Apollo Commercial Real Estate Finance, Inc.
Form 10-K
February 14, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-34452

APOLLO COMMERCIAL REAL ESTATE FINANCE, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	27-0467113 (I.R.S. Employer Identification No.)
c/o Apollo Global Management, LLC 9 West 57th Street, 43rd Floor, New York, New York (Address of principal executive offices)	10019 (Zip Code)

(212) 515-3200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange
8.00% Series B Cumulative Redeemable Perpetual Preferred Stock, $0.01 par value, $25.00 mandatory liquidation preference	New York Stock Exchange
8.00% Series C Cumulative Redeemable Perpetual Preferred Stock, $0.01 par value, $25.00 mandatory liquidation preference	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o
Emerging growth company	o		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 30, 2017, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $1,899,839,227, based on the closing sales price of our common stock on such date as reported on the New York Stock Exchange.

On February 13, 2018, the registrant had a total of 107,467,231 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2018 annual meeting of stockholders scheduled to be held on or about June 7, 2018 are incorporated by reference into Part III of this annual report on Form 10-K.

TABLE OF CONTENTS

PART I

Item 1.	Business.	1
Item 1A.	Risk Factors.	4
Item 1B.	Unresolved Staff Comments.	28
Item 2.	Properties.	28
Item 3.	Legal Proceedings.	28
Item 4.	Mine Safety Disclosures.	28

PART II

Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	29
Item 6.	Selected Financial Data.	32
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	33
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.	47
Item 8.	Financial Statements and Supplementary Data.	49
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.	85
Item 9A.	Controls and Procedures.	85
Item 9B.	Other Information.	85

PART III

Item 10.	Directors, Executive Officers and Corporate Governance.	86
Item 11.	Executive Compensation.	86
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	86
Item 13.	Certain Relationships and Related Transactions and Director Independence.	86
Item 14.	Principal Accountant Fees and Services.	86

PART IV

Item 15.	Exhibits and Financial Statement Schedule.	87
	Signatures	90

FORWARD-LOOKING STATEMENTS

In this annual report on Form 10-K, references to "ARI," "Company," "we," "us," or "our" refer to Apollo Commercial Real Estate Finance, Inc. and its subsidiaries; references to the Company's "Manager" refer to ACREFI Management, LLC, an indirect subsidiary of Apollo Global Management, LLC, unless specifically stated otherwise or the context otherwise indicates.

The Company makes forward-looking statements herein and will make forward-looking statements in future filings with the SEC, press releases or other written or oral communications within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For these statements, the Company claims the protections of the safe harbor for forward-looking statements contained in such Sections. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the Company's control. These forward-looking statements include information about possible or assumed future results of the Company's business, financial condition, liquidity, results of operations, plans and objectives. When the Company uses the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions, it intends to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking: market trends in the Company's industry, interest rates, real estate values, the debt securities markets or the general economy; the demand for commercial real estate loans; the Company's business and investment strategy; the Company's operating results; actions and initiatives of the U.S. government and governments outside of the United States, changes to government policies and the execution and impact of these actions, initiatives and policies; the state of the economy generally or in specific geographic regions; economic trends and economic recoveries; the Company's ability to obtain and maintain financing arrangements, including secured debt arrangements and securitizations; the availability of debt financing from traditional lenders; the volume of short-term loan extensions; the demand for new capital to replace maturing loans; expected leverage; general volatility of the securities markets in which the Company participates; changes in the value of the Company's assets; the scope of the Company's target assets; interest rate mismatches between the Company's target assets and any borrowings used to fund such assets; changes in interest rates and the market value of the Company's target assets; changes in prepayment rates on the Company's target assets; effects of hedging instruments on the Company's target assets; rates of default or decreased recovery rates on the Company's target assets; the degree to which hedging strategies may or may not protect the Company from interest rate volatility; impact of and changes in governmental regulations, tax law and rates, accounting, legal or regulatory issues or guidance and similar matters; the Company's continued maintenance of its qualification as a real estate investment trust for U.S. federal income tax purposes; the Company's continued exclusion from registration under the Investment Company Act of 1940, as amended (the "1940 Act"); the availability of opportunities to acquire commercial mortgage-related, real estate-related and other securities; the availability of qualified personnel; estimates relating to the Company's ability to make distributions to its stockholders in the future; the Company's present and potential future competition; and unexpected costs or unexpected liabilities, including those related to litigation.

The forward-looking statements are based on the Company's beliefs, assumptions and expectations of its future performance, taking into account all information currently available to it. Forward-looking statements are not predictions of future events. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to the Company. Some of these factors are described in Item 1A, "Risk Factors" and Item 7,"Management's Discussion and Analysis of Financial Condition and Results of Operations" of this annual report on Form 10-K. These and other risks, uncertainties and factors, including those described in the annual, quarterly and current reports that the Company files with the Securities and Exchange Commission ("SEC"), could cause its actual results to differ materially from those included in any forward-looking statements the Company makes. All forward-looking statements speak only as of the date they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, the Company is not obligated to, and does not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. See Item 1A, "Risk Factors" of this annual report on Form 10-K.

PART I

Item 1. Business.

All currency figures expressed herein are expressed in thousands, except share or per share amounts.

GENERAL

Apollo Commercial Real Estate Finance, Inc. is a corporation that has elected to be taxed as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and primarily originates, acquires, invests in and manages performing commercial first mortgage loans, subordinate financings and other commercial real estate-related debt investments. These asset classes are referred to as the Company’s target assets.

The Company is externally managed and advised by ACREFI Management, LLC (the “Manager”), an indirect subsidiary of Apollo Global Management, LLC (together with its subsidiaries, “Apollo”), a leading global alternative investment manager with a contrarian and value oriented investment approach in private equity, credit and real estate. Apollo had total assets under management of approximately $248.9 billion as of December 31, 2017. The Manager is led by an experienced team of senior real estate professionals who have significant experience in underwriting and structuring commercial real estate financing transactions. The Company benefits from Apollo’s global infrastructure and operating platform, through which the Company is able to source, evaluate and manage potential investments in the Company’s target assets.

The Company’s principal business objective is to make investments in its target assets in order to provide attractive risk adjusted returns to its stockholders over the long term, primarily through dividends and secondarily through capital appreciation. As of December 31, 2017, the Company held a diversified portfolio comprised of approximately $2,653,826 of commercial mortgage loans, and $1,025,932 of subordinate loans. The Company has financed this portfolio with $1,330,847 of secured debt arrangements, $254,750 aggregate principal amount of 5.50% Convertible Senior Notes due 2019 (the "2019 Notes") and $345,000 aggregate principal amount of 4.75% Convertible Senior Notes due 2022 (the "2022 Notes" and, together with the 2019 Notes, the "Convertible Senior Notes").

The Company is a Maryland corporation that was organized in 2009 and has elected to be taxed as a REIT for U.S. federal income tax purposes, commencing with the taxable year ended December 31, 2009. The Company generally is not subject to U.S. federal income taxes on its taxable income to the extent that it annually distributes its net taxable income to stockholders and maintains its intended qualification as a REIT. The Company also operates its business in a manner intended to allow it to remain excluded from registration as an investment company under the 1940 Act.

INVESTMENT STRATEGY

To identify attractive opportunities within its target assets, the Company relies on the expertise of the Manager and its affiliates as well as their platform which integrates real estate experience with private equity and capital markets expertise, in transaction sourcing, underwriting, execution, asset operation, management and disposition. In the near-to-medium term, the Company expects to continue to deploy its capital through the origination and acquisition of senior performing commercial mortgage loans, subordinate financings and other commercial real-estate related debt investments at attractive risk-adjusted yields.

The Company targets investments that are secured by institutional quality real estate. The Company’s underwriting includes a focus on stressed in-place cash flows, debt yields, debt service coverage ratios, loan-to-values, property quality and market and sub-market dynamics. The Manager may also take advantage of opportunistic pricing dislocations created by distressed sellers or distressed capital structures where a lender or holder of a loan or security is in a compromised situation due to the relative size of its portfolio, the magnitude of nonperforming loans, or regulatory/rating agency issues driven by potential capital adequacy or concentration issues. In pursuing investments with attractive risk-reward profiles, the Company incorporates its views of the current and future economic environment, its outlook for real estate in general and particular asset classes and its assessment of the risk-reward profile derived from its underwriting and cash flow analysis, including taking into account relative valuation, supply and demand fundamentals, the level of interest rates, the shape of the yield curve, prepayment rates, financing and liquidity, real estate prices, delinquencies, default rates, recovery of various sectors and vintage of collateral. In general, the Company pursues a value-driven approach to underwriting and diligence, consistent with the historical investment strategy of the Manager and its affiliates. Each prospective investment receives a rigorous, credit-oriented evaluation towards determining the risk/return profile of the opportunity and the appropriate pricing and structure for the prospective investment. On the Company’s behalf, the Manager has implemented underwriting standards founded

on fundamental market and credit analyses with a focus on current and sustainable cash flows. These underwriting standards place a particular emphasis on due diligence of the sponsor/borrower. The Company also utilizes forward currency contracts to economically hedge interest and principal payments due under its loans denominated in currencies other than U.S. dollars.

All investment decisions are made with a view to maintaining the Company’s qualification as a REIT and its exclusion from registration under the 1940 Act.

FINANCING STRATEGY

The Company uses borrowings as part of its financing strategy. The Company believes the amount of leverage it uses is consistent with the Company’s intention of keeping total borrowings within a prudent range, as determined by the Manager, taking into account a variety of factors, which may include the anticipated liquidity and price volatility of target assets in the Company’s investment portfolio, the potential for losses and extension risk in the Company’s investment portfolio, the gap between the duration of assets and liabilities, including hedges, the availability and cost of financing the assets, the creditworthiness of the Company’s financing counterparties, the health of the global economy and commercial and residential mortgage markets, the outlook for the level, slope, and volatility of interest rate movement, the credit quality of the Company’s target assets and the type of collateral underlying such target assets. In utilizing leverage, the Company seeks to enhance equity returns while limiting interest rate exposure. In addition to current repurchase facilities, the Company may access additional repurchase facilities and more traditional borrowings such as credit facilities. As of December 31, 2017, the Company had $944,529 of borrowings outstanding under the Company’s secured debt arrangement with JPMorgan Chase Bank, N.A. (“JPMorgan”) (the “JPMorgan Facility”), $319,286 of borrowings outstanding under the Company's secured debt arrangement with Deutsche Bank AG, Cayman Islands Branch (the “DB Repurchase Facility”) and $81,380 of borrowings outstanding under the Company's secured debt arrangement with Goldman Sachs Bank USA (the “Goldman Facility”).

In the future, the Company may increase its borrowing levels and also seek to raise further equity or debt capital in order to fund future investments. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a further discussion of the Company’s borrowings as of December 31, 2017.

From time to time, the Company utilizes derivative financial instruments to hedge the interest rate risk associated with its borrowings. Under the U.S. federal income tax laws applicable to REITs, the Company generally is able to enter into certain transactions to hedge indebtedness it incurs to acquire or carry real estate assets, although the total gross income from interest rate hedges that does not meet this requirement and other non-qualifying sources generally must not exceed 5% of the Company’s gross income.

The Company also may engage in a variety of interest rate management techniques that seek to mitigate changes in interest rates or other potential influences on the values of its assets. The U.S. federal income tax rules applicable to REITs may require the Company to implement certain of these techniques through a domestic taxable REIT subsidiary (“TRS”) that is fully subject to U.S. federal corporate income taxation.

The Company may attempt to reduce interest rate risk and to minimize exposure to interest rate fluctuations through the use of match funded financing structures, when appropriate, whereby the Company may seek (1) to match the maturities of its debt obligations with the maturities of its assets, and (2) to match the interest rates on its assets with like-kind debt (i.e., the Company may finance floating rate assets with floating rate debt and fixed-rate assets with fixed-rate debt), directly or through the use of interest rate swap agreements, interest rate cap agreements, or other financial instruments, or through a combination of these strategies. The Company expects these instruments will allow it to minimize, but not eliminate, the risk that the Company may have to refinance its liabilities before the maturities of its assets and to reduce the impact of changing interest rates on its earnings.

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of the Company’s secured debt arrangements as of December 31, 2017.

CORPORATE GOVERNANCE

The Company strives to maintain an ethical workplace in which the highest standards of professional conduct are practiced.

- The Company’s board of directors is composed of a majority of independent directors. The Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee of the Company's board of directors are composed exclusively of independent directors.
- In order to foster the highest standards of ethics and conduct in all business relationships, the Company has adopted a Code of Business Conduct and Ethics and Corporate Governance Guidelines, which cover a wide range of business practices and procedures that apply to all of its directors and officers. In addition, the Company has implemented Whistle Blowing Procedures for Accounting and Auditing Matters (the “Whistleblower Policy”) that set forth

2

procedures by which Covered Persons (as defined in the Whistleblower Policy) may raise, on a confidential basis, concerns regarding, among other things, any questionable or unethical accounting, internal accounting controls or auditing matters with the Audit Committee. Third parties, such as clients, stockholders or competitors of the Company may also report a good faith complaint regarding such matters.

- The Company has an insider trading policy that prohibits any of its directors or employees, partners, directors and officers of Apollo, as well as others, from buying or selling the Company’s securities on the basis of material nonpublic information.

COMPETITION

The Company’s net income depends, in part, on management’s ability to acquire assets that generate favorable spreads over their borrowing costs. In acquiring target assets, the Company competes with other REITs, private funds, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies and other entities. In addition, there are other REITs with similar asset acquisition objectives and others may be organized in the future. These other REITs will increase competition for the available supply of mortgage assets suitable for purchase and origination. These competitors may be significantly larger than the Company, have access to greater capital and other resources or may have other advantages. In addition, some competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, and establish more relationships, than the Company. Current market conditions may attract more competitors, which may increase the competition for sources of investment and financing. An increase in the competition for sources of funding could adversely affect the availability and cost of financing, and thereby adversely affect the market price of the Company’s common stock.

EMPLOYEES; STAFFING

The Company has no employees and is managed by the Manager pursuant to the management agreement between the Manager and the Company, dated as of September 23, 2009 (the “Management Agreement”). All of the Company’s officers are employees of the Manager or its affiliates.

AVAILABLE INFORMATION

The Company maintains a website at www.apolloreit.com and makes available, items including: (a) the annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (including any amendments thereto), proxy statements and other information (collectively, the “Company Documents”) filed with, or furnished to, the SEC, as soon as reasonably practicable after such documents are so filed or furnished, (b) Corporate Governance Guidelines, (c) Code of Business Conduct and Ethics, and (d) written charters of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee of the board of directors. The information on the Company’s website does not form a part of and is not incorporated by reference into this annual report on Form 10-K. The Company’s documents filed with, or furnished to, the SEC are also available for review and copying by the public at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549 and at the SEC’s website at www.sec.gov. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The Company provides copies of its Corporate Governance Guidelines and Code of Business Conduct and Ethics, free of charge, to stockholders who request it. Requests should be directed to Investor Relations at Apollo Commercial Real Estate Finance, Inc., c/o Apollo Global Management, LLC, 9 West 57th Street, 43rd Floor, New York, New York 10019.

Item 1A. Risk Factors

All currency figures expressed herein are expressed in thousands, except share or per share amounts.

The Company's business and operations are subject to a number of risks and uncertainties, the occurrence of which could adversely affect its business, financial condition, results of operations and ability to make distributions to stockholders and could cause the value of the Company's capital stock to decline.

RISKS RELATED TO THE COMPANY'S RELATIONSHIP WITH ITS MANAGER

The Company does not have a policy that expressly prohibits its directors, officers, security holders or affiliates from engaging for their own account in business activities of the types conducted by the Company.

The Company does not have a policy that expressly prohibits its directors, officers, security holders or affiliates from engaging for their own account in business activities of the types conducted by the Company. However, the Company's code of business conduct and ethics contains a conflicts of interest policy that prohibits its directors and executive officers, as well as personnel of the Manager or Apollo who provide services to the Company, from engaging in any transaction that involves an actual conflict of interest with the Company without the approval of a majority of the Company's independent directors. In addition, the Management Agreement does not prevent the Manager and its affiliates from engaging in additional management or investment opportunities, some of which could compete with the Company.

There are various conflicts of interest in the Company's relationship with Apollo which could result in decisions that are not in the best interests of the Company's stockholders. The ability of the Manager and its officers and employees to engage in other business activities may reduce the time the Manager spends managing the Company's business.

The Company is subject to conflicts of interest arising out of its relationship with Apollo, including the Manager. The Company has and may enter into transactions with Apollo and other Apollo vehicles. In particular, the Company has invested in and may in the future invest in, or acquire, certain of its investments through joint ventures with Apollo or its affiliates or purchase assets from, sell assets to or arrange financing from or provide financing to other Apollo vehicles. Any such transactions require approval by a majority of the Company's independent directors. In certain instances the Company may invest alongside other Apollo vehicles in different parts of the capital structure of the same issuer. Depending on the size and nature of such investment, such transactions may require approval by a majority of the Company's independent directors. There can be no assurance that any procedural protections will be sufficient to assure that these transactions will be made on terms that will be at least as favorable to the Company as those that would have been obtained in an arm's length transaction.

In addition to the Company, an affiliate of the Manager manages other investment vehicles whose core investment strategies focus on one or more of the Company's target asset classes. To the extent such other Apollo vehicles or other vehicles that may be organized in the future seek to acquire or divest of the same target assets as the Company, the scope of opportunities otherwise available to the Company may be adversely affected and/or reduced.

The Manager and Apollo have an investment allocation policy in place that is intended to ensure that every Apollo vehicle, including the Company, is treated in a manner that, over time, is fair and equitable. According to this policy, investments may be allocated by taking into account factors, including but not limited to, available capital and net asset value of the investment vehicles, suitability of the investment, order size, investment objectives, permitted leverage and available financing, current income expectations, the size, liquidity and duration of the available investment, seniority and other capital structure considerations and the tax implications of an investment. The investment allocation policy may be amended by the Manager and Apollo at any time without the Company's consent.

In addition to the fees payable to the Manager under the Management Agreement, the Manager and its affiliates may benefit from other fees paid to it in respect of the Company's investments. For example, if the Company seeks to securitize its commercial mortgage loans, Apollo and/or the Manager may act as collateral manager. In any of these or other capacities, Apollo and/or the Manager may receive market based fees for their roles, but only if approved by a majority of the Company's independent directors.

Further, certain of the Company's officers and directors, and the officers and other personnel of the Manager, also serve or may serve as officers, directors or partners of other Apollo vehicles. Accordingly, the ability of the Manager and its officers and employees to engage in other business activities may reduce the time the Manager spends managing the Company's business. Further, the officers and other personnel of the Manager may be called upon to provide managerial assistance to other Apollo vehicles. These demands on their time may reduce the time the

Company's officers and officers of the Manager may have available to spend managing the Company's business and distract them or slow the rate of investment.

The Manager's and Apollo's liability is limited under the Management Agreement, and the Company has agreed to indemnify the Manager against certain liabilities. As a result, the Company could experience poor performance or losses for which the Manager would not be liable.

Pursuant to the Management Agreement, the Manager does not assume any responsibility other than to render the services called for thereunder and is not responsible for any action of the Company's board of directors in following or declining to follow its advice or recommendations. Under the terms of the Management Agreement, the Manager, its officers, members, managers, directors, personnel, any person controlling or controlled by the Manager and any person providing services to the Manager (including Apollo) are not liable to the Company, any subsidiary of the Company, the Company's stockholders or partners or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to the Management Agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the Management Agreement. In addition, the Company has agreed to indemnify the Manager, its officers, stockholders, members, managers, directors, personnel, any person controlling or controlled by the Manager and any person providing services to the Manager (including Apollo) with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of the Manager not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties, performed in good faith in accordance with and pursuant to the Management Agreement. As a result, the Company could experience poor performance or losses for which the Manager would not be liable.

Under the Management Agreement, the Manager has a contractually defined duty to us rather than a fiduciary duty.

Under the Management Agreement, the Manager maintains a contractual as opposed to a fiduciary relationship with the Company that limits its obligations to the Company to those specifically set forth in the agreement.

The Manager's failure to make investments on favorable terms that satisfy the Company's investment strategy and otherwise generate attractive risk-adjusted returns would materially and adversely affect the Company.

The Company's ability to achieve its investment objectives depends on its ability to grow, which depends, in turn, on the management team of the Manager and its ability to identify and to make investments on favorable terms that meet the Company's investment criteria as well as on the Company's access to financing on acceptable terms. The Company's ability to grow is also dependent upon the Manager's ability to successfully hire, train, supervise and manage new personnel. The Company may not be able to manage growth effectively or to achieve growth at all. Any failure to manage the Company's future growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

The Management Agreement was negotiated between related parties and its terms, including fees payable to the Manager, may not be as favorable to the Company as if they had been negotiated with an unaffiliated third party.

The Management Agreement was negotiated between related parties and its terms, including fees payable to the Manager, may not be as favorable to the Company as if they had been negotiated with an unaffiliated third party. In addition, the Company may choose not to enforce, or to enforce less vigorously, its rights under the Management Agreement because of its desire to maintain an ongoing relationship with the Manager. The ability of the Manager and its officers and employees to engage in other business activities may reduce the time the Manager spends managing the Company.

The termination of the Management Agreement may be difficult and costly, which may adversely affect the Company's inclination to end its relationship with the Manager.

Termination of the Management Agreement with the Manager without cause is difficult and costly. The Management Agreement provides that, in the absence of cause, it may only be terminated by the Company, upon the vote of at least two thirds of the Company's independent directors based upon: (i) the Manager's unsatisfactory performance that is materially detrimental to the Company, or (ii) a determination that the management fees payable to the Manager are not fair, subject to the Manager's right to prevent termination based on unfair fees by accepting a reduction of management fees agreed to by at least two thirds of the Company's independent directors. The Manager will be provided 180 days prior notice of any such termination. Additionally, upon a termination by the Company without cause (or upon a termination by the Manager due to the Company's material breach), the Management Agreement provides that the Company will pay the Manager a termination payment equal to three times the average annual base management fee earned by the Manager during the 24-month period prior to such termination, calculated as of the end of the most recently completed fiscal quarter. This provision increases the effective cost to the Company of electing

not to renew, or defaulting in its obligations under, the Management Agreement, thereby adversely affecting the Company’s inclination to end its relationship with the Manager, even if the Company believes the Manager’s performance is not satisfactory.

The current term of the Management Agreement will expire on September 29, 2018 and is automatically renewed for successive one-year terms on each anniversary thereafter; provided, however, that either the Company, under the certain limited circumstances described above that would require the Company to pay the fee described above, or the Manager may terminate the Management Agreement annually upon 180 days prior notice. If the Management Agreement is terminated and no suitable replacement is found to manage the Company, the Company may not be able to continue to execute its business plan.

The Company does not own the Apollo name, but it may use the name pursuant to a license agreement with Apollo. Use of the name by other parties or the termination of the Company's license agreement may harm its business.

The Company has entered into a license agreement with Apollo pursuant to which it has granted the Company a non-exclusive, royalty-free license to use the name "Apollo." Under this agreement, the Company has a right to use this name for so long as the Manager serves as the Company's manager pursuant to the Management Agreement. Apollo retains the right to continue using the "Apollo" name. The Company cannot preclude Apollo from licensing or transferring the ownership of the "Apollo" name to third parties, some of whom may compete with the Company. Consequently, the Company would be unable to prevent any damage to goodwill that may occur as a result of the activities of Apollo or others. Furthermore, in the event that the license agreement is terminated, the Company will be required to change its name and cease using the name. Any of these events could disrupt the Company's recognition in the market place, damage any goodwill it may have generated and otherwise harm its business. The license agreement will terminate concurrently with the termination of the Management Agreement.

The manner of determining the base management fee may not provide sufficient incentive to the Manager to maximize risk-adjusted returns on the Company's investment portfolio since it is based on the Company's stockholders' equity (as defined in the Management Agreement) and not on other measures of performance.

The Manager is entitled to receive a base management fee that is based on the amount of the Company's stockholders' equity (as defined in the Management Agreement) at the end of each quarter, regardless of the Company's performance. The Company's stockholders' equity for the purposes of calculating the base management fee is not the same as, and could be greater than, the amount of stockholders' equity shown on the Company's consolidated financial statements. The possibility exists that significant base management fees could be payable to the Manager for a given quarter despite the fact that the Company experienced a net loss during that quarter. The Manager's entitlement to such significant nonperformance-based compensation may not provide sufficient incentive to the Manager to devote its time and effort to source and maximize risk-adjusted returns on the Company's investment portfolio, which could, in turn, adversely affect the Company's ability to pay dividends to its stockholders and the market price of its common stock. Furthermore, the compensation payable to the Manager will increase as a result of future equity offerings, even if the offering is dilutive to existing stockholders.

The Manager manages the Company's investment portfolio pursuant to very broad investment guidelines and the Company's board of directors does not approve each investment decision made by the Manager, which may result in the Company making riskier investments.

The Manager is authorized to follow very broad investment guidelines and to make most investments without prior approval of the Company's board of directors. Furthermore, the Manager may use complex strategies and transactions entered into by the Manager that may be difficult or impossible to unwind by the time they are reviewed by the Company's directors. The Manager has great latitude within the broad investment guidelines in determining the types of assets that are proper investments for the Company, which could result in investment returns that are substantially below expectations or that result in losses, which would materially and adversely affect the Company's business operations and results. Decisions made and investments entered into by the Manager may not fully reflect stockholders' best interests.

The Manager may change its investment process, or elect not to follow it, without stockholder consent at any time which may adversely affect the Company's investments.

The Manager may change its investment process without stockholder consent at any time. In addition, there can be no assurance that the Manager will follow the investment process in relation to the identification and underwriting of prospective investments. Changes in the Manager's investment process may result in inferior due diligence and underwriting standards, which may affect the Company's investments.

Possession of material, non-public information could prevent the Company from undertaking advantageous transactions; Apollo could decide to establish information barriers.

Apollo generally follows an open architecture approach to information sharing within the larger Apollo organization and does not normally impose information barriers among Apollo and certain of its affiliates. If the Manager were to receive material non-public information about a particular company, or have an interest in investing in a particular company, Apollo or certain of its affiliates may be prevented from investing in or disposing of investments in such company. Conversely, if Apollo

or certain of its affiliates were to receive material non-public information about a particular company, or have an interest in investing in a particular company, the Company may be prevented from investing in or disposing of investments in such company. This risk affects the Company more than it does investment vehicles that are not related to Apollo, as Apollo generally does not use information barriers that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. Apollo's approach to these barriers could prevent the Manager's investment professionals from undertaking advantageous investments or dispositions that would be permissible for them otherwise. In addition, Apollo could in the future decide to establish information barriers, particularly as its business expands and diversifies. In such event, Apollo's ability to operate as an integrated platform will be restricted and the Manager's resources may be limited.

The Company is dependent on the Manager and its key personnel for the Company's success and upon their access to Apollo's investment professionals and partners. The Company may not find a suitable replacement for the Manager if the Management Agreement is terminated, or if key personnel leave the employment of the Manager or Apollo or otherwise become unavailable to the Company.

The Company does not have any employees and it relies completely on the Manager to provide it with investment and advisory services. The Company has no separate facilities and is completely reliant on the Manager, which has significant discretion as to the implementation of the Company's operating policies and strategies. The Company depends on the diligence, skill and network of business contacts of the Manager. The Company benefits from the personnel, relationships and experience of the Manager's executive team and other personnel and investors of Apollo. The executive officers and key personnel of the Manager evaluate, negotiate, close and monitor the Company's investments; therefore, the Company's success will depend on their continued service. The Company also depends, to a significant extent, on the Manager's access to the investment professionals and partners of Apollo and the information and deal flow generated by the Apollo investment professionals in the course of their investment and portfolio management activities.

The departure of any senior personnel of the Manager, or of a significant number of the investment professionals or partners of Apollo, could have a material adverse effect on the Company's ability to achieve its investment objectives. In addition, the Company offers no assurance that the Manager will remain its investment manager or that the Company will continue to have access to the Manager's or Apollo's executive officers and other investment professionals. The current term of the Management Agreement with the Manager expires on September 29, 2018, with automatic one-year renewals thereafter absent termination by the Company or the Manager pursuant to the Management Agreement. If the Management Agreement is terminated and no suitable replacement is found to manage it, the Company may not be able to continue to execute its business plan.

The Company's business may be adversely affected if its reputation, the reputation of the Manager or Apollo, or the reputation of counterparties with whom the Company associates is harmed.

The Company may be harmed by reputational issues and adverse publicity relating to the Company, the Manager or Apollo. Issues could include real or perceived legal or regulatory violations or could be the result of a failure in performance, risk-management, governance, technology or operations, or claims related to employee misconduct, conflict of interests, ethical issues or failure to protect private information, among others. Similarly, market rumors and actual or perceived association with counterparties whose own reputation is under question could harm the Company's business. Such reputational issues may depress the market price of the Company's capital stock or have a negative effect on the Company's ability to attract counterparties for its transactions, or otherwise adversely affect the Company.

RISKS RELATED TO THE COMPANY'S BUSINESS AND STRUCTURE

The Company operates in a competitive market for investment opportunities and future competition may limit its ability to acquire desirable investments in or dispose of its target assets and could also affect the pricing of these securities.

A number of entities compete with the Company to make the types of investments that the Company targets. The Company competes with other REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies and other entities. In addition, other REITs with similar asset acquisition objectives, including others that may be organized in the future, compete with the Company in acquiring assets and obtaining financing.

These competitors may be significantly larger than the Company, may have access to greater capital and other resources or may have other advantages. Some competitors may have a lower cost of funds and access to funding sources that may not be available to the Company. Many of the Company's competitors are not subject to the operating constraints associated with REIT qualification or maintenance of the Company's exclusion from registration under the 1940 Act. Furthermore, competition for investments in the Company's target assets may lead to the price of such assets increasing, which may further limit the Company's ability to

generate desired returns. The Company cannot assure that the competitive pressures it faces will not have a material adverse effect on its business, financial condition and results of operations. Also, as a result of this competition, the Company may not be able to take advantage of attractive investment opportunities from time to time, and the Company can offer no assurance that it will be able to identify and make investments that are consistent with its investment objective.

The Company’s ability to generate returns for its stockholders through its investment, finance and operating strategies is subject to then existing market conditions, and it may make significant changes to these strategies in response to changing market conditions, which could adversely impact the Company's profitability and risk profile.

The Company's principal business objective is to invest in its target assets in order to provide attractive risk-adjusted returns to its stockholders over the long term, primarily through dividends and secondarily through capital appreciation. The Company intends to achieve this objective by originating, investing in, acquiring, financing and managing a diversified portfolio of its target assets. In the future, the Company may, depending on prevailing market conditions, change its investment guidelines in response to opportunities available in different interest rate, economic and credit environments. The Company has in the past made and in the future may make such changes at any time with the approval of its board of directors but without the consent of its stockholders. Any future changes in the Company’s investment policies could adversely impact the Company’s profitability and risk profile.

The Company depends on information systems and systems failures could significantly disrupt its business, which may, in turn, negatively affect the market price of the Company’s common stock and its ability to pay dividends.

The Company's business depends on the communications and information systems of Apollo and other third-party service providers. Any failure or interruption of the systems of Apollo or any other counterparties that the Company relies on could cause delays or other problems in the Company’s securities trading activities and operations, which could have a material adverse effect on the Company’s operating results and negatively affect the market price of its common stock and its ability to pay dividends to stockholders.

Cybersecurity risks and cyber incidents may adversely affect the Company's business by causing a disruption to the Company's operations, a compromise or corruption of the Company's confidential information, and/or damage to the Company's business relationships, all of which could negatively impact the Company's financial results.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of the Company's information resources. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to the Company's information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to the Company's investor relationships. As the Company's reliance on technology has increased, so have the risks posed to its information systems, both internal and those provided by Apollo and third-party service providers. Apollo's processes, procedures and internal controls that are designed to mitigate cybersecurity risks and cyber intrusions do not guarantee that a cyber incident will not occur or that the Company's financial results, operations or confidential information will not be negatively impacted by such an incident.

The Company cannot assure its stockholders of its ability to pay dividends in the future.

The Company is generally required to annually distribute to its stockholders at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, for the Company to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The Company currently intends to make quarterly distributions of all or substantially all of its REIT taxable income in each year. Dividends will be declared and paid at the discretion of the Company’s board of directors and will depend on the Company’s REIT taxable earnings, its financial condition, maintenance of its REIT qualification and such other factors as the board may deem relevant from time to time. The Company’s ability to pay dividends may be negatively impacted by adverse changes in its operating results.

The Company cannot predict the unintended consequences and market distortions that may stem from far-ranging governmental intervention in the economic and financial system or from regulatory reform of the oversight of financial markets.

The laws and regulations governing our operations, as well as their interpretation, may change from time to time, and new laws and regulations may be enacted. Accordingly, any change in these laws or regulations, changes in their interpretation, or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes to certain of our business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us or otherwise adversely affect our business.

The U.S. government, the U.S. Federal Reserve (the "Federal Reserve"), the U.S. Treasury, the SEC and other governmental and regulatory bodies have taken or are taking various actions involving intervention in the economic and financial system and regulatory reform of the oversight of financial markets. For example, on July 21, 2010 former President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which has changed the regulation of financial institutions and the financial services industry, including the mortgage industry. The current regulatory environment may be impacted by future legislative developments, such as amendments to key provisions of the Dodd-Frank Act including provisions setting forth capital and risk retention requirements. For example, on February 3, 2017, President Trump signed an executive order for a broad review of federal regulation of the U.S. financial system by the Secretary of the Treasury, in consultation with the heads of the member agencies of the Financial Stability Oversight Council, a panel comprising top U.S. financial regulators. In addition, in the absence of legislative change, the substance of regulatory supervision may be influenced through the appointment of individuals to the Federal Reserve Board and other financial regulatory bodies. While the outcome is uncertain, the current administration has sought to deregulate the U.S. financial industry, including by altering the Dodd-Frank Act. Measures focused on deregulation of the U.S. financial services industry may, among other things, decrease the restrictions on banks and other financial institutions and allow them to compete with us for investment opportunities that were previously not available to them. Measures focused on deregulation of the U.S. financial services industry may have the effect of increasing competition for our business. Increased competition from banks and other financial institutions in the credit markets could have the effect of reducing credit spreads, which may adversely affect our revenues. The Company cannot predict, the ultimate content, timing, or effect of changes that may result from such review, nor is it possible at this time to estimate the impact of any potential resulting legislation which could have a dramatic impact on the Company’s business, results of operations and financial condition.

The Manager may be unable to operate the Company within the parameters that allow the Manager to be exempt from regulation as a commodity pool operator, which would subject the Company to additional regulation and compliance requirements, and could materially adversely affect its business and financial condition.

The enforceability of agreements underlying certain derivative transactions may depend on compliance with applicable statutory and other regulatory requirements and, depending on the identity of the counterparty, applicable international statutory and regulatory requirements. Regulations have been promulgated by U.S. and foreign regulators attempting to strengthen oversight of derivative contracts. The Dodd-Frank Act established a comprehensive regulatory framework for swaps and security-based swaps, including mandatory clearing, execution and reporting requirements, which may result in increased margin requirements and costs. In addition, any investment fund that trades in swaps may be considered a “commodity pool,” which would cause its operator to be regulated as a “commodity pool operator” (a “CPO”). In December 2012, the Commodity Futures Trading Commission issued a no-action letter giving relief to operators of mortgage REITs from any applicable CPO registration requirement. In order for the Manager to qualify for the no-action relief, the Company must, among other non-operation requirements: (1) limit its initial margin and premiums for commodity interests (swaps and exchange-traded derivatives subject to the jurisdiction of the CFTC) to no more than 5% of the fair market value of its total assets; and (2) limit its net income from commodity interests that are not “qualifying hedging transactions” to less than 5% of its gross income. The need to operate within these parameters could limit the use of swaps and other commodity interests by the Company below the level that the Manager would otherwise consider optimal or may lead to the registration of the Manager or directors of the Company as commodity pool operators, which will subject the Company to additional regulatory oversight, compliance and costs.

Uncertainty related to the stability of U.S. fiscal and budgetary policy and financial volatility and geopolitical instability outside of the United States may materially adversely affect the Company's business, liquidity, financial condition and results of operations.

Financial markets have been and continue to be affected by concerns over uncertainty related to the stability of U.S. fiscal and budgetary policy. This uncertainty, as well as issues from time to time relating to sovereign debt conditions in Europe and lower economic growth forecasts in emerging markets, continue to contribute to the possibility of additional economic slowdowns and/or credit rating downgrades. The impact of U.S. fiscal uncertainty, or any further downgrades to the U.S. government’s sovereign credit rating, or its perceived creditworthiness, or the impact of the crisis in Europe with respect to the ability of certain countries to continue to service their sovereign debt obligations or

the impact of reduced growth forecasts for emerging markets, is inherently unpredictable and could adversely affect U.S. and global financial markets and economic conditions. In addition, any further acceleration of these conditions may have an adverse impact on fixed income markets, which in turn could cause the Company's net income to decline or have a material adverse effect on the Company's financial condition.

If the European economic situation were to worsen, or expand to other countries within Europe, the Company may be subject to enhanced risk of counterparty failure as well as related problems arising from a lack of liquidity in the Company's markets. There can be no assurance that governmental or other measures to aid economic recovery will be effective.

These developments and the government’s credit concerns in general could cause interest rates and borrowing costs to rise, which may negatively impact the Company's ability to access the debt markets on favorable terms. Continued adverse economic conditions may negatively impact the value of the assets in the Company's portfolio, the Company's net income, liquidity and the Company's ability to finance its assets on favorable terms.

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law ("MGCL") may have the effect of deterring a third party from making a proposal to acquire the Company or of impeding a change in control under circumstances that otherwise could provide the holders of the Company’s common stock with the opportunity to realize a premium over the then-prevailing market price of the Company’s common stock. The Company is subject to the “business combination” provisions of the MGCL that, subject to limitations, prohibit certain business combinations (including a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities) between the Company and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the Company’s then outstanding voting stock or an affiliate or associate of the Company’s who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the Company’s then outstanding voting stock) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder. After the five-year prohibition, any business combination between the Company and an interested stockholder generally must be recommended by the Company’s board of directors and approved by the affirmative vote of at least (1) 80% of the votes entitled to be cast by holders of outstanding shares of the Company’s voting stock; and (2) two-thirds of the votes entitled to be cast by holders of the Company’s voting stock other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder. These super-majority vote requirements do not apply if the Company’s common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by a board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, the Company’s board of directors has by resolution exempted business combinations (1) between the Company and any other person, provided that such business combination is first approved by the Company’s board of directors (including a majority of the Company’s directors who are not affiliates or associates of such person) and (2) between the Company and Apollo and its affiliates and associates and persons acting in concert with any of the foregoing. As a result, any person described above may be able to enter into business combinations with the Company that may not be in the best interests of the Company’s stockholders, without compliance by the Company with the supermajority vote requirements and other provisions of the statute. There can be no assurance that the Company’s board of directors will not amend or revoke this exemption in the future.

The “control share” provisions of the MGCL provide that a holder of “control shares” of a Maryland corporation (defined as shares which, when aggregated with all other shares controlled by the stockholder (except solely by virtue of a revocable proxy), entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of issued and outstanding “control shares”) has no voting rights with respect to such shares except to the extent approved by the Company’s stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes entitled to be cast by the acquiror of control shares, the Company’s officers and personnel who are also directors. The Company’s bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of the Company’s stock. There can be no assurance that this provision will not be amended or eliminated at any time in the future.

The “unsolicited takeover” provisions of the MGCL permit the Company’s board of directors, without stockholder approval and regardless of what is currently provided in the Company’s charter or bylaws, to implement takeover defenses, some of which (for example, a classified board) the Company does not yet have. The Company’s charter contains a provision whereby it has elected to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on its board of directors. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for the Company or of delaying, deferring or preventing a change in control of

the Company under the circumstances that otherwise could provide the holders of shares of common stock with the opportunity to realize a premium over the then current market price.

Loss of the Company's exclusion from registration under the 1940 Act would adversely affect the Company.

The Company conducts its operations so as not to become regulated as an investment company under the 1940 Act. Because the Company is a holding company that conducts its businesses primarily through wholly-owned subsidiaries, the securities issued by these subsidiaries that are exempted or otherwise excluded from the definition of "investment company" under Section 3(c)(1) or Section 3(c)(7) of the 1940 Act, together with any other "investment securities" (as defined for purposes of the 1940 Act) the Company owns, may not have a combined value in excess of 40% of the value of the Company's

total assets on an unconsolidated basis, which the Company refers to as the 40% test. This requirement limits the types of businesses in which the Company may engage through its subsidiaries.

Certain of the Company's subsidiaries qualify to be excluded from registration as investment companies under the 1940 Act pursuant to Section 3(c)(5)(C) of the 1940 Act, which is available for an entity "not engaged in the business of issuing redeemable securities, face-amount certificates of the installment type or periodic payment plan certificates, and who is primarily engaged in … the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exclusion generally requires that at least 55% of the assets of an entity relying on this exclusion be comprised of what the SEC staff through a series of no-action letters has characterized as "qualifying assets" and at least another 20% of the assets of such entity be comprised of either qualifying assets or what the SEC staff in such guidance has characterized as "real estate-related assets" under the 1940 Act (and no more than 20% comprised of miscellaneous assets). The Company expects any of its subsidiaries relying on Section 3(c)(5)(C) to rely on guidance published by the SEC staff to determine which assets are qualifying assets and which assets are real estate related under this exclusion to the extent such guidance is available. The SEC staff has determined in various no-action letters that qualifying assets for this purpose include senior, first ranking mortgage loans, certain B-Notes and mezzanine loans that satisfy various conditions specified in such SEC staff no-action letters. Neither the SEC nor its staff has, however, published guidance in respect of Section 3(c)(5)(C) regarding some of the Company's other target assets. For assets for which the SEC and its staff has not published guidance, the Company intends to rely on its own analysis to determine which of such assets are qualifying assets and which of such assets are real estate related under the Section 3(c)(5)(C) exclusion. For example, in the absence of additional guidance from the SEC staff, the Company intends to treat as real estate related assets B-Notes and mezzanine loans that do not satisfy the qualifying asset conditions set forth in the relevant SEC staff no-action letters, as well as debt and equity securities of companies primarily engaged in real estate businesses. To the extent that the SEC staff publishes new or different guidance with respect to these matters, the Company may be required to adjust its strategy accordingly. In addition, the Company may be limited in its ability to make certain investments and these limitations could result in the subsidiary holding assets the Company might wish to sell or selling assets the Company might wish to hold. Although the Company monitors the portfolios of its subsidiaries relying on the Section 3(c)(5)(C) exclusion periodically and prior to each acquisition, there can be no assurance that such subsidiaries will be able to maintain their respective satisfaction of the requirements of this exclusion.

In August 2011, the SEC solicited public comment on a wide range of issues relating to Section 3(c)(5)(C) of the 1940 Act, including the nature of the assets that qualify for purposes of this exclusion. There can be no assurance that the laws and regulations governing the 1940 Act status of companies relying on Section 3(c)(5)(C) of the 1940 Act, including the SEC or its staff providing more specific or different guidance regarding this exclusion, will not change in a manner that adversely affects the Company's operations. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon such exclusion, the Company may be required to adjust its strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to the Company, or it could further inhibit the Company's ability to pursue the strategies it has chosen.

The Company may organize subsidiaries in the future that may seek to rely on the 1940 Act exclusion provided to certain structured financing vehicles under Rule 3a-7. To comply with Rule 3a-7, any such subsidiary will need to comply with the restrictions described below, as well as any future guidance that may be issued by the SEC or its staff.

In general, Rule 3a-7 excludes from the 1940 Act issuers that limit their activities as follows:

- the issuer issues securities the payment of which depends primarily on the cash flow from "eligible assets," which are assets that by their terms convert into cash within a finite time period;
- the securities sold are fixed-income securities rated investment grade by at least one rating agency except that fixed-income securities which are unrated or rated below investment grade may be sold to institutional accredited investors and any securities may be sold to "qualified institutional buyers" and to persons involved in the organization or operation of the issuer;
- the issuer acquires and disposes of eligible assets (1) only in accordance with the agreements pursuant to which the securities are issued and (2) so that the acquisition or disposition does not result in a downgrading of the issuer's fixed-income securities and (3) the primary purpose of which is not recognizing gains or decreasing losses resulting

from market value changes; and

- unless the issuer is issuing only commercial paper, the issuer appoints an independent trustee, takes reasonable steps to transfer to the trustee an ownership or perfected security interest in the eligible assets, and meets rating agency requirements for commingling of cash flows.

In addition, in certain circumstances, compliance with Rule 3a-7 may also require, among other things, that the indenture governing the Rule 3a-7 reliant subsidiary include additional limitations on the types of assets such subsidiary may sell or acquire out of the proceeds of assets that mature, are refinanced or otherwise sold, on the period of time during which such transactions may occur, and on the level of transactions that may occur. In light of the requirements of Rule 3a-7, there is no assurance that the Company's future subsidiaries will be able to rely on this rule and the Company's ability to manage assets

held in subsidiaries that rely on this rule will be limited and may restrict the Company's ability to purchase or sell assets owned by that subsidiary when the Company would otherwise desire to do so, which could lead to losses.
In the absence of further SEC or SEC staff guidance, the aggregate value of the Company's interests in its subsidiaries that rely on Rule 3a-7, must amount to less than 20% of the Company's total assets on an unconsolidated basis.
In August 2011, the SEC issued a release in which it indicated that it is considering proposing amendments to Rule 3a-7 to "reflect market developments since 1992, when Rule 3a-7 was adopted, and recent developments affecting asset-backed issuers." Any amendments to Rule 3a-7 could provide additional flexibility or could inhibit the ability of any Company subsidiary to rely on this rule or to pursue certain strategies it has identified for such subsidiary.
The Company's subsidiaries may rely on alternative exclusions or exemptions from registration as investment companies under the 1940 Act other than Section 3(c)(1) or Section 3(c)(7) for purposes of complying with the 40% test. These alternative exclusions or exemptions may impose limitations on a subsidiary's organizational form, the types of assets that such subsidiary may hold or require such subsidiary to qualify under a banking, insurance or other regulatory regime. There is no assurance that the Company's subsidiaries will be able to rely on any alternative exclusions or exemptions and the Company's ability to manage assets held in subsidiaries that rely on these alternative exclusions or exemptions will be limited.
The determination of whether an entity is a majority-owned subsidiary of the Company is made by the Company. The 1940 Act defines a majority-owned subsidiary of a person as a company 50% or more of the outstanding voting securities of which are owned by such person, or by another company which is a majority-owned subsidiary of such person. The 1940 Act further defines voting securities as any security presently entitling the owner or holder thereof to vote for the election of directors of a company. The Company treats entities in which it owns at least a majority of the outstanding voting securities as majority-owned subsidiaries for purposes of the 40% test. The Company has not requested the SEC or its staff to approve the Company's treatment of any company as a majority-owned subsidiary and the SEC has not done so. If the SEC or its staff were to disagree with the Company's treatment of one of more companies as majority-owned subsidiaries, the Company would need to adjust its strategy and its assets in order to continue to pass the 40% test. Any such adjustment in the Company's strategy could have a material adverse effect on the Company.
The Company has organized special purpose subsidiaries that rely on Section 3(c)(7) to avoid registration as investment companies under the 1940 Act to hold certain assets and, therefore, the Company's interest in each of these Section 3(c)(7)-reliant subsidiaries constitutes an "investment security" for purposes of determining whether the Company passes the 40% test.
Qualification for particular exclusions from registration under 1940 Act as described herein may limit the Company's or its subsidiaries' ability to make certain investments.
If the Company failed to maintain its excluded status under the 1940 Act and became regulated as an investment company, the Company's ability to, among other things, use leverage would be substantially reduced and, as a result, the Company would be unable to conduct its business as described in this annual report on Form 10-K.
If the Company's subsidiaries fail to maintain an exclusion or exemption from registration pursuant to the 1940 Act, the Company could, among other things, be required either to (a) change the manner in which the Company conducts its operations to avoid being required to register as an investment company, (b) effect sales of the Company's assets in a manner that, or at a time when, the Company would not otherwise choose to do so, or (c) register as an investment company, any of which could negatively affect the value of the Company's common stock, the sustainability of its business model, and its ability to make distributions which could have an adverse effect on its business and the market price for shares of its common stock.
Securities eligible for future sale may have adverse effects on the market price of the Company's common stock.
Subject to applicable law, the Company's board of directors has the authority, without further stockholder approval, to issue additional authorized shares of common stock and securities convertible into or exchangeable for the Company's common stock on the terms and for the consideration it deems appropriate. Additional securities offerings or issuance of additional common stock in connection with the conversion of convertible or exchangeable securities may dilute the holdings of the Company's existing stockholders or reduce the market price of its common stock, or both. Sales or other issuances of substantial amounts of the Company's common stock or the perception that such sales or issuances could occur, may adversely affect the prevailing market price the common stock.

The Company's authorized but unissued shares of common and preferred stock may prevent a change in control.
The Company's charter authorizes it to issue additional authorized but unissued shares of common or preferred stock. In addition, the board of directors may, without stockholder approval, amend the Company's charter to increase the aggregate number of the Company's shares of stock or the number of shares of stock of any class or series that the Company has the authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the terms of the classified or reclassified shares. As a result, the Company's board of directors may establish a series of shares of common or preferred

stock that could delay or prevent a transaction or a change in control that might involve a premium price for shares of the Company's common stock or otherwise be in the best interests of its stockholders.

Certain provisions in the indenture governing the Convertible Senior Notes could delay or prevent an otherwise beneficial takeover or takeover attempt of the Company.

Certain provisions in the Convertible Senior Notes and the indenture governing the Convertible Senior Notes could make it more difficult or more expensive for a third party to acquire the Company. For example, if a takeover would constitute a fundamental change, holders of the Convertible Senior Notes will have the right to require the Company to repurchase their notes in cash. In addition, if a takeover constitutes a make-whole fundamental change, the Company may be required to increase the conversion rate for holders who convert their notes in connection with such takeover. In either case, and in other cases, the Company's obligations under the Convertible Senior Notes and the indenture could increase the cost of acquiring the Company or otherwise discourage a third party from acquiring the Company or removing incumbent management.

The Company's rights and the rights of its stockholders to take action against its directors and officers are limited, which could limit stockholders' recourse in the event of actions not in stockholders' best interests.

The Company's charter limits the liability of its present and former directors and officers to the Company and the Company's stockholders for money damages to the maximum extent permitted under Maryland law. Under Maryland law, the Company's present and former directors and officers do not have any liability to the Company and its stockholders for money damages other than liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer that was established by a final judgment and was material to the cause of action adjudicated.

The Company's charter authorizes the Company to indemnify its directors and officers for actions taken by them in those and other capacities to the maximum extent permitted by Maryland law. The Company's bylaws require it to indemnify each present and former director or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to the Company. The Company has entered into indemnification agreements with each of its directors and officers pursuant to which the Company may be obligated to pay or reimburse the defense costs incurred by the Company's present and former directors and officers without requiring a preliminary determination of their ultimate entitlement to indemnification.

The Company's charter contains provisions that make removal of its directors difficult, which could make it difficult for stockholders to effect changes to the Company's management.

The Company's charter provides that, subject to the rights of any series of preferred stock, a director may be removed with or without cause upon the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. Vacancies may be filled only by a majority of the remaining directors in office, even if less than a quorum. These requirements make it more difficult to change the Company's management by removing and replacing directors and may prevent a change in control of the Company that is in the best interests of stockholders.

Ownership limitations may restrict change of control or business combination opportunities in which the Company's stockholders might receive a premium for their shares.

In order for the Company to qualify as a REIT, no more than 50% in value of its outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year, and at least 100 persons must beneficially own the Company's stock during at least 335 days of a taxable year of 12 months, or during a proportionate portion of a shorter taxable year. "Individuals" for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. To preserve the Company's REIT qualification, among other purposes, the Company's charter generally prohibits any person from directly or indirectly owning more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of the Company's capital stock or more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of the Company's common stock. The Articles Supplementary for the Company's Preferred Stock prohibits any stockholder from beneficially or constructively owning more than 9.8% in value or in number of shares, whichever is more restrictive, of its outstanding Preferred Stock. The indenture governing the Convertible Senior Notes prohibits a holder of notes from receiving shares of the Company's stock upon conversion of the notes if such

receipt would violate the ownership limitations contained in the Company’s charter. These ownership limits in the Company’s charter could have the effect of discouraging a takeover or other transaction in which holders of the Company’s common stock might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests. The Company’s board of directors has established exemptions from the ownership limits in the Company's charter which permit Apollo and certain of its affiliates to collectively

hold up to 25% of the Company's common stock, a certain institutional investor to hold up to 20% of the Company's common stock, a certain institutional investor to hold up to 19.9% of the Company's common stock and certain institutional investors and certain of their specified affiliates to each collectively hold up to 15% of the Company's common stock.

Future litigation or administrative proceedings could have a material and adverse effect on our business, financial condition and results of operations.

The Company may from time to time be involved in legal proceedings, administrative proceedings, claims and other litigation. In addition, the Company has agreed to indemnify the Manager and certain of its affiliates against certain liabilities pursuant to the Management Agreement. Adverse outcomes or developments relating to such proceedings, as well expenses of defending or pursuing claims, or any other costs that may be incurred in connection with such proceedings, could have a material adverse effect on the Company's results of operations and financial condition.

RISKS RELATED TO THE COMPANY'S FINANCING

The Company's access to private sources of financing may be limited and thus the Company's ability to potentially enhance its returns may be adversely affected.

The Company's access to private sources of financing depends upon a number of factors over which it has little or no control, including:

- general market conditions;
- the market's view of the quality of the Company's assets;
- the market's perception of the Company's growth potential;
- the Company's eligibility to participate in and access capital from programs established by the U.S. government;
- the Company's current and potential future earnings and cash distributions; and
- the market price of the shares of the Company's common stock.

Weakness in the capital and credit markets could adversely affect one or more private lenders and could cause one or more private lenders to be unwilling or unable to provide the Company with financing or to increase the costs of that financing. In addition, if regulatory capital requirements imposed on the Company's private lenders change, they may be required to limit, or increase the cost of, financing they provide to the Company. In general, this could potentially increase the Company's financing costs and reduce the Company's liquidity or require it to sell assets at an inopportune time or price.

Consequently, depending on market conditions at the relevant time, the Company may have to rely more heavily on additional equity issuances, which may be dilutive to the Company's stockholders, or on less efficient forms of debt financing that require a larger portion of the Company's cash flow from operations, thereby reducing funds available for the Company's operations, future business opportunities, cash distributions to stockholders and other purposes.

The Company leverages certain of its target assets, which may adversely affect the Company's return on its investments and may reduce cash available for distribution.

The Company leverages certain of the Company's target assets through secured debt arrangements. Leverage can enhance the Company's potential returns but can also exacerbate losses. The return on the Company's investments and cash available for distribution to stockholders may be reduced if market conditions cause the cost of the Company's financing to increase relative to the income that can be derived from the assets acquired, which could adversely affect the price of the Company's common stock. In addition, the Company's debt service payments will reduce cash flow available for distributions to stockholders. As a borrower, the Company is also subject to the risk that it may not be able to meet its debt service obligations. To the extent that the Company cannot meet its debt service obligations, the Company risks the loss of some or all of its assets to foreclosure or sale to satisfy its debt obligations.

The Company may increase the amount of leverage it uses in its financing strategy, which would subject it to greater risk of loss.

The Company's charter and bylaws do not limit the amount of indebtedness the Company can incur; although the Company is limited by certain financial covenants under its secured debt arrangements.

The Company may increase the amount of leverage it utilizes at any time without approval of its stockholders. Incurring substantial debt could subject the Company to many risks that, if realized, would materially and adversely

affect it, including the risk that:

- the Company’s cash flow from operations may be insufficient to make required payments of principal of and interest on the debt or the Company may fail to comply with all of the other covenants contained in the debt documents, which is likely to result in (i) acceleration of such debt (and any other debt containing a cross-default or cross-acceleration

provision) that the Company may be unable to repay from internal funds or to refinance on favorable terms, or at all, (ii) the Company's inability to borrow unused amounts under the Company's financing arrangements, even if the Company is current in payments on borrowings under those arrangements and/or (iii) the loss of some or all of the Company's assets to foreclosure or sale;

- the Company's debt may increase its vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase with higher financing costs;
- the Company may be required to dedicate a substantial portion of its cash flow from operations to payments on its debt, thereby reducing funds available for operations, future business opportunities, stockholder distributions or other purposes; and
- the Company may not be able to refinance debt that matures prior to the investment it was used to finance on favorable terms, or at all.

Any credit facilities and secured debt arrangements that the Company may use to finance its assets may require the Company to provide additional collateral or pay down debt.

As of December 31, 2017, the Company had secured debt arrangements in place, with an aggregate borrowing capacity of $2,290,139. The Company may utilize credit facilities and additional secured debt arrangements to finance its assets if they become available on acceptable terms. In the event the Company utilizes such financing arrangements, they may involve the risk that the market value of the Company's assets pledged or sold by the Company to the secured debt arrangements counterparty or provider of the credit facility may decline in value, in which case the lender may require the Company to provide additional collateral or to repay all or a portion of the funds advanced. The Company may not have the funds available to repay its debt at that time, which would likely result in defaults unless the Company is able to raise the funds from alternative sources, which the Company may not be able to achieve on favorable terms or at all. Posting additional collateral would reduce the Company's liquidity and limit its ability to leverage its assets. If the Company cannot meet these requirements, the lender could accelerate the Company's indebtedness, increase the interest rate on advanced funds and terminate the Company's ability to borrow funds from them, which could materially and adversely affect the Company's financial condition and ability to implement its business plan. In addition, in the event that the lender files for bankruptcy or becomes insolvent, the Company's loans may become subject to bankruptcy or insolvency proceedings, thus depriving the Company, at least temporarily, of the benefit of these assets. Such an event could restrict the Company's access to credit facilities and increase the Company's cost of capital. The lenders may also require the Company to maintain a certain amount of cash or set aside assets sufficient to maintain a specified liquidity position that would allow the Company to satisfy its collateral obligations. In the event that the Company is unable to meet these collateral obligations, the Company's financial condition and prospects could deteriorate rapidly.

The Company's existing secured debt arrangements impose restrictive covenants.

The Company's secured debt arrangements contain restrictive covenants which impose limitations on the manner in which the Company conducts its business. For example, the Company is subject to customary restrictive covenants with respect to continuing to operate in a manner that allows the Company to qualify as a REIT for U.S. federal income tax purposes, and financial covenants with respect to minimum consolidated tangible net worth, maximum total indebtedness to consolidated tangible net worth, and minimum liquidity. These covenants may restrict the Company's ability to engage in transactions that it believes would otherwise be in the best interests of its stockholders. Failure to comply with any of the covenants in the Company's secured debt arrangements could result in a default in those facilities. This could cause the Company's lenders to accelerate the timing of payments which could have a material adverse effect on the Company's business, financial condition and results of operations, its ability to make distributions to stockholders and the trading price of its common stock.

Should the Company choose to employ non-recourse long-term securitizations in the future, such structures may expose the Company to risks which could result in losses to the Company.

The Company may seek to enhance the returns of all or a senior portion of the Company's commercial mortgage loans through securitizations. To securitize the Company's portfolio investments, the Company may create a wholly-owned subsidiary and contribute a pool of assets to the subsidiary. This could include the sale of interests in the subsidiary on a non-recourse basis to purchasers whom the Company would expect to be willing to accept a lower interest rate to invest in investment grade loan pools, and the Company would retain a portion of the equity in the securitized pool of

portfolio investments. The successful securitization of the Company's portfolio investments might expose the Company to losses as the commercial real estate investments in which the Company does not sell interests will tend to be those that are riskier and more likely to generate losses. Securitization financings could also restrict the Company's ability to sell assets when it would otherwise be advantageous to do so.

An increase in the Company's borrowing costs relative to the interest it receives on its leveraged assets may adversely affect the Company's profitability and its cash available for distribution to its stockholders.
Borrowing rates are currently at historically low levels that may not be sustained in the long run. As the Company's secured debt arrangements and other short-term borrowings mature, it will be required either to enter into new borrowings or to sell certain of the Company's assets. An increase in short-term interest rates at the time that the Company seeks to enter into new borrowings would reduce the spread between the returns on its assets and the cost of its borrowings. This could adversely affect the returns on the Company's assets, which might reduce earnings and, in turn, cash available for distribution to its stockholders. In addition, because the Company's secured debt arrangements are short-term commitments of capital, lenders may respond to market conditions making it more difficult for the Company to secure continued financing. If the Company is not able to renew its then existing facilities or arrange for new financing on terms acceptable to the Company, or if it defaults on its covenants or is otherwise unable to access funds under any of these facilities, the Company may have to curtail its asset acquisition activities and/or dispose of assets.
Interest rate fluctuations could reduce the income on the Company's investments and could increase the Company's financing costs, which may adversely affect the Company's earnings and its cash available for distribution to its stockholders.
Changes in interest rates will affect the Company's operating results as such changes will affect the interest the Company receives on any floating rate interest bearing investments and the financing cost of its floating rate debt, as well as the Company's interest rate swaps that it may utilize for hedging purposes. Changes in interest rates may also affect borrower default rates, which may result in losses for the Company. If a counterparty to the Company's secured debt arrangements defaults on its obligation to resell the underlying security back to the Company at the end of the transaction term or if the value of the underlying security has declined as of the end of that term or if the Company defaults on its obligations under the secured debt arrangement, the Company will lose money on its secured debt arrangement.
When the Company engages in secured debt arrangements, it sells securities to lenders (i.e., secured debt arrangement counterparties) and receives cash from the lenders. The lenders are obligated to resell the same securities back to the Company at the end of the term of the transaction. Because the cash the Company receives from the lender when it initially sells the securities to the lender is less than the value of those securities (this difference is referred to as the haircut), if the lender defaults on its obligation to resell the same securities back to the Company, the Company could incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities). The Company could also lose money on a secured debt arrangement if the value of the underlying securities has declined as of the end of the transaction term, as the Company would have to repurchase the securities for their initial value but would receive securities worth less than that amount. Further, if the Company defaults on one of its obligations under a secured debt arrangement, the lender will be able to terminate the transaction and cease entering into any other secured debt arrangements with the Company. Any losses the Company incurs on its secured debt arrangements could adversely affect the Company's earnings and thus its cash available for distribution to stockholders.
The Company's rights under its secured debt arrangements may be subject to the effects of the bankruptcy laws in the event of the bankruptcy or insolvency of the Company or its lenders under the secured debt arrangements, which may allow the Company's lenders to repudiate its secured debt arrangements.
In the event of the Company's insolvency or bankruptcy, certain secured debt arrangements may qualify for special treatment under the U.S. Bankruptcy Code, the effect of which, among other things, would be to allow the lender under the applicable secured debt arrangements to avoid the automatic stay provisions of the U.S. Bankruptcy Code and to foreclose on the collateral agreement without delay. In the event of the insolvency or bankruptcy of a lender during the term of a secured debt arrangement, the lender may be permitted, under applicable insolvency laws, to repudiate the contract, and the Company's claim against the lender for damages may be treated simply as an unsecured creditor. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, the Company's ability to exercise its rights to recover its securities under a secured debt arrangement or to be compensated for any damages resulting from the lender's insolvency may be further limited by those statutes. These claims would be subject to significant delay and, if

and when received, may be substantially less than the damages the Company actually incurs.
The Company may enter into hedging transactions that could expose it to contingent liabilities in the future and adversely impact its financial condition.
Subject to maintaining the Company's qualification as a REIT, the Company may enter into hedging transactions that could require it to fund cash payments in certain circumstances (e.g., the early termination of the hedging instrument caused by

an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument). The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. These economic losses will be reflected in the Company's results of operations, and its ability to fund these obligations will depend on the liquidity of the Company's assets and access to capital at the time, and the need to fund these obligations could adversely impact the Company's financial condition.

In addition, certain of the hedging instruments that the Company may enter into could involve risks since they often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. The Company cannot assure that a liquid secondary market will exist for hedging instruments that it may purchase or sell in the future, and the Company may be required to maintain a position until exercise or expiration, which could result in significant losses.

Furthermore, the Company intends to record any derivative and hedging transactions it enters into in accordance with accounting principles generally accepted in the United States ("GAAP"). However, the Company may choose not to pursue, or fail to qualify for, hedge accounting treatment relating to such derivative instruments. As a result, the Company's operating results may suffer because losses, if any, on these derivative instruments may not be offset by a change in the fair value of the related hedged transaction or item.

Accounting rules for certain of the Company's transactions are highly complex and involve significant judgment and assumptions. Changes in accounting interpretations or assumptions could impact the Company's consolidated financial statements.

Accounting rules for transfers of financial assets, securitization transactions, consolidation of variable interest entities and other aspects of the Company's operations are highly complex and involve significant judgment and assumptions. These complexities could lead to a delay in preparation of financial information and the delivery of this information to the Company's stockholders. Changes in accounting interpretations or assumptions could impact the Company's consolidated financial statements and the Company's ability to timely prepare its consolidated financial statements. The Company's inability to timely prepare its consolidated financial statements in the future would likely adversely affect the Company's stock price significantly.

The accounting method for convertible debt securities that may be settled in cash, such as the Convertible Senior Notes, could have a material effect on the Company's reported financial results.

In May 2008, the Financial Accounting Standards Board (the "FASB") issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, or ASC 470-20. ASC 470-20 requires an entity to separately account for the liability and equity components of convertible debt instruments whose conversion may be settled entirely or partially in cash (such as the Convertible Senior Notes) in a manner that reflects the issuer's economic interest cost for non-convertible debt. The liability component of the Convertible Senior Notes were initially valued at the fair value of a similar debt instrument that does not have an associated equity component and is reflected as a liability in the Company's consolidated balance sheet. The equity component of the Convertible Senior Notes is included in the additional paid-in capital section of the Company's stockholders' equity on the consolidated balance sheet, and the value of the equity component is treated as original issue discount for purposes of accounting for the debt component. This original issue discount will be amortized to non-cash interest expense over the term of the Convertible Senior Notes, and the Company will record a greater amount of non-cash interest expense in current periods as a result of this amortization. Accordingly, the Company will report lower net income in its financial results because ASC 470-20 will require the interest expense associated with the Convertible Senior Notes to include both the current period's amortization of the debt discount and the Convertible Senior Notes' coupon interest, which could adversely affect the Company's reported or future financial results, the trading price of the Company's common stock.

Furthermore, under certain circumstances, convertible debt instruments whose conversion may be settled entirely or partly in cash (such as the Convertible Senior Notes) are currently accounted for using the treasury stock method. Under this method, the shares issuable upon conversion of the Convertible Senior Notes are not included in the calculation of diluted earnings per share unless the conversion value of the notes exceeds their principal amount at the end of the relevant reporting period. If the conversion value exceeds their principal amount, then, for diluted earnings

per share purposes, the Convertible Senior Notes are accounted for as if the number of shares of common stock that would be necessary to settle the excess, if the Company elected to settle the excess in shares, are issued. The accounting standards in the future may not continue to permit the use of the treasury stock method. If the Company is unable to use the treasury stock method in accounting for the shares, if any, issuable upon conversion of the Convertible Senior Notes, then the Company's diluted earnings per share could be adversely affected.

Hedging against currency and interest rate exposure may adversely affect the Company's earnings, which could reduce the Company's cash available for distribution to its stockholders.

Subject to maintaining the Company's qualification as a REIT, the Company pursues various hedging strategies to seek to reduce its exposure to adverse changes in currencies and interest rates. The Company's hedging activity vary in scope based on the level and volatility of currency and interest rates, the type of assets held and other changing market conditions. In addition, the Company may fail to recalculate, readjust and execute hedges in an efficient manner.

Any hedging activity in which the Company engages may materially and adversely affect its results of operations and cash flows. Therefore, while the Company may enter into such transactions seeking to reduce currency or interest rate risks, unanticipated changes in currency or interest rates may result in poorer overall investment performance than if the Company had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions or liabilities being hedged may vary materially. Moreover, for a variety of reasons, the Company may not seek to establish a perfect correlation between such hedging instruments and the portfolio positions or liabilities being hedged. Any such imperfect correlation may prevent the Company from achieving the intended hedge and expose the Company to risk of loss.

RISKS RELATED TO THE COMPANY'S INVESTMENTS

The Company cannot assure stockholders that it will be successful in consummating additional investment opportunities it identifies which would likely materially affect its business, financial condition, liquidity and results of operations.

The Company cannot assure stockholders that it will be able to continue to identify additional assets that meet its investment objective, that the Manager's due diligence processes will uncover all relevant facts regarding such investments, that the Company will be successful in consummating any additional investment opportunities it identifies or that the investments it makes in the future will yield attractive risk-adjusted returns. The Company's inability to do any of the foregoing likely would materially and adversely affect its business, financial condition, liquidity and results of operations.

The Company may not achieve its underwritten internal rate of return on its investments which may lead to future returns that may be significantly lower than anticipated.

The calculations of the Company's underwritten internal rates of return included in this annual report on Form 10-K or in the Company's future periodic reports or press releases or other communications with respect to its investments are based on, among other considerations, assumptions regarding the performance of its assets, the costs of financing, the availability of its secured debt arrangements, the exercise of extension options and the absence of dispositions, early prepayments or defaults, all of which are subject to significant uncertainty. In addition, events or conditions that have not been anticipated may occur and may have a significant effect on the actual rate of return received on the Company's target assets. If these assumptions fail to materialize, future returns on the Company's investments may be significantly lower than underwritten returns. For additional discussion of factors that may affect actual returns on the Company's investments, see "Quantitative and Qualitative Disclosures about Market Risk" and "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations."

The Company may be subject to lender liability claims.

In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or stockholders. The Company cannot assure prospective investors that such claims will not arise or that the Company will not be subject to significant liability if a claim of this type did arise.

Any credit ratings assigned to the Company's investments will be subject to ongoing evaluations and revisions and the Company cannot assure stockholders that those ratings will not be downgraded.

Some of the Company's assets may be rated by nationally recognized statistical rating organizations. Any credit ratings on the Company's assets are subject to ongoing evaluation by credit rating agencies, and these ratings could be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies

assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of the Company's investments in the future, the value of these investments could significantly decline, which would adversely affect the value of the Company's investment portfolio and could result in losses upon disposition. An investment grade credit rating does not provide assurance that the subject investment will not become impaired.

The Company may experience a decline in the fair value of its assets.

A decline in the fair market value of the Company's assets may require it to recognize an "other-than-temporary" impairment against such assets under GAAP if the Company was to determine that, with respect to any assets in unrealized loss positions, the Company does not have the ability and intent to hold such assets to maturity or for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of such assets. On at least a quarterly basis, management assesses both the intent and ability to continue to hold such assets as long-term investments. As part of this process, the Company monitors these securities for any other-than-temporary impairments. A change in the ability and/or intent to continue to hold these available-for-sale securities could result in the Company recognizing an impairment charge.

Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect the Company's future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale.

Some of the Company's portfolio investments are recorded at fair value and, as a result, there is uncertainty as to the value of these investments. Furthermore, the Company's determinations of fair value may have a material impact on its financial condition, liquidity and results of operations.

The value of some of the Company's investments may not be readily determinable. The Company values these investments quarterly at fair value, as determined in accordance with GAAP. Because such valuations are subjective, the fair value of certain of the Company's assets may fluctuate over short periods of time and the Company's determinations of fair value may differ materially from the values that would have been used if a ready market for these assets existed. The Company's determinations of fair value may have a material impact on its earnings, in the case of impaired loans and other assets, trading securities and available-for-sale securities that are subject to other-than-temporary impairments, or the Company's accumulated other comprehensive income/(loss) in its stockholders' equity, in the case of available-for-sale securities that are subject only to temporary impairments. Accordingly, the value of the Company's common stock could be adversely affected by the Company's determinations regarding the fair value of its investments, whether in the applicable period or in the future.

Additionally, the Company's results of operations for a given period could be adversely affected if its determinations regarding the fair value of these investments were materially higher than the values that the Company ultimately realizes upon their disposal. The valuation process has been particularly challenging recently as market events have made valuations of certain assets more difficult, unpredictable and volatile.

Liability relating to environmental matters may impact the value of properties that the Company may acquire or the properties underlying its investments.

Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances.

The presence of hazardous substances may adversely affect an owner's ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of a property underlying one of the Company's debt investments becomes liable for removal costs, the ability of the owner to make payments to the Company may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by the Company and on the Company's ability to make distributions to its stockholders.

If the Company owns any properties, mortgage or other real estate-related loans upon a default of the presence of hazardous substances on a property may adversely affect the Company's ability to sell the property and the Company may incur substantial remediation costs, thus harming its financial condition. The discovery of material environmental liabilities attached to such properties could have a material adverse effect on the Company's results of operations and financial condition and its ability to make distributions to its stockholders.

Investments in preferred equity involve a greater risk of loss than traditional debt financing.

The Company may invest in real estate preferred equity as an alternative to mezzanine loans, which involves a higher degree of risk than first mortgage loans due to a variety of factors, including the risk that, similar to mezzanine loans, such investments are subordinate to first mortgage loans and are not collateralized by property underlying the investment and, in certain instances, may not have financial performance covenants. Although as a holder of preferred equity the Company may enhance its position with covenants that limit the activities of the entity in which the

Company has an interest and protect its equity by obtaining an exclusive right to control the underlying property after an event of default, should such a default occur on its investment, the Company would only be able to proceed against the entity in which it has an interest, and not the property owned by such entity and underlying the Company's investment. Further, similar to mezzanine loans, preferred equity does not

ordinarily afford the holder with the full range of protections of a creditor. As a result, the Company may not recover some or all of its investment.

The lack of liquidity of the Company's assets may adversely affect the Company's business, including its ability to value and sell its assets.

The illiquidity of the Company's investments in commercial mortgage loans, commercial real estate corporate debt and loans and other real estate-related debt investments may make it difficult for the Company to sell such investments if the need or desire arises. Many of the securities the Company purchases are not registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or their disposition except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. In addition, certain investments such as B Notes, mezzanine loans and other loans are also particularly illiquid investments due to their short life, their potential unsuitability for securitization and the greater difficulty of recovery in the event of a borrower's default. As a result, many of the Company's investments are illiquid and if the Company is required to liquidate all or a portion of its portfolio quickly, the Company may realize significantly less than the value at which it has previously recorded its investments. Further, the Company may face other restrictions on its ability to liquidate an investment in a business entity to the extent that the Company or the Manager has or could be attributed with material, non-public information regarding such business entity. As a result, the Company's ability to vary its portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect the Company's results of operations and financial condition.

The Company's investments may be concentrated and are subject to risk of default.

The Company is not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by its board of directors. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Investment Guidelines." Therefore, the Company's investments in its target assets may at times be concentrated in certain property types that are subject to higher risk of foreclosure, or secured by properties concentrated in a limited number of geographic locations. To the extent that the Company's investment portfolio is concentrated in any one region or type of asset, downturns relating generally to such region or type of asset may result in defaults on a number of the Company's investments within a short time period, which may reduce its net income and the value of its common stock and accordingly reduce the Company's ability to pay dividends to its stockholders.

Difficult conditions in the markets for mortgages and mortgage-related assets as well as the broader financial markets may result in contraction in liquidity for mortgages and mortgage-related assets, which may adversely affect the value of the assets in which the Company invests.

The Company's results of operations are materially affected by conditions in the markets for mortgages and mortgage-related assets as well as the broader financial markets and the economy generally. Beginning in mid-2007, global financial markets encountered a series of events from the collapse of the sub-prime mortgage market to the ensuing dramatic widening of credit spreads and corresponding broad-scale freezing of corporate lending. These events led to a significant dislocation in capital markets and created a severe shortage of debt capital for commercial real estate, a deleveraging of the entire global financial system and the forced sale of large quantities of mortgage-related and other financial assets. As a result of these conditions, many traditional commercial mortgage loan and securities investors suffered severe losses in their loan and securities portfolios and several major market participants failed or were impaired, resulting in a severe contraction in market liquidity and in a sharp reduction in the availability of credit for real estate-related assets. Further certain lenders have been impacted by the European sovereign debt crisis. The resulting illiquidity negatively affected both the terms and availability of financing for all real estate-related assets, and generally resulted in real estate-related assets trading at significantly lower prices and higher yields compared to prior periods. Many lenders have continued to maintain tight lending standards and have reduced their lending capacity in response to the difficulties and changed economic conditions that have adversely affected the mortgage market. Further increased volatility and deterioration in the markets for mortgages and mortgage-related assets as well as the broader financial markets may adversely affect the performance and market value of the Company's investments. Furthermore, if these conditions persist, institutions from which the Company may seek financing for its investments may become insolvent or tighten their lending standards, which could make it more difficult for the Company to obtain financing on favorable terms or at all. The Company's profitability may be adversely affected if it is unable to obtain cost-effective financing for its investments.

The commercial mortgage loans and other commercial real estate-related loans the Company invests in are subject to delinquency, foreclosure and loss, any or all of which could result in losses to the Company.

Commercial mortgage loans are secured by multifamily or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with mortgage loans made on the security of one to four family residential properties. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent

income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. The Manager makes certain estimates of losses during its underwriting of commercial mortgage loans. However, estimates may not prove accurate, as actual results may vary from estimates. Net operating income of an income-producing property can be affected by, among other things: tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property, the occurrence of any uninsured casualty at the property, changes in national, regional or local economic conditions and/or specific industry segments, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances.

In the event of any default under a mortgage or other real estate-related loan held directly by the Company, the Company will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the commercial mortgage loan or other real estate-related loan, which could have a material adverse effect on the Company's cash flow from operations. In the event of the bankruptcy of a commercial mortgage loan borrower or other real estate-related loan borrower, the loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law.

Foreclosure of a commercial mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on the Company's anticipated return on the foreclosed mortgage loan.

The Company's investments in B Notes and mezzanine loans may be subject to losses. The B Notes in which the Company may invest may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to the Company.

As part of the Company's whole loan origination platform, the Company may retain from whole loans it acquires or originates, subordinate interests referred to as B Notes. B Notes are commercial real estate loans secured by a first mortgage on a single large commercial property or group of related properties and subordinated to a senior interest, referred to as an A Note. As a result, if a borrower defaults, there may not be sufficient funds remaining for B Note owners after payment to the A Note owners. B Notes reflect similar credit risks to comparably rated CMBS. However, since each transaction is privately negotiated, B Notes can vary in their structural characteristics and risks. For example, the rights of holders of B Notes to control the process following a borrower default may be limited in certain investments. The Company cannot predict the terms of each B Note investment. Similar to the Company's B Note strategy, the Company may originate or acquire mezzanine loans originated after January 1, 2009, which are loans made to property owners that are secured by pledges of the borrower's ownership interests, in whole or in part, in entities that directly or indirectly own the real property. The loan to value and last dollar of exposure of the mezzanine loans generally do not differ greatly from the whole loans the Company originates or acquires, with the key distinction being that the most senior portion of the loan with the least credit risk is owned by a third party lender. In the event a borrower defaults on a loan and lacks sufficient assets to satisfy the Company's loan, the Company may suffer a loss of principal or interest. In the event a borrower declares bankruptcy, the Company may not have full recourse to the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy the loan. In addition, mezzanine loans are by their nature structurally subordinated to more senior property level financings. If a borrower defaults on the Company's mezzanine loan or on debt senior to the Company's loan, or in the event of a borrower bankruptcy, the Company's mezzanine loan will be satisfied only after the property level debt and other senior debt is paid in full. Significant losses related to the Company's B Notes or mezzanine loans would result in operating losses for the Company and may limit the Company's ability to make distributions to its stockholders.

The Company's investments in commercial real estate corporate debt and loans and debt securities of commercial real estate operating or finance companies will be subject to the specific risks relating to the particular company and to the general risks of investing in real estate-related loans and securities, which may result in significant losses.

The Company may invest in commercial real estate corporate debt and loans and debt securities of commercial real estate operating or finance companies, including REITs. These investments will involve special risks relating to the

particular company, including its financial condition, liquidity, results of operations, business and prospects. In particular, the debt securities are often non-collateralized and may also be subordinated to its other obligations. The Company may invest in debt securities of companies that are not rated or are rated non-investment grade by one or more rating agencies. Investments that are not rated or are rated non-investment grade have a higher risk of default than investment grade rated assets and therefore may result in losses to us. The Company has not adopted any limit on such investments.

These investments will also subject the Company to the risks inherent with real estate-related investments, including the risks described with respect to commercial properties and similar risks, including:

- risks of delinquency and foreclosure, and risks of loss in the event thereof;
- the dependence upon the successful operation of, and net income from, real property;
- risks generally incident to interests in real property; and
- risks specific to the type and use of a particular property.

These risks may adversely affect the value of the Company's investments in commercial real estate operating and finance companies and the ability of the issuers thereof to make principal and interest payments in a timely manner, or at all, and could result in significant losses.

A prolonged economic slowdown, a lengthy or severe recession or declining real estate values could impair the Company's investments and harm its operations.

The Company believes the risks associated with its business will be more severe during periods of economic slowdown or recession if these periods are accompanied by declining real estate values. In addition, the Company's investment model may be adversely affected if the current economic recession continues longer or is deeper than the Company anticipates. Declining real estate values will likely reduce the level of new mortgage and other real estate-related loan originations since borrowers often use appreciation in the value of their existing properties to support the purchase or investment in additional properties. Borrowers may also be less able to pay principal and interest on the Company's loans if the value of real estate weakens. Further, declining real estate values significantly increase the likelihood that the Company will incur losses on its loans in the event of default because the value of its collateral may be insufficient to cover its cost on the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect the Company's manager's ability to invest in, sell and securitize loans, which would materially and adversely affect the Company's results of operations, financial condition, liquidity and business and the Company's ability to pay dividends to stockholders.

The Company's real estate investments are subject to risks particular to real property. These risks may result in a reduction or elimination of return from a loan secured by a particular property.

The Company may own real estate directly in the future upon a default of mortgage or other real estate-related loans. Real estate investments are subject to various risks, including:

- acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks;
- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- costs of remediation and liabilities associated with environmental conditions such as indoor mold; and
- the potential for uninsured or under-insured property losses.

If any of these or similar events occurs, it may reduce the Company's return from an affected property or investment and reduce or eliminate the Company's ability to pay dividends to stockholders.

The Company's investments in non-U.S. assets may subject to it to the uncertainty of foreign laws and markets and currency rate exposure.

The Company's investment guidelines permit investments in non-U.S. assets, subject to the same guidelines as investments in U.S. assets. Investments in countries outside of the United States may subject the Company to risks of multiple and conflicting tax laws and regulations, and other laws and regulations that may make foreclosure and the exercise of other remedies in the case of default more difficult or costly compared to U.S. assets and political and economic instability abroad, any of which factors could adversely affect the Company's receipt of returns on and distributions from these investments. In addition, such investments may be denominated in currencies other than U.S. dollars which would expose the Company to foreign currency risk.

The Company maintains cash balances in its bank accounts that exceed the FDIC insurance limitation.

The Company regularly maintains cash balances at banks domiciled in the United States in excess of the Federal Deposit Insurance Corporation insurance limit. The failure of such bank could result in the loss of a portion of such cash balances in excess of the federally insured limit, which could materially and adversely affect the Company's financial position.

Investments that we make involving co-investors could be materially and adversely affected by our lack of sole decision-making authority, our reliance on our co-investors' financial condition and disputes between us and our co-investors.

We may co-invest with third parties through partnerships, joint ventures or other entities, in which we would not be in a position to exercise sole decision-making authority regarding the investment, partnership, joint venture or other entity. Investments through partnerships, joint ventures, or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that co-investors might become bankrupt, fail to fund their share of required capital contributions, make poor business decisions or block or delay necessary decisions. Co-investors may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor our co-investors would have full control over the partnership or joint venture. Disputes between us and our co-investors may result in litigation or arbitration that would increase our expenses and prevent us from focusing our time and effort on our business. Consequently, actions by, or disputes with, our co-investors might result in subjecting the facilities owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our co-investors.

RISKS RELATED TO THE COMPANY’S TAXATION AS A REIT

Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code, and the Company’s failure to qualify as a REIT or remain qualified as a REIT would subject it to U.S. federal income tax and applicable state and local taxes, which would reduce the amount of cash available for distribution to the Company’s stockholders.

The Company believes that it has been organized and operated and intends to continue to be organized and to operate in a manner that will allow it to qualify as a REIT for U.S. federal income tax purposes commencing with the Company’s taxable year ended December 31, 2009. The Company has not requested and does not intend to request a ruling from the Internal Revenue Service, or the IRS, that it qualifies as a REIT. The U.S. federal income tax laws governing REITs are complex, and judicial and administrative interpretations of the U.S. federal income tax laws governing REIT qualification are limited. To qualify as a REIT, the Company must meet, on an ongoing basis, various tests regarding the nature and diversification of its assets and its income, the ownership of its outstanding shares, and the amount of its distributions. Even a technical or inadvertent violation could jeopardize the Company’s REIT qualification. The Company’s ability to satisfy the asset tests depends upon its analysis of the characterization and fair market values of its assets, some of which are not susceptible to a precise determination, and for which the Company will not obtain independent appraisals. The Company’s compliance with the REIT income and quarterly asset requirements also depends upon the Company’s ability to successfully manage the composition of its income and assets on an ongoing basis. Moreover, new legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for the Company to qualify as a REIT. In addition, the Company’s ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which the Company has no control or only limited influence, including in cases where the Company owns an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes. Thus, while the Company intends to operate so that it will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in its circumstances, no assurance can be given that the Company will so qualify for any particular year.

If the Company fails to qualify as a REIT in any taxable year, and the Company does not qualify for certain statutory relief provisions, it would be required to pay U.S. federal income tax on its taxable income, and distributions to its stockholders would not be deductible by the Company in determining its taxable income. In such a case, the Company might need to borrow money or sell assets in order to pay its taxes. The Company’s payment of income tax would decrease the amount of its income available for distribution to stockholders. Furthermore, if the Company fails to maintain its qualification as a REIT, the Company no longer would be required to distribute substantially all of its taxable income to stockholders. In addition, unless the Company were eligible for certain statutory relief provisions, it could not re-elect to qualify as a REIT for the subsequent four taxable years following the year in which it failed to qualify.

Complying with REIT requirements may force the Company to liquidate or forego otherwise attractive investments. To qualify as a REIT, the Company must ensure that it meets the REIT gross income test annually and that, at the end of each calendar quarter, at least 75% of the value of its assets consists of cash, cash items, government securities, shares in REITs and other qualifying real estate assets, including certain mortgage loans and certain kinds of mortgage-backed securities. The remainder of the Company's investments in securities (other than government securities and REIT qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of the Company's assets (other than government securities and securities that are qualifying real estate assets) can consist of the securities of any

one issuer, no more than 20% of the value of the Company’s total securities (25% for taxable years beginning prior to January 1, 2018) can be represented by securities of one or more taxable REIT subsidiaries, or TRSs and, for taxable years beginning after December 31, 2015, not more than 25% of the value of the Company's assets can consist of debt instruments issued by publicly offered REITs that are not secured by real property. If the Company fails to comply with these requirements at the end of any calendar quarter, it must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing its REIT qualification and suffering adverse tax consequences. As a result, the Company may be required to liquidate from its portfolio, or contribute to a TRS, otherwise attractive investments, and may be unable to pursue investments that would be otherwise advantageous to the Company in order to satisfy the source of income or asset diversification requirements for qualifying as a REIT. These actions could have the effect of reducing the Company’s income and amounts available for distribution to its stockholders.

REIT distribution requirements could adversely affect the Company’s ability to execute its business plan and may require the Company to incur debt or sell assets to make such distributions.

In order to qualify as a REIT, the Company must distribute to its stockholders, each calendar year, at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that the Company satisfies the 90% distribution requirement, but distributes less than 100% of its taxable income, the Company will be subject to U.S. federal corporate income tax on its undistributed income. In addition, the Company will incur a 4% nondeductible excise tax on the amount, if any, by which its distributions in any calendar year are less than a minimum amount specified under U.S. federal income tax laws. The Company intends to distribute its net income to its stockholders in a manner intended to satisfy the REIT 90% distribution requirement and to avoid the 4% nondeductible excise tax.

In addition, the Company’s taxable income may substantially exceed its net income as determined by GAAP or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, the Company may be required to accrue interest and discount income on mortgage loans, CMBS, and other types of debt securities or interests in debt securities before it receives any payments of interest or principal on such assets. The Company may be required under the terms of the indebtedness that it incurs, whether to private lenders or pursuant to government programs, to use cash received from interest payments to make principal payment on that indebtedness, with the effect that the Company will recognize income but will not have a corresponding amount of cash available for distribution to its stockholders.

As a result of the foregoing, the Company may generate less cash flow than taxable income in a particular year and find it difficult or impossible to meet the REIT distribution requirements in certain circumstances. In such circumstances, the Company may be required to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt or (iv) make a taxable distribution of the Company’s shares as part of a distribution in which stockholders may elect to receive shares or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with the REIT distribution requirements. Thus, compliance with the REIT distribution requirements may hinder the Company’s ability to grow, which could adversely affect the value of its common stock.

Even if the Company qualifies as a REIT, it may face tax liabilities that reduce its cash flow.

Even if the Company qualifies for taxation as a REIT, it may be subject to certain U.S. federal, state and local taxes on its income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, franchise, property and transfer taxes, including mortgage recording taxes. In addition, the Company has jointly elected with each of ACREFI I TRS, Inc. (“ACREFI TRS”), a Delaware corporation that is indirectly wholly owned by the Company, ARM TRS, LLC (“ARM TRS”), a Delaware corporation that is indirectly wholly owned by the Company, and ACREFI II TRS, Ltd. (“ACREFI II TRS”), a Cayman company that is indirectly wholly-owned by the Company, to treat each of ACREFI TRS, ARM TRS and ACREFI II TRS as a TRS of the Company. ACREFI TRS, ARM TRS and any other domestic TRSs the Company owns will be subject to U.S. federal, state and local corporate taxes. In order to meet the REIT qualification requirements, or to avoid the imposition of a 100% tax that applies to certain gains derived by a REIT from sales of inventory or property held primarily for sale to customers in the ordinary course of business, the Company may hold some of its assets through

taxable subsidiary corporations, including ACREFI TRS, ARM TRS, ACREFI II TRS, or any other TRSs the Company may form. Any taxes paid by such subsidiary corporations would decrease the cash available for distribution to the Company's stockholders.

The Internal Revenue Code and the Treasury Regulations promulgated thereunder provide a specific exemption from U.S. federal income tax that applies to a non-U.S. corporation that restricts its activities in the United States to trading in stock and securities (or any activity closely related thereto) for its own account whether such trading (or such other activity) is conducted by such a non-U.S. corporation or its employees through a resident broker, commission agent, custodian or other agent. Certain U.S. stockholders of such a non-U.S. corporation are required to include in their income currently their proportionate share of the earnings of such a corporation, whether or not such earnings are distributed. ACREFI II TRS intends

to operate in a manner so that it will not be subject to U.S. federal income tax on its net income. Therefore, despite the status of ACREFI II TRS as a TRS, it should generally not be subject to U.S. federal corporate income tax on its earnings. However, there is no assurance that ACREFI II TRS will successfully operate in this manner. If ACREFI II TRS were subject to U.S. federal income tax on all or a portion of its income, this would reduce the amount of cash it had available for distributions to the Company, which could in turn reduce the amount of cash the Company was able to distribute to its stockholders.

The failure of mortgage loans subject to a secured debt arrangement or a mezzanine loan to qualify as a real estate asset would adversely affect the Company's ability to qualify as a REIT.

When the Company enters into secured debt arrangements, it will nominally sell certain of its assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. The Company believes that it will be treated for U.S. federal income tax purposes as the owner of the assets that are the subject of any such agreements notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that the Company did not own the assets during the term of the secured debt arrangement, in which case the Company could fail to qualify as a REIT.

In addition, the Company has and may continue to acquire and originate mezzanine loans, which are loans secured by equity interests in a partnership or limited liability company that directly or indirectly owns real property. In Revenue Procedure 2003-65, the IRS provided a safe harbor pursuant to which a mezzanine loan, if it meets each of the requirements contained in the Revenue Procedure, will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% gross income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. The Company expects to treat certain mezzanine loans that may not meet all of the requirements for reliance on this safe harbor as real estate assets giving rise to qualifying mortgage interest for purposes of the REIT asset and income requirements, or otherwise not adversely affecting the Company's qualification as a REIT. There can be no assurance that the IRS will not challenge the tax treatment of these mezzanine loans, and if such a challenge were sustained, the Company could in certain circumstances be required to pay a penalty tax or fail to qualify as a REIT.

The Company may be required to report taxable income for certain investments in excess of the economic income the Company ultimately realizes from them.

The Company may acquire debt instruments in the secondary market for less than their face amount. The amount of such discount will generally be treated as "market discount" for U.S. federal income tax purposes. Market discount generally is reported as income when, and to the extent that, any payment of principal of the debt instrument is made, unless the Company elects to include accrued market discount in income as it accrues. Principal payments on certain loans are made monthly, and consequently accrued market discount may have to be included in income each month as if the debt instrument were assured of ultimately being collected in full. If the Company collects less on the debt instrument than the Company's purchase price plus the market discount the Company had previously reported as income, it may not be able to benefit from any offsetting loss deductions.

The newly enacted Tax Cuts and Jobs Act ("TCJA") implements various changes to the U.S. federal income tax laws that will impact the taxation of the Company and its stockholders. Among these changes, the TCJA generally accelerates the accrual for U.S. federal income tax purposes of certain items of income to the extent the Company would otherwise recognize such items of income for U.S. federal income tax purposes later than it would report such items on its financial statements. This provision of the TCJA could increase the Company's taxable income in certain taxable years, which could impact its ability to satisfy the REIT distribution requirements. This provision generally applies to taxable years beginning after December 31, 2017, but will apply with respect to income from a debt instrument having "original issue discount" for U.S. federal income tax purposes only for taxable years beginning after December 31, 2018.

The "taxable mortgage pool" rules may increase the taxes that the Company or its stockholders may incur, and may limit the manner in which the Company effects future securitizations.

Securitizations by the Company or its subsidiaries could result in the creation of taxable mortgage pools for U.S. federal income tax purposes. As a result, the Company could have "excess inclusion income." Certain categories of stockholders, such as non-U.S. stockholders eligible for treaty or other benefits, stockholders with net operating

losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from the Company that is attributable to any such excess inclusion income. In addition, to the extent that the Company's common stock is owned by tax-exempt "disqualified organizations," such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, the Company may incur a corporate level tax on a portion of any excess inclusion income. Moreover, the Company could face limitations in selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that

might be considered to be equity interests for tax purposes. These limitations may prevent the Company from using certain techniques to maximize its returns from securitization transactions.

Although the Company's use of TRSs may be able to partially mitigate the impact of meeting the requirements necessary to maintain the Company's qualification as a REIT, the Company's ownership of and relationship with its TRSs is limited and a failure to comply with the limits would jeopardize the Company's REIT qualification and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

ACREFI TRS, ARM TRS and any other domestic TRSs that the Company may form will pay U.S. federal, state and local income tax on their taxable income, and their after-tax net income will be available for distribution to the Company but will not be required to be distributed to the Company, unless necessary to maintain the Company's REIT qualification. In addition, while not intended, it is possible that ACREFI II TRS could be subject to U.S. federal, state, and local income tax on all or a portion of its income. While the Company will be monitoring the aggregate value of the securities of the Company's TRSs and intends to conduct its affairs so that such securities will represent less than 20% of the value of the Company's total assets, there can be no assurance that the Company will be able to comply with the TRS limitation in all market conditions.

ACREFI II TRS currently does not hold any assets. However, in the past, the Company was required to include in its income, on a current basis, certain earnings of ACREFI II TRS. Those income inclusions were not technically included in any of the enumerated categories of income that qualify for the REIT 95% gross income test. However, in private letter rulings (which may not be relied on as precedent, but which generally indicates the IRS's view on an issue), the IRS exercised its authority under Internal Revenue Code section 856(c)(5)(J)(ii) to treat such income as qualifying income for purposes of the REIT 95% gross income test. As a result, based on advice of counsel, the Company treated such income inclusions as qualifying income for purposes of the REIT 95% gross income test. Notwithstanding the IRS's determination in the private letter rulings described above, it is possible that the IRS could assert that such income did not qualify for purposes of the REIT 95% gross income test, which, if such income together with other income the Company earned in the relevant taxable year that did not qualify for the REIT 95% gross income test exceeded 5% of its gross income, could cause the Company to be subject to a penalty tax and could impact the Company's ability to qualify as a REIT.

Dividends payable by REITs generally do not qualify for the reduced tax rates on dividend income from regular corporations, which could adversely affect the value of the Company's shares.

The maximum U.S. federal income tax rate for certain qualified dividends payable to domestic stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, are generally not eligible for these reduced rates for qualified dividends and therefore, dividends received (or deemed received) by REIT stockholders in 2017 may be subject to a 39.6% maximum U.S. federal income tax rate on ordinary income when paid to such stockholders. Beginning in 2018 (and through taxable years ending in 2025), the TCJA permits a deduction for certain pass-through business income, including "qualified REIT dividends" (generally, dividends received by a REIT stockholder that are not designated as capital gain dividends or qualified dividend income), which will allow U.S. individuals, trusts, and estates to deduct up to 20% of such amounts, subject to certain limitations, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such qualified REIT dividends. Although the reduced U.S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to qualified dividends from C corporations could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including the Company's shares.

Complying with REIT requirements may limit the Company’s ability to hedge effectively.

The REIT provisions of the Internal Revenue Code may limit the Company’s ability to hedge its assets and operations. Under these provisions, any income that the Company generates from transactions intended to hedge its interest rate exposure or currency fluctuations will be excluded from gross income for purposes of the REIT 75% and 95% gross income tests if the instrument hedges either (i) interest rate risk on liabilities used to carry or acquire real estate assets, (ii) currency fluctuations with respect to items of income that qualify for purposes of the REIT 75% or 95% gross income tests or assets that generate such income, or (iii) an instrument that hedges risks described in clause (i) or (ii) for a period following the extinguishment of

the liability or the disposition of the asset that was previously hedged by the instrument, and, in each case, such instrument is properly identified under applicable Treasury Regulations. Income from hedging transactions that do not meet these requirements will generally constitute nonqualifying income for purposes of both the REIT 75% and 95% gross income tests. As a result of these rules, the Company may have to limit its use of hedging techniques that might otherwise be advantageous or implement those hedges through ACREFI TRS, ARM TRS, ACREFI II TRS, or another TRS. This could increase the cost of the Company's hedging activities because the Company's TRS could be subject to tax on gains or expose the Company to greater risks associated with changes in interest rates and currency fluctuations than the Company would otherwise want to bear. In addition, losses in the Company's TRS will generally not provide any tax benefit to the Company, although, subject to limitation, such losses may be carried forward to offset future taxable income of the TRS.

The tax on prohibited transactions will limit the Company's ability to engage in transactions, including certain methods of securitizing mortgage loans, that would be treated as sales for U.S. federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held as inventory or primarily for sale to customers in the ordinary course of business. The Company might be subject to this tax if it was to sell or securitize loans in a manner that was treated as a sale of the loans as inventory for U.S. federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, the Company may choose not to engage in certain sales of loans, other than through a TRS, and the Company may be required to limit the structures it uses for its securitization transactions, even though such sales or structures might otherwise be beneficial for the Company.

The Company may be subject to adverse legislative or regulatory tax changes that could reduce the market price of shares of its common stock.

The U.S. federal income tax laws and regulations governing REITs and their stockholders, as well as the administrative interpretations of those laws and regulations, are constantly under review and may be changed at any time, possibly with retroactive effect. No assurance can be given as to whether, when, or in what form, the U.S. federal income tax laws applicable to the Company and its stockholders may be enacted. Changes to the U.S. federal income tax laws and interpretations of U.S. federal tax laws could adversely affect an investment in the Company's common stock. The TCJA, which was signed into law on December 22, 2017, significantly changes U.S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders, and may lessen the relative competitive advantage of operating as a REIT rather than as a C corporation. For additional discussion, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent U.S. Federal Income Tax Legislation." Stockholders are urged to consult with their tax advisors regarding the effects of the TCJA or other legislative, regulatory or administrative developments on an investment in the Company's common stock.

The Company's qualification as a REIT and exemption from U.S. federal income tax with respect to certain assets may be dependent on the accuracy of legal opinions or advice rendered or given or statements by the issuers of assets that the Company acquires, and the inaccuracy of any such opinions, advice or statements may adversely affect the Company's REIT qualification and result in significant corporate-level tax.

When purchasing securities, the Company may rely on opinions or advice of counsel for the issuer of such securities, or statements made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U.S. federal income tax purposes, and also to what extent those securities constitute REIT real estate assets for purposes of the REIT asset tests and produce income which qualifies under the 75% REIT gross income test. In addition, when purchasing the equity tranche of a securitization, the Company may rely on opinions or advice of counsel regarding the qualification of the securitization for exemption from U.S. corporate income tax and the qualification of interests in such securitization as debt for U.S. federal income tax purposes. The inaccuracy of any such opinions, advice or statements may adversely affect the Company's REIT qualification and result in significant corporate-level tax.

The failure of a mezzanine loan to qualify as a real estate asset could adversely affect the Company's ability to qualify as a REIT.

The Company originates and acquires mezzanine loans, for which the IRS has provided a safe harbor but not rules of substantive law. Pursuant to the safe harbor, if a mezzanine loan meets certain requirements, it will be treated by the

IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% income test. The Company's mezzanine loans do not always meet all of the requirements of this safe harbor. In the event the Company owns a mezzanine loan that does not meet the safe harbor, the IRS could challenge such loan's treatment as a real estate asset for purposes of the REIT asset and income tests and, if such a challenge were sustained, the Company could fail to qualify as a REIT, unless the Company is able to qualify for a statutory REIT "savings" provision, which may require it to pay a significant penalty tax to maintain our REIT qualification.

The Company may fail to qualify as a REIT or become subject to a penalty tax if the IRS successfully challenges the Company's treatment of its mezzanine loans and certain preferred equity investments as debt for U.S. federal income tax purposes.
There is limited case law and administrative guidance addressing whether instruments similar to the Company's mezzanine loans and preferred equity investments will be treated as equity or debt for U.S. federal income tax purposes. The Company treats its mezzanine loans and its preferred equity investments that have a debt-like fixed return and redemption date as debt for U.S. federal income tax purposes, but the Company does not obtain private letter rulings from the IRS or opinions of counsel on the characterization of such investments for U.S. federal income tax purposes. If such investments were treated as equity for U.S. federal income tax purposes, the Company would be treated as owning the assets held by the partnership or limited liability company that issued the mezzanine loan or preferred equity, and the Company would be treated as receiving its proportionate share of the income of that entity. If that partnership or limited liability company owned nonqualifying assets, earned nonqualifying income, or earned prohibited transaction income, the Company may not be able to satisfy all of the REIT income or asset tests or could be subject to prohibited transaction tax. Accordingly, the Company could be required to pay prohibited transaction tax or fail to qualify as a REIT if the IRS does not respect the Company's classification of its mezzanine loans and certain preferred equity investments as debt for U.S. federal income tax purposes unless the Company is able to qualify for a statutory REIT "savings" provision, which may require it to pay a significant penalty tax to maintain its REIT qualification.

Item 1B. Unresolved Staff Comments
None.

Item 2. Properties
The Company's principal executive office is located at 9 West 57th Street, New York, New York 10019, telephone 212-515-3200.

Item 3. Legal Proceedings
From time to time, the Company may be involved in various claims and legal actions in the ordinary course of business.
On January 4, 2017, the United States Department of Justice served a request for information and documents on the company, in connection with a preliminary investigation into certain aspects of the Company's former residential real estate portfolio, which the Company acquired in connection with the merger of Apollo Residential Mortgage, Inc. with and into the Company (the "AMTG Merger") and subsequently sold in 2016. The request seeks a range of information in connection with the residential real estate portfolio, including, among other things, information concerning policies, procedures, and practices related to advertising, marketing, identifying, or acquiring residential properties for sale or rent, and various data for all rental and sales contracts executed since January 1, 2012. The Company is cooperating with the Department of Justice and fully complying with the request.

Item 4. Mine Safety Disclosures
Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

The Company's common stock is listed on the New York Stock Exchange, under the symbol "ARI." On February 13, 2018, the last sales price for the Company's common stock on the New York Stock Exchange was $17.92 per share. The following table sets forth the high and low sales prices per share of the common stock and dividend declared during each calendar quarter for the years indicated:

	2017			2016		
	High	Low	Dividend	High	Low	Dividend
First quarter	$18.93	$16.84	$ 0.46	$17.35	$15.13	$ 0.46
Second quarter	$19.58	$18.16	$ 0.46	$16.57	$15.56	$ 0.46
Third quarter	$18.74	$17.75	$ 0.46	$17.24	$15.84	$ 0.46
Fourth quarter	$19.00	$18.07	$ 0.46	$18.05	$15.58	$ 0.46
Total			$ 1.84			$ 1.84

Holders

As of February 13, 2018, the Company had 465 registered holders of its common stock. The 465 holders of record include Cede & Co., which holds shares as nominee for The Depository Trust Company, which itself holds shares on behalf of the beneficial owners of the Company's common stock. Such information was obtained through the Company's registrar and transfer agent, based on the results of a broker search.

Dividends

The Company elected to be taxed as a REIT for U.S. federal income tax purposes commencing with the taxable year ended December 31, 2009 and, as such, anticipates distributing annually at least 90% of its REIT taxable income, excluding net capital gains and determined without regard to the dividends paid deduction. Although the Company may borrow funds to make distributions, once the Company's available capital is fully deployed, cash for such distributions is expected to be largely generated from the Company's results of operations. Dividends are declared and paid at the discretion of the Company's board of directors and depend on cash available for distribution, financial condition, the Company's ability to maintain its qualification as a REIT, and such other factors that the board of directors may deem relevant. See Item 1A, "Risk Factors," and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this annual report on Form 10-K, for information regarding the sources of funds used for dividends and for a discussion of factors, if any, which may adversely affect the Company's ability to pay dividends.

Stockholder Return Performance

The following graph is a comparison of the cumulative total stockholder return on shares of the Company's common stock, the Russell 2000 Index (the “Russell 2000”), and the Bloomberg REIT Mortgage Index (the “BBREMTG Index”), a published industry index, from December 31, 2012 to December 31, 2017. The graph assumes that $100 was invested on December 31, 2012 in the Company’s common stock, the Russell 2000 and the BBREMTG Index and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of the Company’s shares will continue in line with the same or similar trends depicted in the graph below.

	Period Ending					
	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
Apollo Commercial Real Estate Finance, Inc.	100.00	109.98	121.56	141.24	151.33	184.74
Russell 2000	100.00	138.58	145.28	138.96	168.17	192.58
BBREMTG Index	100.00	98.22	116.88	106.06	128.53	154.12

Securities Authorized For Issuance Under Equity Compensation Plans

During 2009, the Company adopted the 2009 Equity Incentive Plan (as amended from time to time, the “2009 Plan”). The 2009 Plan provides for grants of restricted common stock and other equity-based awards up to an aggregate of 7.5% of the issued and outstanding shares of the Company’s common stock at the time of the award. As of December 31, 2017, 3.6%, or a total of 3,858,971 shares of restricted common stock and restricted stock units, had been granted and 3.9%, or 4,175,122 shares, remained available for future issuance under the 2009 Plan. (For further discussion of the 2009 Plan, see "Note 15- Share-Based Payments" to the consolidated financial statements included under Item 8, “Financial Statements and Supplementary Data” of this annual report on Form 10-K.)

The following table presents certain information about the Company's equity compensation plans as of December 31, 2017:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table)
Equity compensation plans approved by stockholders	—	$ —	4,175,122
Equity compensation plans not approved by stockholders	—	—	—
Total	—	$ —	4,175,122

30

Recent Sales of Unregistered Securities

None.

Recent Purchases of Equity Securities

The Company did not repurchase any of its equity securities from January 1, 2017 to December 31, 2017.

Item 6. Selected Financial Data

The selected financial data set forth below as of December 31, 2017, 2016, 2015, 2014 and 2013, for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 has been derived from the Company's audited consolidated financial statements.

This information should be read in conjunction with Item 1, "Business," Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the audited consolidated financial statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data."

	For the Year Ended December 31,				
	2017	2016	2015	2014	2013
Operating Data:					
Interest income	$338,521	$264,376	$192,164	$123,347	$77,463
Interest expense	(78,057)	(63,759)	(48,861)	(26,541)	(4,356)
Net interest income	260,464	200,617	143,303	96,806	73,107
Operating expenses	(52,377)	(48,371)	(26,111)	(18,111)	(17,575)
Income (loss) from unconsolidated joint venture	(2,847)	(96)	3,464	(157)	—
Other Income	940	1,094	1,239	34	20
Provision for loan losses and impairments	(5,000)	(15,000)	—	—	—
Realized gain (loss) on sale of assets	(42,693)	3,834	(443)	—	—
Unrealized gain (loss) on securities	37,165	(26,099)	(17,408)	4,147	(3,065)
Foreign currency gain (loss)	18,506	(29,284)	(4,894)	(4,050)	—
Bargain purchase gain	—	40,021	—	—	—
Loss on early extinguishment of debt	(1,947)	—	—	—	—
Gain (loss) on derivative instruments	(19,180)	31,160	4,106	4,070	(2)
Net income	193,031	157,876	103,256	82,739	52,485
Preferred dividends	(36,761)	(30,295)	(11,884)	(7,440)	(7,440)
Net income available to common stockholders	156,270	127,581	91,372	75,299	45,045
Net income per share—basic and diluted	$1.54	$1.74	$1.54	$1.72	$1.26
Dividends declared per share	$1.84	$1.84	$1.78	$1.60	$1.60
Balance Sheet Data (at period end):					
Total assets	$4,088,605	$3,482,977	$2,712,590	$1,837,703	$906,876
Total liabilities	2,000,462	1,550,750	1,337,166	982,634	223,900
Total stockholders' equity	2,088,143	1,932,227	1,375,424	855,069	682,956

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the Company's financial statements and accompanying notes included in Item 8, "Financial Statements and Supplementary Data" of this annual report on Form 10-K.

Overview

The Company is a Maryland corporation that has elected to be taxed as a REIT for U.S. federal income tax purposes. The Company primarily originates, acquires, invests in and manages performing commercial first mortgage loans, subordinate financings, and other commercial real estate-related debt investments. These asset classes are referred to as the Company's target assets.

The Company is externally managed and advised by the Manager, an indirect subsidiary of Apollo, a leading global alternative investment manager with a contrarian and value oriented investment approach in private equity, credit and real estate with assets under management of approximately $248.9 billion as of December 31, 2017.

The Manager is led by an experienced team of senior real estate professionals who have significant expertise in underwriting and structuring commercial real estate financing transactions. The Company benefits from Apollo's global infrastructure and operating platform, through which the Company is able to source, evaluate and manage potential investments in the Company's target assets.

Results of Operations

All non-U.S. dollar denominated assets and liabilities are translated to U.S. dollars at the exchange rate prevailing at the reporting date and income, expenses, gains, and losses are translated at the prevailing exchange rate on the dates that they were recorded.

Investments

The following table sets forth certain information regarding the Company's commercial real estate debt portfolio as of December 31, 2017:

Description	Amortized Cost	Weighted Average Coupon (1)	Weighted Average All-in Yield (1) (2)	Secured Debt	Cost of Funds	Equity at cost
First mortgages	$2,653,826	6.9 %	7.4 %	$1,345,195	3.9 %	$1,308,631
Subordinate loans	1,025,932	12.4 %	13.5 %	—	—	1,025,932
Total/Weighted Average	$3,679,758	8.4 %	9.1 %	$1,345,195	3.9 %	$2,334,563

(1) Weighted-Average Coupon and Weighted Average All-in-Yield reflects one-month LIBOR at December 31, 2017, which was 1.56%.

(2) Weighted-Average All-in-Yield includes the amortization of deferred origination fees, loan origination costs and accrual of both extension and exit fees.

The Company's average asset and debt balances for the year ended December 31, 2017 , were:

Description	Average month-end balances for the year ended December 31, 2017	
	Assets	Related debt
Commercial mortgage loans, net	2,148,219	1,193,197
Subordinate loans, net	1,201,258	—
CMBS	246,087	190,483

Investment Activity – 2017

During the year ended December 31, 2017, the Company committed $2,042,900 of capital to loans ($1,597,600 of which was funded at closing). In addition, during the year ended December 31, 2017, the Company funded

$193,119 for loans closed prior to 2017, and received $891,848 in repayments.

Net Income Available to Common Stockholders

For the years ended December 31, 2017, 2016 and 2015, respectively, the Company’s net income available to common stockholders was $156,270, or $1.54 per share, $127,581, or $1.74 per share and $91,372, or $1.54 per share, respectively.

Operating Results

The following table sets forth information regarding our consolidated results of operations and certain key operating metrics:

	Year ended December 31,			2017 vs. 2016	2016 vs. 2015
	2017	2016	2015	$	$
Net interest income:					
Interest income from securities	$10,466	$27,586	$33,188	$(17,120)	$(5,602)
Interest income from securities, held to maturity	4,132	11,469	12,054	(7,337)	(585)
Interest income from commercial mortgage loans	158,632	102,927	56,092	55,705	46,835
Interest income from subordinate loans	165,291	122,394	90,830	42,897	31,564
Interest expense	(78,057)	(63,759)	(48,861)	(14,298)	(14,898)
Net interest income	260,464	200,617	143,303	59,847	57,314
Operating expenses:					
General and administrative expenses	(20,725)	(24,983)	(9,492)	4,258	(15,491)
Management fees to related party	(31,652)	(23,388)	(16,619)	(8,264)	(6,769)
Total operating expenses	(52,377)	(48,371)	(26,111)	(4,006)	(22,260)
Income (loss) from unconsolidated joint venture	(2,847)	(96)	3,464	(2,751)	(3,560)
Other income	940	1,094	1,239	(154)	(145)
Provision for loan losses and impairments	(5,000)	(15,000)	—	10,000	(15,000)
Realized gain (loss) on sale of assets	(42,693)	3,834	(443)	(46,527)	4,277
Unrealized gain (loss) on securities	37,165	(26,099)	(17,408)	63,264	(8,691)
Foreign currency gain (loss)	18,506	(29,284)	(4,894)	47,790	(24,390)
Bargain purchase gain	—	40,021	—	(40,021)	40,021
Loss on early extinguishment of debt	(1,947)	—	—	(1,947)	—
Gain (loss) on derivative instruments	(19,180)	31,160	4,106	(50,340)	27,054
Net income	$193,031	$157,876	$103,256	$35,155	$54,620

Net Interest Income

Net interest income increased by $59,847 during the year ended December 31, 2017 as compared to the same period in 2016. The increase was primarily due to a net increase in the principal balance of the Company's loan portfolio, by $985,825 as of December 31, 2017 compared to December 31, 2016 and a 0.62% increase in average one-month LIBOR partially offset by (i) an increase in interest expense due to an increase in the Company's net debt balance of $543,629 as of December 31, 2017 compared to December 31, 2016 and (ii) a decrease in the principal balance of the Company's securities by $522,391 and (iii) a 0.62% increase in average one-month LIBOR as of December 31, 2017 compared to December 31, 2016.

Net interest income increased by $57,314 during the year ended December 31, 2016 as compared to the same period in 2015. The increase was primarily due to an increase in the principal balance of the Company's loan portfolio, by $781,755 as of December 31, 2016 compared to December 31, 2015 and a 0.30% increase in average one-month LIBOR partially offset by (i) an increase in interest expense due to an increase in the Company's debt balance of $220,792 as of December 31, 2016

compared to December 31, 2015, (ii) a decrease in the principal balance of the Company's securities by $142,341, and (iii) an increase in average one-month LIBOR as discussed above.
For the years ended December 31, 2017, 2016, and 2015, the Company received prepayment penalties of $5,416, $5,225, and $1,765, respectively. The Company records prepayment penalty income under interest income.

For the years ended December 31, 2017, 2016, and 2015, the Company recognized payment in kind ("PIK") interest of $25,227, $24,379, and $21,997, respectively.

Operating Expenses

General and administrative expenses

Excluding $11,350 in expenses related to the AMTG merger in 2016, general and administrative expenses increased by $7,092 for the year ended December 31, 2017 compared to the same period in 2016. The increase was primarily driven by an increase of $6,224 of non-cash restricted stock and restricted stock units ("RSU") amortization related to shares of common stock awarded under the Company's long-term incentive plans and an $868 increase in general operating expenses.
Excluding $11,350 in expenses related to the AMTG merger in 2016, general and administrative expenses increased by $4,141 for the year ended December 31, 2016 compared to the same period in 2015. The increase was primarily driven by $2,703 of non-cash restricted stock and RSU amortization related to shares of common stock awarded under the Company's long-term incentive plans and a $1,438 increase in general operating expenses.

Management fees to related party

Management fee expense increased by $8,264 and $6,769 during the year ended December 31, 2017, as compared to the same period in 2016 and the year ended December 31, 2016 as compared to the same period in 2015, respectively. The increase is primarily attributable to an increase in the Company's stockholders' equity (as defined in the Management Agreement) as a result of the Company's issuance of common and preferred equity in connection with the AMTG Merger in 2016, and the Company's follow-on common equity offerings in December 2016 and June 2017. This increase was partially offset due to the redemption of our 8.625% Series A Cumulative Redeemable Perpetual Preferred Stock ("Series A Preferred Stock") in August 2017. Management fees and the relationship between the Company and the Manager under the Management Agreement are discussed further in the accompanying consolidated financial statements, in "Note 14—Related Party Transactions."

Income (loss) from unconsolidated joint venture

Income (loss) from unconsolidated joint ventures consists of activity related to our ownership interest in Champ Limited Partnership ("Champ LP"). In September 2014, the Company, through a wholly owned subsidiary, acquired a 59% ownership interest in Champ LP following which a wholly-owned subsidiary of Champ LP then acquired a 35% ownership interest in Bremer Kreditbank AG ("BKB"). In May 2017, the Company sold its remaining ownership interest in Champ LP, to unaffiliated third parties, resulting in a loss of $3,305, which is the primary driver for the increase in the loss from unconsolidated joint ventures during the year ended December 31, 2017 compared to the same period in 2016. The realized loss included currency translation losses, which were previously included in accumulated other comprehensive loss on the Company's consolidated statement of changes in stockholders' equity. For additional information regarding the income (loss) from unconsolidated joint venture, see "Note 6 - Investment in Unconsolidated Joint Venture" to the accompanying consolidated financial statements.

Provision for loan losses and impairments

During the years ended December 31, 2017, 2016 and 2015, the Company recorded $5,000, $15,000 and $0 for provision for loan losses and impairment, respectively. The $5,000, recognized in 2017, related to an investment in a fully-built, for-sale residential condominium units located in Bethesda, MD and a related investment previously recorded under other assets on the Company's consolidated balance sheet. During the year ended December 31, 2016, the Company recorded a loan loss provision of $10,000 on a multifamily commercial mortgage loan and $5,000 on a multifamily subordinate loan secured by a multifamily property located in Williston, ND.

Net unrealized and realized gain (loss) on sale of assets

Net unrealized and realized loss on the sale of assets for the years ended December 31, 2017, 2016 and 2015 were $5,528, $22,265 and $17,851, respectively.

35

During 2017, the Company sold its remaining CMBS resulting in a realized loss of $42,693, which was offset by the reversal of previously recognized unrealized losses of $37,165.
During 2016, the Company sold CMBS resulting in a realized loss of $1,245 and the remaining assets acquired from the AMTG merger for a realized gain of $5,304. This net gain was offset by net unrealized losses on CMBS of $26,099.
During 2015, the Company sold CMBS resulting in a realized loss of $443 and recognized net unrealized losses on securities of $17,408.

Foreign currency gain (loss) and gain (loss) on derivative instruments

The Company uses forward currency contracts to economically hedge interest and principal payments due under its loans denominated in currencies other than U.S. dollars. The Company also uses interest rate swaps and caps to manage exposure to variable cash flows on portions of its borrowings under secured debt arrangements. Interest rate swap and cap agreements allow the Company to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure. When foreign currency gain (loss) and gain (loss) on derivative instruments are evaluated on a combined basis, the net impact for the years ended December 31, 2017, 2016, and 2015 was $(674), $1,876 and $(788), respectively.

Loss on early extinguishment of debt

Upon the sale of the remaining CMBS in December 2017, the Company extinguished the related secured debt arrangement with Deutsche Bank AG (the "DB Facility"), which was set to mature in April 2018, and recognized a loss on early extinguishment of debt of $1,947.

Dividends

For the years ended December 31, 2017, 2016 and 2015 the Company declared the following dividends:

Dividends declared per share of:	2017	2016	2015
Common Stock [(1)]	$1.84	$1.84	$1.78
Series A Preferred Stock	1.19	2.16	2.16
Series B Preferred Stock	2.00	2.00	0.63
Series C Preferred Stock	2.00	1.00	N/A

———————

(1) As the Company's aggregate distributions exceeded its earnings and profits, $0.4211 of the January 2018 distribution declared in the fourth quarter of 2017 and payable to common stockholders of record as of December 29, 2017 will be treated as a 2018 distribution for U.S. federal income tax purposes.

Subsequent Events

Refer to "Note 22 - Subsequent Events" to the audited consolidated financial statements for disclosure regarding significant transactions that occurred subsequent to December 31, 2017.

Factors Impacting Operating Results

The Company's results of operations are affected by a number of factors and primarily depend on, among other things, the level of the interest income from target assets, the market value of its assets and the supply of, and demand for, commercial mortgage loans, CMBS, commercial real estate corporate debt and loans and other real estate-related debt investments in which the Company invests, and the financing and other costs associated with its business. Interest income and borrowing costs may vary as a result of changes in interest rates and the availability of financing, each of which could impact the net interest income the Company receives on its assets. The Company’s operating results may also be impacted by conditions in the financial markets, credit losses in excess of initial anticipations or unanticipated credit events experienced by borrowers whose commercial mortgage loans are held directly by the Company or are included in the Company’s CMBS.

Changes in market interest rates. With respect to the Company’s business operations, increases in interest rates, in general, may over time cause: (i) the interest expense associated with variable rate borrowings to increase; (ii) the value of commercial mortgage loans and commercial real estate corporate debt and loans to decline; (iii) coupons on

variable rate commercial mortgage loans and commercial real estate corporate debt and loans to reset, although on a delayed basis, to higher interest rates; (iv) to the extent applicable under the terms of the Company's investments, prepayments on commercial mortgage loan and commercial real estate corporate debt and loans portfolio to slow, and (v) to the extent the Company enters into interest rate swap agreements as part of its hedging strategy, the value of these agreements to increase.

Conversely, decreases in interest rates, in general, may over time cause: (i) the interest expense associated with variable rate borrowings to decrease; (ii) the value of commercial mortgage loan and commercial real estate corporate debt and loans portfolio to increase; (iii) coupons on variable rate commercial mortgage loans and commercial real estate corporate debt and loans to reset, although on a delayed basis, to lower interest rates; (iv) to the extent applicable under the terms of the Company's investments, prepayments on commercial mortgage loan and commercial real estate corporate debt and loan portfolio to increase, and (v) to the extent the Company enters into interest rate swap agreements as part of its hedging strategy, the value of these agreements to decrease.

Changes in fair value of assets. The Company has designated investments in certain mortgage-backed securities as available-for-sale because the Company may dispose of them prior to maturity and does not hold them principally for the purpose of selling them in the near term. Securities are carried at estimated fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. Unrealized losses on securities that reflect a decline in value that is judged by management to be other than temporary, if any, are charged to earnings.

Credit risk. One of the Company's strategic focuses is acquiring assets which are believed to be of high credit quality. Management believes this strategy will generally keep credit losses and financing costs low. However, the Company is subject to varying degrees of credit risk in connection with its target assets. The Manager seeks to mitigate this risk by seeking to acquire high quality assets, at appropriate prices given anticipated and unanticipated losses and by deploying a value-driven approach to underwriting and diligence, consistent with the Manager's historical investment strategy, with a focus on current cash flows and potential risks to cash flow. The Manager seeks to enhance its due diligence and underwriting efforts by accessing the Manager's extensive knowledge base and industry contacts. Nevertheless, unanticipated credit losses could occur which could adversely impact operating results.

Size of portfolio. The size of the Company's portfolio of assets, as measured by the aggregate principal balance of commercial mortgage-related loans and securities and the other assets owned is also a key revenue driver. Generally, as the size of the Company's portfolio grows, the amount of interest income received increases. A larger portfolio, however, may result in increased expenses as the Company may incur additional interest expense to finance the purchase of assets.

Market conditions. The commercial real estate lending market has recovered from the downturn experienced as part of the correction in the global financial markets which began in mid-2007. Property values in many markets and across multiple property types have recovered and the lending market is functioning with both established and new entrants. Based on the current market dynamics, including significant upcoming commercial real estate debt maturities, there remains a compelling opportunity for the Company to invest capital in its target assets at attractive risk adjusted returns. The Company will continue to focus on underlying real estate value, and transactions that benefit from the Company's ability to execute complex and sophisticated transactions.

During and immediately following the financial crisis, due to the prevalence of lenders granting extensions across the commercial mortgage loan industry, the demand for new capital to refinance maturing commercial mortgage debt was somewhat tempered. This trend has largely abated as many borrowers refinance legacy loans and pursue new acquisitions.

While an active CMBS market can be viewed as an indicator of the active commercial real estate lending markets, we do not participate in the conduit lending market, and therefore the volatility in the CMBS market has minimal impact on our core lending business. We believe the challenges faced by conduit lenders and the general uncertainty around value and pricing could create attractive risk adjusted investment opportunities for the Company. As a result, we expect to continue to see opportunities to originate mezzanine and first mortgage financings in transactions which benefit from the Company's ability to source, structure and execute complex transactions.

Critical Accounting Policies and Use of Estimates

The Company's financial statements are prepared in accordance with GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and use of assumptions as to future uncertainties. The most critical accounting policies involve decisions and assessments that affect the Company's reported assets and liabilities, as well as reported revenues and expenses. The Company believes that all of the decisions and assessments upon which these financial statements are based are reasonable based upon information currently available to the Company. The accounting policies and estimates that the Company considers to be most critical to an investor's understanding of its

financial results and condition and require complex management judgment are discussed below.

Provisions for Loan Losses and Risk Ratings

The Company's loans are typically collateralized by commercial real estate. As a result, the Company regularly evaluates the extent and impact of any credit migration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations are sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan, and/or (iii) the property's liquidation value. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, the Company considers the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel, who utilize various data sources, including (i) periodic financial data such as debt service coverage ratio, property occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and discussions with market participants.

The Company evaluates loans for possible impairment on a quarterly basis. Impairment occurs when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. Impairment is then measured based on the present value of expected future cash flows discounted at the loan's effective rate or the fair value of the collateral, if the loan is collateral dependent. Upon measurement of impairment, the Company records an allowance to reduce the carrying value of the loan with a corresponding charge to net income. Significant judgments are required in determining impairment, including making assumptions regarding the value of the loan, the value of the underlying collateral and other provisions such as guarantees.

The Company assesses the risk factors of each loan, and assigns a risk rating based on a variety of factors, including, without limitation, loan-to-value ratio, or LTV, debt yield, property type, geographic and local market dynamics, physical condition, cash flow volatility, leasing and tenant profile, loan structure and exit plan, and project sponsorship. This review is performed quarterly. Based on a 5-point scale, our loans are rated "1" through "5," from less risk to greater risk, which ratings are defined as follows:

1. Very low risk
2. Low risk
3. Moderate/average risk
4. High risk/potential for loss: a loan that has a risk of realizing a principal loss
5. Impaired/loss likely: a loan that has a high risk of realizing principal loss, has incurred principal loss or has been impaired

The following table allocates the carrying value of our loan portfolio based on the Company's internal risk ratings:

	December 31, 2017			
Risk Rating	Number of Loans	Carrying Value	% of Loan Portfolio	
1	—	$—	—	%
2	5	399,326	10	%
3	51	3,034,358	83	%
4	1	168,208	5	%
5	2	77,866	2	%
	59	$3,679,758	100	%

During the year ended December 31, 2017, the Company recorded $5,000 for provision for loan losses and impairment. The $5,000, recognized in the second quarter of 2017, related to an investment in a fully-built, for-sale residential condominium units located in Bethesda, MD. During the year ended December 31, 2016, the Company recorded a loan loss provision of $10,000 on a multifamily commercial mortgage loan and $5,000 on a multifamily subordinate loan secured by a multifamily property located in Williston, ND. As of December 31, 2017, this was assigned a risk rating of 5.

Interest Income Recognition

Interest income on the Company's commercial mortgage loans, subordinate loans, CMBS and commercial real estate corporate debt and loans is accrued based on the actual coupon rate and the outstanding principal balance of such assets. Premiums, discounts and any deferred fees are amortized or accreted into interest income over the lives of the assets using the effective yield method, which includes the accretion of purchase discounts and any deferred fees as well as the amortization of purchase premiums and the stated coupon interest payments.

Hedging Instruments and Hedging Activities

Consistent with maintaining its qualification as a REIT, in the normal course of business, the Company uses a variety of derivative financial instruments to manage, or hedge, interest rate and foreign currency risk. Derivatives are used for hedging purposes rather than speculation. The Company determines their fair value and obtains quotations from a third party to facilitate the process in determining these fair values. If the Company's hedging activities do not achieve the desired results, reported earnings may be adversely affected.

GAAP requires an entity to recognize all derivatives as either assets or liabilities in the balance sheets and to measure those instruments at fair value. To the extent the instrument qualifies for hedge accounting, the fair value adjustments will be recorded as a component of other comprehensive income in stockholders' equity until the hedged item is recognized in earnings. Whenever the Company decides not to pursue hedge accounting, the fair value adjustments will be recorded in earnings immediately based on changes in the fair market value of those instruments.

The Company also uses interest rate swaps and caps to manage exposure to variable cash flows on portions of its borrowings under secured debt arrangements. Interest rate swap and cap agreements allow the Company to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure.

The Company uses forward currency contracts to economically hedge interest and principal payments due under its loans denominated in currencies other than U.S. dollars.

The Company has not designated any of its derivative instruments as hedges under GAAP and therefore, changes in the fair value of the Company's derivatives are recorded directly in earnings.

Recent Accounting Pronouncements

For a description of the Company's adoption of new accounting pronouncements and the impact thereof on the Company's business, see "Note 2 - Summary of Significant Accounting Policies" to the accompanying consolidated financial statements.

Recent U.S. Federal Income Tax Legislation

The Tax Cuts and Jobs Act, or TCJA, which was signed into law on December 22, 2017, made significant changes to the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders. Certain key provisions of the TCJA could impact the Company and its stockholders, beginning in 2018, including the following:

- Reduced Tax Rates. The highest individual U.S. federal income tax rate on ordinary income is reduced from 39.6% to 37% (through taxable years ending in 2025), and the maximum corporate income tax rate is reduced from 35% to 21%. In addition, individuals, trust, and estates that own the Company's stock are permitted to deduct up to 20% of dividends received from the Company (other than dividends that are designated as capital gain dividends or qualified dividend income), generally resulting in an effective maximum U.S. federal income tax rate of 29.6% on such dividends (through taxable years ending in 2025). Further, the amount that the Company is required to withhold on distributions to non-U.S. stockholders that are treated as attributable to gains from the Company's sale or exchange of U.S. real property interests is reduced from 35% to 21%.
- Net Operating Losses. The Company may not use net operating losses generated beginning in 2018 to offset more than 80% of the Company's taxable income (prior to the application of the dividends paid deduction). Net operating losses generated beginning in 2018 can be carried forward indefinitely but can no longer be carried back.
- Limitation on Interest Deductions. The amount of net interest expense that each of the Company and its TRSs may deduct for a taxable year is limited to the sum of (i) the taxpayer's business interest income for the taxable year, and (ii) 30% of the taxpayer's "adjusted taxable income" for the taxable year. For taxable years beginning before January

1, 2022, adjusted taxable income means earnings before interest, taxes, depreciation, and amortization ("EBITDA"); for taxable years beginning on or after January 1, 2022, adjusted taxable income is limited to earnings before interest and taxes ("EBIT"). The Company generally expects to have business interest

income in excess of its net interest expense, and accordingly does not expect to be limited in its ability to deduct its net interest expense under these new rules.

- Alternative Minimum Tax. The corporate alternative minimum tax is eliminated.
- Income Accrual. The Company is required to recognize certain items of income for U.S. federal income tax purposes no later than the Company would report such items on its financial statements. As discussed above, earlier recognition of income for U.S. federal income tax purposes could impact the Company's ability to satisfy the REIT distribution requirements. This provision generally applies to taxable years beginning after December 31, 2017, but will apply with respect to income from a debt instrument having "original issue discount" for U.S. federal income tax purposes only for taxable years beginning after December 31, 2018.

While we do not expect this reform to have significant impact to the Company's consolidated financial statements, stockholders are urged to consult with their tax advisors regarding the effects of the TCJA or other legislative, regulatory or administrative developments on an investment in the Company's common stock.

Liquidity and Capital Resources

Liquidity is a measure of the Company’s ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain its assets and operations, make distributions to its stockholders and other general business needs. The Company’s cash is used to purchase or originate target assets, repay principal and interest on borrowings, make distributions to stockholders and fund operations. The Company’s liquidity position is closely monitored and the Company believes it has sufficient current liquidity and access to additional liquidity to meet financial obligations for at least the next 12 months.

Debt-to-Equity Ratio

The following table presents our debt-to-equity ratio:

	December 31, 2017	December 31, 2016
Debt-to-Equity Ratio (1)(2)	0.9x	1.0x

———————

(1) Represents total secured debt arrangements and convertible senior notes to total stockholders' equity.
(2) Assumes $302,756 of loan proceeds held by servicer are used to repay outstanding debt balance as of December 31, 2017.

The Company’s primary sources of liquidity are as follows:

Cash Generated from Operations

Cash from operations is generally comprised of interest income from the Company’s investments, net of any associated financing expense, principal repayments from the Company’s investments, net of associated financing repayments, proceeds from the sale of investments, and changes in working capital balances. See “– Results of Operations – Investments" for a summary of interest rates and weighted average lives related to the Company’s investment portfolio as of December 31, 2017.

Borrowings Under Various Financing Arrangements

JPMorgan Facility

On March 31, 2017, the Company, through two indirect wholly owned subsidiaries, entered into the amended and restated the JPMorgan Facility, which was upsized in October 2017, and provides for maximum total borrowing capacity to $1,393,000, comprised of the $1,250,000 repurchase facility and a $143,000 asset specific financing, and a term expiring in March 2019 plus a one-year extension option available at the Company's option, subject to certain conditions. Amounts borrowed under the JPMorgan Facility bear interest at spreads ranging from 0.02% to 2.75% over one-month LIBOR. Margin calls may occur any time the aggregate repurchase price exceeds the agreed upon advance rate multiplied by the market value of the assets by more than $250. The Company has agreed to provide a limited guarantee of the obligations of its indirect wholly-owned subsidiaries under the JPMorgan Facility.

As of December 31, 2017, the Company had $944,529 of borrowings outstanding under the JPMorgan Facility secured by certain of the Company's commercial mortgage and subordinate loans.

DB Repurchase Facility

On March 31, 2017, the Company, through indirect wholly-owned subsidiaries, entered into the amended and restated DB Repurchase Facility which provides for maximum total borrowings of $566,009 comprised of: (i) a repurchase

facility of

40

$450,000 and £45,000, of which we have borrowed $170,168 and £24,503, respectively and (ii) $55,200 of asset specific financing in connection with financing first mortgage loans secured by real estate.The DB Repurchase Facility matures in March 2018 with two one-year extension options available at the Company's option, subject to certain conditions. Amounts borrowed under the DB Repurchase Facility bear interest at spreads ranging from 2.10% to 3.00% over one-month LIBOR. Margin calls may occur any time at specified aggregate margin deficit thresholds. The Company has agreed to provide a guarantee of the obligations of its indirect wholly-owned subsidiaries under this facility.

As of December 31, 2017, the Company had $319,286 (including £69,503) of borrowings outstanding under the DB Repurchase Facility secured by certain of the Company's commercial mortgage loans.

Goldman Facility

On November 29, 2017, the Company, through an indirect wholly-owned subsidiary, entered into the Goldman Facility, which provides for advances of up to $331,130 (as of December 31, 2017) comprised of a $300,000 repurchase facility and $31,130 of an asset specific financing (entered into in January 2015). The Goldman Facility matures in November 2020. Advances under the Goldman Facility accrue interest at one-month LIBOR plus a spread, determined on a case-by-case basis for each purchased asset. Margin calls may occur any time at specified margin deficit thresholds. The Company has agreed to provide a limited guarantee of the obligations of the seller under the Goldman Facility.

As of December 31, 2017, the Company had total borrowings of $81,380 including $50,250 of borrowings outstanding under the repurchase facility and $31,130 secured by one commercial mortgage loan held by the Company.

DB Facility

In April 2014, the Company, through an indirect wholly-owned subsidiary, entered into the DB Facility, which provided that the Company may borrow up to $300,000 in order to finance the acquisition of CMBS. The outstanding borrowings under the DB Facility were repaid in full in December 2017. In connection with the sale of CMBS as discussed in "Note 4 - Securities," the Company recognized a loss on early extinguishment of debt of $1,947.

UBS Facility

In September 2013, the Company, through an indirect wholly-owned subsidiary, entered into the UBS Facility, which provided that the Company may borrow up to $133,899 in order to finance the acquisition of CMBS. The UBS Facility matured in September 2017 and the Company repaid the outstanding borrowings in full.

The Company was in compliance with the financial covenants under each of its secured debt arrangements at December 31, 2017 and December 31, 2016.

Convertible Senior Notes

In 2014, the Company issued, in two offerings, an aggregate principal amount of $254,750 of 5.50% Convertible Senior Notes due 2019, for which the Company received aggregate net proceeds, after deducting the underwriting discount and estimated offering expenses payable by the Company, of approximately $248,652.

On August 21, 2017, the Company issued an aggregate principal amount of $230,000 of 4.75% Convertible Senior Notes due 2022, for which the Company received aggregate net proceeds, after deducting the underwriting discount and estimated offering expenses payable by the Company, of approximately $224,825.

On November 9, 2017, the Company issued an aggregate principal amount of $115,000 of 4.75% Convertible Senior Notes due 2022, for which the Company received net proceeds, after deducting the underwriting discount and estimated offering expense payable by the Company, of approximately $112,686.

Cash Generated from Offerings

During the second quarter of 2017, the Company completed a follow-on public offering of 13,800,000 shares of its common stock, at a price of $18.05 per share. The aggregate net proceeds from the offering, including proceeds from the sale of the additional shares, were approximately $248,900 after deducting estimated offering expenses.

During the fourth quarter of 2016, the Company completed a follow-on public offering of 10,500,000 shares of its common stock, at a price of $16.97 per share. The net proceeds from the offering were approximately $177,796 after deducting estimated offering expenses payable by the Company.

41

During the third quarter of 2016, the Company consummated the AMTG Merger and issued 13,398,586 shares of its common stock and 6,900,000 shares of Series C Preferred Stock. In 2016, the Company liquidated all of the assets of AMTG and realized proceeds of approximately $421,000 (net of expenses).

Other Potential Sources of Financing

The Company's primary sources of cash currently consist of cash available, which was $77,671 as of December 31, 2017, principal and interest payments the Company receives on its portfolio of assets, and available borrowings under its secured debt arrangements. The Company expects its other sources of cash to consist of cash generated from operations and prepayments of principal received on the Company's portfolio of assets. Such prepayments are difficult to estimate in advance. Depending on market conditions, the Company may utilize additional borrowings as a source of cash, which may also include additional secured debt arrangements as well as other borrowings such as credit facilities, or conduct additional public and private debt and equity offerings.

The Company maintains policies relating to its borrowings and use of leverage. See "—Leverage Policies" below. In the future, the Company may seek to raise further equity or debt capital or engage in other forms of borrowings in order to fund future investments or to refinance expiring indebtedness.

The Company generally intends to hold its target assets as long-term investments, although it may sell certain of its investments in order to manage its interest rate risk and liquidity needs, meet other operating objectives and adapt to market conditions.

To maintain its qualification as a REIT under the Internal Revenue Code, the Company must distribute annually at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain. These distribution requirements limit the Company's ability to retain earnings and thereby replenish or increase capital for operations.

Leverage Policies

The Company uses leverage for the sole purpose of financing its portfolio and not for the purpose of speculating on changes in interest rates. In addition to its secured debt arrangements, in the future the Company may access additional sources of borrowings. The Company's charter and bylaws do not limit the amount of indebtedness the Company can incur; however, the Company is limited by certain financial covenants under its secured debt arrangements. Consistent with the Company's strategy of keeping leverage within a conservative range, the Company expects that its total borrowings on loans will be in an amount that is approximately 35% of the value of its total loan portfolio.

Investment Guidelines

The Company's current investment guidelines, approved by the Company's board of directors, are comprised of the following:

- no investment will be made that would cause the Company to fail to qualify as a REIT for U.S. federal income tax purposes;
- no investment will be made that would cause the Company to register as an investment company under the 1940 Act;
- investments will be predominantly in the Company's target assets;
- no more than 20% of the Company's cash equity (on a consolidated basis) will be invested in any single investment at the time of the investment; and
- until appropriate investments can be identified, the Manager may invest the proceeds of any offering in interest bearing, short-term investments, including money market accounts and/or funds, that are consistent with the Company's intention to qualify as a REIT.

The board of directors must approve any change in these investment guidelines.

Contractual Obligations and Commitments
The Company’s contractual obligations including expected interest payments as of December 31, 2017 are summarized as follows:

	Less than 1 year [3]	1 to 3 years [3]	3 to 5 years [3]	More than 5 years	Total
JPMorgan Facility [1]	$227,530	$778,839	$—	$ —	$1,006,369
DB Repurchase Facility [1]	73,465	6,891	—	—	80,356
Goldman Facility [1]	7,891	27,116	—	—	35,007
Convertible Senior Notes	27,866	292,977	372,100	—	692,943
Unfunded loan commitments [2]	264,001	162,579	9,047	—	435,627
Total	$600,753	$1,268,402	$381,147	$ —	$2,250,302

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(1) Assumes current LIBOR of 1.56% for interest payments due under the JPMorgan Facility, the DB Repurchase Facility, the Goldman Loan, and the Goldman Facility.
(2) Based on the Company's expected funding schedule, which is based upon the Manager’s estimates based upon the best information available to the Manager at the time. There is no assurance that the payments will occur in accordance with these estimates or at all, which could affect the Company’s operating results.
(3) Assumes underlying assets are financed through the fully extended maturity date of the facility.

Loan Commitments. As of December 31, 2017, the Company had $295,327 of unfunded loan commitments related to its commercial mortgage loan portfolio and $140,300 of unfunded loan commitments related to its subordinate loan portfolio.
Management Agreement. On September 23, 2009, the Company entered into the Management Agreement with the Manager pursuant to which the Manager is entitled to receive a management fee and the reimbursement of certain expenses. The table above does not include amounts due under the Management Agreement as those obligations do not have fixed and determinable payments. Pursuant to the Management Agreement, the Manager is entitled to a base management fee calculated and payable quarterly in arrears in an amount equal to 1.5% of the Company’s stockholders’ equity (as defined in the Management Agreement), per annum. The Manager will use the proceeds from its management fee in part to pay compensation to its officers and personnel. The Company does not reimburse its Manager or its affiliates for the salaries and other compensation of their personnel, except for the allocable share of the compensation of (1) the Company’s Chief Financial Officer based on the percentage of time spent on the Company’s affairs and (2) other corporate finance, tax, accounting, internal audit, legal, risk management, operations, compliance and other non-investment professional personnel of the Manager or its affiliates who spend all or a portion of their time managing the Company’s affairs based on the percentage of time devoted by such personnel to the Company’s affairs. The Company is also required to reimburse its Manager for operating expenses related to the Company incurred by its Manager, including expenses relating to legal, accounting, due diligence and other services. Expense reimbursements to the Manager are made in cash on a monthly basis following the end of each month. The Company’s reimbursement obligation is not subject to any dollar limitation.
The current term of the Management Agreement currently runs through September 29, 2018. Absent certain action by the independent directors of the Company’s board of directors, as described below, the Management Agreement will automatically renew on each anniversary for a one year term. The Management Agreement may be terminated upon expiration of the one-year term only upon the affirmative vote of at least two-thirds of the Company’s independent directors, based upon (1) unsatisfactory performance by the Manager that is materially detrimental to the Company or (2) a determination that the management fee payable to the Manager is not fair, subject to the Manager’s right to prevent such a termination based on unfair fees by accepting a mutually acceptable reduction of management fees agreed to by at least two-thirds of the Company’s independent directors. The Manager must be provided with written

notice of any such termination at least 180 days prior to the expiration of the then existing term and will be paid a termination fee equal to three times the sum of the average annual base management fee during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination. Amounts payable under the Company's Management Agreement are not fixed and determinable. Following a meeting by the Company's independent directors in February 2018,

which included a discussion of the Manager's performance and the level of the management fees thereunder, the Company determined not to terminate the Management Agreement.

Off-balance Sheet Arrangements

Except as disclosed in "Note 6 - Investment in Unconsolidated Joint Venture," the Company does not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, or special purpose or variable interest entities, established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes. Further, the Company has not guaranteed any obligations of unconsolidated entities or entered into any commitment to provide additional funding to any such entities.

Dividends

The Company intends to continue to make regular quarterly distributions to holders of its common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. The Company generally intends over time to pay dividends to its stockholders in an amount equal to its net taxable income, if and to the extent authorized by its board of directors. Any distributions the Company makes are at the discretion of its board of directors and depend upon, among other things, the Company's actual results of operations. These results and the Company's ability to pay distributions are affected by various factors, including the net interest and other income from its portfolio, its operating expenses and any other expenditures. If the Company's cash available for distribution is less than its net taxable income, the Company could be required to sell assets or borrow funds to make cash distributions or the Company may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities.

Prior to August 2, 2017, the Company had 3,450,000 shares of Series A Preferred Stock outstanding, which entitled holders to receive dividends at the rate of 8.625% per annum of the $25.00 per share liquidation preference equivalent to $2.16 per annum, per share. The dividends on the Series A Preferred Stock were cumulative and payable quarterly in arrears.

On August 2, 2017, the Company redeemed all 3,450,000 shares of Series A Preferred Stock. Holders of the Series A Preferred Stock received the redemption price of $25.00 plus accumulated but unpaid dividends to the redemption date of $0.1079 per share.

At December 31, 2017, the Company had 6,770,393 shares of Series B Preferred Stock outstanding, which entitles holders to receive dividends that are payable quarterly in arrears. The Series B Preferred Stock pay cumulative cash dividends: (i) from, and including, the original date of issuance of the Series B Preferred Stock to, but excluding, September 20, 2020, at an initial rate of 8.00% per annum of the $25.00 per share liquidation preference; and (ii) from, and including, September 20, 2020, at the rate per annum equal to the greater of (a) 8.00% and (b) a floating rate equal to the 3-month LIBOR rate as calculated on each applicable date of determination plus 6.46% of the $25.00 liquidation preference. Except under certain limited circumstances, the Series B Preferred Stock is generally not convertible into or exchangeable for any other property or any other securities of the Company at the election of the holders. On or after September 21, 2020, the Company may, at its option, redeem the shares at a redemption price of $25.00, plus any accrued unpaid distribution through the date of the redemption.

At December 31, 2017, the Company had 6,900,000 shares of Series C Preferred Stock outstanding, which entitles holders to receive dividends that are payable quarterly in arrears. The Series C Preferred Stock pay cumulative cash dividends at the rate of 8.00% per annum of the $25.00 per share liquidation preference (equivalent to $2.00 per annum per share) from, and including July 29, 2016 (the "Series C Initial Dividend Date") and are payable quarterly in equal amounts in arrears on the last day of each April, July, October and January, at the then applicable annual rate. Except under certain limited circumstances, the Series C Preferred Stock is generally not convertible into or exchangeable for any other property or any other securities of the Company at the election of the holders. On or after September 20, 2017, the Company may, at its option, redeem the shares at a redemption price of $25.00, plus any accrued unpaid distribution through the date of the redemption.

Non-GAAP Financial Measures

Operating Earnings

For the years ended December 31, 2017, 2016 and 2015, respectively, the Company’s Operating Earnings were $146,752 or $1.45 per share ($191,392 or $1.89 per share excluding the realized loss and cost from sale of CMBS), $136,966 or $1.87 per share, and $112,697 or $1.90 per share. Operating Earnings is a non-GAAP financial measure that is defined by the

Company as net income available to common stockholders, computed in accordance with GAAP, adjusted for (i) equity-based compensation expense (a portion of which may become cash-based upon final vesting and settlement of awards should the holder elect net share settlement to satisfy income tax withholding), (ii) any unrealized gains or losses or other non-cash items included in net income available to common stockholders, (iii) unrealized income from unconsolidated joint ventures, (iv) foreign currency gains (losses) other than realized gains/(losses) related to interest income, (v) the non-cash amortization expense related to the reclassification of a portion of the Convertible Senior Notes to stockholders' equity in accordance with GAAP, and (vi) provision for loan losses and impairments. Operating Earnings may also be adjusted to exclude certain other non-cash items, as determined by the Manager and approved by a majority of the Company's independent directors.

In order to evaluate the effective yield of the portfolio, the Company uses Operating Earnings to reflect the net investment income of the Company's portfolio as adjusted to include the net interest expense related to the Company's derivative instruments. Operating Earnings allows the Company to isolate the net interest expense associated with the Company's swaps in order to monitor and project the Company's full cost of borrowings. The Company also believes that its investors use Operating Earnings, or a comparable supplemental performance measure, to evaluate and compare the performance of the Company and its peers and, as such, the Company believes that the disclosure of Operating Earnings is useful to its investors.

A significant limitation associated with Operating Earnings as a measure of the Company's financial performance over any period is that it excludes unrealized gains (losses) from investments. In addition, the Company's presentation of Operating Earnings may not be comparable to similarly-titled measures of other companies, who may use different calculations. As a result, Operating Earnings should not be considered as a substitute for the Company's GAAP net income as a measure of its financial performance or any measure of its liquidity under GAAP.

Beginning with the quarter ended September 30, 2016, the Company slightly modified its definition of Operating Earnings to include realized gains (losses) on currency swaps related to interest income on investments denominated in a currency other than U.S. dollars. The Company believes that including the effects of realized gains (losses) on currency swaps related to interest income more accurately reflects the Company's investment income for a particular period and will allow investors to more easily compare its operating results over various periods. The effects of such unrealized gains (losses) in prior periods were not material to the Company's financial results.

The table below summarizes the reconciliation from net income available to common stockholders to Operating Earnings:

	Year ended December 31,		
	2017	2016	2015
Net income available to common stockholders	$156,270	$127,581	$91,372
Adjustments:			
Equity-based compensation expense	13,314	7,090	4,387
Unrealized (gain) loss on securities	(37,165)	26,099	17,408
(Gain) loss on derivative instruments	19,180	(31,160)	(4,106)
Foreign currency (gain) loss, net	(19,102)	29,937	4,894
Amortization of the Convertible Senior Notes related to equity reclassification	3,046	2,344	2,206
(Income) loss from unconsolidated joint venture	2,847	96	(3,464)
Provision for loan losses and impairments	5,000	15,000	—
Series A Preferred Stock redemption charge	3,016	—	—
Bargain purchase gain	—	(40,021)	—
Realized gain from unconsolidated joint venture	346	—	—
Total adjustments:	(9,518)	9,385	21,325
Operating Earnings	$146,752	$136,966	$112,697
Realized loss and costs from sale of CMBS [1]	44,640	1,470	443
Operating earnings excluding realized loss and costs from sale of CMBS	$191,392	$138,436	$113,140
Basic and diluted Operating Earnings per share of common stock	$1.45	$1.87	$1.90
Basic and diluted Operating Earnings excluding realized loss and costs from sale of CMBS per share of common stock	$1.89	$1.89	$1.91
Basic weighted average shares of common stock outstanding	99,859,153	72,371,374	58,674,046
Diluted weighted average shares of common stock outstanding	101,232,610	73,305,101	59,273,280

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(1) For 2017, includes realized losses from CMBS sales of $42,693 and loss on early extinguishment of debt of $1,947.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company seeks to manage its risks related to the credit quality of its assets, interest rates, liquidity, prepayment speeds and market value, while, at the same time, seeking to provide an opportunity to stockholders to realize attractive risk-adjusted returns through ownership of its capital stock. While risks are inherent in any business enterprise, the Company seeks to quantify and justify risks in light of available returns and to maintain capital levels consistent with the risks the Company undertakes.

Credit Risk

One of the Company's strategic focuses is acquiring assets that it believes to be of high credit quality. The Company believes this strategy will generally keep its credit losses and financing costs low. However, the Company is subject to varying degrees of credit risk in connection with its other target assets. The Company seeks to mitigate this risk by seeking to acquire high quality assets, at appropriate prices given anticipated and unanticipated losses, and by deploying a value-driven approach to underwriting and diligence, consistent with the Manager's historical investment strategy, with a focus on current cash flows and potential risks to cash flow. The Manager seeks to enhance its due diligence and underwriting efforts by accessing the Manager's knowledge base and industry contacts. Nevertheless, unanticipated credit losses could occur, which could adversely impact the Company's operating results.

Interest Rate Risk

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond the Company's control. The Company is subject to interest rate risk in connection with its target assets and its related financing obligations.

To the extent consistent with maintaining the Company's REIT qualification, the Company seeks to manage risk exposure to protect its portfolio of financial assets against the effects of major interest rate changes. The Company generally seeks to manage this risk by:

- attempting to structure its financing agreements to have a range of different maturities, terms, amortizations and interest rate adjustment periods;
- using hedging instruments, interest rate swaps and interest rate caps; and
- to the extent available, using securitization financing to better match the maturity of the Company's financing with the duration of its assets.

At December 31, 2017, all of the Company's borrowings outstanding under its secured debt arrangements were based on floating-rate. At December 31, 2017, the Company also had floating rate assets with a face amount of $3,254,995 resulting in net variable rate exposure of $1,909,800. A 100 basis point increase in LIBOR would increase the annual net interest income related to this variable rate exposure by approximately $22,098 or $0.20 per share. Any such hypothetical impact on interest rates on the Company's variable rate borrowings does not consider the effect of any change in overall economic activity that could occur in a rising interest rate environment. Further, in the event of a change in interest rates of that magnitude, the Company may take actions to further mitigate the Company's exposure to such a change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, this analysis assumes no changes in the Company's financial structure.

Prepayment Risk

Prepayment risk is the risk that principal will be repaid at a different rate than anticipated, causing the return on an asset to be less than expected. In certain cases, the Company adapts to prepayment risk by stating prepayment penalties in loan agreements.

Market Risk

Commercial mortgage assets are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loans or loans, as the case may be, which could also cause the Company to suffer losses.

Inflation

Virtually all of the Company’s assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence the Company’s performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. The Company’s financial statements are prepared in accordance with GAAP and distributions are determined by the Company's board of directors consistent with the Company's obligation to distribute to its stockholders at least 90% of its REIT taxable income, excluding net capital gains and determined without regard to the dividends paid deduction, on an annual basis in order to maintain the Company’s REIT qualification. In each case, the Company’s activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

Item 8. Financial Statements and Supplementary Data.

Index to Consolidated Financial Statements and Schedule

Report of Independent Registered Public Accounting Firm	50
Consolidated Balance Sheets as of December 31, 2017 and 2016	52
Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015	53
Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015	54
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2017, 2016 and 2015	55
Consolidated Statement of Cash Flows for the years ended December 31, 2017, 2016 and 2015	57
Notes to Consolidated Financial Statements	58
Schedule	
Schedule IV—Mortgage Loans on Real Estate	83

All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
Apollo Commercial Real Estate Finance, Inc.
New York, New York

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Apollo Commercial Real Estate Finance, Inc. and subsidiaries ("the Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and the schedule listed in the Index at Item 8 (collectively referred to as the financial statements). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

New York, New York
February 14, 2018

We have served as the Company's auditor since 2009.

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands—except share data)

	December 31, 2017	December 31, 2016
Assets:		
Cash	$ 77,671	$ 200,996
Restricted cash	—	62,457
Securities, at estimated fair value	—	331,076
Securities, held-to-maturity	—	146,352
Commercial mortgage loans, net	2,653,826	1,641,856
Subordinate loans, net	1,025,932	1,051,236
Investment in unconsolidated joint venture	—	22,103
Derivative assets, net	—	5,906
Loan proceeds held by servicer	302,756	—
Other assets	28,420	20,995
Total Assets	$ 4,088,605	$ 3,482,977
Liabilities and Stockholders' Equity		
Liabilities:		
Secured debt arrangements, net (net of deferred financing costs of $14,348 and $6,763 in 2017 and 2016, respectively)	$ 1,330,847	$ 1,139,803
Convertible senior notes, net	584,897	249,994
Participations sold	—	84,979
Derivative liabilities, net	5,644	—
Accounts payable, accrued expenses and other liabilities	70,906	68,959
Payable to related party	8,168	7,015
Total Liabilities	2,000,462	1,550,750
Commitments and Contingencies (see Note 17)	—	—
Stockholders' Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized:		
Series A preferred stock, 0 and 3,450,000 shares issued and outstanding ($0 and $86,250 aggregate liquidation preference) in 2017 and 2016, respectively	—	35
Series B preferred stock, 6,770,393 and 8,000,000 shares issued and outstanding ($169,260 and $200,000 aggregate liquidation preference) in 2017 and 2016, respectively	68	80
Series C preferred stock, 6,900,000 shares issued and outstanding ($172,500 aggregate liquidation preference) in 2017 and 2016	69	69
Common stock, $0.01 par value, 450,000,000 shares authorized, 107,121,235 and 91,422,676 shares issued and outstanding in 2017 and 2016, respectively	1,071	914
Additional paid-in-capital	2,170,078	1,983,010
Accumulated deficit	(83,143)	(48,070)
Accumulated other comprehensive loss	—	(3,811)
Total Stockholders' Equity	2,088,143	1,932,227
Total Liabilities and Stockholders' Equity	$ 4,088,605	$ 3,482,977

See notes to consolidated financial statements.

52

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries
Consolidated Statements of Operations
(in thousands—except share and per share data)

	Year Ended December 31,		
	2017	2016	2015
Net interest income:			
Interest income from securities	$ 10,466	$ 27,586	$ 33,188
Interest income from securities, held to maturity	4,132	11,469	12,054
Interest income from commercial mortgage loans	158,632	102,927	56,092
Interest income from subordinate loans	165,291	122,394	90,830
Interest expense	(78,057)	(63,759)	(48,861)
Net interest income	260,464	200,617	143,303
Operating expenses:			
General and administrative expenses (includes equity-based compensation of $13,314 in 2017, $7,090 in 2016 and $4,387 in 2015)	(20,725)	(24,983)	(9,492)
Management fees to related party	(31,652)	(23,388)	(16,619)
Total operating expenses	(52,377)	(48,371)	(26,111)
Income (loss) from unconsolidated joint venture	(2,847)	(96)	3,464
Other income	940	1,094	1,239
Provision for loan losses and impairments	(5,000)	(15,000)	—
Realized gain (loss) on sale of assets	(42,693)	3,834	(443)
Unrealized gain (loss) on securities	37,165	(26,099)	(17,408)
Foreign currency gain (loss)	18,506	(29,284)	(4,894)
Bargain purchase gain	—	40,021	—
Loss on early extinguishment of debt	(1,947)	—	—
Gain (loss) on derivative instruments (includes unrealized gains (losses) of $(11,523) in 2017, $2,608 in 2016 and $(1,063) in 2015)	(19,180)	31,160	4,106
Net income	193,031	157,876	103,256
Preferred dividends	$ (36,761)	$ (30,295)	$ (11,884)
Net income available to common stockholders	156,270	127,581	91,372
Basic and diluted net income per share of common stock	$ 1.54	$ 1.74	$ 1.54
Basic weighted average shares of common stock outstanding	99,859,153	72,371,374	58,674,046
Diluted weighted average shares of common stock outstanding	101,232,610	73,305,101	59,273,280

See notes to consolidated financial statements.

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(in thousands)

	Year Ended December 31,		
	2017	2016	2015
Net income available to common stockholders	$156,270	$127,581	$91,372
Change in net unrealized gain on securities available-for-sale	—	—	678
Foreign currency translation adjustment	3,811	(638)	(866)
Comprehensive income	$160,081	$126,943	$91,184

See notes to consolidated financial statements.

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
(in thousands—except share and per share data)

	Preferred Stock		Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Par	Shares	Par				
Balance at December 31, 2014	3,450,000	$35	46,900,442	$469	$868,035	$(10,485)	$(2,985)	$855,069
Capital increase related to Equity Incentive Plan	—	—	12,763	*	4,265	—	—	4,265
Issuance of common stock	—	—	20,323,529	203	343,227	—	—	343,430
Issuance of restricted common stock	—	—	65,950	1	—	—	—	1
Issuance of preferred stock	8,000,000	80	—	—	197,600	—	—	197,680
Repurchase of common stock	—	—	(107,432)	(1)	(1,740)	—	—	(1,741)
Offering costs	—	—	—	—	(1,249)	—	—	(1,249)
Net income	—	—	—	—	—	103,256	—	103,256
Change in Other Comprehensive Income	—	—	—	—	—	—	(188)	(188)
Dividends declared on preferred stock	—	—	—	—	—	(11,884)	—	(11,884)
Dividends declared on common stock - $1.87 per share	—	—	—	—	—	(113,215)	—	(113,215)
Balance at December 31, 2015	11,450,000	$115	67,195,252	$672	$1,410,138	$(32,328)	$(3,173)	$1,375,424
Capital increase related to Equity Incentive Plan	—	—	236,782	2	4,459	—	—	4,461
Issuance of common stock	—	—	10,500,000	105	178,080	—	—	178,185
Issuance of common stock- AMTG Merger	—	—	13,398,586	134	218,263	—	—	218,397
Issuance of restricted common stock	—	—	92,056	1	—	—	—	1
Issuance of preferred stock - AMTG Merger	6,900,000	69	—	—	172,431	—	—	172,500
Offering costs	—	—	—	—	(361)	—	—	(361)
Net income	—	—	—	—	—	157,876	—	157,876
Change in other comprehensive loss	—	—	—	—	—	—	(638)	(638)
	—	—	—	—	—	(30,295)	—	(30,295)

Dividends declared on preferred stock								
Dividends declared on common stock - $1.84 per share	—	—	—	—	—	(143,323)	—	(143,323)
Balance at December 31, 2016	18,350,000	$184	91,422,676	$914	$1,983,010	$(48,070)	$ (3,811)	$1,932,227
Capital increase related to Equity Incentive Plan	—	—	200,859	3	10,977	—	—	10,980
Issuance of common stock	—	—	15,470,000	154	279,673	—	—	279,827
Issuance of restricted common stock	—	—	27,700	*	—	—	—	—
Redemption of preferred stock	(4,679,607)	(47)	—	—	(116,955)	—	—	(117,002)
Preferred stock redemption charge	—	—	—	—	3,016	—	—	3,016
Issuance of convertible senior notes	—	—	—	—	11,002	—	—	11,002
Offering costs	—	—	—	—	(645)	—	—	(645)
Net income	—	—	—	—	—	193,031	—	193,031
Change in other comprehensive loss	—	—	—	—	—	—	3,811	3,811
Dividends declared on preferred stock	—	—	—	—	—	(36,761)	—	(36,761)
Dividends declared on common stock - $1.84 per share	—	—	—	—	—	(191,343)	—	(191,343)
Balance at December 31, 2017	13,670,393	$137	107,121,235	$1,071	$2,170,078	$(83,143)	$ —	$2,088,143

* Rounds to zero.

See notes to consolidated financial statements.

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries
Consolidated Statement of Cash Flows (in thousands)

	For the year ended December 31,		
	2017	2016	2015
Cash flows provided by operating activities:			
Net income	$193,031	$157,876	$103,256
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of discount/premium and PIK	(48,062)	(10,679)	(11,211)
Amortization of deferred financing costs	6,669	4,607	2,992
Equity-based compensation	10,977	4,464	4,266
Unrealized (gain) loss on securities	(37,165)	26,099	17,408
Provision for loan losses and impairment	5,000	15,000	—
Income (loss) from unconsolidated joint venture	2,259	97	(3,480)
Foreign currency (gain) loss	(18,645)	28,790	5,192
Realized (gain) loss on derivative instruments	289	(28,552)	(5,169)
Unrealized (gain) loss on derivative instruments	11,523	(2,608)	1,063
Realized (gain) loss on sale of asset	42,693	(3,834)	443
Bargain purchase gain	—	(40,021)	—
Changes in operating assets and liabilities:			
Accrued interest receivable	(3,820)	(27,773)	(30,220)
Loan proceeds held by servicer	(6,306)	—	—
Other assets	(1,372)	2,194	120
Accounts payable, accrued expenses and other liabilities	(3,351)	(8,496)	1,405
Payable to related party	1,153	1,718	2,057
Net cash (used in) provided by operating activities	154,873	118,882	88,122
Cash flows used in investing activities:			
Funding of commercial mortgage loans	(1,218,492)	(850,411)	(641,954)
Funding of subordinate loans	(610,266)	(285,318)	(705,068)
Payments received on commercial mortgage loans	218,002	206,573	103,963
Payments received on subordinate loans	376,727	120,806	378,242
Funding of derivative instruments	—	—	(327)
Origination and exit fees received on commercial mortgage loans and subordinate loans	27,904	12,500	17,939
Funding of unconsolidated joint venture	(726)	(362)	(3,929)
Funding of other assets	(1,379)	(1,640)	(8)
Proceeds (payments) on settlements of derivative instruments	(201)	28,552	5,169
Decrease (increase) in collateral held related to derivative contracts	(4,952)	2,480	—
Proceeds from sale of securities	295,681	97,885	23,629
Proceeds from sale of investments in unconsolidated joint venture	24,498	—	20,794
Payments received on securities	25,960	35,623	8,735
Payments received on securities, held-to-maturity	146,530	6,720	1,750
Payments received on other assets	—	132	189
Proceeds from sale of AMTG assets, net	—	1,508,198	—
ARI Investment in AMTG, net of cash acquired	—	189,795	—
Net cash provided by (used in) investing activities	(720,714)	1,071,533	(790,876)
Cash flows from financing activities:			
Proceeds from issuance of common stock	279,816	178,185	343,430
Proceeds from issuance of preferred stock	—	—	197,680
Repurchase of common stock	—	—	(1,741)
Redemption of preferred stock	(116,990)	—	—

Payment of offering costs	(924)	(406)	(987)
Proceeds from secured debt arrangements	1,239,515	721,992	778,675
Repayments of secured debt arrangements	(1,045,614)	(501,200)	(475,094)
Repayments of AMTG repurchase agreement borrowings	—	(1,254,517)	—
Proceeds from issuance of convertible senior notes	343,275	—	—
Repayments of participations sold	(85,081)	(4,372)	(1,246)
Payment of deferred financing costs	(14,254)	(4,017)	(2,900)
Dividends on common stock	(183,877)	(132,213)	(100,849)
Dividends on preferred stock	(35,807)	(27,956)	(7,440)
Net cash provided by (used in) financing activities	380,059	(1,024,504)	729,528
Net increase (decrease) in cash and cash equivalents	(185,782)	165,911	26,774
Cash, cash equivalents and restricted cash, beginning of period	263,453	97,542	70,768
Cash, cash equivalents and restricted cash, end of period	$77,671	$263,453	$97,542
Supplemental disclosure of cash flow information:			
Interest paid	$55,835	$52,708	$43,209
Supplemental disclosure of non-cash investing and financing activities:			
Dividend declared, not yet paid	$56,576	$51,278	$37,828
Deferred financing costs, not yet paid	$—	$—	$—
Offering costs payable	$—	$279	$296
Loan proceeds held by servicer	$302,756	$—	$—
Fair value of assets acquired from AMTG	$—	$1,936,260	$—
Fair value of liabilities assumed from AMTG	$—	$(1,285,183)	$—
Fair value of common stock issued to AMTG	$—	$218,397	$—
Fair value of preferred stock issued to AMTG	$—	$172,500	$—

See notes to consolidated financial statements.

Apollo Commercial Real Estate Finance Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(in thousands—except share and per share data)

Note 1 – Organization

Apollo Commercial Real Estate Finance, Inc. (together with its consolidated subsidiaries, is referred to throughout this report as the "Company," "ARI," "we," "us" and "our") is a corporation that has elected to be taxed as a real estate investment trust ("REIT") for U.S. federal income tax purposes and primarily originates, acquires, invests in and manages performing commercial first mortgage loans, subordinate financings, and other commercial real estate-related debt investments in the United States. These asset classes are referred to as the Company's target assets.

The Company, organized in Maryland on June 29, 2009, commenced operations on September 29, 2009 and is externally managed and advised by ACREFI Management, LLC (the "Manager"), an indirect subsidiary of Apollo Global Management, LLC (together with its subsidiaries, "Apollo").

The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, commencing with the taxable year ended December 31, 2009. To maintain its tax qualification as a REIT, the Company is required to distribute at least 90% of its taxable income, excluding net capital gains, to stockholders and meet certain other asset, income, and ownership tests.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the Company's accounts and those of its consolidated subsidiaries. All intercompany amounts have been eliminated. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company's most significant estimates include the fair value of financial instruments, loan loss reserves and impairment. Actual results could differ from those estimates.

On August 31, 2016, the Company, pursuant to the terms and conditions of the Agreement and Plan of Merger, dated February 26, 2016 (as amended, the "AMTG Merger Agreement") acquired Apollo Residential Mortgage, Inc. ("AMTG"). AMTG merged with and into the Company (the "AMTG Merger") with the Company continuing as the surviving entity. As a result, all operations of AMTG and its former subsidiaries are consolidated with the operations of the Company. As of December 31, 2016, all assets acquired from AMTG were sold.

Under Financial Accounting Standards Board (the "FASB") ASC Topic 805, "Business Combinations", or ASC 805, the acquirer in a business combination must recognize, with certain exceptions, the fair values of assets acquired, liabilities assumed, and non-controlling interests when the acquisition constitutes a change in control of the acquired entity. We applied the provisions of ASC 805 in accounting for the Company's acquisition of AMTG. In doing so, we recorded provisional amounts for certain items as of the date of the acquisition, including the fair value of certain assets and liabilities. During the measurement period, a period which shall not exceed one year, the Company retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of such date that, if known, would have affected the measurement of the amounts recognized. See further discussion in "Note 20 - Business Combination."

The Company currently operates in one reporting segment.

Restricted Cash

Restricted cash represented cash held by the Company's counterparties as collateral against secured debt arrangements. Restricted cash is not available for general corporate purposes but may be applied against amounts due to counterparties under secured debt arrangements, or returned to the Company when collateral requirements are exceeded or at the maturity of the secured debt arrangements. As of December 31, 2017, there is no restricted cash on the Company's Consolidated Balance Sheet.

Classification of Investments and Valuations of Financial Instruments

The Company's investments consist primarily of commercial mortgage loans, subordinate loans, CMBS and other real estate related assets that are classified as either available-for-sale or held-to-maturity. The Company has also elected the fair value option for certain CMBS, however the Company had no such investments as of December 31, 2017.

Classification of Loans

Loans held-for-investment are stated at the principal amount outstanding, net of deferred fees and impairment, if any, in accordance with GAAP.

To conform to the 2017 presentation of the Consolidated Statement of Cash Flows , the Company reclassified $12,500 and $17,939 into origination and exit fees received on commercial mortgage loans and subordinate loans for 2016 and 2015, respectively. These amounts were previously recorded in funding of and payments received on commercial mortgage and subordinate loans.

Loan Impairment

The Company's loans are typically collateralized by commercial real estate. As a result, the Company regularly evaluates the extent and impact of any credit migration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations are sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan, and/or (iii) the property's liquidation value. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, the Company considers the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel, who utilize various data sources, including (i) periodic financial data such as debt service coverage ratio, property occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and discussions with market participants.

For loans classified as held-for-investment, the Company evaluates the loans for possible impairment on a quarterly basis. Impairment occurs when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. Impairment is then measured based on the present value of expected future cash flows discounted at the loan's effective rate or the fair value of the collateral, if the loan is collateral dependent. Upon measurement of impairment, the Company records an allowance to reduce the carrying value of the loan with a corresponding charge to net income. Significant judgments are required in determining impairment, including assumptions regarding the value of the loan, the value of the underlying collateral and other provisions such as guarantees.

As of December 31, 2017, the Company recorded a loan loss provision of $1,981 on a commercial mortgage loan secured by fully-built, for-sale residential condominium units located in Bethesda, MD. In addition to the $1,981 loan loss provision, the Company recorded an impairment of $3,019 on a related investment.

As of December 31, 2016, the Company recorded a loan loss provision of $10,000 and $5,000, on a multifamily commercial mortgage and subordinate loan in Williston, ND, respectively.

As of December 31, 2015, there was no provision for loan loss.

Fair Value Election

Securities at estimated fair value consist of CMBS. In accordance with GAAP, the Company elected the fair value option for these securities at the date of purchase in order to allow the Company to measure these securities at fair value with the change in estimated fair value included as a component of earnings in order to reflect the performance of the investments in a timely manner. As of December 31, 2017, the Company did not own any securities.

Securities, held-to-maturity

GAAP requires that at the time of purchase, we designate investment securities as held-to-maturity or trading, depending on our investment strategy and ability to hold such securities to maturity. Held-to-maturity securities where we have not elected to apply the fair value option are stated at cost plus any premiums or discounts, which are amortized or accreted through the consolidated statements of operations using the effective interest method. As of December 31, 2017, the Company did not own any securities.

59

Investments in unconsolidated joint venture

Investments are accounted for under the equity method when the requirements for consolidation are not met, and the Company has significant influence over the operations of the investee. Equity method investments are initially recorded at cost and subsequently adjusted for the Company's share of net income or loss and cash contributions and distributions each period. Investments in unconsolidated joint ventures are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is measured based on the excess of the carrying amount of an investment over its estimated fair value. Impairment analyses are based on current plans, intended holding periods and available information at the time the analyses are prepared. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results.

Interest Income Recognition

Interest income on commercial mortgage loans is accrued based on the actual coupon rate adjusted for accretion of any purchase discounts, the amortization of any purchase premiums and the accretion of any deferred fees, in accordance with GAAP.

Interest income on CMBS is accrued using the effective yield method, which includes the accretion of purchase discounts and the amortization of purchase premiums and the stated coupon interest payments.

Deferred Financing Costs

Costs incurred in connection with financings are capitalized and amortized over the respective financing terms and are reflected on the accompanying consolidated statement of operations as a component of interest expense. At December 31, 2017 and 2016, respectively, the Company had approximately $14,348 and $6,763 of capitalized financing costs, net of amortization included, as a direct deduction from the carrying amount of the debt obligation.

Earnings per Share

GAAP requires use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating security as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for dividends declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for dividends declared on participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity.

The remaining earnings are allocated to common stockholders and participating securities, to the extent that each security shares in earnings, as if all of the earnings for the period had been distributed. Each total is then divided by the applicable number of shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding shares of common stock and all potential shares of common stock assumed issued if they are dilutive. The numerator is adjusted for any changes in income or loss that would result from the assumed conversion of these potential shares of common stock.

Hedging Instruments and Hedging Activities

Consistent with maintaining its qualification as a REIT, in the normal course of business, the Company uses a variety of derivative financial instruments to manage, or hedge, interest rate and foreign currency risk. Derivatives are used for hedging purposes rather than speculation. The Company determines their fair value using and obtains quotations from a third party to facilitate the process in determining these fair values. If the Company’s hedging activities do not achieve the desired results, reported earnings may be adversely affected.

GAAP requires an entity to recognize all derivatives as either assets or liabilities in the balance sheets and to measure those instruments at fair value. To the extent the instrument qualifies for hedge accounting, the fair value adjustments will be recorded as a component of other comprehensive income in stockholders’ equity until the hedged item is recognized in earnings. Whenever the Company decides not to pursue hedge accounting, the fair value adjustments will be recorded in earnings immediately based on changes in the fair market value of those instruments.

The Company has not designated any of its derivative instruments as hedges under GAAP and therefore, changes in the fair value of the Company's derivatives are recorded directly in earnings.

60

Secured Debt Arrangements

Secured debt arrangements are treated as collateralized financing transactions, unless they meet sales treatment. Securities financed through a secured debt arrangement remain on the Company's balance sheet as an asset and cash received from the purchaser is recorded on the Company's consolidated balance sheet as a liability. Interest paid in accordance with secured debt arrangements is recorded in interest expense.

Share-based Payments

The Company accounts for share-based compensation to its independent directors and to the Manager and to employees of the Manager and its affiliates using the fair value based methodology prescribed by GAAP. Compensation cost related to restricted common stock issued to the Company's independent directors is measured at its estimated fair value at the grant date, and amortized into expense over the vesting period on a straight-line basis. Compensation cost related to restricted common stock issued to the Manager and to employees of the Manager and its affiliates will initially be measured at estimated fair value at the grant date, and remeasured on subsequent dates to the extent the awards are unvested. To amortize compensation expense for the restricted common stock granted to the Manager and to employees of the Manager and its affiliates, the Company uses the graded vesting attribution method.

Income Taxes

The Company has elected to be taxed as a REIT under Sections 856-859 of the Internal Revenue Code of 1986, as amended. Under those sections, a REIT which distributes at least 90% of its REIT taxable income, excluding net capital gains and determined without regard to the dividends paid deduction, as a dividend to its stockholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its stockholders.

The Company has elected to treat certain consolidated subsidiaries, and may in the future elect to treat newly formed subsidiaries, as taxable REIT subsidiaries. Taxable REIT subsidiaries may participate in non-real estate related activities and/or perform non-customary services for tenants and are subject to U.S. federal and state income tax at regular corporate tax rates.

The Company's major tax jurisdictions are U.S. federal, New York State and New York City and the statute of limitations is open for all jurisdictions for the years 2014 through 2017. The Company does not have any unrecognized tax benefits and does not expect a change in its position for unrecognized tax benefits in the next 12 months.

Foreign Currency

The Company enters into transactions not denominated in U.S. dollars. Foreign exchange gains and losses arising on such transactions are recorded as a gain or loss in the Company's consolidated statements of operations. Non-U.S. dollar denominated assets and liabilities are translated to U.S. dollars at the exchange rate prevailing at the reporting date and income, expenses, gains, and losses are translated at the prevailing exchange rate on the dates that they were recorded.

Principles of Consolidation

We consolidate all entities that we control through either majority ownership or voting rights. In addition, we consolidate all variable interest entities ("VIE") of which we are considered the primarily beneficiary. VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary and is generally the entity with (i) the power to direct the activities that most significantly affect the VIE's economic performance and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE.

Securitization/Sale and Financing Arrangements

We periodically sell our financial assets, such as commercial mortgage loans, CMBS and other assets. In connection with these transactions, we may retain or acquire senior or subordinated interests in the related assets. Gains and losses on such transactions are recognized using the guidance in Accounting Standards Codification ("ASC") Topic 860, Transfers and Servicing, which is based on a financial components approach that focuses on control. Under this approach, after a transfer of financial assets that meets the criteria for treatment as a sale-legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transferred control an entity recognizes

the financial assets it retains and any liabilities it has incurred, derecognizes the financial assets it has sold, and derecognizes liabilities when extinguished. We determine the gain or loss on sale of the assets by allocating the carrying value of the sold asset between the sold asset and the interests retained based on their relative fair values, as applicable. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the sold asset. If the sold asset is being accounted for pursuant to the fair value option, there is no gain or loss.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance which broadly amends the accounting guidance for revenue recognition. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. The Company notes that this guidance will not have a material impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern,” or ASU 2014-15. ASU 2014-15 introduces an explicit requirement for management to assess and provide certain disclosures if there is substantial doubt about an entity’s ability to continue as a going concern. ASU 2014-15 is effective for the annual period ending after December 15, 2016. In 2017, the Company adopted this guidance and determined that there was no material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting (Topic 718),” or ASU 2016-09. ASU 2016-09 requires all income tax effects of share-based payment awards to be recognized in the income statement when the awards vest or are settled. It also allows an employer to repurchase more of an employee’s shares for tax withholding purposes than is permitted under current guidance without triggering liability accounting. Finally, the guidance allows a policy election to account for employee forfeitures as they occur. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. In 2017, the Company adopted this guidance and determined there was no material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments (Topic 326),” or ASU 2016-13. ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance will replace the “incurred loss” approach under existing guidance with an “expected loss” model for instruments measured at amortized cost, and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. The guidance is effective for fiscal years beginning after December 15, 2019 and is to be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. While the Company is currently evaluating the impact ASU 2016-13 will have on our consolidated financial statements, we expect that the adoption will result in higher provisions for potential loan losses.

In August 2016, the FASB issued ASU 2016-15 “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” or ASU 2016-15. ASU 2016-15 is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The new guidance addresses the classification of various transactions including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, distributions received from equity method investments, beneficial interests in securitization transactions, and others. The Company adopted this guidance in the third quarter of 2016 and determined that there was no material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18 “Statement of Cash Flows (Topic 230): Restricted Cash,” or ASU 2016-18. ASU 2016-18 is intended to clarify how entities present restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash and cash equivalents and restricted cash in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. When cash and cash equivalents and restricted cash are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 and is to be applied retrospectively. The Company early adopted ASU 2016-18 on June 30, 2017, which changed the Company's consolidated statement of cash flows and related disclosures for all periods presented. The following is a reconciliation of the Company's cash, cash equivalents, and restricted cash to the total presented in the Company's consolidated statement of cash flows for the year ended December 31, 2017 and December 31, 2016, respectively:

	Year ended December 31,	
	2017	2016
Cash and cash equivalents	$77,671	$200,996
Restricted cash	—	62,457
Total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	$77,671	$263,453

In August 2017, the FASB issued ASU 2017-12 "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," or ASU 2017-12. The intention of ASU 2017-12 is to align an entity's financial reporting for hedging activities with the economic objectives of those activities. Upon adoption of ASU 2017-12, the cumulative ineffectiveness previously recognized on existing cash flow and net investment hedges will be adjusted and removed from beginning retained earnings and placed in accumulated other comprehensive income (loss). The Company is currently assessing the impact, if any, the guidance will have on the Company's consolidated financial statements when adopted. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018 and is applied retroactively.

Note 3 – Fair Value Disclosure

GAAP establishes a hierarchy of valuation techniques based on the observability of the inputs utilized in measuring financial instruments at fair values. Market based or observable inputs are the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The three levels of the hierarchy as noted in ASC 820, Fair Value Measurements and Disclosures, are described below:

Level I — Quoted prices in active markets for identical assets or liabilities.

Level II — Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level III — Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used.

While the Company anticipates that its valuation methods will be appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company will use inputs that are current as of the measurement date, which may include periods of market dislocation, during which price transparency may be reduced.

The estimated fair value of the Company's CMBS portfolio is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. The Company believes that these dealers who are usually market makers in these securities utilize various valuation techniques and inputs including, but not limited to, observable trades, discounted cash flow, market yield and duration to price these securities. Broker quotes are only indicative of fair value and may not necessarily represent what the Company would receive in an actual trade for the applicable instrument. Management performs additional analysis on prices received based on broker quotes to validate the prices and adjustments are made as deemed necessary by management to capture current market information. As of December 31, 2016 the estimated fair values of the Company's securities were based on observable inputs and were classified as Level II in the fair value hierarchy. In June 2017, the Manager determined that, based on illiquidity in the market for these securities, broker quotes lack observable inputs and thus a transfer into Level III in the fair value hierarchy was necessary. Based on this determination, as of June 30, 2017, we have applied Level III classification to these securities. In accordance with GAAP, the Company elects the fair value option for these securities at the date of purchase in order to allow the Company to measure these securities at fair value with the change in estimated fair value included as a component of earnings in order to reflect the performance of the investment in a timely manner. During the year ended December 31, 2017, the Company sold all of its remaining CMBS securities.

The estimated fair values of the Company's derivative instruments are determined using a discounted cash flow analysis on the expected cash flows of each derivative. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The fair values of interest rate caps are determined using the market standard methodology of discounting the future expected cash receipts (or payments) that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected cash flows are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. The fair values of foreign exchange forwards are determined by comparing the contracted forward exchange rate to the current market exchange rate. The current market exchange rates are determined by using market spot rates, forward rates and interest rate curves for the underlying countries. The Company's derivative instruments

are classified as Level II in the fair value hierarchy.

The following table summarizes the levels in the fair value hierarchy into which the Company's financial instruments were categorized as of December 31, 2017 and 2016:

	Fair Value as of December 31, 2017				Fair Value as of December 31, 2016			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
CMBS (Fair Value Option)	$ —	$ —	$ —	$ —	$ —	$ 331,076	$ —	$ 331,076
Derivative instruments	—	(5,644)	—	(5,644)	—	5,906	—	5,906
Total	$ —	$ (5,644)	$ —	$ (5,644)	$ —	$ 336,982	$ —	$ 336,982

The following is a reconciliation of investments for which Level III inputs were used in determining fair value:

	CMBS
Fair value at December 31, 2016	$ —
Transfers into Level III [(1)]	254,484
Net realized loss on investments	(41,651)
Net increase in unrealized gain on investments	38,830
Sales and repayments of investments	(250,464)
Amortization of purchase discount, net	(1,199)
Fair value at December 31, 2017	$ —

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(1) Transfers into Level III of the fair value hierarchy represent investments that experienced an insignificant level of market activity during the period and were thus valued in the absence of observable inputs. Transfers into Level III of the fair value hierarchy are recorded at the end of the reporting period. In June 2017, the Manager determined that, based on illiquidity in the market for these securities, broker quotes, which are the primary valuation technique used to mark these investments at fair value, lack observable inputs and thus a transfer into Level III was necessary. Based on this determination, as of June 30, 2017, we have applied Level III classification to these securities.

Note 4 – Securities

During the year-ended December 31, 2017, the Company sold all of its securities resulting in a net realized loss of $42,693.

CMBS (Held-to-Maturity) represents a loan the Company closed during May 2014 that was subsequently contributed to a securitization during August 2014. During May 2014, the Company closed a $155,000 floating-rate whole loan secured by the first mortgage and equity interests in an entity that owns a resort hotel in Aruba. During June 2014, the Company syndicated a $90,000 senior participation in the loan and retained a $65,000 junior participation. The Company evaluated this transaction and concluded that due to its continuing involvement, the transaction should not be accounted for as a sale. During August 2014, both the $90,000 senior participation and the Company's $65,000 junior participation were contributed to a CMBS securitization. In exchange for contributing its $65,000 junior participation, the Company received a CMBS secured solely by the $65,000 junior participation. During May 2017, the loan and associated CMBS (Held-to-Maturity) were fully repaid and the related securities, held-to-maturity and participation sold line items were removed from the Company's consolidated balance sheet.

The amortized cost and estimated fair value of the Company's securities at December 31, 2016 are summarized as follows:

Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
CMBS (Fair Value Option)	375,861	368,247	292	(37,463)	331,076
CMBS (Held-to-Maturity)	146,530	146,352	—	—	146,352
Total	$ 522,391	$ 514,599	$ 292	$ (37,463)	$ 477,428

During the year-ended December 31, 2016, the Company sold securities resulting in a net realized gain of $1,470.

The overall statistics for the Company’s CMBS (Fair Value Option) calculated on a weighted average basis as of December 31, 2016. Statistics are not presented as of December 31, 2017 because the company did not hold any CMBS (Fair Value Option):

	December 31, 2016	
Credit Ratings *	B+-NR	
Coupon	5.9	%
Yield	6.0	%
Weighted Average Life	2.5 years	

*Ratings per Fitch Ratings, Moody’s Investors Service or Standard & Poor's.

The percentage vintage, property type, and location of the collateral securing the Company’s CMBS (Fair Value Option) calculated on a weighted average basis as of December 31, 2016. These metrics are not presented as of December 31, 2017 because the company did not hold any CMBS (Fair Value Option):

Vintage	December 31, 2016	
2005	2.0	%
2006	12.1	
2007	73.5	
2008	12.4	
Total	100	%

Property Type	December 31, 2016	
Office	34.6	%
Retail	29.0	
Multifamily	12.4	
Other *	24.0	
Total	100	%

*No other individual category comprises more than 10% of the total.

Location	December 31, 2016	
South Atlantic	23.8	%
Middle Atlantic	16.7	
Pacific	15.3	
East North Central	10.8	
Other *	33.4	
Total	100	%

*No other individual category comprises more than 10% of the total.

Note 5 – Commercial Mortgage and Subordinate Loans, Net

The Company’s loan portfolio was comprised of the following at December 31, 2017:

Loan Type	December 31, 2017	December 31, 2016
Commercial mortgage loans, net	$ 2,653,826	$ 1,641,856
Subordinate loans, net	1,025,932	1,051,236
Total loans, net	$ 3,679,758	$ 2,693,092

Activity relating to our loan investment portfolio was as follows:

65

	Principal Balance	Deferred Fees/Other Items [1]	Provision for Loan Loss [2]	Carrying Value
December 31, 2016	$2,720,344	$(12,252)	$(15,000)	$2,693,092
Loan fundings	1,828,758	—	—	1,828,758
Loan repayments	(891,848)	—	—	(891,848)
Unrealized gain on foreign currency translation	23,766	(154)	—	23,612
Provision for loan loss [2]	—	—	(1,981)	(1,981)
Deferred fees and other items [1]	—	(27,424)	—	(27,424)
PIK interest, amortization of fees and other items [1]	25,149	30,400	—	55,549
December 31, 2017	$3,706,169	$(9,430)	$(16,981)	$3,679,758

(1) Other items primarily consist of purchase discounts or premiums, exit fees and deferred origination expenses.
(2) In addition to the $1,981 provision for loan loss, the Company recorded an impairment of $3,019 against a related investment previously recorded under other assets on the Company's consolidated balance sheet.

The following table details overall statistics for our loan portfolio:

	December 31, 2017	December 31, 2016
Number of loans	59	45
Principal balance	$3,706,169	$2,720,344
Carrying value	$3,679,758	$2,693,092
Unfunded loan commitments [1]	$435,627	$170,365
Weighted-average cash coupon [2]	8.40 %	8.88 %

(1) Unfunded loan commitments are primarily funded to finance property improvements or lease-related expenditures by the borrowers. These future commitments are funded over the term of each loan, subject in certain cases to an expiration date.
(2) For floating rate loans, assumes one-month LIBOR of 1.56% and 0.77%, as of December 31, 2017 and December 31, 2016, respectively.

The table below details the property type of the properties securing the loans in our portfolio:

	December 31, 2017		December 31, 2016	
Property Type	Carrying Value	% of Portfolio	Carrying Value	% of Portfolio
Urban Retail Predevelopment	$654,736	17.8%	$491,187	18.2%
Hotel	645,056	17.5%	408,428	15.2%
Office	513,830	14.0%	255,031	9.5%
Residential Rental	465,057	12.6%	309,243	11.5%
Residential - for sale	442,179	12.0%	469,997	17.5%
Mixed Use	354,640	9.6%	134,797	5.0%
Retail Center	198,913	5.4%	209,401	7.8%
Healthcare	173,870	4.7%	170,549	6.3%
Other	154,141	4.2%	87,650	3.3%
Industrial	77,338	2.1%	156,809	5.8%
	3,679,758	100.0%	2,693,092	100.0%

66

The table below details the geographic distribution of the properties securing the loans in our portfolio:

Geographic Location	December 31, 2017		December 31, 2016	
	Carrying Value	% of Portfolio	Carrying Value	% of Portfolio
Manhattan, NY	$1,173,833	31.9%	$870,914	32.3%
Brooklyn, NY	357,611	9.7%	163,389	6.1%
Northeast	100,536	2.7%	137,770	5.1%
Midwest	683,380	18.6%	405,992	15.1%
Southeast	531,582	14.4%	332,276	12.3%
United Kingdom	303,488	8.2%	244,756	9.1%
West	227,024	6.2%	219,664	8.2%
Mid Atlantic	191,976	5.2%	263,717	9.8%
Other International	76,713	2.1%	—	—%
Southwest	33,615	0.9%	54,614	2.0%
Total	3,679,758	100.0%	$2,693,092	100.0%

The Company assesses the risk factors of each loan, and assigns a risk rating based on a variety of factors, including, without limitation, loan-to-value ratio, or LTV, debt yield, property type, geographic and local market dynamics, physical condition, cash flow volatility, leasing and tenant profile, loan structure and exit plan, and project sponsorship. This review is performed quarterly. Based on a 5-point scale, our loans are rated “1” through “5,” from less risk to greater risk, which ratings are defined as follows:

1. Very low risk
2. Low risk
3. Moderate/average risk
4. High risk/potential for loss: a loan that has a risk of realizing a principal loss
5. Impaired/loss likely: a loan that has a high risk of realizing principal loss, has incurred principal loss or has been impaired

The following table allocates the carrying value of our loan portfolio based on the Company's internal risk ratings:

Risk Rating	December 31, 2017			
	Number of Loans	Carrying Value	% of Loan Portfolio	
1	—	$—	—	%
2	5	399,326	10	%
3	51	3,034,358	83	%
4	1	168,208	5	%
5	2	77,866	2	%
	59	$3,679,758	100	%

The Company evaluates its loans for possible impairment on a quarterly basis. The Company regularly evaluates the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. Specifically, a property’s operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations are sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan and/or (iii) the property’s liquidation value. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower’s competency in managing and operating the properties. In addition, the Company considers the overall economic environment, real estate sector and geographic sub-market in which the borrower operates. Such loan loss analysis is completed and reviewed by asset management and finance personnel who utilize various data sources, including (i) periodic financial data such as debt service coverage ratio, property occupancy, tenant profile, rental rates, operating expenses, the borrower’s exit

plan, and capitalization and discount rates, (ii) site inspections and (iii) current credit spreads and discussions with market participants. An allowance for loan loss is established when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan.

During the year ended December 31, 2017, the Company recorded a loan loss provision of $1,981 on a commercial mortgage loan secured by fully-built, for-sale residential condominium units located in Bethesda, MD. In addition to the $1,981 provision for loan loss, the Company recorded an impairment of $3,019 on a related investment previously recorded under other assets on the Company's consolidated balance sheet. The loan loss provision and impairment were based on the difference between fair value of the underlying collateral, and the carrying value of the loan (prior to the loan loss provision and related impairment). Fair value of the collateral was determined using a discounted cash flow analysis. The significant unobservable inputs used in determining the collateral value were sales price per square foot and discount rate which were an average of $678 dollars per square foot across properties and 15%, respectively. Effective April 1, 2017, the Company ceased accruing all interest associated with the loan and accounts for the loan on a cost-recovery basis (all proceeds are applied towards the loan balance). As of December 31, 2017, this was assigned a risk rating of 5.

During 2016, the Company recorded a loan loss provision of $10,000 on a multifamily commercial mortgage loan and $5,000 on a multifamily subordinate loan secured by a multifamily property located in Williston, ND. The loan loss provision was based on the difference between fair value of the underlying collateral, and the carrying value of the loan (prior to the loan loss provision). Fair value of the collateral was determined using a discounted cash flow analysis. The significant unobservable inputs used in determining the collateral value were terminal capitalization rate and discount rate which were 11% and 10% respectively. The Company ceased accruing payment in kind ("PIK") interest associated with the loan and recognizing interest income upon receipt of cash. As of December 31, 2017, this was assigned a risk rating of 5.

As of December 31, 2017, the aggregate loan loss provision was $11,981 and $5,000 for commercial mortgage loans and subordinate loans, respectively. As of December 31, 2016, the aggregate loan loss provision was $10,000 and $5,000 for commercial mortgage loans and subordinate loans, respectively.

During the years ended December 31, 2017, 2016, and 2015, the Company received pre-payment penalties of $5,416, $5,225, and $1,765, respectively. The Company records pre-payment penalty income under interest income.

During the years ended December 31, 2017, 2016, and 2015, the Company recognized PIK interest of $25,227, $24,379, and $21,997, respectively.

Note 6 – Investment in Unconsolidated Joint Venture

In September 2014, the Company, through a wholly owned subsidiary, acquired a 59% ownership interest in Champ Limited Partnership (“Champ LP”) following which a wholly-owned subsidiary of Champ LP then acquired a 35% ownership interest in Bremer Kreditbank AG ("BKB"). The Company acquired its ownership interest in Champ LP for an initial purchase price paid at closing of approximately €30,724 (or $39,477). The Company committed to invest up to approximately €38,000 (or $50,000). Champ LP together with certain unaffiliated third party investors, in aggregate, own 100% of BKB.

BKB specializes in corporate banking and financial services for medium-sized German companies. It also provides professional real estate financing, acquisition finance, institutional asset management and private wealth management services for German high-net-worth individuals.

The Company evaluated Champ LP to determine if it met the definition of a variable interest entity ("VIE") in accordance with ASC 810, Consolidation. The Company determined that Champ LP met the definition of a VIE, however, the Company was not the primary beneficiary; therefore, the Company was not required to consolidate the assets and liabilities of the partnership in accordance with the authoritative guidance. Additionally, Champ LP is an Investment Company under GAAP, and is therefore reflected at fair value. The Company's investment in Champ LP was accounted for as an equity method investment and therefore the Company recorded its proportionate share of the net asset value in accordance with ASC 323, Investments - Equity Method and Joint Ventures.

In January 2015, the Company funded an additional investment of €3,331 (or $3,929) related to its investment in Champ LP. In February 2015, the Company sold approximately 48% of its ownership interest in Champ LP at cost to an investment fund managed by Apollo for €16,314 (or $20,794) (of which $2,614 related to foreign exchange losses which were previously included in accumulated other comprehensive loss). In June 2016, the Company transferred €427 of its unfunded commitment to Apollo, reducing its unfunded commitment to Champ LP to €2,802 (or $2,985). In May 2017, the Company sold its remaining ownership interest in Champ LP to unaffiliated third parties for €21,792 or $24,498, resulting in a loss of $3,305. As of December 31, 2017, the Company had no interest in Champ LP.

Note 7 – Loan Proceeds Held by Servicer

Loan proceeds held by servicer represents principal payments held by the Company's third-party loan servicer as of the balance sheet date which were remitted to us subsequent to the balance sheet date.

Note 8 – Other Assets

The following table details the components of our other assets:

	December 31, 2017	December 31, 2016
Interest receivable	$ 23,101	$ 19,281
Other	5,319	1,714
Total	$ 28,420	$ 20,995

Note 9 – Secured Debt Arrangements, Net

At December 31, 2017 and 2016, the Company’s borrowings had the following secured debt arrangements, maturities and weighted average interest rates:

	December 31, 2017				December 31, 2016			
	Maximum Amount of Borrowings	Borrowings Outstanding	Maturity [1]	Weighted Average Rate [2]	Maximum Amount of Borrowings	Borrowings Outstanding	Maturity [1]	Weighted Average Rate [2]
JPMorgan Facility [3]	$1,393,000	$944,529	March 2020	L + 2.30%	$943,000	$657,452	January 2019	L + 2.25%
DB Repurchase Facility [4]	566,009	319,286	March 2020	L + 2.27%	300,000	137,355	September 2019	L + 2.66%
Goldman Facility [5]	331,130	81,380	November 2020	L + 2.73%	N/A	40,657	April 2019	L + 3.50%
Sub-total	2,290,139	1,345,195		L + 2.32%		835,464		L + 2.38%
UBS Facility	N/A	N/A	N/A	N/A	N/A	133,899	September 2018	2.79 %
DB Facility	N/A	N/A	N/A	N/A	N/A	177,203	April 2018	3.63 %
Sub-total	N/A	N/A		N/A		311,102		3.27 %
less: deferred financing costs	N/A	(14,348)		N/A	N/A	(6,763)		N/A
Total / Weighted Average	$2,290,139	$1,330,847		L + 2.32%		$1,139,803		3.18 %

(1) Maturity date assumes extensions at the Company's option are exercised.
(2) Assumes one-month LIBOR at December 31, 2017 and December 31, 2016 was 1.56% and 0.77% respectively.
(3) As of December 31, 2017, the Company's secured debt arrangement with JPMorgan Chase Bank, National Association
(the "JPMorgan Facility") provided for maximum total borrowings comprised of a $1,250,000 repurchase facility and $143,000 of an asset specific financing.
(4) As of December 31, 2017, the Company's secured debt arrangement with Deutsche Bank AG, Cayman Islands Branch (the "DB Repurchase Facility") provided for maximum total borrowings comprised of a $450,000 and £45,000 repurchase facility and $55,200 of a asset specific financing.
(5) As of December 31, 2017, the Company's secured debt arrangement with Goldman Sachs Bank USA (the "Goldman Facility") provided for maximum total borrowings comprised of a $300,000 repurchase facility and $31,130 of an asset specific financing.

At December 31, 2017, the Company’s borrowings had the following remaining maturities:

	Less than 1 year [1]	1 to 3 years [1]	3 to 5 years	More than 5 years	Total
JPMorgan Facility	$193,567	$750,962	$ —	$ —	$944,529
DB Repurchase Facility	60,808	258,478			319,286
Goldman Facility	—	81,380	—	—	81,380
Total	$254,375	$1,090,820	$ —	$ —	$1,345,195

(1) Assumes underlying assets are financed through the fully extended maturity date of the facility.

The table below summarizes the outstanding balances, as well as the maximum and average balances as of December 31, 2017 and 2016.

	2017			2016		
	Balance at December 31, 2017	Maximum Month-End Balance	Average Month-End Balance	Balance at December 31, 2016	Maximum Month-End Balance	Average Month-End Balance
JPMorgan Facility	$ 944,529	$ 986,611	$ 863,717	$ 657,452	$ 783,528	$ 660,741
DB Repurchase Facility	319,286	367,010	288,966	137,355	137,355	19,582
Goldman Facility	81,380	81,380	40,514	40,657	45,928	43,505
UBS Facility	—	133,899	72,716	133,899	133,899	133,899
DB Facility	—	177,203	117,768	177,203	300,005	246,773
Total	$ 1,345,195			$ 1,146,566		

JPMorgan Facility

On March 31, 2017, the Company, through two indirect wholly owned subsidiaries, entered into the amended and restated JPMorgan Facility, which was upsized in October 2017, and provides for maximum total borrowing capacity to $1,393,000, comprised of the $1,250,000 repurchase facility and a $143,000 asset specific financing, and a term expiring in March 2019 plus a one-year extension option available at the Company's option, subject to certain conditions. Amounts borrowed under the JPMorgan Facility bear interest at spreads ranging from 2.25% to 2.75% over one-month LIBOR. Margin calls may occur any time the aggregate repurchase price exceeds the agreed upon advance rate multiplied by the market value of the assets by more than $250. The Company has agreed to provide a limited guarantee of the obligations of its indirect wholly-owned subsidiaries under the JPMorgan Facility.

As of December 31, 2017, the Company had $944,529 of borrowings outstanding under the JPMorgan Facility secured by certain of the Company's commercial mortgage and subordinate loans.

DB Repurchase Facility

On March 31, 2017, the Company, through indirect wholly-owned subsidiaries, entered into the amended and restated DB Repurchase Facility which provides for maximum total borrowings of $566,009 comprised of: (i) a repurchase facility of $450,000 and £45,000, of which we have borrowed $170,168 and £24,503, respectively and (ii) $55,200 of asset specific financing in connection with financing first mortgage loans secured by real estate. The DB Repurchase Facility matures in March 2018 with two one-year extension options available at the Company's option, subject to certain conditions. Amounts borrowed under the DB Repurchase Facility bear interest at spreads ranging from 2.10% to 3.00% over one-month LIBOR. Margin calls may occur any time at specified aggregate margin deficit thresholds. The Company has agreed to provide a guarantee of the obligations of its indirect wholly-owned subsidiaries under this facility.

As of December 31, 2017, the Company had $319,286 (including £69,503) of borrowings outstanding under the DB Repurchase Facility secured by certain of the Company's commercial mortgage loans.

Goldman Facility

On November 29, 2017, the Company, through an indirect wholly-owned subsidiary, entered into the Goldman Facility, which provides for advances of up to $331,130 (as of December 31, 2017) comprised of a $300,000 repurchase facility and $31,130 of an asset specific financing (entered into in January 2015). The Goldman Facility matures in November 2020. Advances under the Goldman Facility accrue interest at one-month LIBOR plus a spread, determined on a case-by-case basis for each purchased asset. Margin calls may occur any time at specified margin deficit thresholds. The Company has agreed to provide a limited guarantee of the obligations of the seller under the Goldman Facility.

As of December 31, 2017, the Company had total borrowings of $81,380 including $50,250 of borrowings outstanding under the repurchase facility and $31,130 secured by one commercial mortgage loan held by the Company.

DB Facility

In April 2014, the Company, through an indirect wholly-owned subsidiary, entered into the DB Facility, which provided that the Company may borrow up to $300,000 in order to finance the acquisition of CMBS. The outstanding borrowings under the DB Facility were repaid in full in December 2017. In connection with the sale of CMBS as discussed in "Note 4 - Securities," the Company recognized a loss on early extinguishment of debt of $1,947.

UBS Facility
In September 2013, the Company, through an indirect wholly-owned subsidiary, entered into the UBS Facility, which provided that the Company may borrow up to $133,899 in order to finance the acquisition of CMBS. The UBS Facility matured in September 2017 and the Company repaid the outstanding borrowings in full.
The Company was in compliance with the financial covenants under each of its secured debt arrangements at December 31, 2017 and December 31, 2016.
Note 10 – Convertible Senior Notes, Net
On March 17, 2014, the Company issued $143,750 aggregate principal amount of 5.50% Convertible Senior Notes due 2019 (the "March 2019 Notes"), for which the Company received net proceeds, after deducting the underwriting discount and estimated offering expense payable by the Company of approximately $139,037. At December 31, 2017, the March 2019 Notes had a carrying value of $142,498 and an unamortized discount of $1,252.
On August 18, 2014, the Company issued an additional $111,000 aggregate principal amount of 5.50% Convertible Senior Notes due 2019 (the "August 2019 Notes," and together with the March 2019 Notes, the "2019 Notes"), for which the Company received net proceeds, after deducting the underwriting discount and estimated offering expense payable by the Company of approximately $109,615. At December 31, 2017, the August 2019 Notes had a carrying value of $109,436 and an unamortized discount of $1,564.
On August 21, 2017, the Company issued an aggregate principal amount of $230,000 of 4.75% Convertible Senior Notes due 2022 (the "August 2022 Notes" and together with the 2019 Notes, the "Notes"), for which the Company received net proceeds, after deducting the underwriting discount and estimated offering expense payable by the Company, of approximately $224,825. At December 31, 2017, the August 2022 Notes had a carrying value of $220,897 and an unamortized discount of $9,103.
On November 9, 2017, the Company issued an aggregate principal amount of $115,000 of 4.75% Convertible Senior Notes due 2022 (the "November 2022 Notes," together with the August 2022 Notes, the "2022 Notes" and together with the 2019 Notes, "the Notes"), for which the Company received net proceeds, after deducting the underwriting discount and estimated offering expense payable by the Company of approximately $112,686. At December 31, 2017, the November 2022 Notes had a carrying value of $112,065 and an unamortized discount of $2,935.

The following table summarizes the terms of the Notes.

	Principal Amount	Coupon Rate		Effective Rate [(1)]		Conversion Rate [(2)]	Maturity Date	Remaining Period of Amortization
2019 Notes	254,750	5.50	%	6.36	%	57.49	3/15/2019	1.20 years
2022 Notes	345,000	4.75	%	5.61	%	50.23	8/23/2022	4.65 years
Total	599,750							

(1) Effective rate includes the effect of the adjustment for the conversion option (See endnote (2) below), the value of which reduced the initial liability and was recorded in additional paid-in-capital.

(2) The Company has the option to settle any conversions in cash, shares of common stock or a combination thereof. The conversion rate represents the number of shares of common stock issuable per $1,000 principal amount of the Notes converted, and includes adjustments relating to cash dividend payments made by the Company to stockholders that have been deferred and carried-forward in accordance with, and are not yet required to be made pursuant to, the terms of the applicable supplemental indenture.

The Company may not redeem the Notes prior to maturity. The closing price of the Company's common stock on December 29, 2017 of $18.45 was greater than the per share conversion price of the 2019 Notes and less than the per share conversion price of the 2022 Notes. The Company has the intent and ability to settle the Notes in cash and, as a result, the Notes did not have any impact on the Company's diluted earnings per share.
In accordance with ASC 470 the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) is to be separately accounted for in a manner that reflects the issuer’s nonconvertible debt borrowing rate. GAAP requires that the initial proceeds from the sale of the Notes be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt that could have been issued by the Company at such time. The Company

measured the fair value of the debt components of the Notes as of their issuance date based on effective interest rates. As a result, the Company attributed

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approximately $22,447 of the proceeds to the equity component of the Notes ($11,445 to the 2019 Notes and $11,002 to the 2022 Notes), which represents the excess proceeds received over the fair value of the liability component of the Notes at the date of issuance. The equity component of the Notes has been reflected within additional paid-in capital in the consolidated balance sheet as of December 31, 2017. The resulting debt discount is being amortized over the period during which the Notes are expected to be outstanding (the maturity date) as additional non-cash interest expense. The additional non-cash interest expense attributable to each of the Notes will increase in subsequent reporting periods through the maturity date as the Notes accrete to their par value over the same period.

The aggregate contractual interest expense was approximately $18,726, $14,011 and $14,011 for the years ended December 31, 2017, 2016 and 2015, respectively. With respect to the amortization of the discount on the liability component of the Notes as well as the amortization of deferred financing costs, the Company reported additional non-cash interest expense of approximately $4,724, $3,557 and $3,440 for the years ended December 31, 2017, 2016 and 2015, respectively.

Note 11 – Participations Sold

Participations sold represent the interests in loans the Company originated and subsequently partially sold. The Company presents the participations sold as both assets and non-recourse liabilities because the participation does not qualify as a sale according to ASC 860, Transfers and Servicing. The income earned on the participation sold is recorded as interest income and an identical amount is recorded as interest expense on the Company's consolidated statements of operations.

During January 2015, the Company closed a £34,519 (or $51,996) floating-rate mezzanine loan secured by a portfolio of 44 senior housing facilities located throughout the United Kingdom. During February 2015, the Company closed an additional £20,000 (or $30,672) and participated that balance to an investment fund affiliated with Apollo. During December 2016, the Company qualified for sale accounting with respect to the previous participation sold that was converted to a discrete financial instrument, and therefore deconsolidated the participation sold.

During May 2014, the Company closed a $155,000 floating-rate whole loan secured by the first mortgage and equity interests in an entity that owns a resort hotel in Aruba. During June 2014, the Company syndicated a $90,000 senior participation in the loan and retained a $65,000 junior participation in the loan. During August 2014, both the $90,000 senior participation and the Company's $65,000 junior participation were contributed to a CMBS securitization. In exchange for contributing its $65,000 junior participation, the Company received a CMBS secured solely by the $65,000 junior participation and classified it as CMBS (Held-to-Maturity) on its consolidated financial statements. During May 2017, the loan and associated CMBS (Held-to-Maturity) were fully repaid and the related securities, held-to-maturity and participation sold line items were removed from the Company's consolidated balance sheet.

Note 12 – Derivatives, Net

The Company uses forward currency contracts to economically hedge interest and principal payments due under its loans denominated in currencies other than U.S. dollars.

The Company has entered into a series of forward contracts to sell an amount of foreign currency (British pound ("GBP")) for an agreed upon amount of U.S. dollars at various dates through November 2020. These forward contracts were executed to economically fix the U.S. dollar amounts of foreign denominated cash flows expected to be received by the Company related to foreign denominated loan investments.

The following table summarizes our non-designated foreign exchange (“Fx”) forwards as of December 31, 2017 :

Type of Derivative	December 31, 2017			
	Number of Contracts	Aggregate Notional Amount	Notional Currency	Maturity
Fx Contracts - GBP	24	177,077	GBP	January 2018- November 2020

73

The following table summarizes our non-designated foreign exchange ("Fx") forwards as of December 31, 2016 :

Type of Derivative	December 31, 2016			
	Number of Contracts	Aggregate Notional Amount	Notional Currency	Maturity
Fx Contracts - GBP	11	148,310	GBP	January 2017- October 2017

The Company has not designated any of its derivative instruments as hedges as defined in ASC 815, Derivatives and Hedging and, therefore, changes in the fair value of the Company's derivative instruments are recorded directly in earnings. The following table summarizes the amounts recognized on the consolidated statements of operations related to the Company's derivatives for the years ended December 31, 2017, 2016 and 2015.

		Amount of gain (loss) recognized in income		
	Location of Gain (Loss) Recognized in Income	2017	2016	2015
Forward currency contract	Gain (loss) on derivative instruments - unrealized	$(11,527)	2,665	$(853)
Forward currency contract	Gain on derivative instruments - realized	(7,657)	28,552	5,169
Interest rate caps [1]	Gain (loss) on derivative instruments - unrealized	4	(57)	(210)
Sub-total		$(19,180)	$31,160	$4,106
Forward currency contract	Loss from unconsolidated joint venture	(587)	—	—
Total		$(19,767)	$31,160	$4,106

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(1) With a notional amount of $40,185, $45,475, 49,323 at December 31, 2017, 2016, and 2015, respectively.

The following table summarizes the gross asset and liability amounts related to the Company's derivatives at December 31, 2017 and 2016.

	December 31, 2017			December 31, 2016		
	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amount of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet
Interest rate caps	$—	$ 1	$ 1	$23	$ —	$ 23
Forward currency contract	(5,645)	—	(5,645)	5,883	—	5,883
Total derivative instruments	$(5,645)	$ 1	$ (5,644)	$5,906	$ —	$ 5,906

Note 13 – Accounts Payable, Accrued Expenses and Other Liabilities

The following table details the components of our accounts payable, accrued expense and other liabilities:

	December 31, 2017	December 31, 2016
Accrued dividends payable	$ 56,576	$ 51,278
Accrued interest payable	12,796	7,284
Accounts payable and other liabilities	1,534	10,397
Total	$ 70,906	$ 68,959

74

Note 14 – Related Party Transactions

AMTG Merger

As fully described in "Note 20- Business Combination", in August 2016, the Company acquired AMTG, an entity managed by an affiliate of Apollo.

Management Agreement

In connection with the Company's initial public offering in September 2009, the Company entered into a management agreement (the "Management Agreement") with the Manager, which describes the services to be provided by the Manager and its compensation for those services. The Manager is responsible for managing the Company's day-to-day operations, subject to the direction and oversight of the Company's board of directors.

Pursuant to the terms of the Management Agreement, the Manager is paid a base management fee equal to 1.5% per annum of the Company's stockholders' equity (as defined in the Management Agreement), calculated and payable (in cash) quarterly in arrears.

The current term of the Management Agreement expires on September 29, 2018 and is automatically renewed for successive one-year terms on each anniversary thereafter. The Management Agreement may be terminated upon expiration of the one-year extension term only upon the affirmative vote of at least two-thirds of the Company's independent directors, based upon (1) unsatisfactory performance by the Manager that is materially detrimental to the Company or (2) a determination that the management fee payable to the Manager is not fair, subject to the Manager's right to prevent such a termination based on unfair fees by accepting a mutually acceptable reduction of management fees agreed to by at least two-thirds of the Company's independent directors. The Manager must be provided with written notice of any such termination at least 180 days prior to the expiration of the then existing term and will be paid a termination fee equal to three times the sum of the average annual base management fee during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination. Following a meeting by the Company's independent directors in February 2017, which included a discussion of the Manager's performance and the level of the management fees thereunder, the Company determined not to seek termination of the Management Agreement.

For 2017, 2016 and 2015, respectively, the Company incurred approximately $31,652, $23,388 and $16,619 in base management fees under the Management Agreement. In addition to the base management fee, the Company is also responsible for reimbursing the Manager for certain expenses paid by the Manager on behalf of the Company or for certain services provided by the Manager to the Company. For 2017, 2016 and 2015, respectively, the Company paid expenses totaling $2,583, $2,526 and $1,421 related to reimbursements for certain expenses paid by the Manager on behalf of the Company under the Management Agreement. Expenses incurred by the Manager and reimbursed by the Company are reflected in the respective consolidated statement of operations expense category or the consolidated balance sheet based on the nature of the item.

Included in payable to related party on the consolidated balance sheet at December 31, 2017 and December 31, 2016, respectively, is approximately $8,168 and $7,015 for base management fees incurred but not yet paid under the Management Agreement.

Unconsolidated Joint Venture

In September 2014, the Company, through a wholly owned subsidiary, acquired a 59% ownership interest in Champ Limited Partnership ("Champ LP") following which a wholly-owned subsidiary of Champ LP then acquired a 35% ownership interest in BKB. The Company acquired its ownership interest in Champ LP for an initial purchase price paid at closing of approximately €30,724 (or $39,477). The Company committed to invest up to approximately €38,000 (or $50,000).

In January 2015, the Company funded an additional investment of €3,331 (or $3,929) related to its investment in Champ LP. In February 2015, the Company sold approximately 48% of its ownership interest in Champ LP at cost to an account managed by Apollo for approximately €16,314 (or $20,794). In June 2016, the Company transferred €427 of its unfunded commitment to Apollo, reducing its unfunded commitment to Champ LP to €2,802 (or $2,985).

In May 2017, the Company sold its remaining ownership interest in Champ LP, to unaffiliated third parties for €21,792 or $24,498, resulting in a loss of $3,305. As of December 31, 2017, the Company had no interest in Champ LP.

Loans receivable

In June, 2017, the Company increased its outstanding loan commitment through the acquisition of an additional $25,000 of interests in an existing pre-development mezzanine loan from a fund managed by an affiliate of the Manager, increasing the Company's total outstanding loan commitment to $100,000. Furthermore, in September 2017 the Company funded an additional $25,000 to acquire a portion of the same pre-development mezzanine loan from a fund managed by an affiliate of the

75

Manager, increasing the Company's total outstanding loan commitment to $125,000. The pre-development mezzanine loan is for the construction of a residential condominium building in New York, New York and is part of a $300,000 mezzanine loan.

Note 15 – Share-Based Payments

On September 23, 2009, the Company's board of directors approved the Apollo Commercial Real Estate Finance, Inc., 2009 Equity Incentive Plan (as amended from time to time, the "LTIP"). The LTIP provides for grants of restricted common stock, restricted stock units ("RSUs") and other equity-based awards up to an aggregate of 7.5% of the issued and outstanding shares of the Company's common stock (on a fully diluted basis). The LTIP is administered by the compensation committee of the Company's board of directors (the "Compensation Committee") and all grants under the LTIP must be approved by the Compensation Committee.

The Company recognized stock-based compensation expense of $13,314, $7,090 and $4,387 during 2017, 2016 and 2015, respectively, related to restricted stock and RSU vesting.

The following table summarizes the grants, exchanges and forfeitures of restricted common stock and RSUs during 2017, 2016 and 2015:

Type	Restricted Stock	RSUs	Grant Date Fair Value ($)
Outstanding at January 1, 2015	73,927	610,254	
Grant	65,950	666,056	$12,769
Vested	(32,492)	(20,000)	n/a
Forfeiture	—	(13,500)	n/a
Outstanding at December 31, 2015	107,385	1,242,810	
Grant	92,056	903,068	16,477
Vested	(49,331)	(397,030)	n/a
Forfeiture	—	(45,073)	n/a
Outstanding at December 31, 2016	150,110	1,703,775	
Grant	27,700	912,916	17,496
Vested	(72,249)	(938,541)	n/a
Forfeiture	—	(45,404)	n/a
Outstanding at December 31, 2017	105,561	1,632,746	

Below is a summary of restricted stock and RSU vesting dates as of December 31, 2017.

Vesting Year	Restricted Stock	RSU	Total Awards
2018	67,934	758,505	826,439
2019	32,733	569,909	602,642
2020	4,894	304,332	309,226

Total	105,561	1,632,746	1,738,307

At December 31, 2017, the Company had unrecognized compensation expense of approximately $1,577 and $30,242, respectively, related to the vesting of restricted stock awards and RSUs noted in the table above.

RSU Deliveries
During 2017, 2016 and 2015, respectively, the Company delivered 200,859, 236,782 and 12,763 shares of common stock for 938,541, 397,030, and 20,000 vested RSUs. The Company allows RSU participants to settle their tax liabilities with a reduction of their share delivery from the originally granted and vested RSUs. The amount, when agreed to by the participant, results in a cash payment to the Manager related to this tax liability and a corresponding adjustment to additional paid in capital on the consolidated statement of changes in stockholders' equity. The adjustments were $2,336, $2,626, and $122 in 2017, 2016

and 2015, respectively, and are included as reductions of capital increase related to the Company's equity incentive plan in the consolidated statement of changes in stockholders' equity.

Note 16– Stockholders’ Equity

The Company’s authorized capital stock consists of 450,000,000 shares of common stock, $0.01 par value per share and 50,000,000 shares of preferred stock, $0.01 par value per share. As of December 31, 2017, 107,121,235 shares of common stock were issued and outstanding and there were 6,770,393 shares of 8.00% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock ("Series B Preferred Stock") issued and outstanding and 6,900,000 shares of 8.00% Fixed-to-Floating Series C Cumulative Redeemable Perpetual Preferred Stock ("Series C Preferred Stock") issued and outstanding.

In October 2017, the Company concurrently entered into a common stock purchase agreement and a preferred stock repurchase agreement with QH RE Asset Company, LLC (“QHREAC”). Pursuant to the agreements, (i) QHREAC purchased 1,670,000 shares of the Company’s common stock, par value $0.01 per share, for cash at an aggregate purchase price of $30,795 ($18.44 per share), and (ii) the Company repurchased from QHREAC 1,229,607 shares of the Company’s Series B Preferred Stock, par value $0.01 per share, for an aggregate purchase price of $30,795 (approximately $25.04 per share, made up of $25.00 liquidation value per share, plus $0.04 per share of accumulated and unpaid dividends to, but not including, the closing date of the transaction).

In August 2017, the Company redeemed all 3,450,000 shares of 8.625% Series A Cumulative Redeemable Perpetual Preferred Stock ("Series A Preferred Stock"). Holders of the Series A Preferred Stock received the redemption price of $25.00 plus accumulated but unpaid dividends to the redemption date of $0.1079 per share.

Dividends. During 2017, 2016 and 2015, the Company has declared the following dividends:

Dividend declared per share of:	2017	2016	2015
Common Stock [(1)]	$1.84	$1.84	$1.78
Preferred A Stock	1.19	2.16	2.16
Preferred B Stock	2.00	2.00	0.63
Preferred C Stock	2.00	1.00	N/A

(1) As the Company's aggregate distributions exceeded its earnings and profits, $0.4211 of the January 2018 distribution declared in the fourth quarter of 2017 and payable to common stockholders of record as of December 29, 2017 will be treated as a 2018 distribution for U.S. federal income tax purposes.

Common Stock Offerings. During the second quarter of 2017, the Company completed a follow-on public offering of 13,800,000 shares of its common stock, at a price of $18.05 per share. The aggregate net proceeds from the offering, including proceeds from the sale of the additional shares, were approximately $248,900 after deducting estimated offering expenses.

During the fourth quarter of 2016, the Company completed a follow-on public offering of 10,500,000 shares of its common stock, at a price of $16.97 per share. The aggregate net proceeds from the offering, including proceeds from the sale of the additional shares, were approximately $177,796 after deducting estimated offering expenses payable by the Company.

AMTG Merger. In addition, the company issued common and preferred equity in connection with the AMTG Merger as described in "Note 20 - Business Combination."

Note 17 – Commitments and Contingencies

Legal Proceedings. From time to time, the Company may be involved in various claims and legal actions arising in the ordinary course of business.

On January 4, 2017, the United States Department of Justice served a Request for Information and Documents (the “Request”) on the Company, in connection with a preliminary investigation into certain aspects of the Company's former residential real estate portfolio, which the Company acquired in connection with the AMTG Merger and subsequently sold in 2016. The Request seeks a range of information in connection with the residential real estate portfolio, including, among other things, information concerning policies, procedures, and practices related to advertising, marketing, identifying, or acquiring residential properties for sale or rent, and various data for all rental and sales contracts executed since January 1, 2012. The Company is cooperating with the Department of Justice and fully complying with the Request.

Loan Commitments. As described in "Note 5 - Commercial Mortgages and Subordinate Loans, Net", at December 31, 2017, the Company had $435,627 of unfunded commitments related to its commercial mortgage loan portfolio and subordinate loan portfolio.

Note 18 – Fair Value of Financial Instruments

The following table presents the carrying value and estimated fair value of the Company's financial instruments not carried at fair value on the consolidated balance sheet at December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and cash equivalents	$77,671	$77,671	$200,996	$200,996
Restricted cash	—	—	62,457	62,457
Securities, held-to-maturity	—	—	146,352	146,489
Commercial first mortgage loans, net	2,653,826	2,657,262	1,641,856	1,648,896
Subordinate loans, net	1,025,932	1,029,390	1,051,236	1,060,882
Secured debt arrangements	(1,345,195)	(1,345,195)	(1,146,566)	(1,146,807)
2019 Notes	(251,935)	(276,506)	(249,994)	(268,124)
2022 Notes	(332,962)	(350,175)	—	—
Participations sold	—	—	(84,979)	(85,072)

To determine estimated fair values of the financial instruments listed above, market rates of interest, which include credit assumptions, are used to discount contractual cash flows. The estimated fair values are not necessarily indicative of the amount the Company could realize on disposition of the financial instruments. The use of different market assumptions or estimation methodologies could have a material effect on the estimated fair value amounts.

Estimates of fair value for cash and cash equivalents, restricted cash and convertible senior notes, net are measured using observable Level I inputs as defined in "Note 3 - Fair Value Disclosure." Estimates of fair value for all other financial instruments in the table above are measured using significant estimates, or unobservable Level III inputs as defined in "Note 3 - Fair Value Disclosure."

Note 19 – Net Income (Loss) per Share

ASC 260, Earnings per share, requires the use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating security as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for dividends declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for dividends declared on participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity.

The remaining earnings are allocated to common stockholders and participating securities to the extent that each security shares in earnings as if all of the earnings for the period had been distributed. Each total is then divided by the applicable number of shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding shares of common stock and all potential shares of common stock assumed issued if they are dilutive. The numerator is adjusted for any changes in income or loss that would result from the assumed conversion of these potential shares of common stock.

The table below presents basic and diluted net (loss) income per share of common stock using the two-class method for the years ended December 31, 2017, 2016 and 2015:

	For the year ended December 31,		
	2017	2016	2015
Numerator:			
Net income	$193,031	$157,876	$103,256
Preferred dividends	(36,761)	(30,295)	(11,884)
Net income available to common stockholders	156,270	127,581	91,372
Dividends declared on common stock	(188,431)	(141,236)	(111,864)
Dividends on participating securities	(2,913)	(2,087)	(1,350)
Net loss attributable to common stockholders	$(35,074)	$(15,742)	$(21,842)
Denominator:			
Basic weighted average shares of common stock outstanding	99,859,153	72,371,374	58,674,046
Diluted weighted average shares of common stock outstanding	101,232,610	73,305,101	59,273,280
Basic and diluted net income per weighted average share of common stock			
Distributable Earnings	$1.89	$1.96	$1.91
Undistributed income (loss)	(0.35)	$(0.22)	$(0.37)
Basic and diluted net income per share of common stock	$1.54	$1.74	$1.54

For the years ended December 31, 2017, 2016 and 2015, 1,373,457, 933,727 and 599,234 unvested RSUs, respectively, were excluded from the calculation of diluted net income per share because the effect was anti-dilutive.

Note 20 – Business Combination
On August 31, 2016, the Company, pursuant to the terms and conditions of the AMTG Merger Agreement, acquired AMTG for consideration of common stock and preferred stock, as applicable and cash. AMTG merged with and into the Company with the Company continuing as the surviving entity. As a result, all operations of AMTG and its former subsidiaries are consolidated with the operations of the Company. In connection with financing the AMTG Merger, on August 31, 2016, the Company entered into a Loan Agreement (the "Athene Loan Agreement") with Athene USA Corporation, a subsidiary of Athene Holding Ltd., as lender ("Athene USA"), pursuant to which the Company borrowed $175,000 in order to fund a portion of the Company's obligations under the AMTG Merger Agreement. The Athene Loan Agreement was repaid in full and terminated on September 1, 2016. On August 31, 2016, pursuant to an Asset Purchase and Sale Agreement, dated February 26, 2016 (as amended, the "Asset Purchase Agreement") by and among Athene Annuity & Life Assurance Company and Athene Annuity and Life Company (collectively, "Athene Annuity") and the Company, the Company sold primarily non-agency residential mortgage backed securities previously held by AMTG to Athene Annuity for cash consideration of approximately $1,100,000. Proceeds from the sale were used to repay approximately $804,000 in associated financing, $175,000 to satisfy the Athene Loan Agreement and for general corporate purposes. All of the assets acquired from AMTG were sold during 2016.

The AMTG Merger was accounted for as a business combination in accordance with ASC 805, Business Combinations. The transactions pursuant to the Athene Loan Agreement and the Asset Purchase Agreement were contemporaneous with and contingent on the AMTG Merger, therefore the Company recorded the transaction net. The Company was designated as the accounting acquirer. The total purchase price has been allocated based upon management's estimates of fair value. The difference between the fair value of net assets of AMTG and the consideration was recorded as a bargain purchase gain.

The bargain purchase gain was computed as follows:

Consideration Paid:	$ (in thousands)
Cash	$220,159
Common stock issued	218,397
Preferred stock assumed	172,500
Total consideration paid	$611,056
Assets acquired:	
Cash and cash equivalents	399,402
Restricted cash	10,552
Investments	1,491,484
Other assets	34,822
Liabilities assumed:	
Borrowings under repurchase agreements	(1,254,518)
Other liabilities	(30,665)
Net assets acquired	651,077
Bargain purchase gain	$40,021

The Company incurred $11,350 of transaction-related expenses related to the AMTG Merger during the year ended December 31, 2016. Transaction-related expenses are comprised primarily of transaction fees and AMTG Merger costs, including legal, finance, consulting, professional fees and other third-party costs.

80

The following table provides the pro forma consolidated operational data as if the AMTG Merger had occurred on January 1, 2016:

(in thousands, except per share data)	Twelve Months Ended December 31, 2016	Twelve Months Ended December 31, 2015
Total revenue	$ 349,948	$ 352,264
Net income attributable to common stockholders	89,877	44,547
Common shares outstanding at December 31, 2016	91,422,676	67,195,252
Net income per common share, basic and diluted	$ 0.98	$ 0.66

The pro forma consolidated operational data is based on assumptions and estimates considered appropriate by our management; however, these pro forma results are not necessarily indicative of the results of operations that would have been obtained had the AMTG Merger occurred at the beginning of the period presented, nor do they purport to represent the consolidated results of operations for future periods. The pro forma consolidated operational data does not include the impact of any synergies that may be achieved from the AMTG Merger or any strategies that management may consider in order to continue to efficiently manage operations.

Note 21 – Summarized Quarterly Results (Unaudited)

	March 31,		June 30,		September 30,		December 31,	
	2017	2016	2017	2016	2017	2016	2017	2016
Net interest income:								
Interest income from securities	$3,256	$8,049	$3,366	$7,607	$2,625	$8,029	$1,219	$3,901
Interest income from securities, held-to-maturity	2,798	2,896	1,334	2,826	—	2,875	—	2,872
Interest income from commercial mortgage loans	34,398	21,127	37,089	24,140	41,203	27,460	45,942	30,200
Interest income from subordinate loans	34,390	29,375	39,640	28,067	47,268	32,207	43,993	32,746
Interest expense	(17,030)	(14,642)	(19,205)	(15,722)	(19,855)	(17,256)	(21,967)	(16,139)
Net interest income	57,812	46,805	62,224	46,918	71,241	53,315	69,187	53,580
Operating expenses:								
General and administrative expenses	(5,758)	(8,185)	(5,200)	(4,922)	(4,629)	(8,352)	(5,138)	(3,527)
Management fees to related party	(7,432)	(5,229)	(7,742)	(5,242)	(8,309)	(5,903)	(8,169)	(7,015)
Total operating expenses	(13,190)	(13,414)	(12,942)	(10,164)	(12,938)	(14,255)	(13,307)	(10,542)
Income (loss) from unconsolidated joint venture	458	68	(3,305)	59	—	80	—	(303)
Other income	108	2	244	22	359	309	229	760
Provision for loan losses and impairments	—	—	(5,000)	(15,000)	—	—	—	—
Realized Gain (loss) on sale of securities	(1,042)	—	—	—	(4,076)	(225)	(37,575)	4,059
Unrealized gain (loss) on securities	2,852	(15,074)	(4,510)	(11,728)	13,488	(9,798)	25,335	10,502
Foreign currency gain (loss)	3,172	(4,474)	6,913	(13,082)	7,763	(4,369)	658	(7,359)
Bargain purchase gain	—	—	—	—	—	40,021	—	—
Loss on early extinguishment of debt	—	—	—	—	—	—	(1,947)	—
Gain (loss) on derivative instruments	(3,045)	4,703	(7,389)	13,313	(7,481)	4,815	(1,265)	8,329
Net income	47,125	18,616	36,235	10,338	68,356	69,893	41,315	59,026
Preferred dividends	$(9,310)	$(5,815)	$(9,310)	$(5,860)	$(11,148)	$(9,310)	$(6,993)	$(9,310)
Net income available to common stockholders	$37,815	$12,801	$26,925	$4,478	57,208	$60,583	$34,322	$49,716
Basic and diluted net income per share of common stock	$0.41	$0.18	$0.28	$0.06	$0.54	$0.83	$0.32	$0.60
Basic weighted average shares of common stock outstanding	91,612,447	67,385,191	95,428,134	67,402,311	105,446,704	71,919,549	106,721,887	82,670,237
Diluted weighted average shares of common stock outstanding	92,998,250	68,327,718	96,796,289	68,374,557	106,812,727	72,861,611	108,095,950	83,548,823
Dividend declared per share of common stock	$0.46	$0.46	$0.46	$0.46	$0.46	$0.46	$0.46	$0.46

Note 22 – Subsequent Events

Investment activity. Subsequent to the end of the year, the Company committed capital of $295,000 ($39,741 of which was funded) and $58,000 ($8,060 of which was funded) of first mortgage loans and subordinate loans, respectively.

In addition the Company funded approximately $3,211 for previously closed loans.

Loan Repayments. Subsequent to the end of the year, the Company received approximately $84,374 from loan repayments.

Schedule IV — Mortgage Loans on Real Estate
December 31, 2017

Description	Number of Loans	Property Type	Contractual Interest Rate [1]	Maturity Date[2]	Periodic Payment	Principal Balance	Carrying Value	Principal Amount of Mortgages Subject to Delinquent Principal or Interest
Commercial mortgage loans individually >3%								
Loan A		Urban Retail Predevelopment	7.80%	7/1/2019	Interest Only	$220,000	$221,710	—
Loan B		Office	6.30%	1/5/2023	Principal and Interest	182,616	180,851	—
Loan C		Retail Center	7.10%	5/31/2020	Interest Only	167,340	168,208	—
Loan D		Hotel	6.80%	9/30/2020	Interest Only	138,406	139,159	—
Loan E		Mixed Use	7.10%	10/1/2020	Interest Only	132,184	131,672	—
Loan F		Urban Retail Predevelopment	8.60%	9/1/2018	Interest Only	127,180	128,133	—
Loan G		Mixed Use	6.00%	6/30/2019	Principal and Interest	125,000	124,256	—
Loan H		Office	6.90%	12/1/2022	Principal and Interest	122,651	120,199	—
Commercial mortgage loans individually <3%								
First Mortgage	27	Hotel, Mixed Use, Office, Other, Residential-for rent, Residential-for sale, Retail Center, Urban Retail Predevelopment	6.06% - 8.31%	2018 - 2022	Principal and Interest / Interest Only	1,456,494	1,439,637	—
Total Commercial mortgage loans						$2,671,871	$2,653,826	—
Subordinate loans individually >3%[3]								
Loan I		Residential-for sale	15.80%	7/1/2020	Interest Only	115,490	115,776	—
Loan J		Healthcare	11.60%	10/11/2021	Interest Only	129,305	128,785	—
Subordinate loans individually <3%[3]								
Subordinate Mortgage	22	Healthcare, Hotel, Industrial, Mixed	6.81% - 19.06%	2018 - 2027	Principal and	789,503	781,372	—

	Use, Office, Other, Residential-for rent, Residential-for sale	Interest / Interest Only			
Total Subordinate loans			$1,034,298	$1,025,932	—
Total loans (4)			$3,706,169	$3,679,758	—

83

(1) Assumes 1.56% 1 month Libor rate for all floating rate loans
(2) Assumes all extension options are exercised.
(3) Subject to prior liens.
(4) The aggregate cost for federal income tax purposes is $3,696,739.

The following table summarizes the changes in the carrying amounts of mortgage loans during 2017 and 2016.

Reconciliation of Carrying Amount of Loans	Year Ended December 31, 2017	Year Ended December 31, 2016
Balance at beginning of year	$ 2,693,092	$ 1,925,652
Loan fundings[1]	1,828,758	1,127,039
Loan repayments	(891,848)	(331,189)
Participation sold	—	(24,051)
Unrealized gain (loss) on foreign currency translation	23,612	(33,383)
Discount accretion	—	13,656
Provision for loan losses[2]	(1,981)	(15,000)
Deferred Fees	(27,424)	—
PIK interest, amortization of fees and other items	55,549	30,368
Balance at the close of year	$ 3,679,758	$ 2,693,092

(1) During the year ended December 31, 2017, $50,000 was purchased from a fund managed by an affiliate of the Manager.
(2) During the year ended December 31, 2017, the Company recorded a loan loss provision of $1,981 on a commercial mortgage loan secured by fully-built, for-sale residential condominium units located in Bethesda, MD. In addition to the $1,981 provision for loan loss, the Company recorded an impairment of $3,019 on a related investment previously recorded under other assets on the Company's consolidated balance sheet. During 2016, the Company recorded a loan loss provision of $10,000 on a multifamily commercial mortgage loan and $5,000 on a multifamily subordinate loan secured by a multifamily property located in Williston, ND.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures
A review and evaluation was performed by the Company’s management, including the Company’s Chief Executive Officer (the “CEO”) and Chief Financial Officer (the “CFO”), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this annual report on Form 10-K. Based on that review and evaluation, the CEO and CFO have concluded that the Company’s current disclosure controls and procedures, as designed and implemented, were effective. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company’s periodic reports.
Management's Report on Internal Control Over Financial Reporting
Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company’s principal executive and principal financial officers and effected by the Company’s board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.
The Company’s management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017. In making this assessment, the Company’s management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013).
Based on its assessment, the Company’s management believes that, as of December 31, 2017, the Company’s internal control over financial reporting was effective based on those criteria. There have been no changes in the Company’s internal control over financial reporting that occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.
The Company’s independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the effectiveness of the Company’s internal control over financial reporting. This report appears on page 50 of this annual report on Form 10-K.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information regarding the Company's directors, executive officers and certain other matters required by Item 401 of Regulation S-K is incorporated herein by reference to the Company's definitive proxy statement relating to its annual meeting of stockholders to be held on or about June 7, 2018 (the "Proxy Statement"), to be filed with the SEC within 120 days after December 31, 2017.

The information regarding compliance with Section 16(a) of the Exchange Act required by Item 405 of Regulation S-K is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2017.

The information regarding the Company's Code of Business Conduct and Ethics required by Item 406 of Regulation S-K is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2017.

The information regarding certain matters pertaining to the Company's corporate governance required by Item 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2017.

Item 11. Executive Compensation.

The information regarding executive compensation and other compensation related matters required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2017.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The tables on equity compensation plan information and beneficial ownership of the Company required by Items 201(d) and 403 of Regulation S-K are incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2017.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information regarding transactions with related persons, promoters and certain control persons and director independence required by Items 404 and 407(a) of Regulation S-K is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2017.

Item 14. Principal Accountant Fees and Services.

The information concerning principal accounting fees and services and the Audit Committee's pre-approval policies and procedures required by Item 9(e) of Schedule 14A is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2017.

PART IV

Item 15. Exhibits and Financial Statement Schedule.
Documents filed as part of the report
The following documents are filed as part of this annual report on Form 10-K:

(1) Financial Statements:
The consolidated financial statements and related schedule of the Company, together with the independent registered public accounting firm's report thereon, are set forth on pages 50 through 85 of this annual report on Form 10-K and are incorporated herein by reference. See Item 8 "Financial Statements and Supplementary Data," filed herewith, for a list of financial statements.

(2) Financial Statement Schedule:
Schedule IV — Mortgage Loans on Real Estate as of December 31, 2017.

(3) Exhibits Files:

2.1	Agreement and Plan of Merger, dated as of February 26, 2016, by and among Apollo Commercial Real Estate Finance, Inc., Arrow Merger Sub, Inc. and Apollo Residential Mortgage, Inc., incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed on February 26, 2016 (File No.: 001-34452).
2.2	Asset Purchase and Sale Agreement, dated as of February 26, 2016, by and among Apollo Commercial Real Estate Finance, Inc., Athene Annuity & Life Assurance Company and Athene Annuity and Life Company, incorporated by reference to Exhibit 2.2 of the Registrant's Form 8-K filed on February 26, 2016 (File No.: 001-34452).
2.3	Amendment No. 1, dated as of June 30, 2016, to the Agreement and Plan of Merger, dated as of February 26, 2016, by and among Apollo Commercial Real Estate Finance, Inc., Arrow Merger Sub, Inc. and Apollo Residential Mortgage, Inc., incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed on June 30, 2016 (File No.: 001-34452).
3.1	Articles of Amendment and Restatement of Apollo Commercial Real Estate Finance, Inc., incorporated by reference to Exhibit 3.1 of the Registrant's Form S-11, as amended (Registration No. 333-160533).
3.2	Articles Supplementary designating Apollo Commercial Real Estate Finance, Inc.'s 8.00% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock, liquidation preference $25.00 per share, par value $0.01 per share, incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on September 23, 2015 (File No.: 001-34452).
3.3	Articles Supplementary designating Apollo Commercial Real Estate Finance, Inc.'s 8.00% Series C Cumulative Redeemable Perpetual Preferred Stock, liquidation preference $25.00 per share, par value $0.01 per share, incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on September 1, 2016 (File No.: 001-34452).
3.4	By-laws of Apollo Commercial Real Estate Finance, Inc., incorporated by reference to Exhibit 3.2 of the Registrant's Form S-4 (Registration No. 333-210632).
4.1	Specimen Stock Certificate of Apollo Commercial Real Estate Finance, Inc., incorporated by reference to Exhibit 4.1 of the Registrant's Form S-11, as amended (Registration No. 333-160533).

4.2	Specimen Stock Certificate of Apollo Commercial Real Estate Finance, Inc.'s 8.00% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock, liquidation preference $25.00 per share, par value $0.01 per share, incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on September 23, 2015.
4.3	Form of stock certificate evidencing the 8.00% Series C Cumulative Redeemable Perpetual Preferred Stock, liquidation preference $25.00 per share, par value $0.01 per share, incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-A filed on August 26, 2016 (File No.: 001-34452).

4.4	Indenture, dated as of March 17, 2014, between the Company and Wells Fargo Bank, National Association, as Trustee, incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on March 21, 2014 (File No.: 001-34452).
4.5	First Supplemental Indenture, dated as of March 17, 2014, between the Company and Wells Fargo Bank, National Association, as Trustee (including the form of 5.50% Convertible Senior Note due 2019), incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on March 21, 2014 (File No.: 001-34452).
4.6	Second Supplemental Indenture, dated as of August 21, 2017, between the Company and Wells Fargo Bank, National Association, as Trustee (including the form of 4.75% Convertible Senior Note due 2022), incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on August 21, 2017 (File No.: 001-34452).
10.1	Registration Rights Agreement, dated as of September 29, 2009, between Apollo Commercial Real Estate Finance, Inc. and the parties named therein, incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q for the period ending September 30, 2009.
10.2	Management Agreement, dated as of September 23, 2009, between Apollo Commercial Real Estate Finance, Inc. and ACREFI Management, LLC., incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q for the period ending September 30, 2009.
10.3	License Agreement dated as of September 23, 2009, between Apollo Commercial Real Estate Finance, Inc. and Apollo Global Management, LLC, incorporated by reference to Exhibit 10.3 of the Registrant's Form 10-Q for the period ending September 30, 2009.
10.4	Apollo Commercial Real Estate Finance, Inc. 2009 Equity Incentive Plan, as amended and restated, incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on March 3, 2017 (File No. 001-34452).
10.5	Form of Restricted Stock Award Agreement entered into by Apollo Commercial Real Estate Finance, Inc.'s directors, officers, Manager and certain of its personnel, incorporated by reference to Exhibit 10.3 of the Registrant's Form S-11, as amended (Registration No. 333-160533).
10.6	Form of Restricted Stock Unit Award Agreement, incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on January 5, 2015.
10.7	Form of Indemnification Agreement entered into by Apollo Commercial Real Estate Finance, Inc.'s directors and officers, incorporated by reference to Exhibit 10.6 of the Registrant's Form S-11, as amended (Registration No. 333-160533).
10.8	Registration Rights Agreement, dated as of September 18, 2015, between Apollo Commercial Real Estate Finance, Inc. and QH RE Asset Company LLC, incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on September 23, 2015.
10.9	Registration Rights Agreement, dated as of September 18, 2015, between Apollo Commercial Real Estate Finance, Inc. and QH RE Asset Company LLC, incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed on September 23, 2015.
10.10	

	Stock Purchase Agreement, dated as of February 26, 2016, by and between Apollo Commercial Real Estate Finance, Inc. and Athene USA Corporation, incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on February 26, 2016 (File No.: 001-34452).
10.11	Commitment Letter, dated as of February 26, 2016, by and among Athene USA Corporation, Apollo Commercial Real Estate Finance, Inc. and Arrow Merger Sub, Inc., incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed on February 26, 2016 (File No.: 001-34452).
10.12	Letter Agreement, dated as of February 26, 2016 by and among Apollo Commercial Real Estate Finance, Inc., ACREFI Operating, LLC and ACREFI Management, LLC, incorporated by reference to Exhibit 10.3 of the Registrant's Form 8-K filed on February 26, 2016 (File No.: 001-34452).
21.1*	Subsidiaries of Registrant
23.1*	Consent of Deloitte & Touche LLP.

31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of 18 U.S.C. Section 1350 as adopted pursuant to the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

*Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Apollo Commercial Real Estate Finance, Inc.

February 14, 2018 By: /s/ Stuart A. Rothstein
Stuart A. Rothstein
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report was signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

February 14, 2018 By: /s/ Stuart A. Rothstein
Stuart A. Rothstein
President, Chief Executive Officer and Director
(Principal Executive Officer)

February 14, 2018 By: /s/ Jai Agarwal
Jai Agarwal
Chief Financial Officer, Treasurer, Secretary
(Principal Financial Officer and Principal Accounting Officer)

February 14, 2018 By: /s/ Jeffrey M. Gault
Jeffrey M. Gault
Director

February 14, 2018 By: /s/ Mark C. Biderman
Mark C. Biderman
Director

February 14, 2018 By: /s/ Robert A. Kasdin
Robert A. Kasdin
Director

February 14, 2018 By: /s/ Eric L. Press
Eric L. Press
Director

February 14, 2018 By: /s/ Scott S. Prince
Scott S. Prince
Director

February 14, 2018 By: /s/ Michael E. Salvati
Michael E. Salvati
Director

February 14, 2018 By: /s/ Cindy Z. Michael
Cindy Z. Michel
Director