



# **Invesco Mortgage Capital Inc.**

## 2016 Second Quarter Earnings Call

### August 5, 2016

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.**

# 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. 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](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.

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be constructed as an offer to buy or sell any securities and should not be relied upon as the sole factor in an investment-making decision. As with all investments, there are associated inherent risks. Please obtain and review all financial material carefully before investing. All data is as of June 30, 2016, unless otherwise noted.

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

## Q2 2016 Financial Highlights

Dividend per common share	\$0.40
Basic EPS	\$(0.10)
Core EPS <sup>(1)</sup>	\$0.42
Book value per diluted common share <sup>(2)</sup>	\$17.08
Comprehensive income per common share	\$0.95
Economic return <sup>(3)</sup>	5.7%

Equity allocated to benefit from improving real estate markets

40% Agency RMBS

35% Commercial Credit

25% Residential Credit

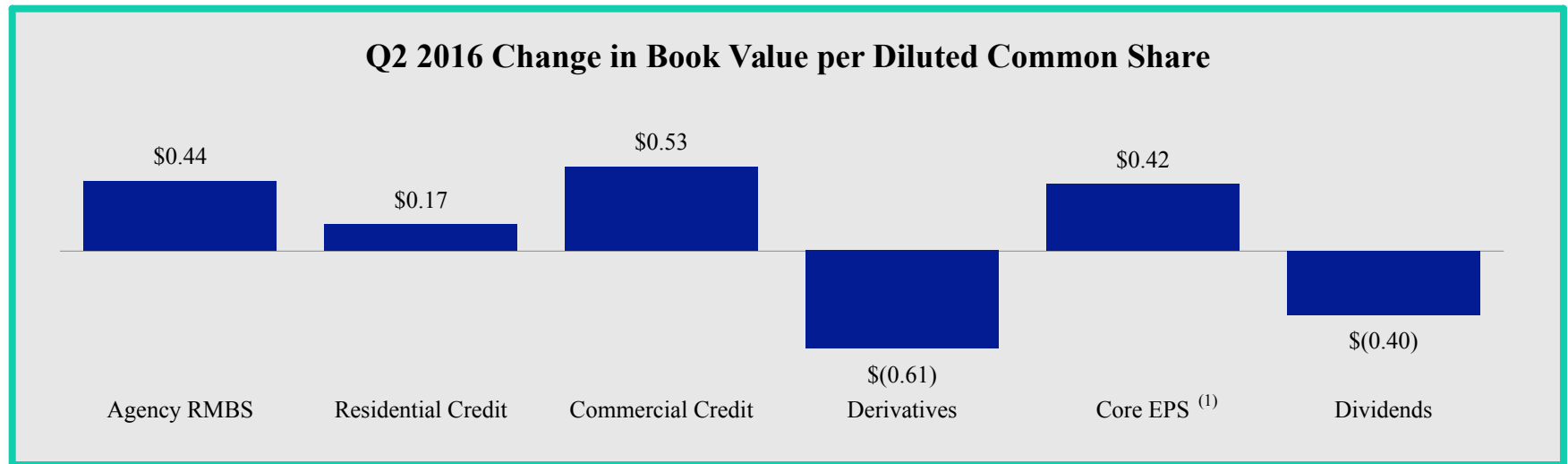
- Core EPS <sup>(1)</sup> of \$0.42 in Q2 2016
  - Decreased modestly from Q1 2016 primarily due to lower effective interest income
- Book value per diluted common share <sup>(2)</sup> increased by \$0.55 or 3.3% in Q2 2016
  - Three-month economic return <sup>(3)</sup> of 5.7%
  - Year-to-date economic return <sup>(3)</sup> of 4.3%
- Q2 2016 portfolio highlights
  - Reinvested maturities and prepayments into
    - 15-year fixed rate Agency RMBS
    - Funded one commercial loan totaling \$13 million
  - Asset seasoning and improved real estate valuations continue to enhance credit quality
  - Current asset allocation is meant to enhance the quality and cash flow certainty of our portfolio

(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 three months ended June 30, 2016 is defined as change in book value per diluted common share from March 31, 2016 to June 30, 2016 of \$0.55; plus dividends declared of \$0.40 per common share; divided by March 31, 2016 book value per diluted common share of \$16.53. Economic return for the six months ended June 30, 2016 is defined as the change in book value per diluted common share from December 31, 2015 to June 30, 2016 of (\$0.06); plus dividends declared of \$0.80 per common share; divided by December 31, 2015 book value per diluted common share of \$17.14.

# Book Value Performance



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

- Book value improved with tighter credit spreads
  - Q2 2016 book value per diluted common share ("BVPS") increased by \$0.55 or 3.3%
  - Agency RMBS and commercial credit added \$0.97 to our BVPS on a gross basis, and added \$0.36 on a net basis, after our hedging reduced BVPS by \$0.61 due to a decline in interest rates
  - Residential credit added \$0.17 primarily due to an improvement in market prices of GSE CRT
- Key strategies aimed at capital preservation and reduced book value volatility
  - Hedging to limit interest rate risk
  - Maintain strong asset quality to reduce the risk of credit losses
  - Support dividend through prudent credit spread capture
  - Opportunistically modulate sector exposures and maintain diverse sources of return
  - Strategically allocate capital to benefit book value



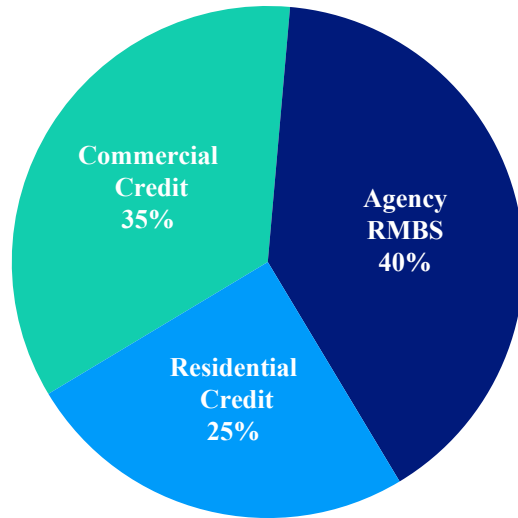
# The IVR Portfolio



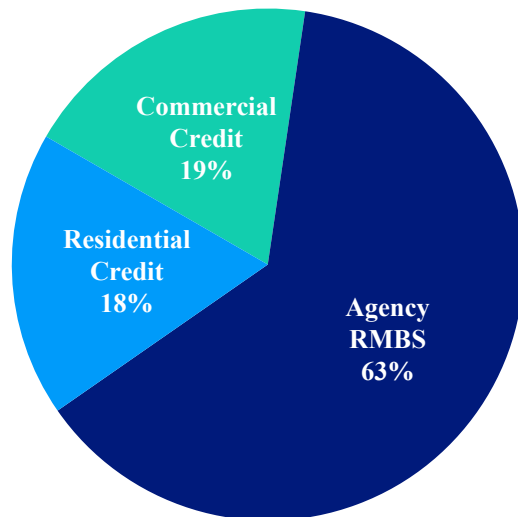
# Q2 2016 Portfolio Update



## Equity Allocation

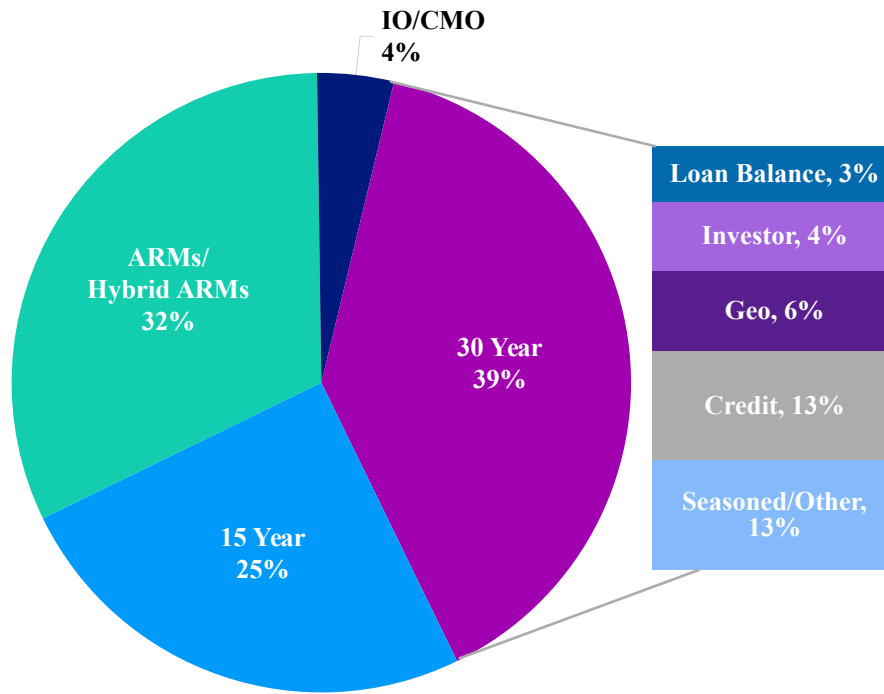


## Asset Allocation



## Highlights:

- We believe the portfolio is well positioned for improving real estate fundamentals
- 60% of equity and 37% of assets are allocated to credit
  - Both residential and commercial credit fundamentals remain strong
  - Credit assets exhibit significantly less convexity risk than Agency RMBS
- Increased our agency allocation through buying 15-year MBS, consistent with our interest rate expectations and desired duration positioning.



## Highlights:

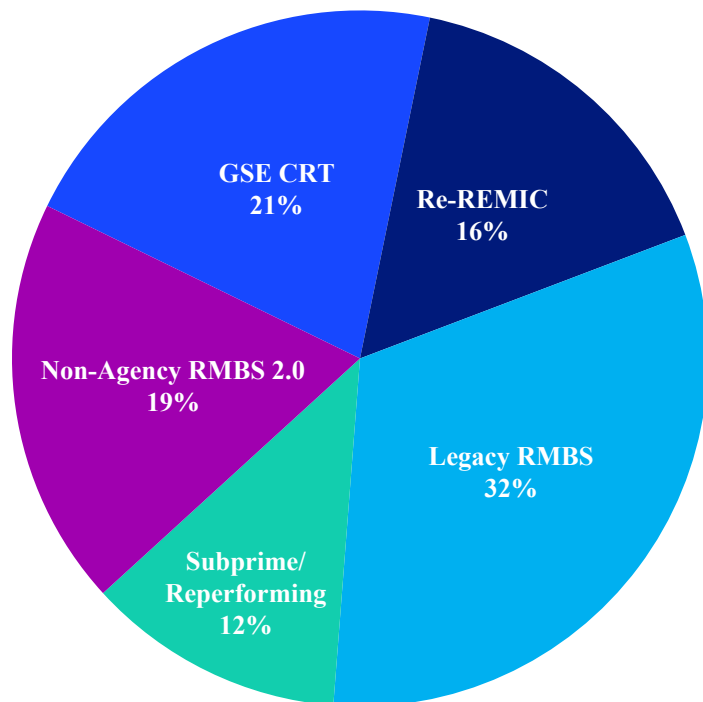
- Portfolio Characteristics
  - Fixed rate 30-year pools consist of well seasoned, high coupon, specified collateral
  - Recent fixed rate 15-year purchases consist of 2.5% and 3.0% call protected pools
- Lower mortgage rates, coupled with increased seasonal housing activity should result in faster prepayment speeds over the next several months

	CPR <sup>(1)</sup>	Net Wtd Avg Coupon <sup>(2)</sup>	Period-end Wtd Avg Yield <sup>(3)</sup>
15 Year	10.4	3.39%	2.36%
30 Year	13.7	4.22%	2.88%
Hybrid ARMs	18.4	2.72%	2.53%

(1) Constant Prepayment Rate

(2) Net weighted average coupon as of June 30, 2016 is presented net of servicing and other fees.

(3) Period-end weighted average yield is based on amortized cost as of June 30, 2016 and incorporates future prepayment and loss assumptions.



	Duration	Period-end Wtd Avg Yield <sup>(1)</sup>
Re-REMIC	0.3	4.62%
Legacy RMBS <sup>(2)</sup>	0.1	6.51%
Subprime/Reperforming	0.4	3.55%
Non-Agency RMBS 2.0 <sup>(3)</sup>	0.5	4.70%
GSE CRT <sup>(4)</sup>	0.0	4.68%

## Highlights:

- The housing market continues to be supported by limited inventory, low mortgage rates and an improving labor market
- Home price appreciation and strong borrower performance are supportive of residential credit investments
- GSE CRT spreads tightened significantly, benefiting from elevated prepayments, low delinquency rates and the rally in high yield credit assets
- While Legacy RMBS achieved positive returns for the quarter, the sector underperformed broader fixed income markets

(1) Period-end weighted average yield is based on amortized cost as of June 30, 2016 and incorporates future prepayment and loss assumptions.

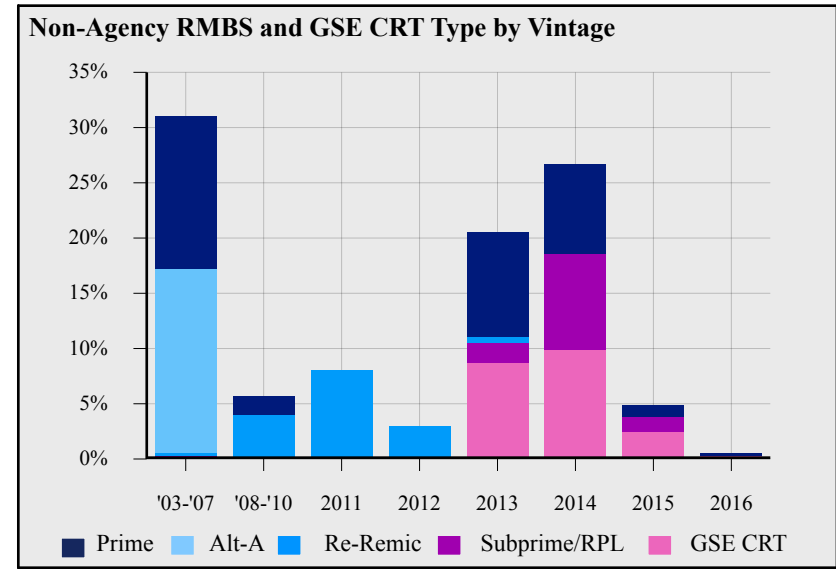
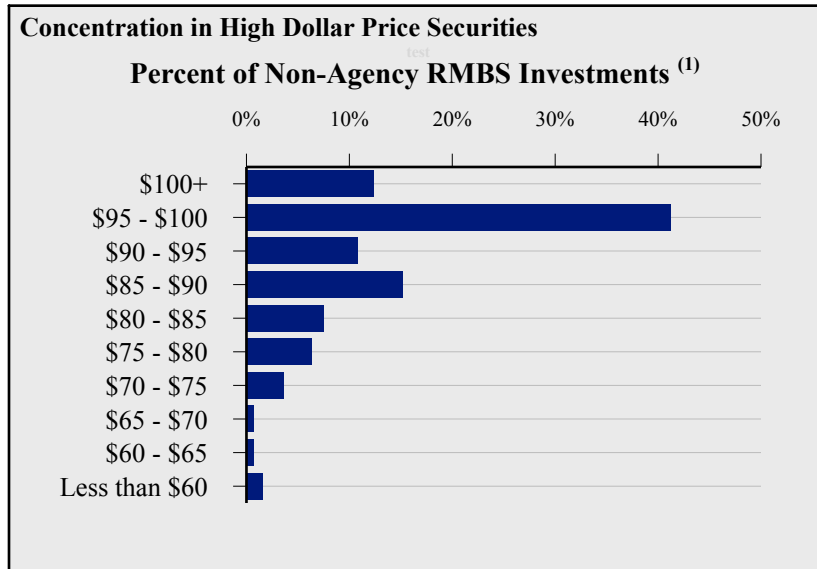
(2) Non-Agency RMBS issued prior to 2009

(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 0.78%



# Residential Credit Investment Quality

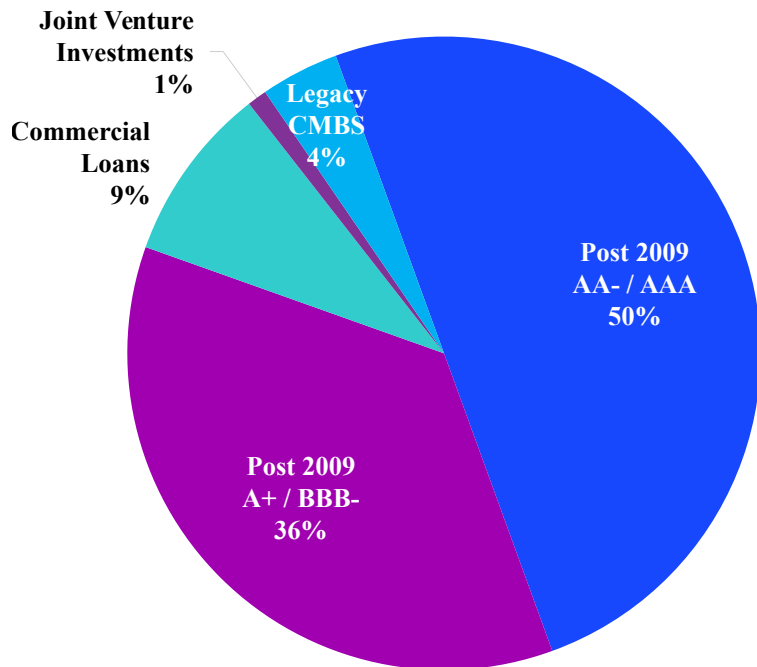


- 64% of Non-Agency RMBS holdings have dollar prices above \$90, and 87% above \$80
- These high dollar prices generally reflect lower exposure to collateral performance issues, demonstrate less price volatility and are more attractive to finance
- Low dollar price bonds demonstrate greater price volatility, 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 largely 2013 and 2014 vintage
  - These seasoned transactions demonstrate lower price volatility relative to more recent issuance
  - Reference loans have significant embedded home price appreciation

9 (1) Excludes GSE CRT and interest-only securities. As of June 30, 2016

# Commercial Credit



## Highlights:

- 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
- Funded one new commercial loan in Q2 2016 totaling \$13 million

	Duration	Period-end Wtd Avg Yield <sup>(1)</sup>
Legacy CMBS <sup>(2)</sup>	0.2	4.26%
Post 2009 AA- / AAA <sup>(3)</sup>	5.8	3.85%
Post 2009 A+ / BBB- <sup>(4)</sup>	4.7	4.26%
Commercial Loans	0.1	8.44%

(1) Period-end weighted average yield is based on amortized cost as of June 30, 2016 and incorporates future prepayment and loss assumptions.

(2) CMBS issued prior to 12/31/2008.

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

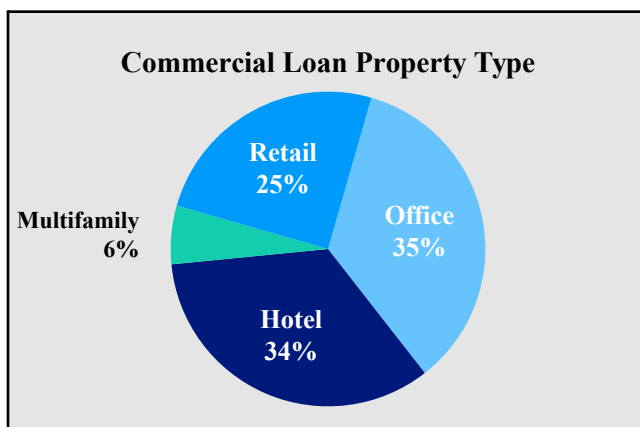
(4) CMBS originally rated between A+ and BBB- (or an equivalent/comparable rating by a nationally recognized statistical rating organization) issued after 2009

# Commercial Loan & Joint Venture Investments



Investment Type	Property Type	Location	Commitment <sup>(1)</sup>	Borrower	Rate Type	Loan Status
Mezzanine Loan	Retail	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	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 <sup>(2)(3)</sup>	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 July 2016



As of June 30, 2016. Joint venture investment property types are not included.

## Portfolio Highlights

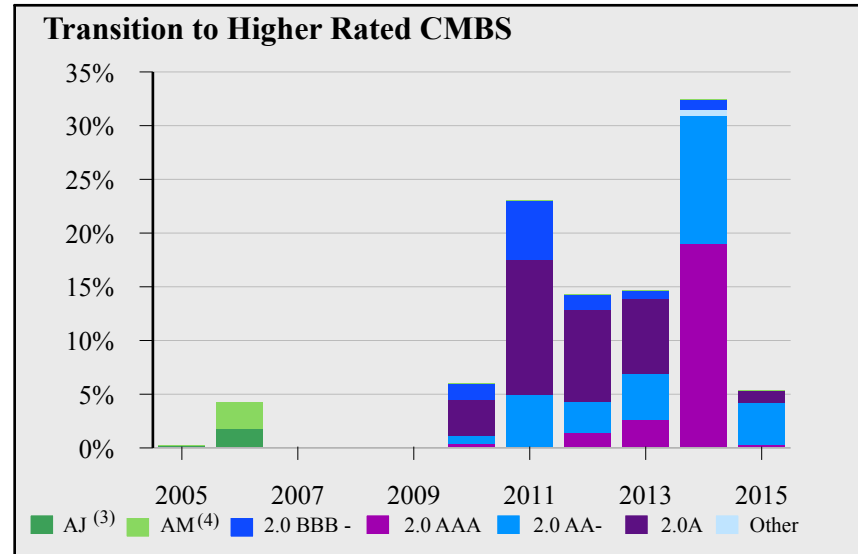
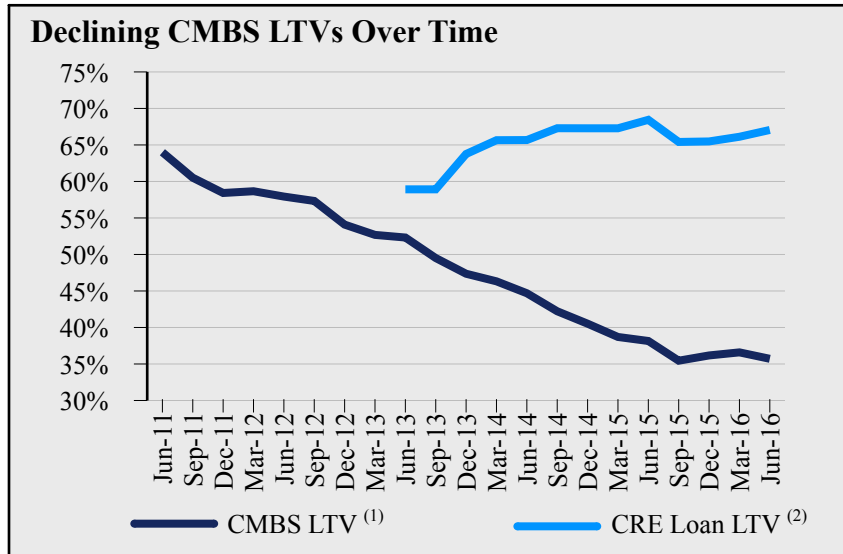
- Quarter-end portfolio of \$305.5 million
- \$112 million of principal has been returned through realization of borrower business plans
- No delinquencies as of June 30, 2016
- Investments behind five different balance sheet lenders
- Funded one mezzanine loan commitment totaling \$13 million in Q2 2016

(1) As of June 30, 2016 the Company's undrawn commitments in commercial loans and joint venture investments were \$13.9 million and \$18.9 million, respectively

(2) As of June 30, 2016 the Company has received distributions totaling \$163.2 million from joint venture investments.

11 (3) As of June 30, 2016 the Company's joint venture investment balance was \$33.0 million

# Improvement in Commercial Mortgage Investment Credit Quality

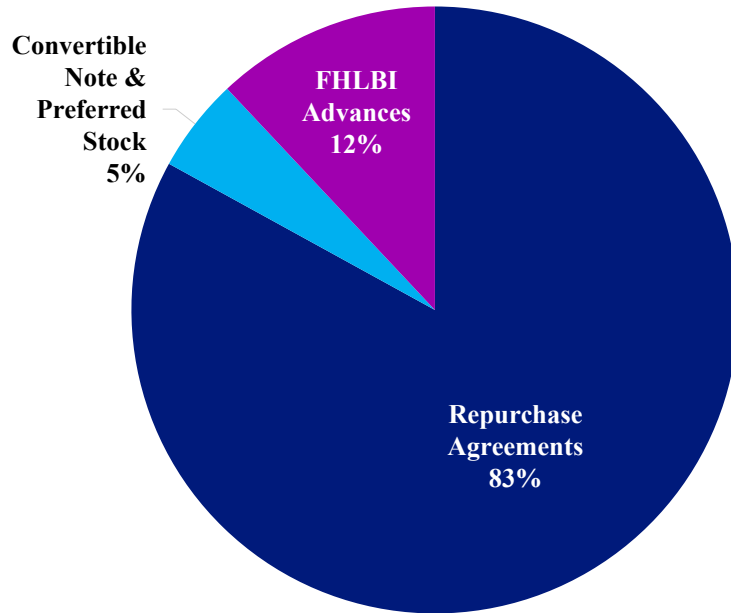


- CMBS LTV <sup>(1)</sup> of 36% and CRE Loan LTV <sup>(2)</sup> of 67%
- Approximately 95% of CMBS is collateralized by loans originated during or prior to 2014 benefiting from notable underlying property price appreciation
- Recent vintage CMBS are almost entirely triple and double-A rated classes benefiting from substantial subordination and FHLB financing
- Commercial loans are collateralized by institutional quality properties and benefit from strong borrowers

Source: Trepp as of June 2016

- (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 June 30, 2016.
- (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.
- (3) Originally rated AAA class which is typically subordinate to the most AM class and issued prior to 12/31/2008.
- (4) Originally rated AAA class which is typically subordinate to the most senior AAA rated class and senior to the AJ class and issued prior to 12/31/2008.

# Financing



## Highlights:

- Funding sources include:
  - Secured financing: repurchase agreements, debt facility, FHLBI advances
  - Exchangeable senior notes
  - Preferred equity
- 27 active repurchase agreement counterparties

Average Cost of Funds <sup>(1)</sup>	Q2 2016	Q1 2016
Agency RMBS <sup>(2)</sup>	0.65%	0.66%
CMBS <sup>(2)</sup>	1.11%	1.14%
Non-Agency RMBS	1.85%	1.80%
GSE CRT	2.08%	2.19%

(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 secured loans.



# 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 in the future to these 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 (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 embedded derivatives, net; (gain) loss on foreign currency transactions, net; reclassification of amortization of net deferred losses on de-designated interest rate swaps to repurchase agreements interest expense; and an adjustment 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.

\$ in thousands, except per share data	Three Months Ended			Six Months Ended	
	June 30, 2016	March 31, 2016 <sup>(1)</sup>	June 30, 2015 <sup>(1)</sup>	June 30, 2016	June 30, 2015 <sup>(1)</sup>
Net income (loss) attributable to common stockholders	(11,617)	(156,160)	142,311	(167,777)	128,530
Adjustments:					
(Gain) loss on investments, net	(1,414)	(11,601)	(10,896)	(13,015)	(12,986)
Realized (gain) loss on derivative instruments, net (excluding contractual net interest on interest rate swaps of \$24,985, \$29,091, \$46,011, \$54,076, \$91,619, respectively)	20,584	42,985	15,212	63,569	41,315
Unrealized (gain) loss on derivative instruments, net	44,794	166,467	(117,226)	211,261	(66,192)
Realized and unrealized change in fair value of GSE CRT embedded derivatives, net	(11,116)	(2,096)	6,591	(13,212)	(8,655)
(Gain) loss on foreign currency transactions, net	3,542	1,125	(996)	4,667	529
Reclassification of amortization of net deferred swap losses on de-designated interest rate swaps to repurchase agreements	3,238	12,924	16,313	16,162	35,458
Subtotal	59,628	209,804	(91,002)	269,432	(10,531)
Adjustment attributable to non-controlling interest	(752)	(2,597)	1,041	(3,349)	119
Core earnings per share attributable to common shareholders	47,259	51,047	52,350	98,306	118,118
Basic earnings (loss) per common share	(0.10)	(1.38)	1.16	(1.49)	1.04
Core earnings per share attributable to common stockholders	0.42	0.45	0.43	0.87	0.96

14 (1) Certain U.S. GAAP and non-GAAP financial measures have been revised to correct immaterial errors in accounting for premiums and discounts on non-Agency RMBS not of high credit quality. For further information, see Note 17 of the Company's condensed consolidated financial statements to be filed in Item 1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.