00, Y-T-D \$2.52
- Expense ratio declined 15 bps to 2.1%

# Performance

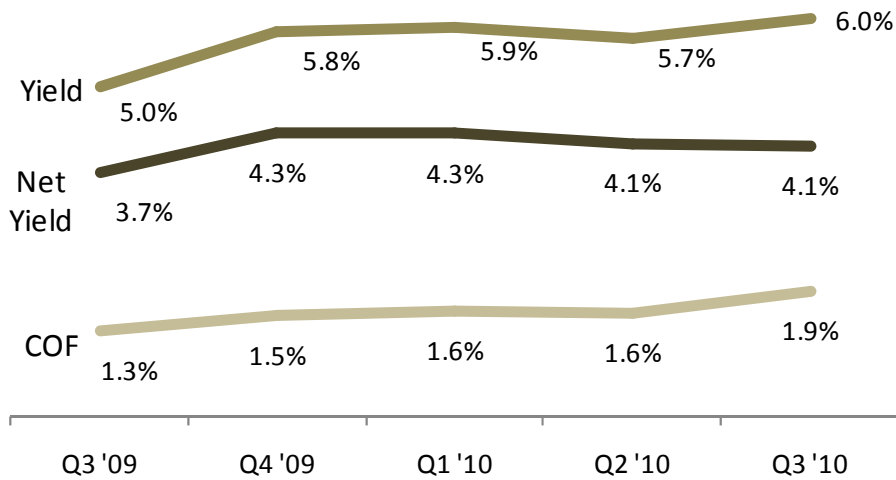
## Average ROE analysis



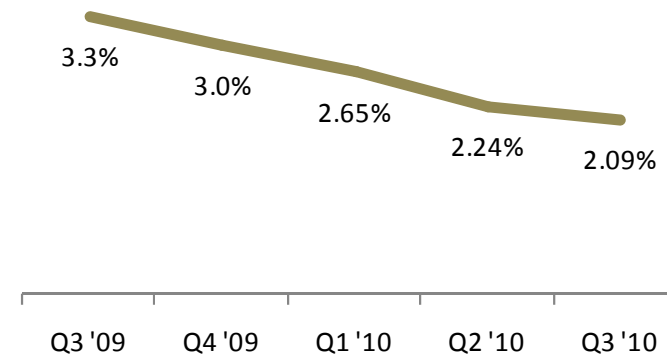
## Gross ROE



## Yields



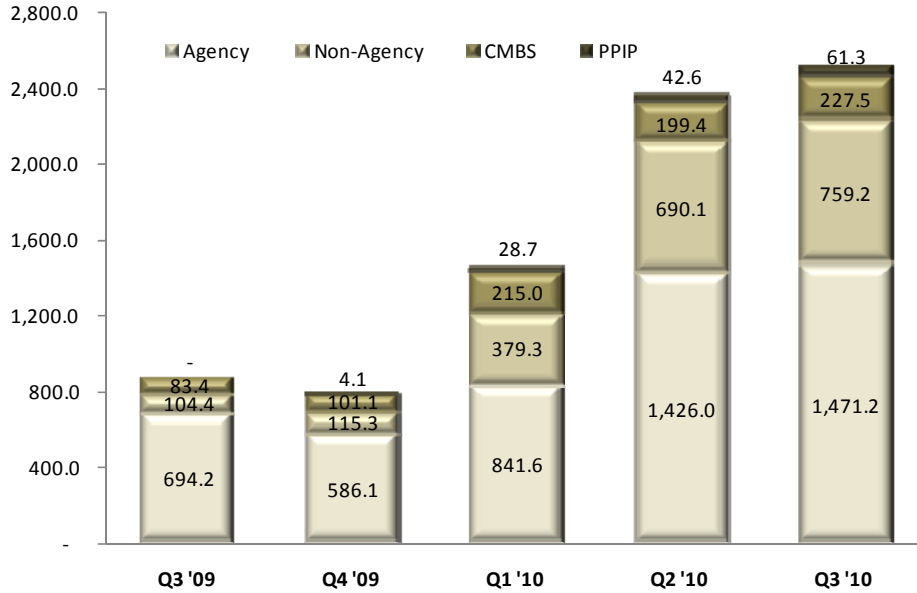
## G&A Expense (as % of equity)



# Portfolio Update

(\$ in millions)

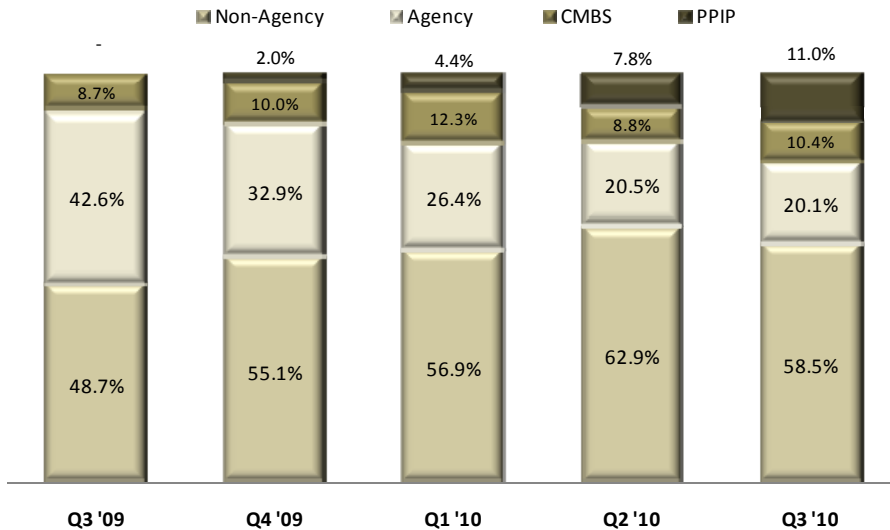
## Portfolio



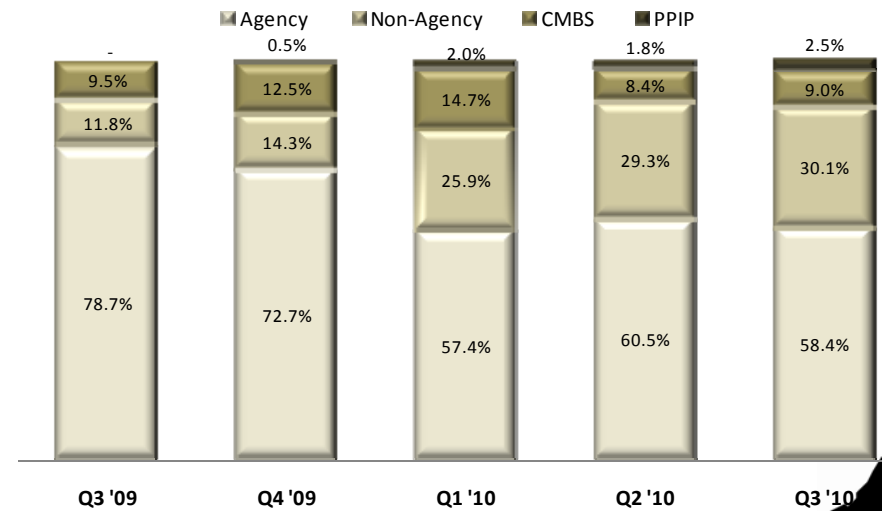
## Comments

- Agency prepayment speeds remain well contained
- Increase in equity allocated to PPIP
- Non-agency RMBS continues to perform well
- Increased allocation to CMBS

## % of Equity



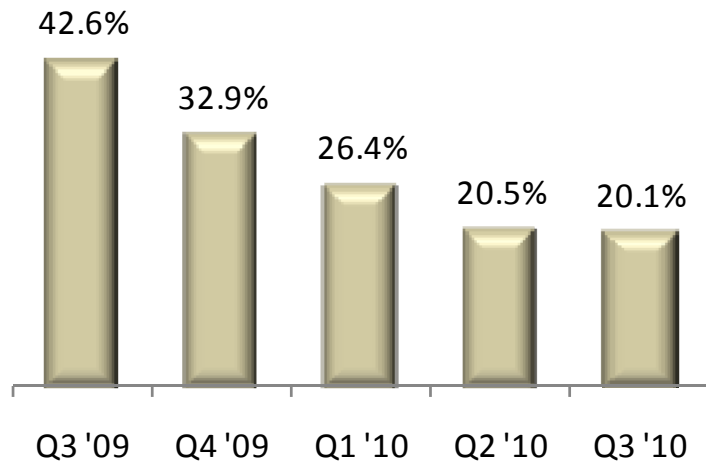
## % of Assets



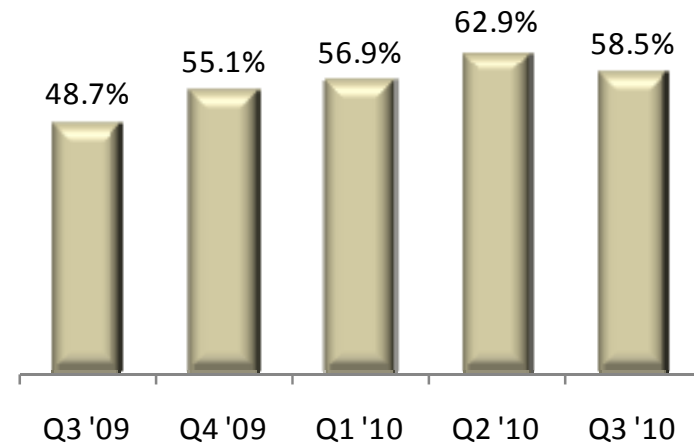
# Detailed Portfolio

(% of equity)

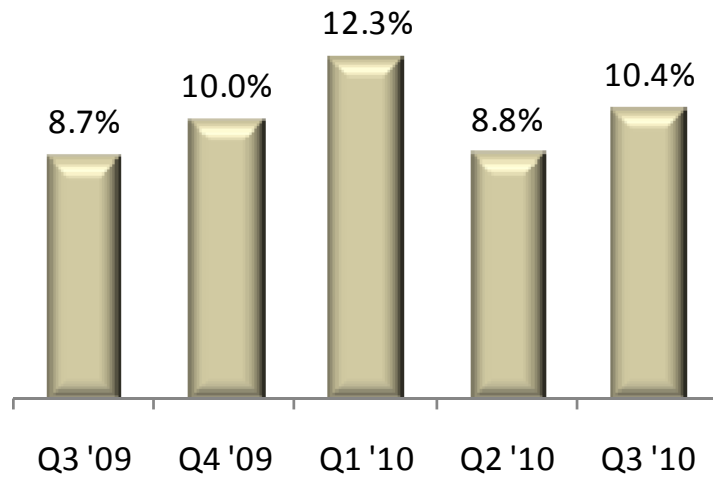
## Agency



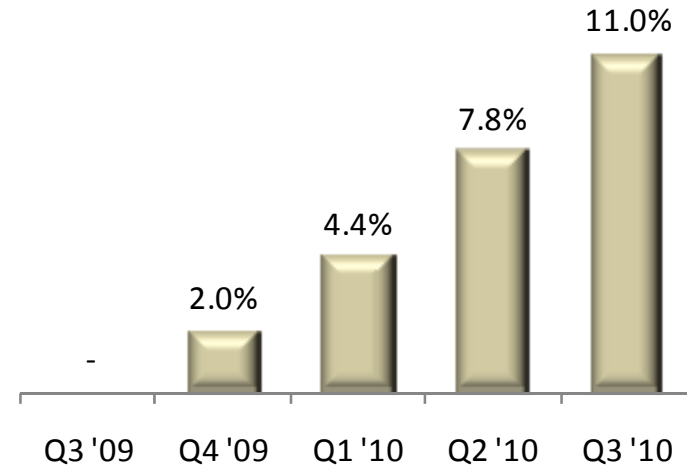
## Non-agency



## CMBS

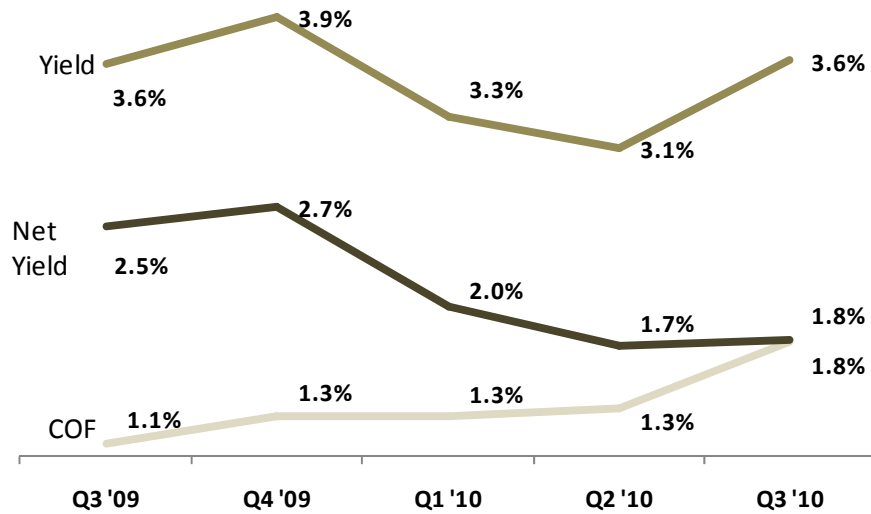


## PPIP

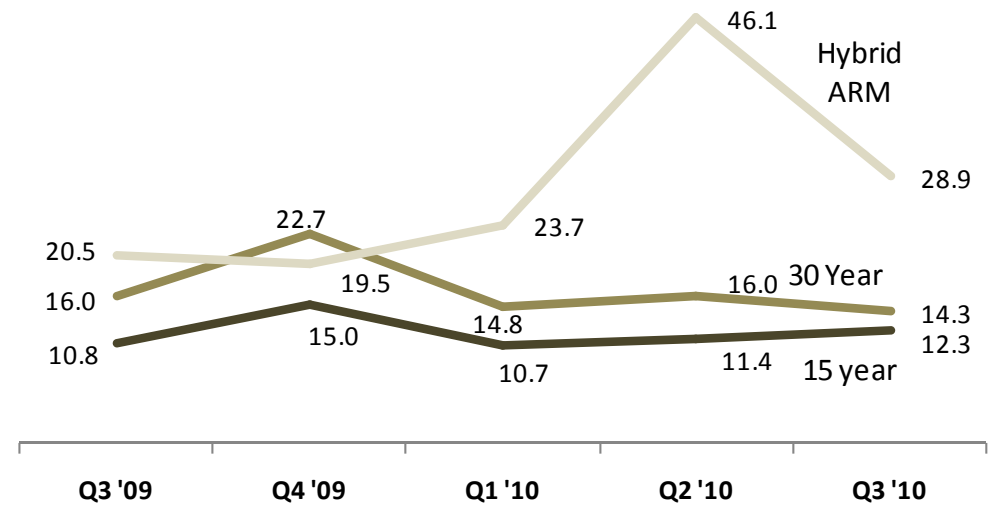


# Agency

## Yields



## Agency CPR



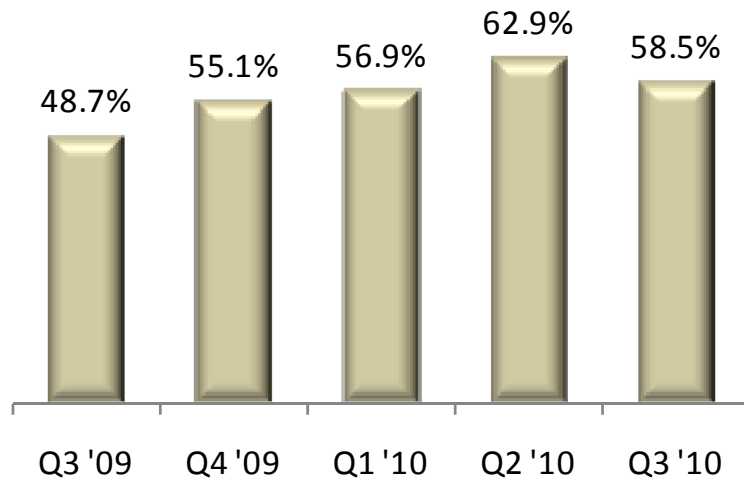
## Comments

- Q3 agency leverage of 11.6x, unchanged from Q2
  - Agency repo funding cost lower for 30 day than non-agency. Balancing overall leverage at 3.4x
  - More equity was shifted to PPIP and CMBS
- Prepayment speeds remain very well contained
  - 15 Year collateral paid 12.3 CPR versus 27.0 CPR for generic collateral
  - 30 Year collateral paid 14.3 CPR versus 31.1 CPR for generic collateral
- Hybrid ARMs now represent only 3% of our Agency book

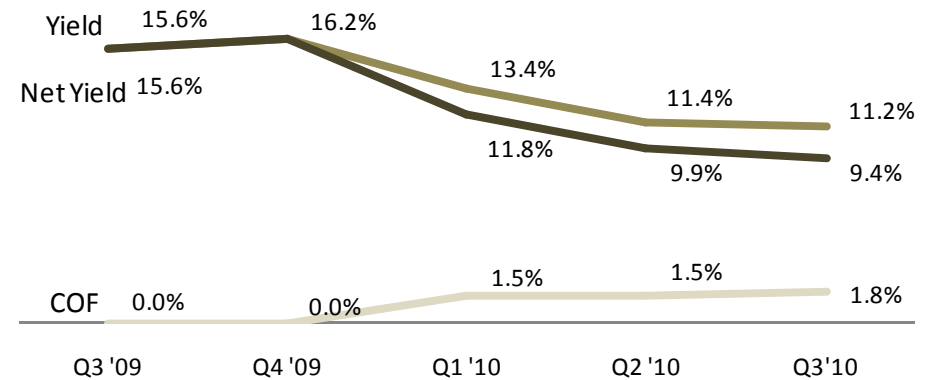


# Non-Agency

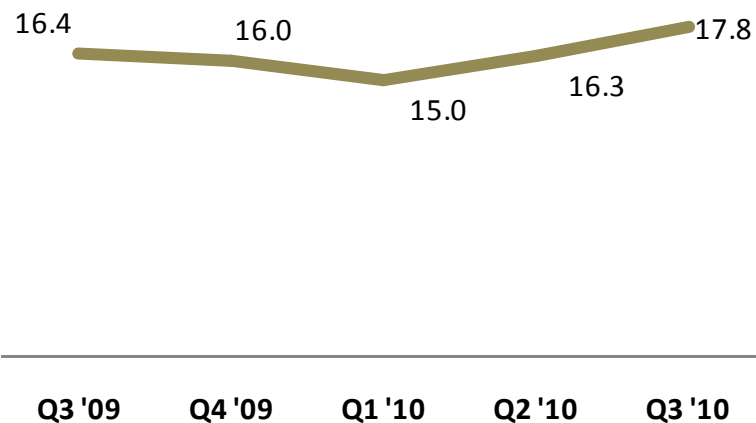
## Balance (% of equity)



## Yield



## Non-agency CPR



## Comments

- Q3 Leverage 1.3x, increase from 1.1x in Q2
- Added leverage during Q3 to meet total return target
  - Repo terms remain attractive
  - Availability of financing continues to improve
- Yields remained stable, as the market stabilizes
  - Credit continues to perform within expectations
  - Voluntary prepayment speeds have exceeded expectations



# Summary

**Efficient investment of capital raise should minimize earnings drag**

**Hybrid strategy allows for efficient capital allocation**

- Find the best available risk adjusted asset returns and financing opportunities
- Ability to stay invested and avoid under-performing assets simultaneously
- Take advantage of new opportunities on the horizon

**Future of the mortgage market = opportunity for IVR**

- RMBS new issuance is expected to return in 2011
- Larger percentage of the new residential loan market will be non-agency
- Conforming loan balance limit will likely decline by the end of 3Q 2011. New home loans will benefit from lower appraisals, LTV, DTI, Full Documentation
- Mortgage REIT's have advantages vs. Financial Institutions