

Invesco Mortgage Capital Inc.

2011 Second Quarter Earnings Call

July 28, 2011

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Chief Operating Officer



Forward-Looking Statements

This presentation, and comments made in the associated conference call today, may include “forward-looking statements”. Forward-looking statements include information concerning future results of operations, our ability to access capital markets, our estimate of expected returns on assets purchased with our recent capital raises, our outlook on the economy, our view on the U.S. debt ceiling debate, the impact on the mortgage industry and our ability to capitalize on the changes, our ability to continue performance trends, the impact of economic trends have on our book value, our level of debt and our ability to obtain additional financing. 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.

Q2 Overview

Delivered Results

- ✓ EPS: \$0.99
- ✓ Dividend: \$0.97
- ✓ Book Value: \$19.34

Strategically Accessed Capital Markets

- ✓ Raised \$416.7MM (net)
- ✓ Quickly invested the proceeds to generate 19% - 20% gross ROE

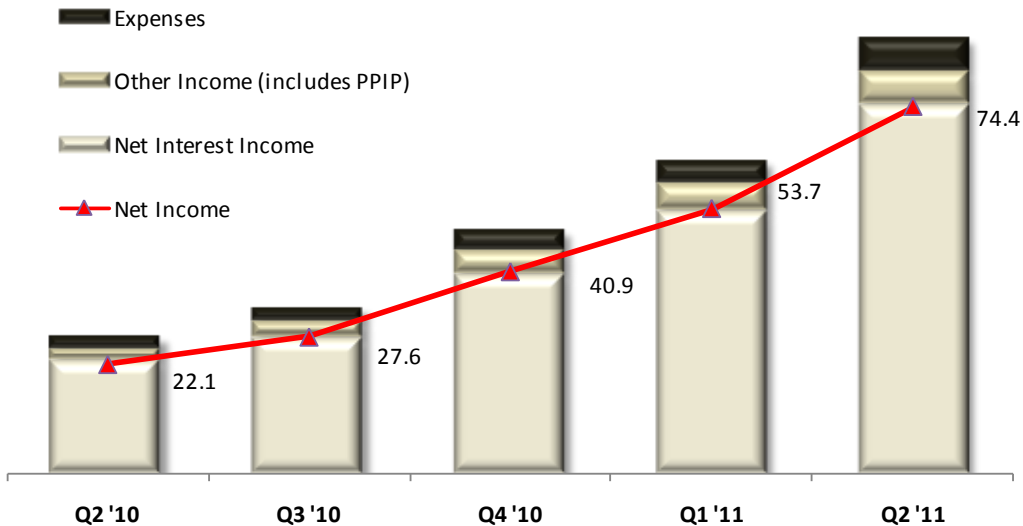
Outlook and Portfolio Direction

- ✓ Low borrowing costs likely to continue through 2011
- ✓ Focused on locking in longer term hedging while rates are low
- ✓ Attractive opportunities in both Agency RMBS and credit assets
- ✓ Current debate on raising the U.S. debt ceiling creates challenges and potential opportunity

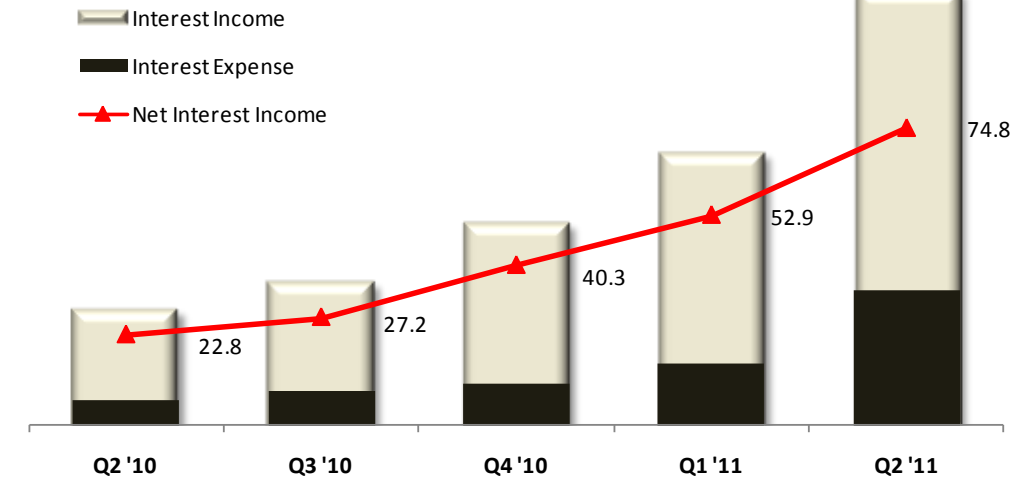
Quarterly Performance

(\$ in millions)

Net Income



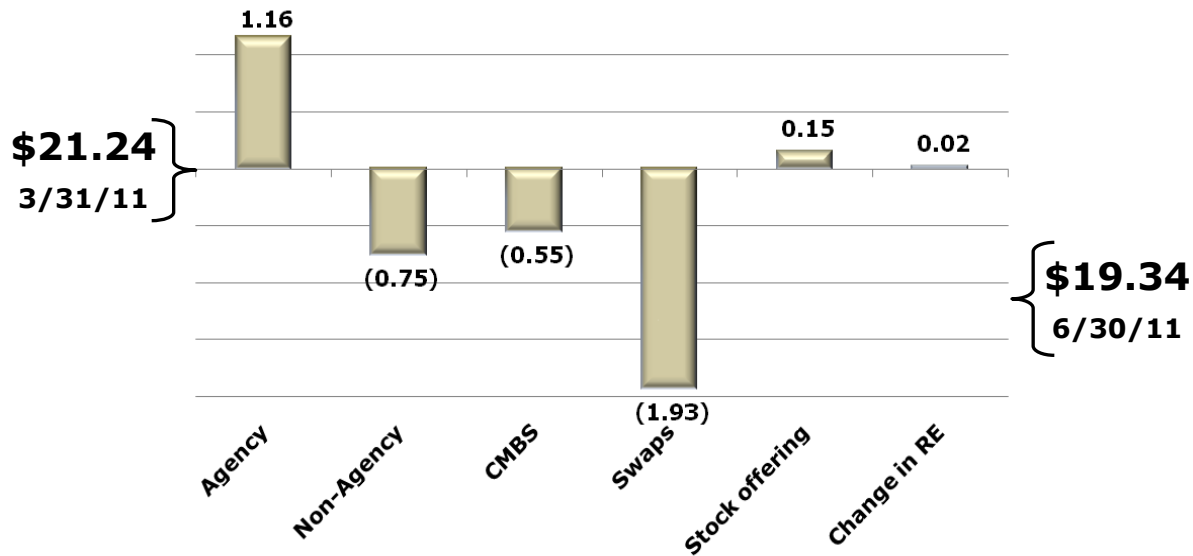
Net Interest Income



Comments

- Net income and Net Interest Income increased 39% and 41% to \$74.4MM and \$74.8MM, respectively, from Q1
- Key drivers:
 - Average earning assets increased \$3.8Bn (59%) to \$10.2Bn from Q1
 - Increase in interest income was offset by rising interest expense related to forward starting hedges
 - Other Income increased \$0.9MM to \$6.5MM from Q1
- EPS Q2 \$0.99
- Dividend Q2 \$0.97

Book Value Analysis

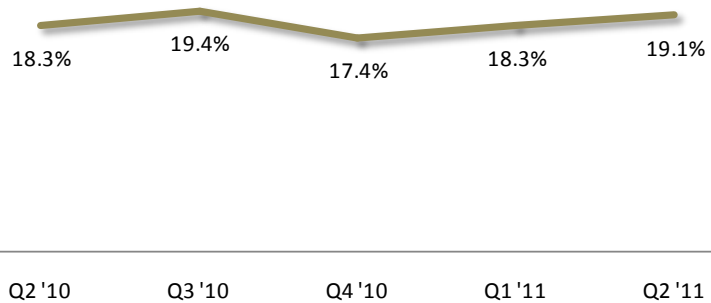


Book value was impacted by:

- Agency RMBS prices increased as rates fell. The value of prepayment protected high coupon pools also improved as investors became more concerned about increased refinancing activity.
- Credit market softened causing Non-Agency RMBS and CMBS to decline. Collateral performance remained in line with expectations. Continued focus on high quality assets.
- Swaps with average duration of ~ 5 years declined with global macro overhang
- June capital raise contributed ~ \$0.15 to book value

Performance

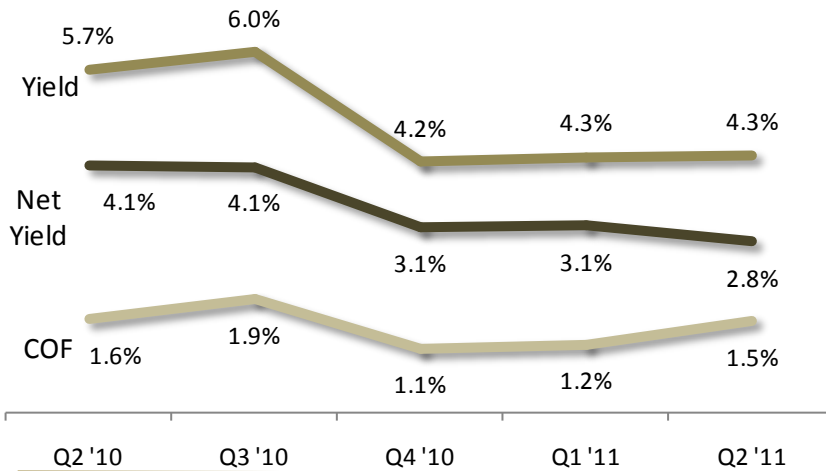
Gross ROE



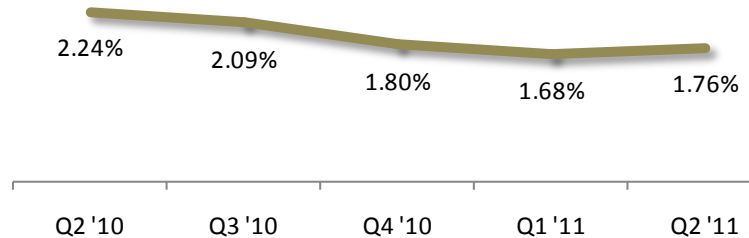
Comments

- Gross ROE improved 80 bps as Q1 capital raise was fully deployed
- Portfolio yield remained unchanged but Net Yield declined 30bps in Q2 due to increased funding costs related to our hedge strategy

Yields



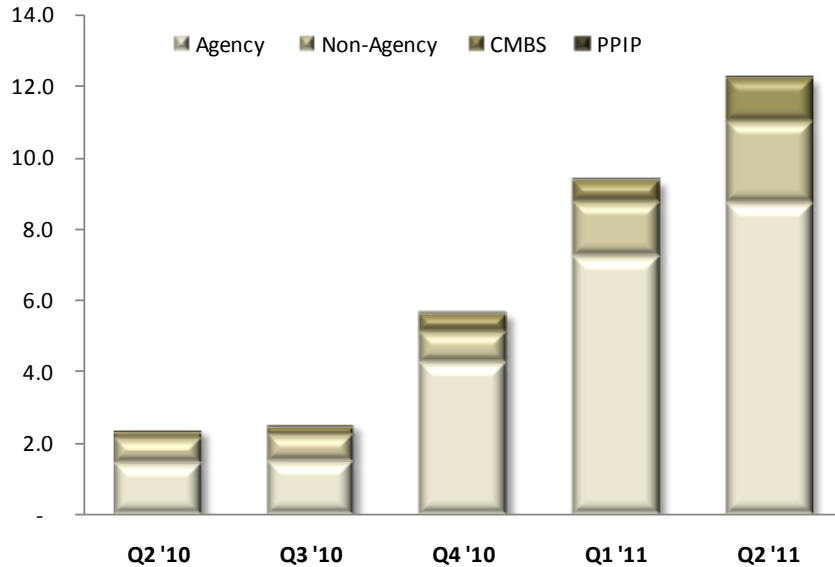
G&A Expense (as % of equity)



Portfolio Update

(\$ in billions)

Portfolio

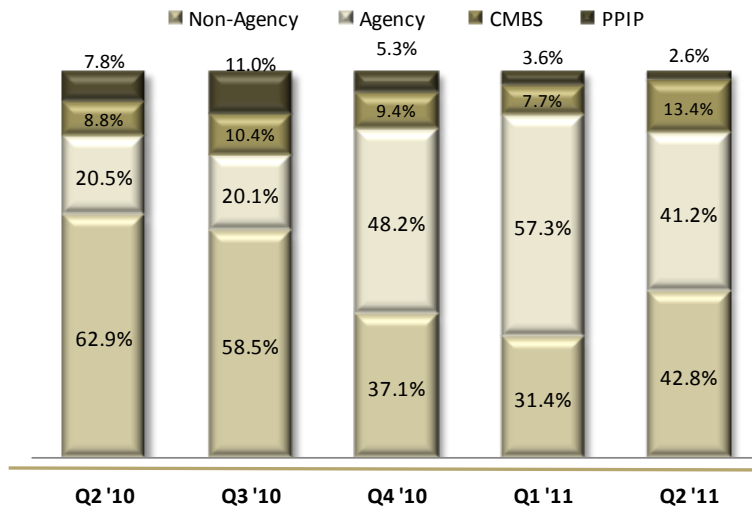


Comments

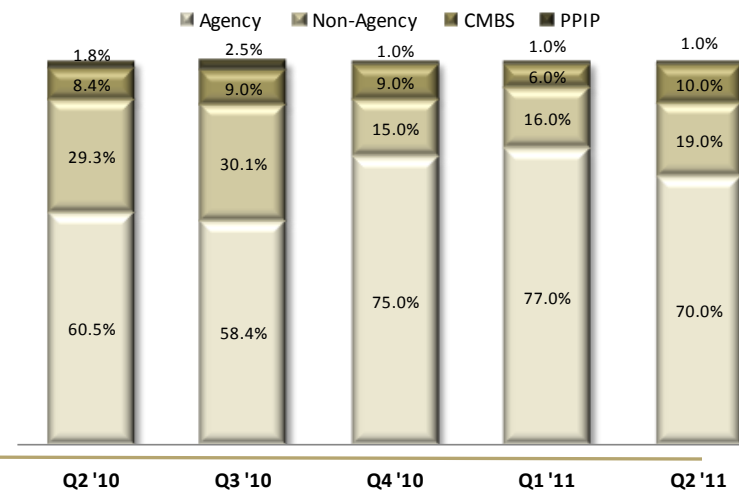
- Equity allocation shifted to higher concentration in credit assets with the March and June capital raises
- Total leverage increased to 5.7x from 5.3x⁽¹⁾
- June offering was ~ 68% invested by 6/30 and fully invested by 7/15
- Equity allocation from June offering was 55% Agency and 45% credit assets with a gross ROE of 19% – 20%

(1) Ratio adjusted for unsettled transactions after capital raises. Ratios would be 5.2x and 3.7x for Q2 and Q1 respectively without adjustment

% of Equity

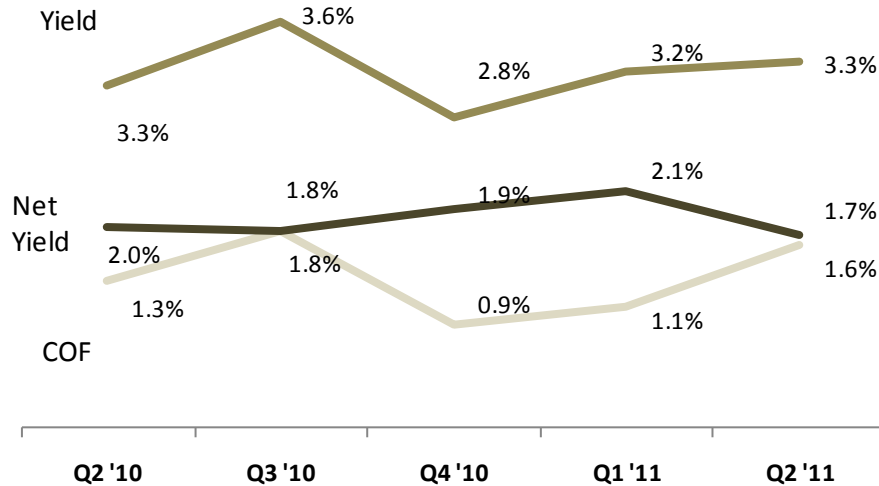


% of Assets

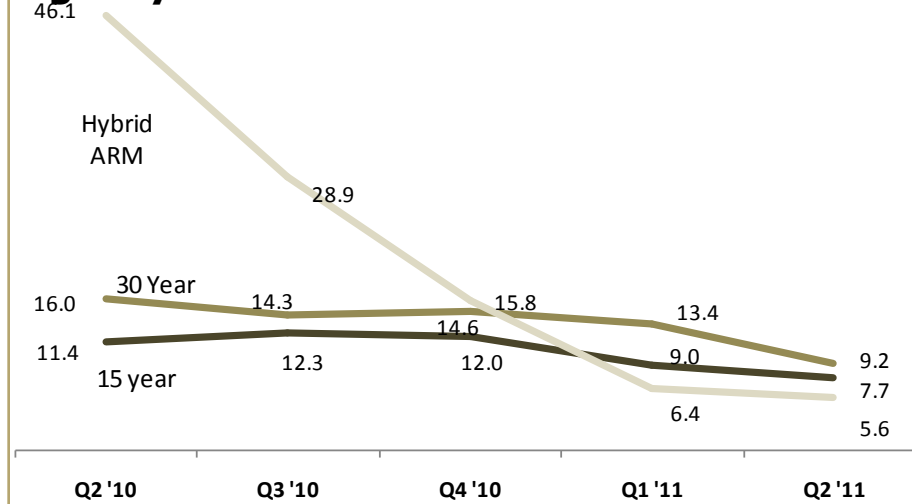


Agency

Yields



Agency CPR

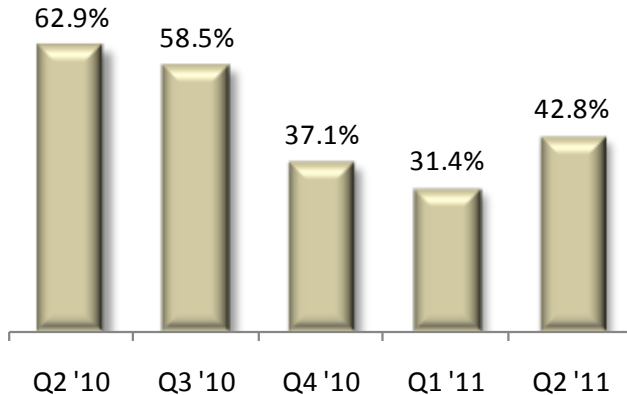


Comments

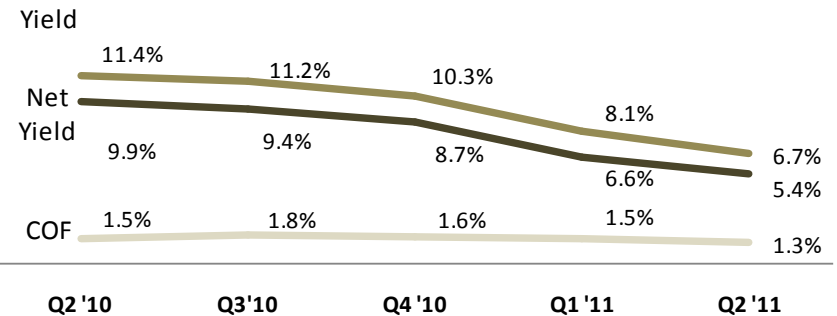
- Continued focus on prepay protection stories such as credit impairment, low to moderate loan balances and investor pools in both 15 and 30 year collateral
- Q2 Agency leverage of 9.5x, up from 5.0x in Q1, as we were ramping the portfolio at quarter-end
 - Overall leverage of 5.2x (5.7x including unsettled trades), reflecting the impact of the portfolio ramp
 - 88% of Agency repo hedged (assuming \$697MM of unsettled securities settled at quarter-end)
- Prepayment speeds remain very well contained
 - 15 Year collateral paid 7.7 CPR versus 12.8 CPR for generic collateral
 - 30 Year collateral paid 9.2 CPR versus 13 CPR for generic collateral

Non-Agency

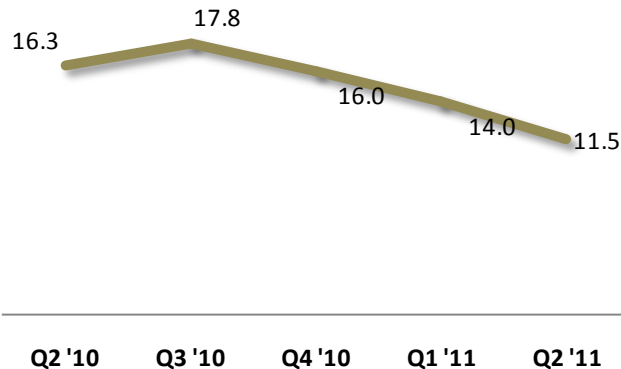
Balance (% of equity)



Yield



Non-agency CPR

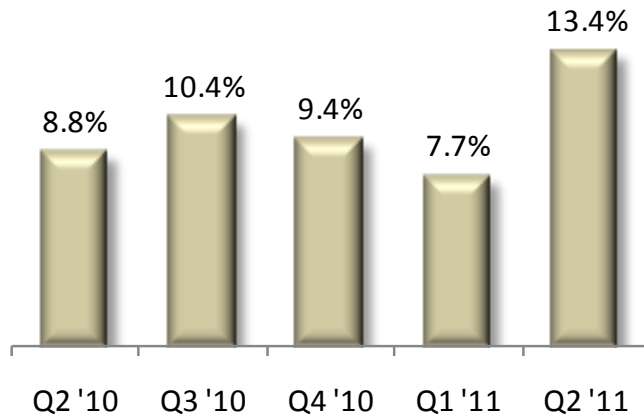


Comments

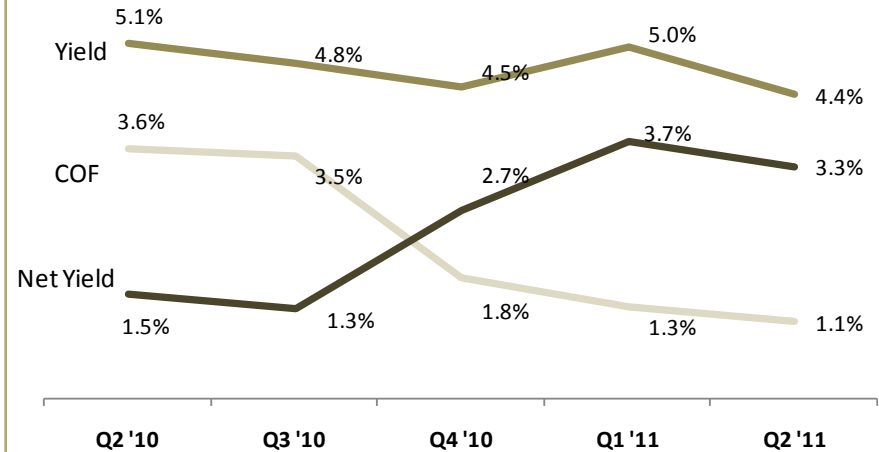
- Equity allocation increased with Q2 capital offering
- Decline in portfolio yield corresponds to emphasis on senior Re-REMICs with lower risk/return profile but higher leverage
- Leverage increased to 1.9x from 1.6x in Q1

CMBS

Portfolio (as a % of equity)



Yields



Comments

- Purchased both legacy and new-issued bonds
- New issue CMBS pipeline remained robust
- Moody's CPPI for May was up 6.3% which is the largest move since December 2000 and first increase in 6 months ⁽¹⁾
- Commercial real estate is very active creating potential opportunities

(1) source Bloomberg