



Invesco Mortgage Capital Inc.

2015 Second Quarter Earnings Call

August 18, 2015

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President & Chief Executive Officer

John Anzalone
Chief Investment Officer

Rob Kuster
Chief Operating Officer

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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, the impact of the restatement of our financial statements for certain periods and the adequacy of our disclosure controls and procedures and internal controls over financial reporting. 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/A 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

Q2 Financial Highlights

Dividend per share	\$0.45
Core EPS ⁽¹⁾	\$0.41
Basic EPS	\$1.14
Book value per diluted share ⁽²⁾	\$18.62
Comprehensive (loss) per share	(\$0.30)
Economic return ⁽³⁾	(1.5%)
Equity allocated to benefit from improving real estate markets	
38%	Agency MBS
32%	Residential credit
30%	Commercial credit

- Core EPS of \$0.41 in Q2 impacted by:
 - Lower income contribution from JV investments
 - Lower interest income contribution due to faster speeds/higher amortization
 - Asset mix moved toward lower rate risk
- Q2 Book value per share declined \$0.75 or 3.9% from Q1 as:
 - MBS and credit spreads widened
 - The yield curve steepened
 - YTD book value is down 1.1%
- GAAP EPS has been restated from Q1 2013 to Q1 2015
 - No change in reported Core EPS and BVPS
 - No change in comprehensive income
 - No impact on taxable income or dividends
- IVR economic returns⁽³⁾
 - 1.5% in Q2 2015
 - 3.7% year to date 2015
 - 36.3% over the past 3 years
- Portfolio positioning highlights
 - Increased Agency Hybrid ARMs
 - Reduced Agency leverage
 - CMBS and RMBS allocations are up in capital structure or seasoned
 - Closed 2 CRE loans totaling \$71 million

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 June 30, 2015 is defined as the change in book value per diluted common share from March 31, 2015 to June 30, 2015 of (\$0.75); plus dividends declared of \$0.45 per common share; divided by March 31, 2015 book value per diluted common share of \$19.37. Economic return year to date is defined as the change in book value per diluted common share from December 31, 2014 to June 30, 2015 of (\$0.20); plus dividends declared of \$0.90 per common share; divided by December 31, 2014 book value per diluted common share of \$18.82. Economic return for the past three years is defined as the change in book value per diluted common share from June 30, 2012 to June 30, 2015 of \$0.22; plus dividends declared of \$6.45 per common share; divided by the June 30, 2012 diluted book value per common share of \$18.40.

Restatement of Previous Financial Statements



Nature of GAAP Changes

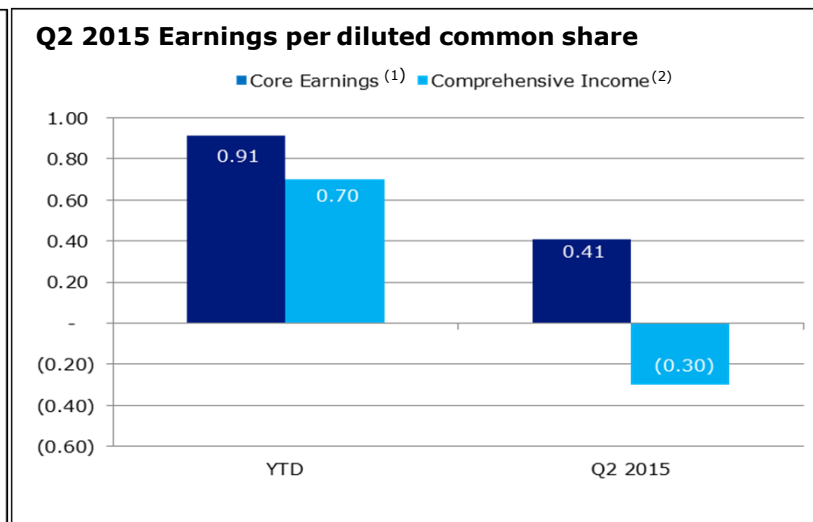
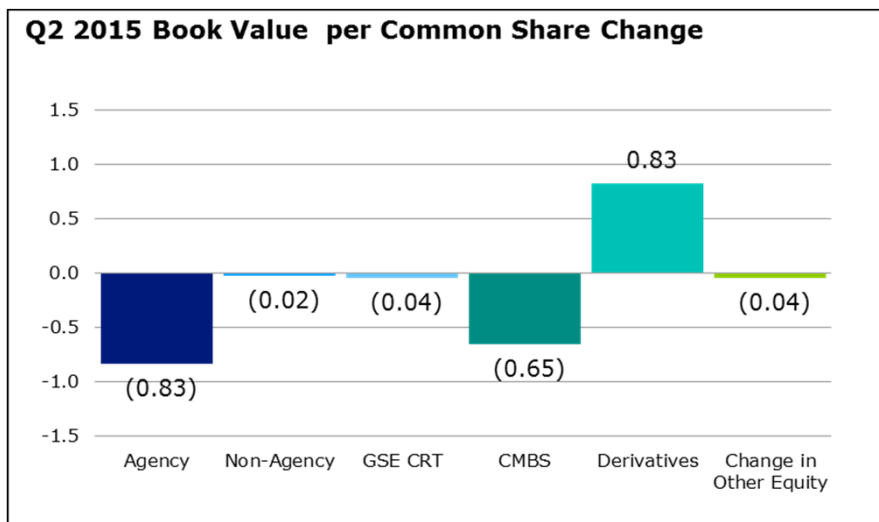
- The Company has historically accounted for its GSE CRTs and IOs as debt investments with yield included in interest income and fair value changes recorded in OCI, which is a component of equity
- GSE CRTs and Agency MBS IOs each include embedded derivatives
 - Derivative value changes should have been included in net income
 - A portion of previously recognized interest income should have been included in derivative income
- The table below illustrates the changes for selected financial statement items

Impact on Selected Accounts (\$000s)	12 Months Ended December 2013			12 Months Ended December 2014			3 Months Ended March 2015		
	As Reported	Restated	Change	As Reported	Restated	Change	As Reported	Restated	Change
Net income (loss)	130,769	147,304	16,535	(216,823)	(245,484)	(28,661)	(32,700)	(17,440)	15,260
Other comprehensive income (loss)	(245,945)	(262,661)	(16,716)	568,041	597,033	28,992	157,601	142,165	(15,436)
Comprehensive income (loss)	(112,661)	(112,661)	-	344,729	344,729	-	123,099	123,099	-
Total stockholders' equity	2,736,115	2,736,115	-	2,610,315	2,610,315	-	2,678,228	2,678,228	-

Effect of Changes

- Comprehensive income and equity unchanged for all affected periods
- No impact on taxable income or our qualification as a REIT
- The measures management believes to be relevant to stockholder value and earnings power are unchanged, including
 - Total equity, assets, and liabilities
 - Core EPS
 - Total leverage and repo leverage
- No change in our investment strategy
 - GSE CRTs and Agency MBS IOs have attractive yields and provide protection from rising interest rates
 - No impact on our dividend policy

Performance



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

- Book value stability over the long term is a key component of our value proposition
 - Q2 BVPS declined \$0.75 or 3.9%
 - Spreads widened in MBS, CMBS, and GSE CRT
 - Hedges positioned to benefit from flatter yield curve, but the yield curve steepened in Q2, counter to expectations
 - Volatility in IVR’s quarterly BVPS has declined over the past 3 years
- Core EPS⁽¹⁾ of \$0.41 in Q2 and \$0.91 YTD
 - Higher prepayment speeds and amortization reduced Q2 core income
 - JV investments contributed \$0.01 per share in Q2 vs. \$0.05 per share in Q1
 - Portfolio asset mix emphasizing reduced interest rate risk
- Comprehensive income⁽²⁾ is expected to be highly correlated with economic return over time
 - Q2 comprehensive income decreased with lower portfolio values
 - YTD comprehensive income of \$0.70 per share

(1) Non-GAAP financial measure. See Slide 14 for non-GAAP reconciliation.
 (2) Comprehensive income attributable to common stockholders per share

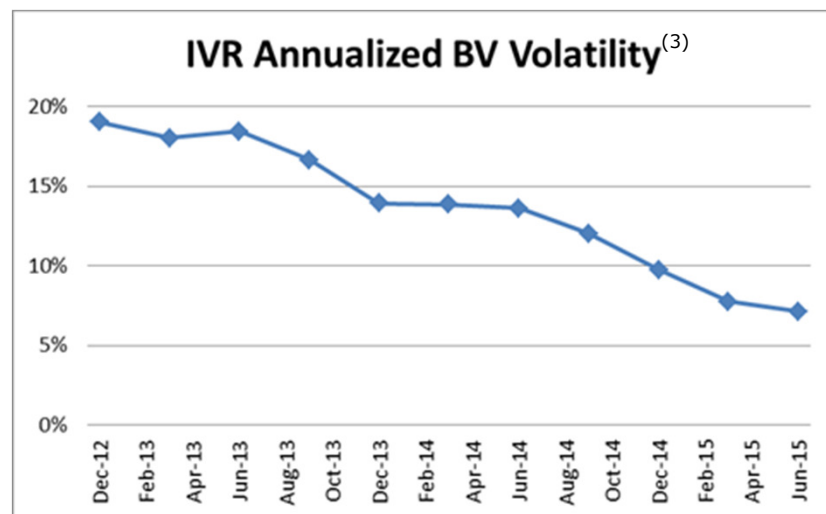
Active Portfolio Positioning



Since 2012, IVR has increased its allocation to credit and reduced interest rate risk
Benefits include:

- Further diversification of our asset strategy
- Increased investment in loan strategies
- Improved liability and hedging profile
- Reduced book value volatility

Equity Allocation	Q2 2015	2014	2013	2012
Agency MBS	38%	32%	42%	49%
Residential Credit ⁽¹⁾	32%	34%	33%	29%
Commercial Credit ⁽²⁾	30%	34%	25%	22%



(1) Includes Non-Agency RMBS, GSE CRT and consolidated VIEs

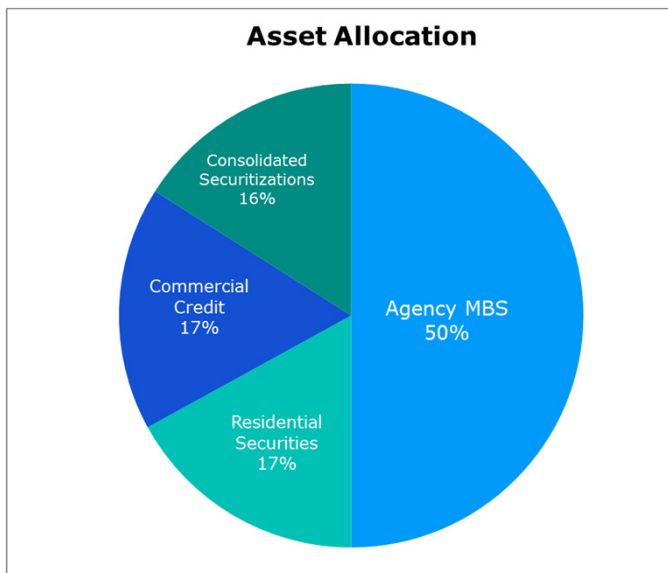
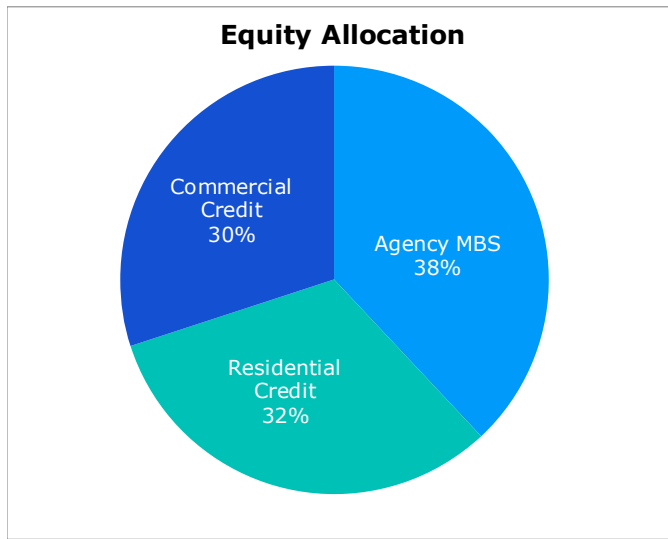
(2) Includes CMBS, commercial real estate loans, and investments in unconsolidated ventures of distressed commercial real estate debt.

(3) BV volatility is based on trailing 2 years of quarterly data.

The IVR Portfolio



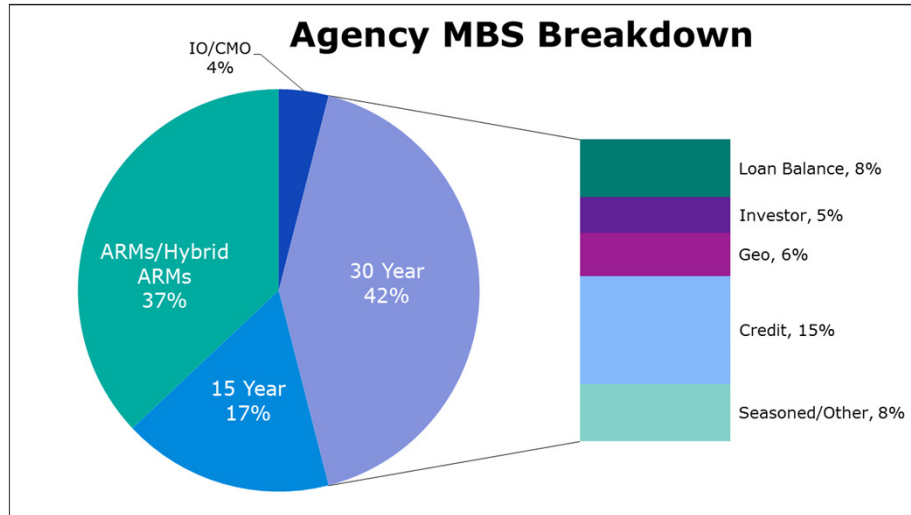
Q2 2015 Portfolio Update



Highlights:

- We believe the portfolio remains well positioned for the current environment
- 62% of equity allocated to credit assets
 - Fundamentals remain strong
 - Significantly less convexity risk than Agency MBS
- The agency portfolio has been constructed to have less exposure to prepayment risk
- Limited exposure to interest rates
 - Portfolio has exhibited low correlation with interest rates over the last year

Agency MBS



	CPR ⁽¹⁾	Net Wtd Avg Coupon ⁽²⁾	Yield ⁽³⁾
15 Year	10.7	3.76%	2.55%
30 Year	13.9	4.28%	2.84%
Hybrid ARMs	17.3	2.74%	2.51%

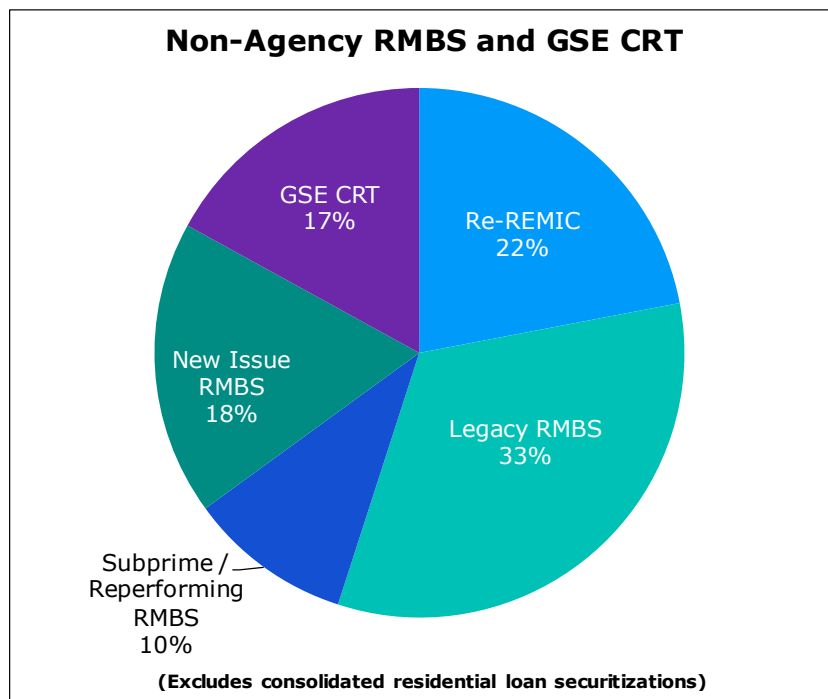
(1) Constant Prepayment Rate
 (2) Net weighted average coupon as of June 30, 2015 is presented net of servicing and other fees.
 (3) Period-end weighted average yield is based on amortized cost as of June 30, 2015 and incorporates future prepayment and loss assumptions but excludes changes in anticipated interest rates.

Highlights:

- Portfolio characteristics:
 - 30 year exposure down to 42%
 - Fixed rate pools consist of well seasoned, high coupon, specified collateral
 - ARMs and Hybrid ARMs increased to 37% of the agency portfolio
- Prepayments were elevated during Q2 due to lower mortgage rates and seasonal factors
- We expect prepayment speeds to moderate over the next few quarters



Residential Mortgage Credit



Highlights:

- Fundamental measures including home sales, housing starts and home price gains indicate that the housing recovery continued to strengthen during the second quarter
- Improving housing demand is supportive of our Non-Agency RMBS and GSE CRT investments
- Legacy RMBS spreads remained stable during the quarter while GSE CRT prices declined due to technical factors
- The consolidated residential loan portfolio continues to demonstrate excellent performance, reflecting high borrower quality and significant embedded home price appreciation

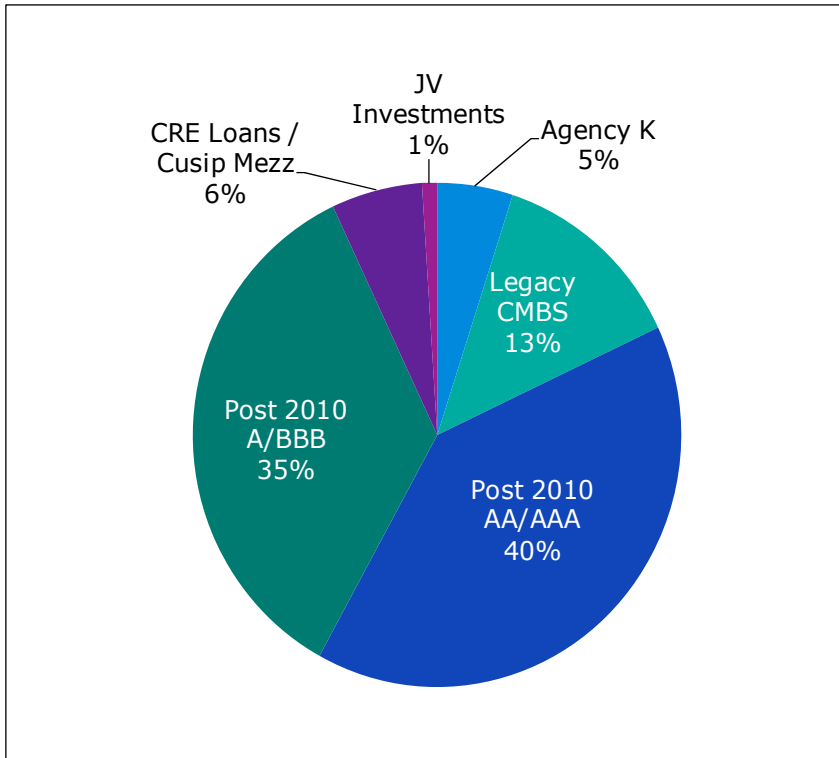
	Duration	Yield ⁽¹⁾
Re-REMIC	0.5	3.89%
Legacy RMBS	0.2	3.88%
Subprime / Reperforming	1.2	3.86%
New Issue RMBS ⁽²⁾	3.7	3.84%
GSE CRT ⁽³⁾	0.0	0.50%

(1) Period-end weighted average yield is based on amortized cost as of June 30, 2015 and incorporates future prepayment and loss assumptions but excludes changes in anticipated interest rates.

(2) RMBS issued after 2010

(3) GSE CRT period-end yield excludes embedded coupon interest recorded as realized and unrealized credit derivative income

Commercial Mortgage Credit



	Duration	Yield ⁽¹⁾
Agency K ⁽²⁾	4.6	5.51%
Legacy CMBS ⁽³⁾	0.8	5.31%
Post 2010 AA/AAA ⁽⁴⁾	6.7	3.76%
Post 2010 A/BBB ⁽⁵⁾	5.3	5.20%
Cusip Mezz	0.1	5.29%
CRE Loans		8.55% ⁽⁶⁾

(1) Period-end weighted average yield is based on amortized cost as of June 30, 2015 and 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 AAA and AA- (or an equivalent/comparable ratings by a nationally recognized statistical rating organization) issued after 2009

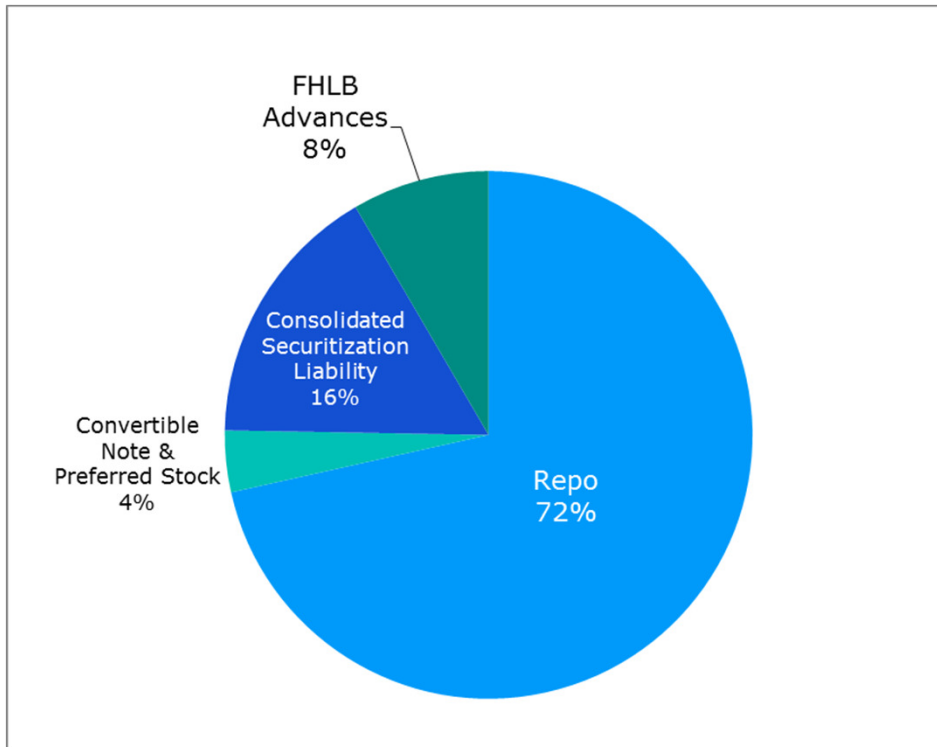
(5) CMBS originally rated between A+ and BBB- (or an equivalent/comparable rating by a nationally recognized statistical rating organization) issued after 2009

(6) Average book yield for the three months ending June 30, 2015 was calculated by dividing interest income, including amortization of premiums and discounts, by our average of the amortized cost of the investments. All yields are annualized.

Highlights:

- Favorable trends in property fundamentals continue to provide positive support for our commercial mortgage credit investments
- Despite an improving economy, a spike in issuance and heightened macro volatility resulted in credit spread widening
- Transactions with seasoned loans and stronger underwriting were more resilient to spread widening
- Subordinate positions benefit from notable underlying property price appreciation and investor preference for seasoned vintages
- Legacy CMBS continues to benefit from growing subordination, scarcity value and declining duration
- Closed two floating rate mezzanine loans totaling approximately \$71 million and pipeline continues to expand

Financing



Highlights:

- Diversified funding mix
 - Secured financing: repurchase agreements, debt facility, FHLB loans
 - Unsecured financing: exchangeable corporate notes, preferred equity
 - Securitization financings consolidated on our balance sheet
- 26 active repo counterparties
- Liabilities weighted average remaining maturity of 354 days
- Cost of funds was relatively stable during the quarter

Average Cost of Funds, 3 Months Ending 6/30/15 ⁽¹⁾	
Agency MBS ⁽²⁾	0.35%
Non-Agency RMBS	1.57%
GSE CRT	1.63%
CMBS ⁽²⁾	0.92%

(1) Average cost of funds is calculated by dividing annualized interest expense by our average borrowings. Refer to the Average Balances table in the earnings release for more average balances.
 (2) Agency MBS and CMBS average borrowing and cost of funds include borrowings under repurchase agreements and secured loans.



Why Invesco Mortgage Capital?

Positioned well for the expected environment

- High quality, diversified portfolio
- Credit investments stand to benefit from improving real estate fundamentals
- Our book value has shown limited sensitivity to the direction of interest rates

IVR has delivered on our stockholder value proposition

- Attractive investment income and book value stability
- Delivering on these goals has generated attractive economic returns⁽¹⁾
 - 3.7% year to date
 - 36.3% over the past 3 years
- Reduced book value volatility

Our disciplines sustain strong economic performance

- Mortgage market focus with limited interest rate risk
- Active approach to asset allocation seeking attractive risk-adjusted return
- Diligent loan, borrower, and structural analysis to uncover value and protect principal

(1) Economic return year to date is defined as the change in book value per diluted common share from December 31, 2014 to June 30, 2015 of (\$0.20); plus dividends declared of \$0.90 per common share; divided by December 31, 2014 book value per diluted common share of \$18.82. Economic return for the past three years is defined as the change in book value per diluted common share from June 30, 2012 to June 30, 2015 of \$0.22; plus dividends declared of \$6.45 per common share; divided by the June 30, 2012 diluted book value per common share of \$18.40.

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; amortization of net deferred losses on de-designated interest rate swaps to repurchase agreements interest expense; and an adjustment 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 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.

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015 (As Restated)	June 30, 2014 (As Restated)	June 30, 2015	June 30, 2014 (As Restated)
\$ in thousands, except per share data					
Net income (loss) attributable to common shareholders	139,925	(17,440)	(65,773)	122,485	(132,532)
Adjustments					
(Gain) loss on investments, net	(10,876)	(2,172)	20,197	(13,048)	37,969
Realized (gain) loss on derivative instruments, net (excluding contractual net interest on interest rate swaps of \$46,011, \$45,608, \$52,205, \$91,619 and \$103,646, respectively)	15,212	26,103	15,037	41,315	33,861
Unrealized (gain) loss on derivative instruments, net	(117,226)	51,034	100,574	(66,192)	181,621
Realized and unrealized change in fair value of GSE CRT credit derivative income (loss), net	6,591	(15,246)	(27,990)	(8,655)	(41,951)
(Gain) loss on foreign currency transactions, net	(996)	1,525	-	529	-
Amortization of deferred swap losses on de-designation	16,313	19,145	21,532	35,458	42,828
Subtotal	(90,982)	80,389	129,350	(10,593)	254,328
Adjustment attributable to non-controlling interest	1,041	(921)	(1,480)	120	(2,900)
Core earnings	49,984	62,028	62,097	112,012	118,896
Basic earnings (loss) per common share	1.14	(0.14)	(0.53)	0.99	(1.08)
Core earnings per share attributable to common shareholders	0.41	0.50	0.50	0.91	0.97