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Apollo Commercial Real Estate Finance, Inc.  
Form 10-Q  
July 28, 2016

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

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FORM 10-Q

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(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2016

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: 001-34452

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Apollo Commercial Real Estate Finance, Inc.  
(Exact name of registrant as specified in its charter)

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Maryland 27-0467113  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

Apollo Commercial Real Estate Finance, Inc.  
c/o Apollo Global Management, LLC  
9 West 57th Street, 43rd Floor,  
New York, New York 10019  
(Address of registrant's principal executive offices)  
(212) 515-3200  
(Registrant's telephone number, including area code)

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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  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  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

As of July 28, 2016, there were 67,402,601 shares, par value \$0.01, of the registrant's common stock issued and outstanding.



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## Part I — FINANCIAL INFORMATION

## ITEM 1. Financial Statements

Apollo Commercial Real Estate Finance, Inc. and Consolidated Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

(in thousands—except share and per share data)

	June 30, 2016	December 31, 2015
Assets:		
Cash	\$38,631	\$ 67,415
Restricted cash	67,438	30,127
Securities, at estimated fair value	452,704	493,149
Securities, held-to-maturity	151,726	153,193
Commercial mortgage loans, held for investment	1,278,034	994,301
Subordinate loans, held for investment	923,159	931,351
Investment in unconsolidated joint venture	23,571	22,583
Derivative assets	15,342	3,327
Interest receivable	19,185	16,908
Other assets	9,297	236
Total Assets	\$2,979,087	\$ 2,712,590
Liabilities and Stockholders' Equity		
Liabilities:		
Borrowings under repurchase agreements (net of deferred financing costs of \$8,160 and \$7,353 in 2016 and 2015, respectively)	\$1,217,935	\$ 918,421
Convertible senior notes, net	249,069	248,173
Participations sold	114,387	118,201
Accounts payable and accrued expenses	24,504	9,246
Payable to related party	5,242	5,297
Dividends payable	36,427	37,828
Total Liabilities	1,647,564	1,337,166
Commitments and Contingencies (see Note 16)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized:		
Series A Preferred stock, 3,450,000 shares issued and outstanding (\$86,250 aggregate liquidation preference) in 2016 and 2015	35	35
Series B Preferred stock, 8,000,000 shares issued and outstanding (\$200,000 aggregate liquidation preference) in 2016 and 2015	80	80
Common stock, \$0.01 par value, 450,000,000 shares authorized, 67,402,311 and 67,195,252 shares issued and outstanding in 2016 and 2015, respectively	674	672
Additional paid-in-capital	1,411,420	1,410,138
Accumulated deficit	(77,939 )	(32,328 )
Accumulated other comprehensive loss	(2,747 )	(3,173 )
Total Stockholders' Equity	1,331,523	1,375,424
Total Liabilities and Stockholders' Equity	\$2,979,087	\$ 2,712,590

See notes to unaudited condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net interest income:				
Interest income from securities	\$7,607	\$8,265	\$15,656	\$16,553
Interest income from securities, held to maturity	2,826	3,349	5,722	6,394
Interest income from commercial mortgage loans	24,140	11,968	45,267	22,061
Interest income from subordinate loans	28,067	21,152	57,442	39,762
Interest expense	(15,722)	(11,917)	(30,364)	(23,399)
Net interest income	46,918	32,817	93,723	61,371
Operating expenses:				
General and administrative expenses (includes \$1,938 and \$3,606 of equity based compensation in 2016 and \$821 and \$1,939 in 2015, respectively)	(4,922)	(2,059)	(13,104)	(4,414)
Management fees to related party	(5,242)	(3,887)	(10,471)	(7,228)
Total operating expenses	(10,164)	(5,946)	(23,575)	(11,642)
Income from unconsolidated joint venture	59	384	127	384
Other income	22	6	25	16
Provision for loan losses	(15,000)	—	(15,000)	—
Realized loss on sale of securities	—	—	—	(443)
Unrealized gain (loss) on securities	(11,728)	(2,273)	(26,802)	1,136
Foreign currency gain (loss)	(13,082)	2,867	(17,557)	5,588
Gain (loss) on derivative instruments (includes unrealized gains(losses) of \$13,408 and \$12,026 in 2016 and \$(3,197) and \$(6,241) in 2015, respectively)	13,313	(3,197)	18,015	(6,241)
Net income	10,338	24,658	28,956	50,169
Preferred dividends	\$(5,860)	\$(1,860)	\$(11,675)	\$(3,720)
Net income available to common stockholders	4,478	22,798	17,281	46,449
Basic and diluted net income per share of common stock	\$0.06	\$0.39	\$0.24	\$0.85
Basic weighted average shares of common stock outstanding	67,402,358	58,429,155	67,393,751	54,020,978
Diluted weighted average shares of common stock outstanding	68,374,559	59,022,217	68,351,135	54,621,401
Dividend declared per share of common stock	\$0.46	\$0.44	\$0.92	\$0.88

See notes to unaudited condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income available to common stockholders	\$4,478	\$22,798	\$17,281	\$46,449
Change in net unrealized gain (loss) on securities available-for-sale	—	—	—	678
Foreign currency translation adjustment	(492 )	738	426	(360 )
Comprehensive income	\$3,986	\$23,536	\$17,707	\$46,767

See notes to unaudited condensed consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
	Shares	Par	Shares	Par				
Balance at January 1, 2016	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	—	—	190,003	2	1,251	—	—	1,253
Issuance of restricted common stock	—	—	17,056	*	—	—	—	—
Offering costs	—	—	—	—	31	—	—	31
Net income	—	—	—	—	—	28,956	—	28,956
Change in other comprehensive loss	—	—	—	—	—	—	426	426
Dividends on common stock	—	—	—	—	—	(62,892 )	—	(62,892 )
Dividends on preferred stock	—	—	—	—	—	(11,675 )	—	(11,675 )
Balance at June 30, 2016	11,450,000	\$ 115	67,402,311	\$ 674	\$ 1,411,420	\$ (77,939 )	\$ (2,747 )	\$ 1,331,523

\* Rounds to zero

See notes to unaudited condensed consolidated financial statements.

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

	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash flows provided by operating activities:		
Net income	\$28,956	\$50,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Premium amortization and (discount accretion) on assets, net	(4,445 )	(5,040 )
Amortization of deferred financing costs	2,038	1,377
Equity-based compensation	1,258	1,817
Unrealized (gain) loss on securities	26,802	(1,136 )
Provision for loan losses	15,000	—
Income from unconsolidated joint venture	(127 )	(384 )
Foreign currency (gain) loss	17,559	(2,329 )
Realized (gain) loss on derivative instruments	(5,989 )	—
Unrealized (gain) loss on derivative instruments	(12,026 )	6,241
Realized (gain) loss on sale of security	—	443
Changes in operating assets and liabilities:		
Accrued interest receivable, less purchased interest	(16,888 )	(12,328 )
Other assets	(9,117 )	371
Accounts payable and accrued expenses	2,124	644
Payable to related party	(55 )	650
Net cash provided by operating activities	45,090	40,495
Cash flows used in investing activities:		
Funding of commercial mortgage loans	(313,607)	(270,182)
Funding of subordinate loans	(40,920 )	(278,929)
Funding of unconsolidated joint venture	(362 )	(3,929 )
Funding of other assets	—	(8 )
Funding of derivative instruments	—	(327 )
Proceeds on settlements of derivative instruments	5,989	—
Increase in collateral held related to derivative contracts	13,210	—
Increase in restricted cash related to financing activities	(37,310 )	(4,420 )
Proceeds from sale of securities available-for-sale	—	17,291
Proceeds from sale of securities at estimated fair value	—	6,338
Proceeds from sale of investment in unconsolidated joint venture	—	20,794
Principal payments received on securities at estimated fair value	14,545	32
Principal payments received on securities, held-to-maturity	1,500	250
Principal payments received on commercial mortgage loans	36,044	28,474
Principal payments received on subordinate loans	26,538	24,435
Principal payments received on other assets	51	125
Net cash used in investing activities	(294,322)	(460,056)
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	193,430
Payment of offering costs	(45 )	(279 )
Proceeds from repurchase agreement borrowings	380,458	456,017



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Repayments of repurchase agreement borrowings	(80,137 )	(199,860)
Proceeds from participations sold	—	30,484
Repayments of participations sold	(1,013 )	(220 )
Payment of deferred financing costs	(2,846 )	(2,830 )
Dividends on common stock	(63,183 )	(45,254 )
Dividends on preferred stock	(12,786 )	(3,720 )
Net cash provided by financing activities	220,448	427,768
Net decrease in cash and cash equivalents	(28,784 )	8,207
Cash and cash equivalents, beginning of period	67,415	40,641
Cash and cash equivalents, end of period	\$38,631	\$48,848
Supplemental disclosure of cash flow information:		
Interest paid	\$26,991	\$20,186
Supplemental disclosure of non-cash financing activities:		
Dividend declared, not yet paid	\$36,427	\$27,694
Offering costs payable	\$220	\$65

See notes to unaudited condensed consolidated financial statements.

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Apollo Commercial Real Estate Finance Inc. and Consolidated Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed 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 and loan loss reserve. Actual results could differ from those estimates.

These unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (the “SEC”). In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company’s financial position, results of operations and cash flows have been included. The Company’s results of operations for the quarterly period ended June 30, 2016 are not necessarily indicative of the results to be expected for the full year or any other future period.

The Company currently operates in one business segment.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (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 is currently assessing the impact that this accounting guidance will have on the Company’s condensed consolidated financial statements when adopted.

In August 2014, the FASB issued guidance regarding management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The new guidance requires that management evaluate each annual and interim reporting period whether conditions exist that give rise to substantial doubt about the entity’s ability to continue as a going concern within one year from the financial statement issuance date, and if so, provide related disclosures. Disclosures are only required if conditions give rise to substantial doubt, whether or not the substantial doubt is alleviated by management’s plans. No disclosures are required specific to going concern uncertainties if an assessment of the conditions does not give rise to substantial doubt. Substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable that a company will be unable to meet its obligations as they become due within one year after the financial statement issuance date. If substantial doubt is alleviated as a result of the consideration of management’s plans, a company should disclose information that enables users of financial statements to understand all of the following (or refer to similar information disclosed elsewhere in the footnotes): (1) principal conditions that initially give rise to substantial doubt, (2) management’s evaluation of the significance of those conditions in relation to the company’s ability to meet its obligations, and (3) management’s plans that alleviated substantial doubt. If substantial doubt is not alleviated after considering management’s plans, disclosures should enable investors to understand the underlying conditions, and include the following: (1) a statement indicating that there is substantial doubt about the company’s ability to continue as a going concern within one year after the issuance date, (2) the principal conditions that give rise to substantial

doubt, (3) management's evaluation of the significance of those conditions in relation to the company's ability to meet its obligations, and (4) management's plans that are intended to mitigate the adverse conditions. The new guidance applies to all companies. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15,

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2016. Early adoption is permitted. The Company does not anticipate that the adoption of this guidance will have a material impact on the Company's condensed consolidated financial statements.

In February 2015, the FASB issued guidance which amends the guidance related to accounting for the consolidation of certain legal entities. The modifications impacts limited partnerships and similar legal entities, the evaluation of (i) fees paid to a decision maker or a service provider as a variable interest, (ii) fee arrangements, and (iii) related parties on the primary beneficiary determination. The Company adopted this guidance and determined there was no material impact on the Company's condensed consolidated financial statements.

In April 2015, the FASB issued guidance that simplifies the presentation of debt issuance costs by amending the accounting guidance to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. The amendments are consistent with the accounting guidance related to debt discounts. The Company adopted this guidance and applied its provisions retrospectively. This resulted in the reclassification of unamortized deferred financing costs from deferred financing costs, net to reductions in borrowings under repurchase agreements of \$8,160 and \$7,353 for the period ended June 30, 2016 and December 31, 2015 respectively. Other than this reclassification, the adoption of this guidance did not have an impact on the Company's condensed 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. Early application is permitted for any entity in any interim or annual period. The Company is currently assessing the impact that this accounting guidance will have on the Company's condensed consolidated financial statements when adopted.

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. The Company is currently evaluating the impact of the guidance on its condensed consolidated financial statements when adopted.

### Note 3 – Fair Value Disclosure

GAAP establishes a hierarchy of valuation techniques based on observable 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 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 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

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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. The estimated fair values of the Company's securities are based on observable market parameters and are classified as Level II in the fair value hierarchy. 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 investment in a timely manner. 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 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 June 30, 2016 and December 31, 2015:

	Fair Value as of June 30, 2016			Fair Value as of December 31, 2015		
	Level II	Level III	Total	Level II	Level III	Total
CMBS (Fair Value Option)	\$-\$452,704	\$	-\$452,704	\$-\$493,149	\$	-\$493,149
Derivative instruments	-\$15,342	—	15,342	-\$3,327	—	3,327
Total	\$-\$468,046	\$	-\$468,046	\$-\$496,476	\$	-\$496,476

## Note 4 – Debt Securities

At June 30, 2016, all of the Company's CMBS (Fair Value Option) were pledged to secure borrowings under the Company's master repurchase agreements with UBS AG, London Branch ("UBS") (the "UBS Facility") and Deutsche Bank AG ("DB") (the "DB Facility"). See "Note 8 - Borrowings Under Repurchase Agreements" for further information regarding these facilities.

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. The property consists of 442 hotels rooms, 114 timeshare units, two casinos and approximately 131,500 square feet of retail space. 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 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. The whole loan has a three-year term with two one-year extension options and an appraised loan-to-value ("LTV") of approximately 60%.

The amortized cost and estimated fair value of the Company's debt securities at June 30, 2016 are summarized as follows:

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Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
CMBS (Fair Value Option)	\$497,143	\$490,601	\$ 1,149	\$(39,046 )	\$452,704
CMBS (Held-to-Maturity)	151,750	151,726	—	—	151,726
Total	\$648,893	\$642,327	\$ 1,149	\$(39,046 )	\$604,430

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The amortized cost and estimated fair value of the Company's debt securities at December 31, 2015 are summarized as follows:

Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
CMBS (Fair Value Option)	\$511,482	\$504,253	\$ 2,614	\$(13,718 )	\$493,149
CMBS (Held-to-Maturity)	153,250	153,193	—	—	153,193
Total	\$664,732	\$657,446	\$ 2,614	\$(13,718 )	\$646,342

During February 2015, the Company sold CMBS with an amortized cost of \$24,038 resulting in a net realized loss of \$443, which was comprised of realized gains of \$43 and realized losses of \$486. As a result of the sale, \$678 was reclassified out of accumulated other comprehensive income. The sale generated proceeds of \$1,341 after the repayment of \$22,254 of borrowings under the Company's master repurchase agreement with Wells Fargo Bank, N.A. ("Wells Fargo") (the "Wells Facility").

The overall statistics for the Company's CMBS (Fair Value Option) investments calculated on a weighted average basis assuming no early prepayments or defaults as of June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016	December 31, 2015
Credit Ratings *	B+ - D	BB-D
Coupon	5.9 %	5.9 %
Yield	5.9 %	6.5 %
Weighted Average Life	1.2 years	1.6 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 CMBS (Fair Value Option) investments calculated on a weighted average basis as of June 30, 2016 and December 31, 2015 are as follows:

Vintage	June 30, 2016	December 31, 2015
2005	6.7 %	8.3 %
2006	20.4	20.0
2007	63.6	62.4
2008	9.3	9.3
Total	100.0 %	100.0 %

Property Type	June 30, 2016	December 31, 2015
Office	34.2 %	32.0 %
Retail	29.9	30.2
Multifamily	13.5	13.5
Other *	22.4	24.3
Total	100.0 %	100.0 %

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

Location	June 30, 2016	December 31, 2015
South Atlantic	22.1 %	23.0 %
Middle Atlantic	16.5	18.1



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Pacific	17.2	17.8	
East North Central	11.4	12.5	
Other *	32.8	28.6	
Total	100.0%	100.0	%

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

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## Note 5 – Commercial Mortgage Loans

The Company's commercial mortgage loan portfolio was comprised of the following at June 30, 2016:

Description	Maturity Date	Current Principal Balance	Carrying Value	Fixed/Floating	Property Size
Condominium – New York, NY (1)	Sept-16	13,789	13,874	Floating	40,000 sq. ft.
Condominium - Bethesda, MD (1)(2)	Sept-16	49,893	50,204	Floating	50 units
Vacation Home Portfolio - Various (1)	Apr-19	91,553	90,743	Fixed	229 properties
Hotel - Philadelphia, PA (1)(3)	May-17	34,000	33,972	Floating	301 keys
Condo Construction - Bethesda, MD (4)	Dec-16	49,162	49,374	Floating	40 units
Multifamily - Brooklyn, NY (1)(5)	Aug-16	34,500	34,940	Floating	63 units
Mixed Use - Cincinnati, OH (1)(3)	May-18	165,000	163,047	Floating	65 acres
Condo Conversion - New York, NY (1)	Sept-16	67,300	67,023	Floating	86,000 sq. ft.
Multifamily - Williston, ND (1)(3)	Nov-17	49,706	39,717	Floating	366 units/homes
Vacation Home Portfolio - Various U.S. (1)(3)	Nov-19	50,000	49,641	Fixed	24 properties
Mixed Use - Brooklyn, NY (1)(8)	Mar-17	85,770	85,959	Floating	330,000 sq. ft.
Retail redevelopment - Miami, FL (1)(7)	Jan-17	45,000	45,202	Floating	63,300 sq. ft.
Retail - Brooklyn, NY (1)	Mar-17	23,000	22,951	Floating	10,500 sq. ft.
Hotel - New York, NY (1)(9)	Sept-18	100,063	99,552	Floating	317 keys
Retail - Brooklyn, NY	Mar-17	5,910	5,885	Floating	5,500 sq. ft.
Hotel - U.S. Virgin Islands (1)(10)	Jan-18	42,000	41,700	Floating	180 keys
Office - Richmond, VA (1)(11)	Jan-18	54,000	53,652	Floating	262,000 sq. ft.
Retail redevelopment - Miami, FL (1)(12)	Jan-18	220,000	217,851	Floating	113,000 sq. ft.
Office - Boston, MA (6)(1)	Mar-18	28,512	28,272	Floating	114,000 sq. ft.
Mixed Use - New York, NY (13)(1)	Jun-18	44,750	44,294	Floating	91,584 sq. ft.
Condo Conversion - Brooklyn, NY (14)(1)	Jun-18	40,600	40,181	Floating	133,550 sq. ft.
Total/Weighted Average		\$ 1,294,508	\$ 1,278,034		

- At June 30, 2016, this loan was pledged to secure borrowings under the Company's master repurchase facilities
- (1) entered into with JPMorgan Chase Bank, N.A. (the "JPMorgan Facility") or Goldman Sachs Bank USA (the "Goldman Loan"). See "Note 8 – Borrowings Under Repurchase Agreements" for a description of these facilities.
  - (2) This loan includes a six-month extension option subject to certain conditions and the payment of a fee.
  - (3) This loan includes two one-year extension options subject to certain conditions and the payment of a fee.
  - (4) This loan includes a six-month extension option subject to certain conditions and the payment of a fee. At June 30, 2016, the Company had \$9,100 of unfunded loan commitments related to this loan.
  - (5) This loan includes three one-year extension options subject to certain conditions and the payment of a fee.
  - (6) This loan includes one six-month extension option subject to certain conditions and the payment of a fee. At June 30, 2016, the Company had \$2,488 of unfunded loan commitments related to this loan.
  - (7) This loan includes two six-month extension options subject to certain conditions and the payment of a fee for each extension.
  - (8) At June 30, 2016, the Company had \$6,730 of unfunded loan commitments related to this loan.
  - (9) This loan includes two one-year extension options subject to certain conditions and the payment of a fee. At June 30, 2016, the Company had \$38,343 of unfunded loan commitments related to this loan.
  - (10) This loan includes three one-year extension options subject to certain conditions and the payment of a fee for such extension. At June 30, 2016, the Company had \$1,500 of unfunded loan commitments related to this loan.
  - (11) This loan includes two one-year extension options subject to certain conditions and the payment of a fee. At June 30, 2016, the Company had \$1,000 of unfunded loan commitments related to this loan.
  - (12) This loan includes a one-year extension option subject to certain conditions and the payment of a fee.

- (13) This loan includes a six-month extension option subject to certain conditions and the payment of a fee. At June 30, 2016, the Company had \$5,250 of unfunded loan commitments related to this loan.
- (14) At June 30, 2016, the Company had \$4,900 of unfunded loan commitments related to this loan.

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The Company's commercial mortgage loan portfolio was comprised of the following at December 31, 2015:

Description	Maturity Date	Current Principal Balance	Carrying Value	Fixed/Floating	Property Size
Condominium – New York, NY (1)	Sept-16	\$24,114	\$24,289	Floating	40,000 sq. ft.
Condominium- Bethesda, MD (2)	Sept-16	65,125	65,087	Floating	50 units
Vacation Home Portfolio - Various (1)	Apr-19	94,147	93,277	Fixed	229 properties
Hotel - Philadelphia, PA (1)(3)	May-17	34,000	33,994	Floating	301 keys
Condo Construction - Bethesda, MD (4)	Dec-16	50,000	49,960	Floating	40 units
Multifamily - Brooklyn, NY (1)(5)	Aug-16	34,500	34,886	Floating	63 units
Mixed Use - Cincinnati, OH (1)(3)	May-18	165,000	163,173	Floating	65 acres
Condo Conversion - New York, NY (1)	Jun-16	67,300	67,038	Floating	86,000 sq. ft.
Multifamily - Williston, ND (1)(3)	Nov-17	49,691	49,665	Floating	366 units/homes
Vacation Home Portfolio - Various U.S. (1)(3)	Nov-19	50,000	49,595	Fixed	24 properties
Mixed Use - Brooklyn, NY (1)(6)	Mar-17	85,770	85,658	Floating	330,000 sq. ft.
Retail redevelopment - Miami, FL (1)(7)	Jan-17	45,000	44,925	Floating	63,300 sq. ft.
Retail redevelopment - Miami, FL (1)	Jul-17	33,000	32,804	Floating	16,600 sq. ft.
Retail - Brooklyn, NY (1)(8)	Mar-17	1,653	1,636	Floating	10,500 sq. ft.
Hotel - New York, NY (1)(9)	Sept-18	98,373	97,381	Floating	317 keys
Retail - Brooklyn, NY (1)	Mar-17	5,910	5,858	Floating	5,500 sq. ft.
Hotel - U.S. Virgin Islands (10)	Jan-18	42,000	41,600	Floating	180 keys
Office - Richmond, VA (11)	Jan-18	54,000	53,475	Floating	262,000 sq. ft.
Total/Weighted Average		\$999,583	\$994,301		

- (1) At December 31, 2015, this loan was pledged to secure borrowings under the JPMorgan Facility or the Goldman Loan. See "Note 8 – Borrowings Under Repurchase Agreements" for a description of these facilities.
- (2) This loan includes a six-month extension option subject to certain conditions and the payment of a fee.
- (3) This loan includes two one-year extension options subject to certain conditions and the payment of a fee.
- (4) This loan includes a six-month extension option subject to certain conditions and the payment of a fee. At December 31, 2015, the Company had \$15,100 of unfunded loan commitments related to this loan.
- (5) This loan includes three one-year extension options subject to certain conditions and the payment of a fee for each extension.
- (6) At December 31, 2015, the Company had \$6,730 of unfunded loan commitments related to this loan.
- (7) This loan includes two six-month extension options subject to certain conditions and the payment of a fee.
- (8) At December 31, 2015, the Company had \$9,000 of unfunded loan commitments related to this loan.
- (9) This loan includes two one-year extension options subject to certain conditions and the payment of a fee for each extension. At December 31, 2015, the Company had \$40,034 of unfunded loan commitments related to this loan.
- (10) This loan includes three one-year extension options subject to certain conditions and the payment of a fee. At December 31, 2015, the Company had \$1,500 of unfunded loan commitments related to this loan.
- (11) This loan includes a two one-year extension options subject to certain conditions and the payment of a fee. At December 31, 2015, the Company had \$1,000 of unfunded loan commitments related to this loan.

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 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

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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 three and six months ended June 30, 2016, the Company recorded a loan loss provision of \$10,000 on a multifamily commercial mortgage loan in Williston, ND. As of June 30, 2016, the aggregate loan loss provision was \$10,000. The Company has ceased accruing payment in kind ("PIK") interest associated with the loan. As of December 31, 2015, there was no provision for loan loss.

Note 6 – Subordinate Loans

The Company's subordinate loan portfolio was comprised of the following at June 30, 2016:

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Description	Maturity Date	Current Principal Balance	Carrying Value	Fixed/Floating	Property Size
Subordinate to the Company's commercial mortgage loans					
Hotel - New York, NY (1)	Sept-18	\$5,726	\$5,606	Floating	317 keys
Multifamily - Williston, ND (2)	Nov-17	5,000	—	Floating	366 units
Total - Subordinate to the Company's commercial mortgage loans		\$10,726	\$5,606		
Subordinate to third party commercial mortgage loans					
Office - Michigan	Jun-20	8,721	8,721	Fixed	506,598 sq. ft.
Mixed Use – North Carolina	Aug-22	6,525	6,525	Fixed	170,897 sq. ft.
Office Complex - Missouri	Oct-22	9,491	9,491	Fixed	845,241 sq. ft.
Hotel Portfolio – Rochester, MN	Feb-18	24,025	24,025	Fixed	1,222 keys
Warehouse Portfolio - Various	May-23	32,000	32,000	Fixed	2,767,047 sq. ft.
Office Condo - New York, NY	Jul-22	14,000	13,651	Fixed	436,598 sq. ft.
Mixed Use - London, England	Sept-16	45,776	45,776	Fixed	210,000 sq. ft.
Healthcare Portfolio - Various (2)	Jun-17	39,223	39,223	Floating	18,403 beds
Ski Resort - Big Sky, MT	Sept-20	15,000	14,893	Fixed	632 keys
Mixed Use - New York, NY (2)	Dec-17	94,190	93,915	Floating	363 units
Senior Housing - United Kingdom (2)	Dec-17	71,661	71,661	Floating	2,128 beds
Hotel - Burbank, CA	Jan-20	20,000	20,000	Fixed	488 keys
Multifamily Portfolio - Florida (3)	May-17	22,000	21,926	Floating	621 units
Multifamily Portfolio - Florida (3)	May-17	15,500	15,448	Floating	621 units
Mixed Use - Various (3)	May-17	45,000	44,978	Floating	3,535,774 sq. ft.
Hotel - Phoenix, AZ	Jul-25	25,000	25,000	Fixed	744 keys
Hotel - Washington, DC (2)	Jul-17	20,000	19,958	Floating	581 keys
Condo Development - New York, NY (6)	Jul-19	44,908	44,440	Floating	60 units
Condo Conversion - New York, NY (2)	Aug-18	55,908	55,579	Floating	223 units
Mixed Use - New York, NY (7)	Oct-18	30,000	29,865	Floating	363 units
Destination Resort - Various (8)	May-18	75,000	72,127	Floating	5,243 keys
Multifamily - New York, NY (9)(10)	Nov-18	55,000	54,661	Floating	185,000 sq. ft.
Hotel - New York, NY (4)(10)	Mar-17	50,000	49,684	Floating	468 keys
Condo Pre-development - United Kingdom (4)	Sept-16	73,211	73,211	Floating	41 units
Condo Conversion - New York, NY (5)	Jul-19	31,558	30,795	Floating	139 units
Total - Subordinate to third party commercial mortgage loans		\$923,697	\$917,553		
Total/Weighted Average		\$934,423	\$923,159		

(1) Includes two one-year extension options subject to certain conditions and the payment of an extension fee. At June 30, 2016, the Company had \$9,348 of unfunded loan commitments related to this loan.

(2) Includes two one-year extension options subject to certain conditions and the payment of a fee for each extension.

(3) Includes three one-year extension options subject to certain conditions and the payment of an extension fee.

(4) Includes a three-month extension option subject to certain conditions and the payment of a fee.

(5) Includes a one-year extension option subject to certain conditions and the payment of an extension fee. At June 30, 2016, the Company had \$45,442 of unfunded loan commitments related to this loan.

(6) Includes a one-year extension option subject to certain conditions and the payment of a fee for each extension. At June 30, 2016, the Company had \$31,035 of unfunded loan commitments related to this loan.

(7) Includes a one-year extension option subject to certain conditions and the payment of an extension fee.

(8) Includes four one-year extension options subject to certain conditions and the payment of an extension fee.



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(9) Includes a six-month extension option subject to certain conditions and the payment of a fee.

(10) At June 30, 2016, this loan was pledged to secure borrowings under the JPMorgan Facility or the Goldman Loan.

See "Note 8 - Borrowings Under Repurchase Agreements" for a description of these facilities.

The Company's subordinate loan portfolio was comprised of the following at December 31, 2015:

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Description	Maturity Date	Current Principal Balance	Carrying Value	Fixed/Floating
Subordinate to the Company's commercial mortgage loans				
Condominium – New York, NY (1)	Sept-16	\$6,386	\$6,415	Floating
Mixed Use - Brooklyn, NY (1)	Mar-17	12,347	12,222	Floating
Hotel - New York, NY (1)(2)	Sept-18	2,595	2,458	Floating
Multifamily - Williston, ND (1)(3)	Nov-17	5,000	5,000	Floating
Total - Subordinate to the Company's commercial mortgage loans		\$26,328	\$26,095	
Subordinate to third party commercial mortgage loans				
Office - Michigan	Jun-20	\$8,753	\$8,753	Fixed
Mixed Use – North Carolina	Aug-22	6,525	6,525	Fixed
Office Complex - Missouri	Oct-22	9,566	9,566	Fixed
Hotel Portfolio – Rochester, MN	Feb-18	24,182	24,182	Fixed
Warehouse Portfolio - Various	May-23	32,000	32,000	Fixed
Office Condo - New York, NY	Jul-22	14,000	13,631	Fixed
Mixed Use - Various (3)	Dec-16	19,500	19,377	Fixed
Mixed Use - London, England	Jan-16	50,676	50,676	Fixed
Healthcare Portfolio - Various (4)	Jun-16	39,223	39,223	Floating
Ski Resort - Big Sky, MT	Sept-20	15,000	14,878	Fixed
Mixed Use - New York, NY (5)	Dec-17	88,368	87,818	Floating
Senior Housing - United Kingdom (3)	Dec-17	79,735	79,735	Floating
Hotel - Burbank, CA	Jan-20	20,000	20,000	Fixed
Multifamily Portfolio - Florida (4)	May-17	22,000	21,895	Floating
Multifamily Portfolio - Florida (4)	May-17	15,500	15,426	Floating
Mixed Use - Various (4)	May-17	45,000	44,854	Floating
Hotel - Phoenix, AZ	Jul-25	25,000	25,000	Fixed
Hotel - Washington, DC (3)	Jul-17	20,000	19,934	Floating
Condo Development - New York, NY (6)	Jul-19	34,184	33,567	Floating
Condo Conversion - New York, NY (3)	Aug-18	52,418	51,941	Floating
Mixed Use - New York, NY (7)	Oct-18	30,000	29,785	Floating
Destination Resort - Various (8)	May-18	75,000	71,362	Floating
Multifamily - New York, NY (9)	Nov-18	55,000	54,558	Floating
Hotel - New York, NY (10)	Mar-17	50,000	49,522	Floating
Condo Pre-development - United Kingdom (10)	Sept-16	81,048	81,048	Floating
Total - Subordinate to third party commercial mortgage loans		\$912,678	\$905,256	
Total/Weighted Average		\$939,006	\$931,351	

(1) At December 31, 2015, this loan was pledged to secure borrowings under the JPMorgan Facility. See "Note 8 –Borrowings Under Repurchase Agreements" for a description of this facility.

(2) Includes two one-year extension options subject to certain conditions and the payment of an extension fee. As of December 31, 2015, the Company had \$12,478 of unfunded loan commitments related to this loan.

(3) Includes two one-year extension options subject to certain conditions and the payment of an extension fee.

(4) Includes three one-year extension options subject to certain conditions and the payment of an extension fee.

(5) Includes two one-year extension options subject to certain conditions and the payment of an extension fee. As of December 31, 2015, the Company had \$785 of unfunded loan commitments related to this loan.

(6) Includes a one-year extension option subject to certain conditions and the payment of an extension fee. As of December 31, 2015, the Company had \$41,160 of unfunded loan commitments related to this loan.

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- (7) Includes a one-year extension option subject to certain conditions and the payment of an extension fee.
- (8) Includes four one-year extension options subject to certain conditions and the payment of an extension fee.
- (9) Includes a six-month extension option subject to certain conditions and the payment of a fee.
- (10) Includes a three-month extension option subject to certain conditions and the payment of a fee.

The Company evaluates its loans for possible impairment on a quarterly basis. See “Note 5 – Commercial Mortgage Loans” for a summary of the metrics reviewed. During the three and six months ended June 30, 2016, the Company recorded a loan loss provision of \$5,000 on a multifamily subordinate loan in Williston, ND. As of June 30, 2016, the aggregate loan loss provision was \$5,000. The Company has ceased accruing PIK interest associated with the loan. As of December 31, 2015, there was no provision for loan loss.

Note 7 – 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). The Company together with certain other affiliated investors and unaffiliated third party investors, in aggregate, own 100% of Champ LP. 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.

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 Global Management, LLC (together with its subsidiaries, “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. As of June 30, 2016, the Company’s unfunded commitment to Champ LP was €2,802 (or \$3,113). Through its interest in Champ LP, as of June 30, 2016, the Company held an indirect ownership interest of approximately 9.34% in BKB. The Company determined that Champ LP met the definition of a variable interest entity (“VIE”) and that it was not the primary beneficiary; therefore, the Company did not consolidate the assets and liabilities of the partnership. Additionally, Champ LP is an Investment Company under GAAP, and is therefore reflected at fair value. Our investment in Champ LP is accounted for as an equity method investment and therefore we record our proportionate share of the net asset value.

Note 8 – Borrowings Under Repurchase Agreements

At June 30, 2016 and December 31, 2015, the Company’s borrowings had the following outstanding balances, maturities and weighted average interest rates:

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Lender	June 30, 2016			December 31, 2015				
	Maximum Amount of Borrowings	Borrowings Outstanding	Maturity (1)	Weighted Average Rate (2)	Maximum Facility Size	Borrowings Outstanding	Maturity (1)	Weighted Average Rate (2)
JPMorgan Facility (3)	\$943,000	\$774,522	January 2019	L+2.40%	\$600,000	\$445,942	January 2019	L+2.25%
Goldman Loan	N/A	43,333	April 2019	L+3.50%	N/A	45,928	April 2019	L+3.50%
Sub-total		817,855		L+2.46%		491,870		L+2.37%
UBS Facility	N/A	133,899	September 2018	2.79 %	N/A	133,899	September 2018	2.79 %
DB Facility (4)	N/A	274,341	April 2018	3.66 %	N/A	300,005	April 2018	3.69 %
Sub-total		408,240		3.38 %		433,904		3.39 %
less: deferred financing costs		(8,160 )				(7,353 )		
Total / Weighted Average		\$1,217,935		3.10 %		\$918,421		2.92 %

(1) Maturity date assumes all extensions at the Company's option are exercised.

(2) Assumes one-month LIBOR at June 30, 2016 and December 31, 2015 was 0.47% and 0.43%, respectively.

(3) As of June 30, 2016, the JP Morgan Facility provided for maximum total borrowings comprised of a \$143.0 million asset specific financing and the \$800.0 million JPMorgan Facility.

(4) Advances under the DB Facility accrue interest at a per annum pricing rate based on the rate implied by the fixed rate bid under a fixed for floating interest rate swap for the receipt of payments indexed to three-month U.S. dollar LIBOR, plus a financing spread ranging from 1.80% to 2.32% based on the rating of the collateral pledged.

At June 30, 2016, the Company's borrowings had the following remaining maturities:

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
JPMorgan Facility	\$260,288	\$514,234	\$—	\$—	\$774,522
Goldman Loan	5,290	38,043	—	—	43,333
UBS Facility *	63,647	70,252	—	—	133,899
DB Facility	82,524	166,203	10,407	15,207	274,341
Total	\$411,749	\$788,732	\$10,407	\$15,207	\$1,226,095

\*Assumes extension option is exercised.

At June 30, 2016, the Company's collateralized financings were comprised of borrowings outstanding under the JPMorgan Facility, the Goldman Loan, the UBS Facility and the DB Facility. The table below summarizes the outstanding balances at June 30, 2016, as well as the maximum and average month-end balances for the six months ended June 30, 2016 for the Company's borrowings under repurchase agreements.

	Balance at June 30, 2016	For the six months ended June 30, 2016	
		Maximum Balance	Month-End Balance
JPMorgan Facility borrowings	\$774,522	\$774,522	\$627,334
Goldman Loan	43,333	45,928	44,665

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UBS Facility borrowings	133,899	133,899	133,899
DB Facility borrowings	274,341	300,005	284,054
Total	\$1,226,095		

The Company was in compliance with the financial covenants under its borrowing agreements at June 30, 2016 and December 31, 2015.

Note 9 – Convertible Senior Notes

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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 June 30, 2016, the March 2019 Notes had a carrying value of \$141,070 and an unamortized discount of \$2,680.

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 June 30, 2016, the August 2019 Notes had a carrying value of \$107,999 and an unamortized discount of \$3,001.

The following table summarizes the terms of the 2019 Notes.

	Principal Amount	Coupon Rate	Effective Rate (1)	Conversion Rate (2)	Maturity Date	Remaining Period of Amortization
March 2019 Notes	\$143,750	5.50%	6.25%	56.36	3/15/2019	2.71 years
August 2019 Notes	\$111,000	5.50%	6.50%	56.36	3/15/2019	2.71 years

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

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 2019 Notes converted, as adjusted in accordance with the applicable indenture as a result of cash dividend

(2) payments, and including deferred and carried-forward adjustments relating to cash dividend payments made by the Company to stockholders since January 15, 2016. The if-converted value of the 2019 Notes does not exceed their principal amount at June 28, 2016 since the closing market price of the Company's common stock does not exceed the implicit conversion prices of \$17.74 for the 2019 Notes.

GAAP requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) 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 2019 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 2019 Notes as of their issuance date based on effective interest rates. As a result, the Company attributed approximately \$11,445 of the proceeds to the equity component of the 2019 Notes, which represents the excess proceeds received over the fair value of the liability component of the 2019 Notes at the date of issuance. The equity component of the 2019 Notes has been reflected within additional paid-in capital in the condensed consolidated balance sheet as of June 30, 2016. The resulting debt discount is being amortized over the period during which the 2019 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 2019 Notes will increase in subsequent reporting periods through the maturity date as the 2019 Notes accrete to their par value over the same period.

The aggregate contractual interest expense was approximately \$3,503 and \$7,006 for the three and six months ended June 30, 2016, respectively. The aggregate contractual interest expense was approximately \$3,503 and \$7,006 for the three and six months ended June 30, 2015, respectively. With respect to the amortization of the discount on the liability component of the 2019 Notes as well as the amortization of deferred financing costs, the Company reported additional non-cash interest expense of approximately \$883 and \$1,759 for the three and six months ended June 30, 2016, respectively. With respect to the amortization of the discount on the liability component of the 2019 Notes as well as the amortization of deferred financing costs, the Company reported additional non-cash interest expense of approximately \$855 and \$1,699 for the three and six months ended June 30, 2015, respectively.

As of June 30, 2016, potential shares of common stock contingently issuable upon the conversion of the 2019 Notes were excluded from the calculation of diluted income per share of common stock because it is management's intent and the Company currently has the ability to settle the obligation in cash.

Note 10 - Federal Home Loan Bank of Indianapolis Membership

In February 2015, the Company's wholly owned subsidiary, ACREFI Insurance Services, LLC, was accepted for membership in the Federal Home Loan Bank of Indianapolis ("FHLBI"). As a member of the FHLBI, ACREFI Insurance

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Services, LLC has access to a variety of products and services offered by the FHLBI, including secured advances. As of June 30, 2016, ACREFI Insurance Services, LLC had not requested any advances from the FHLBI.

On January 12, 2016, the Federal Housing Finance Agency (“FHFA”) adopted a final rule revising its regulations governing Federal Home Loan Bank membership. As a result, the FHLBI may not make any advances to ACREFI Insurance Services, LLC and is required to terminate the membership of ACREFI Insurance Services, LLC no later than February 19, 2017 (one year after the effective date of the final rule).

Upon termination of ACREFI Insurance Services, LLC's membership, FHLBI will be required to redeem at par value the FHLBI stock that had been purchased and held by ACREFI Insurance Services, LLC as a condition to membership in the FHLBI. At June 30, 2016, the Company had stock in the FHLBI totaling \$8, which is included in other assets on the condensed consolidated balance sheet at June 30, 2016.

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 GAAP. 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 condensed 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, closed an additional £20,000 (or \$30,672) and participated that balance to an investment fund affiliated with Apollo. At June 30, 2016, the participation had a face amount of £19,749 (or \$26,288), a carrying amount of £19,749 (or \$26,288) and a cash coupon of LIBOR plus 825 basis points.

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 condensed consolidated financial statements. At June 30, 2016, the participation had a face amount of \$88,113, a carrying amount of \$88,099 and a cash coupon of LIBOR plus 440 basis points.

Note 12 – 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 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 October 2016. 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 June 30, 2016:

Type of Derivative	June 30, 2016	Aggregate		
	Number of Contracts	Notional Amount	Notional Currency	Maturity
Fx Contracts - GBP	4	127,945	GBP	July 2016-October 2016

The following table summarizes our non-designated Fx forwards as of December 31, 2015:

Type of Derivative	December 31, 2015	Aggregate		
	Number of Contracts	Notional	Notional Currency	Maturity

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	Amount		
Fx Contracts - GBP 5	130,272	GBP	January 2016- October 2016

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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 derivative instruments are recorded directly in earnings. The following table summarizes the amounts recognized on the condensed consolidated statements of operations related to the Company's derivative instruments for the three and six months ended June 30, 2016 and 2015.

	Location of Loss Recognized in Income	Three months ended June 30,		Six months ended June 30,	
		2016	2015	2016	2015
Forward currency contract	Gain (loss) on derivative instruments - unrealized	\$13,426	\$(3,135)	\$12,116	\$(6,179)
Forward currency contract	Gain (loss) on derivative instruments - realized	(95 )	—	5,989	
Interest rate caps	Loss on derivative instruments - unrealized	(18 )	(62 )	(90 )	(62 )
Total		\$13,313	\$(3,197)	\$18,015	\$(6,241)

The following table summarizes the gross asset amounts related to the Company's derivative instruments at June 30, 2016 and December 31, 2015.

	June 30, 2016			December 31, 2015		
	Gross Amount of Recognized Assets	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	\$9	\$	—\$ 9	\$106	\$	—\$ 106
Forward currency contract	15,333	—	15,333	3,221	—	3,221
Total derivative instruments	\$15,342	\$	—\$ 15,342	\$3,327	\$	—\$ 3,327

#### Note 13 – Related Party Transactions 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 ACREFI Management, LLC (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, 2016 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

2016, 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. As described in "Note 16 - Commitments and Contingencies," the Company also made payments to the Manager in accordance with its letter agreement with the Manager.

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For the three and six months ended June 30, 2016, respectively, the Company incurred approximately \$5,242 and \$10,471 in base management fees under the Management Agreement. For the three and six months ended June 30, 2015, respectively, the Company incurred approximately \$3,887 and \$7,228 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 the three and six months ended June 30, 2016, respectively, the Company paid expenses totaling \$44 and \$842 related to reimbursements for certain expenses paid by the Manager on behalf of the Company under the Management Agreement. For the three and six months ended June 30, 2015, respectively, the Company recorded expenses totaling \$296 and \$932 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 condensed consolidated statement of operations expense category or the condensed consolidated balance sheet based on the nature of the item.

Included in payable to related party on the condensed consolidated balance sheet at June 30, 2016 and December 31, 2015, respectively, are approximately \$5,242 and \$5,297 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 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 \$3,113). Through its interest in Champ LP, as of June 30, 2016, the Company, held an indirect ownership interest of approximately 9.34% in BKB. The Company together with certain other affiliated investors and unaffiliated third party investors, in aggregate, own 100% of BKB.

Note 14 – 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 (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 \$1,938 and \$3,606 for the three and six months ended June 30, 2016, related to restricted stock and RSU vesting. The Company recognized stock-based compensation expense of \$821 and \$1,939 for the three and six months ended June 30, 2015, related to restricted stock and RSU vesting. The following table summarizes the activity related to restricted common stock and RSUs during the six months ended June 30, 2016:

Type	Date	Restricted Stock	RSUs	Estimate Fair Value on Grant Date	Initial Vesting	Final Vesting
Outstanding at December 31, 2015		340,064	1,242,810			
Cancelled upon delivery	January 2016	—	(318,160 )	n/a	n/a	n/a
Forfeiture	January 2016	—	(1,667 )	n/a	n/a	n/a
Grant	February 2016	—	47,028	\$729	(1)	(1)
Grant	March 2016	—	5,095	\$81	December 2016	December 2017
Grant	April 2016	17,056	—	\$275	July 2016	April 2019
Forfeiture	June 2016	—	(14,972 )	n/a	n/a	n/a

Outstanding at June 30, 2016                      357,120    960,134

(1) These awards vest based upon the achievement of certain conditions.

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Below is a summary of expected restricted common stock and RSU vesting dates as of June 30, 2016.

Vesting Date	Shares Vesting	RSU Vesting	Total Awards
July 2016	5,577	543	6,120
October 2016	5,578	—	5,578
December 2016	28,920	341,532	370,452
January 2017	5,161	47,028	52,189
April 2017	5,164	—	5,164
June 2017	—	544	544
July 2017	4,004	—	4,004
October 2017	3,997	—	3,997
December 2017	28,923	338,133	367,056
January 2018	2,749	—	2,749
April 2018	2,755	—	2,755
June 2018	—	544	544
July 2018	1,420	—	1,420
October 2018	1,424	—	1,424
December 2018	16,670	214,141	230,811
January 2019	1,419	—	1,419
April 2019	1,424	—	1,424
	115,185	942,465	1,057,650

At June 30, 2016, the Company had unrecognized compensation expense of approximately \$1,622 and \$12,135, respectively, related to the vesting of restricted stock awards and RSUs noted in the table above.

## RSU Deliveries

During the six months ended June 30, 2016, the Company delivered 190,003 shares of common stock for 318,160 vested RSUs. The Company allows holders of RSUs 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 holder, results in a cash payment to the Manager related to this tax liability and a corresponding adjustment to additional paid-in-capital on the condensed consolidated statement of changes in stockholders' equity. The adjustment was \$2,348 for the six months ended June 30, 2016, and is included as a component of the capital decrease related to the Company's equity incentive plan in the condensed consolidated statement of changes in stockholders' equity.

## Note 15 – Stockholders' Equity

**Common Stock Offerings.** During the first quarter of 2015, the Company completed a follow-on public offering of 11,500,000 shares of its common stock, including the full exercise of the underwriters' option to purchase additional shares, at a price of \$16.82 per share. The aggregate net proceeds from the offering, including proceeds from the sale of the additional shares, were approximately \$193,148 after deducting estimated offering expenses payable by the Company.

**Dividends.** For 2016, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Amount
March 15, 2016	March 31, 2016	April 15, 2016	\$ 0.46
June 17, 2016	June 30, 2016	July 15, 2016	\$ 0.46

For 2016, the Company declared the following dividends on its 8.625% Series A Cumulative Redeemable Perpetual Preferred Stock (the "Series A Preferred Stock"):





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Declaration Date	Record Date	Payment Date	Amount
March 15, 2016	March 31, 2016	April 15, 2016	\$0.5391
June 17, 2016	June 30, 2016	July 15, 2016	\$0.5391

For 2016, the Company declared the following dividends on its 8.00% Fixed to Floating Series B Cumulative Redeemable Perpetual Preferred Stock (the “Series B Preferred Stock”):

Declaration Date	Record Date	Payment Date	Amount
March 15, 2016	March 31, 2016	April 15, 2016	\$0.5000
June 17, 2016	June 30, 2016	July 15, 2016	\$0.5000

Note 16 – Commitments and Contingencies

Merger agreement. On February 26, 2016, the Company entered into an Agreement and Plan of Merger (as amended, the “Merger Agreement”) with Apollo Residential Mortgage, Inc., a Maryland corporation (“AMTG”), and Arrow Merger Sub, Inc., a Maryland corporation and a wholly-owned subsidiary of the Company (the “Merger Sub”), pursuant to which the Company will acquire AMTG for an aggregate purchase price equal to 89.25% of AMTG’s book value determined in accordance with the Merger Agreement, plus the assumption of \$172,500 of AMTG’s 8.0% Series A Cumulative Redeemable Perpetual Preferred Stock (the “AMTG Preferred Stock”). The book value of AMTG, and therefore the actual purchase price payable, was determined as of July 22, 2016 (the “Pricing Date”), and will be subject to adjustment in the event that the closing of the transactions contemplated by the Merger Agreement does not occur by September 5, 2016. The aggregate number of shares of Company common stock issuable under the Merger Agreement is limited to 13,400,000 shares at a value of \$16.75 per share, and the remainder of the consideration will be paid in cash. Upon the closing, each outstanding share of AMTG common stock will be converted into the right to receive (i) 0.417571 shares of Company common stock and (ii) \$6.86 in cash, without interest; provided, however, that the cash portion of the merger consideration may be subject to certain adjustments. In addition, each share of AMTG Preferred Stock will be converted into one share of preferred stock, par value \$0.01 per share, of a newly-designated series of the Company’s preferred stock, which the Company expects will be designated as 8.00% Series C Cumulative Redeemable Perpetual Preferred Stock.

The Merger Agreement and related transactions were approved by all of the members of the Company's Board of Directors (with the exception of Mark Biderman, who recused himself). Consummation of the merger transaction is subject to the satisfaction of customary closing conditions, including the registration and listing of the shares of ARI stock that will be issued in the merger transaction and the approval and adoption of the Merger Agreement by the holders of a majority of the shares of AMTG common stock entitled to vote on the transaction, including a majority of the votes entitled to be cast by persons unaffiliated with Apollo Global Management, LLC. Company stockholder approval will not be required in connection with the transaction. On July 27, 2016, the Company filed with the SEC a definitive proxy statement/prospectus relating to the proposed transaction.

Arrangements with Athene. In connection with financing the transactions contemplated by the Merger Agreement, on February 26, 2016 the Company entered into certain arrangements with certain subsidiaries of Athene Holding Ltd., an insurance holding company whose operating subsidiaries’ business is primarily issuing and reinsuring retirement savings products (collectively, “Athene”). The arrangements include (i) a bridge loan commitment from Athene USA Corporation, pursuant to which Athene has committed to provide the Company with up to \$200,000 of term loans to consummate the merger transaction, (ii) an asset purchase agreement which provides that, promptly following the closing of the merger transaction, the Company will sell to Athene approximately \$1,200,000 (subject to increase or decrease in certain circumstances) of primarily non-Agency Residential Mortgage Backed Securities at a price set as of the Pricing Date in accordance with the methodology set forth in the asset purchase agreement, and (iii) a stock purchase agreement, under which Athene has committed to purchase, during a specified period of time following the closing of the merger transaction, up to \$20,000 (subject to reduction in certain circumstances) of Company common stock in the open market at the then-current market price if the quoted price of a share of Company common stock on the New York Stock Exchange at any time during such period is less than \$16.75 (which is the value per share at which the Company common stock is to be issued to holders of AMTG common stock in the merger).

Letter Agreement with the Manager. Concurrently with the execution of the Merger Agreement, the Company entered into a Letter Agreement with the Manager, pursuant to which the Manager has agreed to perform such services and activities as may be necessary to enable the Company to consummate the merger transaction. In consideration of the services provided and to be provided to the Company by the Manager in connection with the merger transaction and the process leading to the merger transaction, the Company agreed to pay the Manager an aggregate amount of up to \$500, in monthly installments of \$150

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payable on the first of each calendar month between the execution of the Merger Agreement and the closing of the merger transaction. Upon consummation of the merger transaction, an additional amount (based on an agreed formula) will be added to Stockholders' Equity (as defined in the Management Agreement) for purposes of calculating the amount of the management fee payable to the Manager under the Management Agreement. In addition, the Manager acknowledged that, as a result of the merger transaction, the management agreement between AMTG and its manager, ARM Manager, LLC (the "AMTG Management Agreement"), will be assigned to the Company and, following the merger transaction, any management fees paid by the Company to ARM Manager, LLC pursuant to the AMTG Management Agreement will offset, and therefore reduce (but not below zero), the Company's obligation to pay corresponding management fees to the Manager.

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

After the announcement of the execution of the Merger Agreement, two putative class action lawsuits challenging the proposed First Merger (as defined in the Merger Agreement), captioned *Aivasian v. Apollo Residential Mortgage, Inc., et al.*, No. 24-C-16-001532 and *Wiener v. Apollo Residential Mortgage, Inc., et al.*, No. 24-C-16-001837, were filed in the Circuit Court for Baltimore City, (the "Court"). A putative class and derivative lawsuit was later filed in the Court captioned *Crago v. Apollo Residential Mortgage, Inc.*, No. 24-C-16-002610. Following a hearing on May 6, 2016, the Court entered orders among other things, consolidating the three actions under the caption *In Re Apollo Residential Mortgage, Inc. Shareholder Litigation*, Case No.: 24-C-16-002610. The plaintiffs have designated the Crago complaint as the operative complaint. The operative complaint includes both direct and derivative claims, names as defendants AMTG, the board of directors of AMTG (the "AMTG Board"), ARI, Merger Sub, Apollo and Athene and alleges, among other things, that the members of the AMTG Board breached their fiduciary duties to the AMTG stockholders and that the other corporate defendants aided and abetted such fiduciary breaches. The operative complaint further alleges, among other things, that the proposed First Merger involves inadequate consideration, was the result of an inadequate and conflicted sales process, and includes unreasonable deal protection devices that purportedly preclude competing offers. It also alleges that the transactions with Athene are unfair and that the registration statement on Form S-4 filed with the SEC on April 6, 2016 contains materially misleading disclosures and omits certain material information. The operative complaint seeks, among other things, certification of the proposed class, declaratory relief, preliminary and permanent injunctive relief, including enjoining or rescinding the First Merger, unspecified damages, and an award of other unspecified attorneys' and other fees and costs. On May 6, 2016, counsel for the plaintiffs filed with the Court a stipulation seeking the appointment of interim co-lead counsel, which stipulation was approved by the Court on June 9, 2016. The defendants believe that the claims asserted in the complaints are without merit and intend to vigorously defend the lawsuits.

**Bremer Kreditbank AG.** In September 2013, the Company, together with other affiliates of Apollo, reached an agreement to make an investment in an entity that agreed to acquire a minority participation in Bremer Kreditbank AG ("BKB"). The Company committed to invest up to approximately €38,000 (or \$50,000), representing approximately 21% of the ownership in BKB. 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 BKB.

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 \$3,113). Through its interest in Champ LP, the Company now holds an indirect ownership interest of approximately 9.34% in BKB.

**Loan Commitments.** As described in "Note 5 - Commercial Mortgage Loans" and "Note 6 - Subordinate Loans," respectively, at June 30, 2016, the Company had \$69,311 of unfunded commitments related to its commercial mortgage loan portfolio and \$85,825 of unfunded commitments related to its subordinate loan portfolio.

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## Note 17 – 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 condensed consolidated balance sheet at June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and cash equivalents	\$38,631	\$ 38,631	\$67,415	\$ 67,415
Restricted cash	67,438	67,438	30,127	30,127
Securities, held-to-maturity	151,726	151,729	153,193	153,230
Commercial first mortgage loans	1,278,034	1,284,348	994,301	999,517
Subordinate loans	923,159	933,179	931,351	939,545
Borrowings under repurchase agreements	(1,217,935)	(1,218,299)	(918,421)	(918,567)
Convertible senior notes, net	(249,069)	(258,095)	(248,173)	(253,986)
Participations sold	(114,387)	(116,411)	(118,201)	(118,226)

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. The Company's securities, held-to-maturity, commercial first mortgage loans, subordinate loans, borrowings under repurchase agreements, convertible senior notes and participations sold are carried at amortized cost on the condensed consolidated financial statements and are classified as Level III in the fair value hierarchy.

## Note 18 – Net Income 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.

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The table below presents basic and diluted net (loss) income per share of common stock using the two-class method for the three and six months ended June 30, 2016 and 2015:

	For the three months ended June 30, 2016		For the six months ended June 30, 2015	
Numerator:				
Net income	\$10,338	\$24,658	\$28,956	\$50,169
Preferred dividends	(5,860 )	(1,860 )	(11,675 )	(3,720 )
Net income available to common stockholders	4,478	22,798	17,281	46,449
Dividends declared on common stock	(31,005 )	(25,709 )	(62,002 )	(51,411 )
Dividends on participating securities	(437 )	(259 )	(885 )	(521 )
Net income (loss) attributable to common stockholders	\$(26,964)	\$(3,170)	\$(45,606)	\$(5,483)
Denominator:				
Basic weighted average shares of common stock outstanding	67,402,311	158,429,155	67,393,751	154,020,978
Diluted weighted average shares of common stock outstanding	68,374,557	159,022,217	68,351,137	154,621,401
Basic and diluted net income per weighted average share of common stock				
Distributable Earnings	\$0.46	\$0.44	\$0.92	\$0.95
Undistributed income (loss)	\$(0.40)	\$(0.05)	\$(0.68)	\$(0.10)
Basic and diluted net income per share of common stock	\$0.06	\$0.39	\$0.24	\$0.85

For the three and six months ended June 30, 2016, respectively, 972,246 and 957,386 unvested RSUs were excluded from the calculation of diluted net income per share because the effect was anti-dilutive. For the three and six months ended June 30, 2015, respectively, 593,062 and 600,423 unvested RSUs were excluded from the calculation of diluted net income per share because the effect was anti-dilutive.

#### Note 19 – Subsequent Events

**Investment Activity.** Subsequent to quarter end, the Company completed a \$9,500 increase to a \$50,000 commercial mortgage loan originated in November 2014 secured by a portfolio of condominium units located in New York City and Maui, Hawaii. In connection with the upsizing, the collateral for the loan was increased to include five currently unencumbered condominium units located in Kapalua, Maui.

During July 2016, the Company funded \$3,637 related to previously closed loans and received approximately \$15,300 million from loan repayments.

On February 26, 2016, the Company entered into an Agreement and Plan of Merger (as amended, the “Merger Agreement”) with Apollo Residential Mortgage, Inc., a Maryland corporation (“AMTG”), and Arrow Merger Sub, Inc., a Maryland corporation and a wholly-owned subsidiary of the Company (the “Merger Sub”), pursuant to which the Company will acquire AMTG for an aggregate purchase price equal to 89.25% of AMTG’s book value determined in accordance with the Merger Agreement, plus the assumption of \$172,500 of AMTG’s 8.0% Series A Cumulative Redeemable Perpetual Preferred Stock (the “AMTG Preferred Stock”). The book value of AMTG, and therefore the actual purchase price payable, was determined as of July 22, 2016 (the “Pricing Date”), and will be subject to adjustment in the event that the closing of the transactions contemplated by the Merger Agreement does not occur by September 5, 2016. The aggregate number of shares of Company common stock issuable under the Merger Agreement is limited to 13,400,000 shares at a value of \$16.75 per share, and the remainder of the consideration will be paid in cash. Upon the closing, each outstanding share of AMTG common stock will be converted into the right to receive (i) 0.417571 shares of Company common stock and (ii) \$6.86 in cash, without interest; provided, however, that the cash portion of the merger consideration may be subject to certain adjustments. In addition, each share of AMTG Preferred Stock will be converted into one share of preferred stock, par value \$0.01 per share, of a newly-designated series of the Company’s preferred stock, which the Company expects will be designated as 8.00% Series C Cumulative Redeemable Perpetual Preferred Stock.



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On July 27, 2016, the Company filed with the SEC a definitive proxy statement/prospectus relating to the proposed transaction.

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ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

(in thousands—except share and per share data)

FORWARD-LOOKING INFORMATION

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 Section. 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 or 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 changes to U.S. government policies and the execution and impact of these actions, initiatives and policies; the state of the U.S. economy generally or in specific geographic regions; economic trends and economic recoveries; the Company’s ability to obtain and maintain financing arrangements, including repurchase agreement financing, financing through the FHLBI and securitizations; the anticipated shortfall 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 REIT for U.S. federal income tax purposes; the Company’s continued exclusion from registration under the Investment Company Act of 1940, as amended; 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; risks associated with the ability and timing to consummate the proposed merger transaction with Apollo Residential Mortgage, Inc. and whether any terms may change; the risk that the anticipated benefits from the mergers and related transactions may not be realized or may take longer to realize than expected; and unexpected costs or unexpected liabilities, including those related to litigation, that may arise from the proposed mergers and related transactions, whether or not consummated.

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. See “Item 1A - Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. These and other risks, uncertainties and factors, including those described in the annual, quarterly and current reports that the Company files with the 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.

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, CMBS 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 \$172.5 billion as of March 31, 2016.

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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.

### Market Overview

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. It is important to note that while the Federal Reserve elected to increase the target federal funds rate in December 2015, there have been no additional increases since December and the historically low interest rate environment is expected to persist and remain attractive to borrowers, continuing to drive significant refinancing and acquisition activity across all property types during the remainder of 2016.

New-issue CMBS volume continued to grow in 2015 with total issuance in the United States of approximately \$101 billion, a 7% increase from the approximately \$94 billion issued during the prior year. Despite the robust issuance in 2015, current volumes of CMBS issuance are still moderate relative to the peak of the market, which saw more than \$229 billion in CMBS issuance in 2007, creating significant opportunities for non-CMBS lenders such as the Company. Furthermore, the credit risk retention requirements under the Dodd-Frank Act that take effect in December 2016 require sponsors to retain economic interests in the commercial property loans they securitize and sell to third party investors, creating uncertainty relating to how CMBS lenders will adjust to the new regulations. As a likely sign of this uncertainty, 2016 year-to-date issuance has been subdued. As of the end of the first half, year-to-date issuance in the United States is approximately \$32 billion, a significant decrease over first half year-to-date issuance in the United States of approximately \$57 billion in 2015.

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

A summary of the Company's accounting policies is set forth in its Annual Report on Form 10-K for the year ended December 31, 2015 under "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Use of Estimates." There have been no material changes to our critical accounting policies described in our annual report on Form 10K filed with the SEC on February 26, 2016.

### Financial Condition and 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 investments at June 30, 2016:



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Description	Current Principal Balance	Amortized Cost	Remaining		Remaining Debt	Cost of Funds	Remaining		Current Weighted Average Underwritten IRR (3)	Levered Weighted Average Underwritten IRR (3)
			Weighted Average Yield	Weighted Average Life (years)			Debt Term (years) (1)	Equity at cost (2)		
First mortgages	\$1,294,508	\$1,278,034	7.8 %	2.7	\$779,005	2.8 %	2.6	\$499,029	15.4 %	15.4 %
Subordinate loans (4)	908,135	896,871	11.5	3.5	38,850	4.5	2.6	858,021	12.9	12.9
CMBS, held-to-maturity (5)	63,637	63,627	11.2	2.9	—	—	—	63,627	11.2	11.2
CMBS	497,143	490,601	5.9	1.2	408,240	3.4	1.9	149,799	8.7	8.7
Total/Weighted Average	\$2,763,423	\$2,729,133	8.8 %	2.7	\$1,226,095	3.1 %	2.4	\$1,570,476	13.2 %	13.2 %

(1) Assumes extension options are exercised. See “—Liquidity and Capital Resources - Borrowings Under Various Financing Arrangements” below for a discussion of the Company's repurchase agreements.

(2) CMBS includes \$67,438 of restricted cash related to the UBS Facility and the DB Facility.

Internal rate of return ("IRR") is the annualized effective compounded return rate that accounts for the time-value of money and represents the rate of return on an investment over a holding period expressed as a percentage of the investment. It is the discount rate that makes the net present value of all cash outflows (the costs of investment) equal to the net present value of cash inflows (returns on investment). It is derived from the negative and positive cash flows resulting from or produced by each transaction (or for a transaction involving more than one investment, cash flows resulting from or produced by each of the investments), whether positive, such as investment returns, or negative, such as transaction expenses or other costs of investment, taking into account the dates on which such cash flows occurred or are expected to occur, and compounding interest accordingly. The underwritten IRR for the investments shown in the above table reflect the returns underwritten by the Manager, taking into account leverage and calculated on a weighted average basis assuming no dispositions, early prepayments or defaults but assuming that extension options are exercised and that the cost of borrowings remains constant over the remaining term. With respect to certain loans, the underwritten IRR calculation assumes certain estimates with respect to the timing and magnitude of future fundings for the remaining commitments and associated loan repayments, and assumes no defaults. IRR is the annualized effective compounded return rate that accounts for the time-value of money and represents the rate of return on an investment over a holding period expressed as a percentage of the investment. It is the discount rate that makes the net present value of all cash outflows (the costs of investment) equal to the net present value of cash inflows (returns on investment). It is derived from the negative and positive cash flows resulting from or produced by each transaction (or for a transaction involving more than one investment, cash flows resulting from or produced by each of the investments), whether positive, such as investment returns, or negative, such as transaction expenses or other costs of investment, taking into account the dates on which such cash flows occurred or are expected to occur, and compounding interest accordingly. There can be no assurance that the actual IRRs will equal the underwritten IRRs shown in the table. See “Item 1A-Risk Factors-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” included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of some of the factors that could adversely impact the returns received by the Company from the investments shown in the table or elsewhere in this quarterly report over time.

(4) Subordinate loans are net of a participation sold during February 2015. The Company presents the participation sold as both assets and non-recourse liabilities because the participation does not qualify as a sale according to GAAP. At June 30, 2016, the Company had one such participation sold with a carrying amount of £19,749 (or \$26,288).

CMBS (Held-to-Maturity) are net of a participation sold during June 2014. The Company presents the participation sold as both assets and non-recourse liabilities because the participation does not qualify as a sale according to (5) GAAP. At June 30, 2016, the Company had one such participation sold with a face amount of \$88,113 and a carrying amount of \$88,099.

The company's average asset and debt balances for the Six months ended June 30, 2016, were:

Description	Average month-end balances for the six-months ended June 30,2016	
	Assets	Related debt
First mortgages	\$ 1,123,496	\$ 615,086
Subordinate loans	951,253	11,829
CMBS, held-to-maturity	152,564	—
CMBS	471,873	417,954

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## Investment Activity

In January 2016, the Company closed a \$220,000 first mortgage loan, \$177,500 of which was funded, secured by 16 existing retail and office properties for redevelopment located in the Design District neighborhood of Miami, Florida. A portion of the first funding of the loan was used to refinance a \$33,000 first mortgage loan the Company originated to the borrower in June 2015, and for the acquisition of two additional parcels. The floating-rate loan has a two-year initial term with a one-year extension option followed by a six-month extension option. The first mortgage loan has a loan-to-cost of 65% and has been underwritten to generate a levered IRR of approximately 15%.

In February 2016, the Company closed a \$77,000 mezzanine loan, \$21,888 of which was funded at closing, for the redevelopment and conversion of an existing commercial property into 139 luxury condominiums located in the Tribeca neighborhood of New York City. The floating-rate loan has a 42-month initial term with a one-year extension option followed by a six-month extension option and is part of a \$411,000 financing consisting of a \$334,000 first mortgage loan and the Company's \$77,000 mezzanine loan. The mezzanine loan has an appraised loan-to-net sellout of 57% and has been underwritten to generate an IRR of approximately 14%.

In March 2016, the Company closed a \$31,000 first mortgage loan, \$28,500 of which was funded at closing, for the predevelopment of an existing office property located in the South End neighborhood of Boston. The floating-rate loan has a two-year initial term with one six-month extension option. The first mortgage loan has a loan-to-cost of 60% and has been underwritten to generate a levered IRR of approximately 16%.

In May 2016, the Company closed a \$50,000 first mortgage loan, \$44,750 of which was funded at closing. The loan is secured by two cross-collateralized Class B retail and office buildings located in the Midtown South neighborhood within the Park Avenue South/Madison Square submarket in New York City. The floating-rate loan has a two-year initial term with one six-month extension option. The first mortgage loan has a loan-to-cost of 47% and has been underwritten to generate a levered IRR of approximately 15%.

In May 2016, the Company closed a \$45,500 first mortgage loan, \$40,600 of which was funded at closing for the predevelopment of an existing mixed used property located in the Williamsburg neighborhood of Brooklyn, New York. The floating-rate loan has a two-year term. The first mortgage loan has a loan-to-cost of 85% and has been underwritten to generate a levered IRR of approximately 17%.

During 2016, the Company funded additional investments of \$30,731 related to previously closed loans.

## Net Income Available to Common Stockholders

For the three and six months ended June 30, 2016, respectively, the Company's net income available to common stockholders was \$4,478, or \$0.06 per share and \$17,281, or \$0.24 per share. For the three and six months ended June 30, 2015, respectively, the Company's net income available to common stockholders was \$22,798, or \$0.39 per share, and \$46,449, or \$0.85 per share.

## Net Interest Income

The following table sets forth certain information regarding the Company's net investment income for the three and six months ended June 30, 2016 and 2015:

	Three months ended June 30,				Six months ended June 30,			
	2016	2015	Change \$	Change (%)	2016	2015	Change \$	Change (%)
Interest income from:								
Securities	\$7,607	\$8,265	\$(658)	(8.0)%	\$15,656	\$16,553	\$(897)	(5.4)%
Securities, held to maturity	2,826	3,349	(523)	(15.6)%	5,722	6,394	(672)	(10.5)%
Commercial mortgage loans	24,140	11,968	12,172	101.7%	45,267	22,061	23,206	105.2%
Subordinate loans	28,067	21,152	6,915	32.7%	57,442	39,762	17,680	44.5%
Interest expense	(15,722)	(11,917)	(3,805)	31.9%	(30,364)	(23,399)	(6,965)	29.8%
Net interest income	\$46,918	\$32,817	\$14,101	43.0%	\$93,723	\$61,371	\$32,352	52.7%

Net interest income for the three and six months ended June 30, 2016, respectively, increased \$14,101, or 43.0% and \$32,352, or 52.7%, from the same periods in 2015.



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Interest income related to securities for the three and six months ended June 30, 2016, respectively, decreased \$658 or 8.0%, and \$897, or 5.4%, from the same periods in 2015. The decrease is attributable to the sale of CMBS with an amortized cost of \$24,038 during 2015 and the repayment of \$14,545 of CMBS during 2016. The Company did not purchase any CMBS during 2016 or 2015.

Interest income related to securities, held-to-maturity for the three and six months ended June 30, 2016, respectively, decreased \$523, or 15.6% and \$672, or 10.5%, from the same periods in 2015. The decrease is attributable to the repayment of \$1,750 of securities, held-to-maturity during 2015.

The increase in interest income related to commercial mortgage loans for the three and six months ended June 30, 2016, respectively, of \$12,172, or 101.7%, and \$23,206, or 105.2%, from the same periods in 2015. This increase is primarily attributable to the funding of \$637,582 of commercial mortgage loans during 2015 net of repayments of \$105,618 and, to a lesser extent, the funding of \$313,607 of commercial mortgage loans during 2016 net of repayments of \$36,044, as well as an increase in LIBOR.

The increase in interest income related to subordinate loans for the three and six months ended June 30, 2016, respectively, of \$6,915, or 32.7% and \$17,680, or 44.5%, from the same periods in 2015. This increase is primarily attributable to the funding of \$693,157 of subordinate loans during 2015 net of repayments of \$242,898 and, to a lesser extent, the funding of \$40,920 of subordinate loans during 2016 net of repayments of \$26,538, as well as an increase in LIBOR.

Interest expense for the three and six months ended June 30, 2016, respectively, increased \$3,805, or 31.9%, and \$6,965, or 29.8%, from the same periods in 2015. The increase in interest expense was attributable to the increase in the average balance of the Company's borrowings under repurchase agreements from \$687,144 for the six months ended June 30, 2015 to \$1,089,952 for the six months ended June 30, 2016.

## Operating Expenses

The following table sets forth the Company's operating expenses for the three and six months ended June 30, 2016 and 2015:

	Three months ended June 30,				Six months ended June 30,			
	2016	2015	Change (amount)	Change (%)	2016	2015	Change (amount)	Change (%)
General and administrative expense -Other	\$ 1,659	\$ 1,238	\$ 421	34.0 %	\$ 3,098	\$ 2,475	\$ 623	25.2 %
General and administrative expense - Merger related	1,325	—	1,325	100.0%	6,400	—	6,400	100.0%
Stock-based compensation expense	1,938	821	1,117	136.1%	3,606	1,939	1,667	86.0 %
Management fee expense	5,242	3,887	1,355	34.9 %	10,471	7,228	3,243	44.9 %
Total operating expense	\$ 10,164	\$ 5,946	\$ 4,218	70.9 %	\$ 23,575	\$ 11,642	\$ 11,933	102.5 %

General and administrative expense - Other for the three and six months ended June 30, 2016, respectively, increased \$421 or 34.0% and \$623, or 25.2%, from the same periods in 2015. The increase is primarily attributable to higher operating expenses associated with growth and increase in assets under management.

General and administrative expense - Merger related for the three and six months ended June 30, 2016, respectively, were \$1,325 and \$6,400. General and administrative expense - Merger related expenses related to the Company's proposed merger with AMTG and related transactions. There were no General and administrative expense - Merger related for the three and six months ended June 30, 2015.

Stock-based compensation expense for the three and six months ended June 30, 2016, respectively, increased \$1,117 or 136.1% and \$1,667, or 86.0%, from the same periods in 2015. The increase is primarily attributable to the grant of 656,425 RSUs in December 2015. This was partially offset by the delivery of 318,160 RSUs in January 2016.

Share-based payments are discussed further in the accompanying condensed consolidated financial statements, "Note 14—Share-Based Payments."

Management fee expense for the three and six months ended June 30, 2016, respectively, increased \$1,355, or 34.9%, and \$3,243, or 44.9%, from the same periods in 2015. 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 follow-on



common equity offering completed in March 2015 and September 2015. Management fees and the relationship between the Company and the Manager

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under the Management Agreement are discussed further in the accompanying condensed consolidated financial statements, "Note 13—Related Party Transactions."

**Realized and Unrealized Gain/Loss**

The following amounts related to realized and unrealized gains (losses) on the Company's CMBS, U.S. dollar denominated loans, non U.S. dollar denominated loans and derivative instruments are included in the Company's condensed consolidated statement of operations for the three and six months ended June 30, 2016 and 2015:

	Location of Gain (Loss) Recognized in Income	Three months ended June 30,		Six months ended June 30,	
		2016	2015	2016	2015
Securities	Unrealized gain (loss) on securities	\$(11,728)	\$(2,273)	\$(26,802)	\$1,136
Loans	Provision for loan losses	(15,000 )	—	(15,000 )	—
Foreign currency	Foreign currency gain (loss)	(13,082 )	2,867	(17,557 )	5,588
Forward currency contract	Gain (Loss) on derivative instruments – realized	(95)	—	5,989	—
Forward currency contract	Gain (loss) on derivative instruments - unrealized	13,426	(3,135 )	12,116	(6,179)
Interest rate caps	Loss on derivative instruments - unrealized	(18)	(62 )	(90)	(62 )
Total		\$(26,497)	\$(2,603)	\$(41,344)	\$483

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.

For the three and six months ended June 30, 2016, respectively, the Company recognized an unrealized gain (loss) on securities of \$(11,728) and \$(26,802). For the three and six months ended June 30, 2015, respectively, the Company recognized an unrealized gain (loss) on securities of \$(2,273) and \$1,136. These gains (losses) resulted from mark-to-market adjustments related to those securities for which the fair value option has been elected.

For the three and six months ended June 30, 2016, respectively, the Company recorded a provision for loan loss on its loans of \$15,000 and \$15,000 . There were no provisions for loan losses recorded in 2015.

**Dividends**

Dividends. For the six months ended June 30, 2016, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Amount
March 15, 2016	March 31, 2016	April 15, 2016	\$ 0.46
June 17, 2016	June 30, 2016	July 15, 2016	\$ 0.46

For the six months ended June 30, 2016, the Company declared the following dividends on its Series A Preferred Stock:

Declaration Date	Record Date	Payment Date	Amount
March 15, 2016	March 31, 2016	April 15, 2016	\$0.5391
June 17, 2016	June 30, 2016	July 15, 2016	\$0.5391

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For the six months ended June 30, 2016, the Company declared the following dividends on its Series B Preferred Stock:

Declaration Date	Record Date	Payment Date	Amount
March 15, 2016	March 31, 2016	April 15, 2016	\$0.5000
June 17, 2016	June 30, 2016	July 15, 2016	\$0.5000

Subsequent Events

**Investment Activity.** Subsequent to quarter end, the Company completed a \$9,500 increase to a \$50,000 commercial mortgage loan originated in November 2014 secured by a portfolio of condominium units located in New York City and Maui, Hawaii. In connection with the upsizing, the collateral for the loan was increased to include five currently unencumbered condominium units located in Kapalua, Maui.

During July 2016, the Company funded \$3,637 related to previously closed loans and received approximately \$15,300 million from loan repayments.

On February 26, 2016, the Company entered into an Agreement and Plan of Merger (as amended, the “Merger Agreement”) with Apollo Residential Mortgage, Inc., a Maryland corporation (“AMTG”), and Arrow Merger Sub, Inc., a Maryland corporation and a wholly-owned subsidiary of the Company (the “Merger Sub”), pursuant to which the Company will acquire AMTG for an aggregate purchase price equal to 89.25% of AMTG’s book value determined in accordance with the Merger Agreement, plus the assumption of \$172,500 of AMTG’s 8.0% Series A Cumulative Redeemable Perpetual Preferred Stock (the “AMTG Preferred Stock”). The book value of AMTG, and therefore the actual purchase price payable, was determined as of July 22, 2016 (the “Pricing Date”), and will be subject to adjustment in the event that the closing of the transactions contemplated by the Merger Agreement does not occur by September 5, 2016. The aggregate number of shares of Company common stock issuable under the Merger Agreement is limited to 13,400,000 shares at a value of \$16.75 per share, and the remainder of the consideration will be paid in cash. Upon the closing, each outstanding share of AMTG common stock will be converted into the right to receive (i) 0.417571 shares of Company common stock and (ii) \$6.86 in cash, without interest; provided, however, that the cash portion of the merger consideration may be subject to certain adjustments. In addition, each share of AMTG Preferred Stock will be converted into one share of preferred stock, par value \$0.01 per share, of a newly-designated series of the Company’s preferred stock, which the Company expects will be designated as 8.00% Series C Cumulative Redeemable Perpetual Preferred Stock.

On July 27, 2016, the Company filed with the SEC a definitive proxy statement/prospectus relating to the proposed transaction.

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. 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 “—Financial Condition and Results of Operations—Investments” above for a summary of interest rates and weighted average lives related to the Company’s investment portfolio at June 30, 2016. While there are no contractual paydowns related to the Company’s CMBS, periodic paydowns do occur. Repayments on the debt secured by the Company’s CMBS occur in conjunction with the paydowns on the collateral pledged.

Borrowings Under Various Financing Arrangements

JPMorgan Facility

In January 2010, the Company, through two indirect wholly owned subsidiaries, entered into the JPMorgan Facility, which as amended in 2015 and 2016, currently provides for a maximum aggregate purchase price of \$943,000 and a three-year

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term expiring in January 2018 plus a one-year extension option, exercisable at the option of the Company subject to certain conditions and the payment of a fee, for the purchase, sale and repurchase of eligible senior commercial or multifamily mortgage loans, junior commercial or multifamily mortgage loans, mezzanine loans and participation interests therein that are secured by properties located in the United States, England or Wales. Amounts borrowed under the JPMorgan Facility bear interest at spreads ranging from 2.25% to 4.75% over one-month LIBOR. Maximum advance rates under the JPMorgan Facility range from 25% to 80% on the estimated fair value of the pledged collateral depending on its LTV. 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 JPMorgan Facility contains, among others, the following restrictive covenants: (1) continuing to operate in a manner that allows the Company to qualify as a REIT and (2) financial covenants, including (A) a minimum consolidated tangible net worth covenant (\$750,000 plus 75% of the net cash proceeds of any equity issuance by the Company), (B) maximum total indebtedness to consolidated tangible net worth (3:1), or (C) minimum liquidity (the greater of 5% of the Company's total recourse indebtedness or \$15,000). The Company has agreed to provide a limited guarantee of the obligations of its indirect wholly-owned subsidiaries under the JPMorgan Facility.

As of June 30, 2016, the Company had \$774,522 of borrowings outstanding under the JPMorgan Facility secured by certain of the Company's commercial mortgage and subordinate loans. The weighted average cost of borrowing at June 30, 2016, was one-month LIBOR plus 2.40%.

### UBS Facility

In September 2013, the Company through an indirect wholly-owned subsidiary entered into the UBS Facility, which currently provides that the Company may borrow up to \$133,899 in order to finance the acquisition of CMBS. The UBS Facility matures in September 2017, with a one-year extension available at the Company's option, subject to certain conditions. Advances under the UBS Facility accrue interest at a per annum pricing rate equal to a spread of 1.55% per annum over the rate implied by the fixed rate bid under a fixed-for-floating interest rate swap for the receipt of payments indexed to six-month U.S. dollar LIBOR. The Company borrows 100% of the estimated fair value of the collateral pledged and posts margin equal to 22.5% of that borrowing amount in cash. The margin posted is classified as restricted cash on the Company's condensed consolidated balance sheets. Additionally, depending on the utilization rate of the facility, a portion of the undrawn amount may be subject to non-use fees. The UBS Facility contains customary terms and conditions for repurchase facilities of this type and financial covenants to be met by the Company, including a minimum net asset value covenant (which shall not be less than an amount equal to \$500,000 and a maximum total debt to consolidated tangible net worth covenant (3:1). The Company has agreed to provide a full guarantee of the obligations of its indirect wholly-owned subsidiary under the UBS Facility.

As of June 30, 2016, the Company had \$133,899 of borrowings outstanding under the UBS Facility secured by CMBS held by the Company.

### DB Facility

In April 2014, the Company, through an indirect wholly-owned subsidiary, entered into the DB Facility, which currently provides that the Company may borrow up to \$300,005 in order to finance the acquisition of CMBS. The DB Facility matures in April 2018. Advances under the DB Facility accrue interest at a per annum pricing rate based on the rate implied by the fixed rate bid under a fixed for floating interest rate swap for the receipt of payments indexed to three-month U.S. dollar LIBOR, plus a financing spread ranging from 1.80% to 2.32% based on the rating of the collateral pledged.

Additionally, depending on the utilization rate of the facility, a portion of the undrawn amount may be subject to non-use fees. The DB Facility contains customary terms and conditions for repurchase facilities of this type and financial covenants to be met by the Company, including minimum shareholder's equity of 50% of the gross capital proceeds of its initial public offering and any subsequent public or private offerings. The weighted average cost of borrowing at June 30, 2016, was three-month LIBOR plus 2.98%.

As of June 30, 2016, the Company had \$274,341 of borrowings outstanding under the DB Facility secured by CMBS held by the Company.

Goldman Loan

On January 26, 2015, the Company, through an indirect wholly-owned subsidiary, entered into the Goldman Loan. The Goldman Loan provides for a purchase price of \$52,524 and a repurchase date of the earliest of: (1) April 30, 2019, (2) an early repurchase date as a result of repayment or sale of the purchased loan, or (3) an accelerated repurchase date as a result of certain events of default. Subject to the terms and conditions thereof, the Goldman Loan provides for the purchase and sale of certain participation interests in a mortgage loan secured by single-family and condominium properties. Prior to an event of

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default, amounts borrowed under the Goldman Loan bear interest at a spread of 3.5% plus one-month LIBOR. In addition, the Goldman Loan provides that margin calls may occur during the continuance of certain credit events if the market value of the mortgaged properties drop below an agreed upon percentage. The Goldman Loan contains affirmative and negative covenants and provisions regarding events of default that are normal and customary for similar repurchase agreements. The Company has agreed to the following restrictive covenants, among others: (1) continuing to operate in a manner that allows the Company to qualify as a REIT and (2) financial covenants, including (A) a minimum consolidated tangible net worth covenant (\$750,000), (B) maximum total indebtedness to consolidated tangible net worth (3:1), (C) minimum liquidity (\$15,000), (D) minimum sum of (i) cash liquidity and (ii) “near cash liquidity” (5.0% of the Company’s total recourse indebtedness), (E) minimum net income (one U.S. dollar during any four consecutive fiscal quarters) and (F) a minimum ratio of EBITDA to interest expense (1.5 to 1.0). The Company has also agreed to provide a guarantee of the obligations under the Goldman Loan.

As of June 30, 2016, the Company had \$43,333 of borrowings outstanding under the Goldman Loan secured by one commercial mortgage loan held by the Company.

### Convertible Senior Notes

In 2014, the Company issued, in two offerings with an aggregate principal amount of \$254,750 in 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.

### Cash Generated from Offerings

During the first quarter of 2015, the Company completed a follow-on public offering of 11,500,000 shares of its common stock, including the full exercise of the underwriters’ option to purchase additional shares, at a price of \$16.82 per share. The aggregate net proceeds from the offering, including proceeds from the sale of the additional shares, were approximately \$193,148 after deducting estimated offering expenses payable by the Company.

On September 21, 2015, the Company completed a private placement of 8,823,529 shares of its common stock at a price of \$17.00 per share and 8,000,000 shares of 8.00% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock (the “Series B Preferred Stock”) with a liquidation preference of \$25.00 per share at a price of \$24.71 per share. The aggregate net proceeds from the common and Series B Preferred Stock private placement completed on September 21, 2015 were approximately \$346,854 after deducting the \$500 placement agent fee paid to Apollo Global Securities, LLC acting as placement agent in this transaction and estimated offering expenses payable by the Company.

### Other Potential Sources of Financing

The Company’s primary sources of cash currently consist of cash available, which was \$38,631 as of June 30, 2016, principal and interest payments the Company receives on its portfolio of assets, and available borrowings under its repurchase agreements. The Company expects its other sources of cash to consist of cash generated from operations and the possible prepayments of principal received on the Company’s portfolio of assets. Such prepayments are difficult to estimate. At June 30, 2016, subject to certain conditions, the Company had \$168,478 in unused capacity under its JP Morgan Facility. Depending on market conditions, the Company may utilize additional borrowings as a source of cash, which may also include additional repurchase agreements as well as other borrowings such as credit facilities, or conduct additional securities 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 of 1986, as amended, the Company must distribute annually at least 90% of its taxable income. 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 repurchase agreements, 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



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Company is limited by certain financial covenants under its repurchase agreements. 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 Investment Company Act of 1940;
- 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;
- 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.

**Contractual Obligations and Commitments**

The Company's contractual obligations including expected interest payments as of June 30, 2016 are summarized as follows:

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Unfunded loan commitments***	\$ 132,921	\$ 22,215	\$ —	\$ —	\$ 155,136
JPMorgan Facility borrowings *	278,484	528,572	—	—	807,056
Goldman Loan *	6,902	40,348	—	—	47,250
UBS Facility borrowings **	67,228	71,013	—	—	138,241
DB Facility borrowings	91,254	170,338	11,762	15,362	288,716
Convertible Senior Notes	14,011	278,102	—	—	292,113
Total	\$ 590,800	\$ 1,110,588	\$ 11,762	\$ 15,362	\$ 1,728,512

\* Assumes current LIBOR of 0.47% for interest payments due under the JPMorgan Facility and the Goldman Loan.

\*\* Assumes extension options are exercised.

\*\*\* Based on the Company's expected funding schedule.

Merger agreement. On February 26, 2016, the Company entered into an Agreement and Plan of Merger (as amended, the "Merger Agreement") with Apollo Residential Mortgage, Inc., a Maryland corporation ("AMTG"), and Arrow Merger Sub, Inc., a Maryland corporation and a wholly-owned subsidiary of the Company (the "Merger Sub"), pursuant to which the Company will acquire AMTG for an aggregate purchase price equal to 89.25% of AMTG's book value determined in accordance with the Merger Agreement, plus the assumption of \$172,500 of AMTG's 8.0% Series A Cumulative Redeemable Perpetual Preferred Stock (the "AMTG Preferred Stock"). The book value of AMTG, and therefore the actual purchase price payable, was determined as of July 22, 2016 (the "Pricing Date"), and will be subject to adjustment in the event that the closing of the transactions contemplated by the Merger Agreement does not occur by September 5, 2016. The aggregate number of shares of Company common stock issuable under the Merger Agreement is limited to 13,400,000 shares at a value of \$16.75 per share, and the remainder of the consideration will be paid in cash. Upon the closing, each outstanding share of AMTG common stock will be converted into the right to receive (i) 0.417571 shares of Company common stock and (ii) \$6.86 in cash, without interest; provided, however, that the cash portion of the merger consideration may be subject to certain adjustments. In addition, each share of AMTG Preferred Stock will be converted into one share of preferred stock, par value \$0.01 per share, of a newly-designated series of the Company's preferred stock, which the Company expects will be designated as 8.00%

Series C Cumulative Redeemable Perpetual Preferred Stock.

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The Merger Agreement and related transactions were approved by all of the members of the Company's Board of Directors (with the exception of Mark Biderman, who recused himself). Consummation of the merger transaction is subject to the satisfaction of customary closing conditions, including the registration and listing of the shares of ARI stock that will be issued in the merger transaction and the approval and adoption of the Merger Agreement by the holders of a majority of the shares of AMTG common stock entitled to vote on the transaction, including a majority of the votes entitled to be cast by persons unaffiliated with Apollo Global Management, LLC. Company stockholder approval will not be required in connection with the transaction. On July 27, 2016, the Company filed with the SEC a definitive proxy statement/prospectus relating to the proposed transaction.

**Arrangements with Athene.** In connection with financing the transactions contemplated by the Merger Agreement, on February 26, 2016 the Company entered into certain arrangements with certain subsidiaries of Athene Holding Ltd., an insurance holding company whose operating subsidiaries' business is primarily issuing and reinsuring retirement savings products (collectively, "Athene"). The arrangements include (i) a bridge loan commitment from Athene USA Corporation, pursuant to which Athene has committed to provide the Company with up to \$200,000 of term loans to consummate the merger transaction, (ii) an asset purchase agreement which provides that, promptly following the closing of the merger transaction, the Company will sell to Athene approximately \$1,200,000 (subject to increase or decrease in certain circumstances) of primarily non-Agency Residential Mortgage Backed Securities at a price set as of the Pricing Date in accordance with the methodology set forth in the asset purchase agreement, and (iii) a stock purchase agreement, under which Athene has committed to purchase, during a specified period of time following the closing of the merger transaction, up to \$20,000 (subject to reduction in certain circumstances) of Company common stock in the open market at the then-current market price if the quoted price of a share of Company common stock on the New York Stock Exchange at any time during such period is less than \$16.75 (which is the value per share at which the Company common stock is to be issued to holders of AMTG common stock in the merger).

**Letter Agreement with the Manager.** Concurrently with the execution of the Merger Agreement, the Company entered into a Letter Agreement with the Manager, pursuant to which the Manager has agreed to perform such services and activities as may be necessary to enable the Company to consummate the merger transaction. In consideration of the services provided and to be provided to the Company by the Manager in connection with the merger transaction and the process leading to the merger transaction, the Company agreed to pay the Manager an aggregate amount of up to \$500, in monthly installments of \$150 payable on the first of each calendar month between the execution of the Merger Agreement and the closing of the merger transaction. Upon consummation of the merger transaction, an additional amount (based on an agreed formula) will be added to Stockholders' Equity (as defined in the Management Agreement) for purposes of calculating the amount of the management fee payable to the Manager under the Management Agreement. In addition, the Manager acknowledged that, as a result of the merger transaction, the management agreement between AMTG and its manager, ARM Manager, LLC (the "AMTG Management Agreement"), will be assigned to the Company and, following the merger transaction, any management fees paid by the Company to ARM Manager, LLC pursuant to the AMTG Management Agreement will offset, and therefore reduce (but not below zero), the Company's obligation to pay corresponding management fees to the Manager.

For additional details regarding the terms and conditions of the Merger Agreement, the arrangements with Athene and related matters, refer to the definitive proxy statement/prospectus filed with the SEC and mailed to AMTG stockholders on July 27, 2016, and to the Merger Agreement and other documentation filed as annexes thereto. The proxy statement/prospectus contains additional information regarding the proposed transaction, including risks associated with the proposed transaction.

**Bremer Kreditbank AG.** In September 2013, the Company, together with other affiliates of Apollo, reached an agreement to make an investment in an entity that agreed to acquire a minority participation in Bremer Kreditbank AG ("BKB"). The Company committed to invest up to approximately €38,000 (or \$50,000), representing approximately 21% of the ownership in BKB. 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 BKB.

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), reducing its then unfunded commitment to Champ LP to

€3,229 (or \$3,675). In June 2016, the Company transferred €427 of its unfunded commitment to Apollo, reducing its unfunded commitment to Champ LP to €2,802 (or \$3,113). Through its interest in Champ LP, the Company now holds an indirect ownership interest of approximately 9.34% in BKB.

**Loan Commitments.** At June 30, 2016, the Company had \$69,311 of unfunded commitments related to its commercial mortgage loan portfolio and \$85,825 of unfunded 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

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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 expires on September 29, 2016 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 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 2016, 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**

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 will be at the discretion of its board of directors and will depend upon, among other things, its actual results of operations. These results and the Company's ability to pay distributions will be 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.

The Company has 3,450,000 shares of Series A Preferred Stock outstanding, which entitles holders to receive dividends at an annual rate of 8.625% of the liquidation preference of \$25.00 per share, or \$2.16 per share per annum. The dividends on the Series A Preferred Stock are cumulative and payable quarterly in arrears. Except under certain limited circumstances, the Series A 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. After August 1, 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.

The Company has 8,000,000 shares of Series B Preferred Stock outstanding, which entitles holders to receive dividends that are payable quarterly in arrears. The Series B Preferred Stock will 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,

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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.

## Non-GAAP Financial Measures

## Operating Earnings

For the three and six months ended June 30, 2016, the Company's Operating Earnings were \$33,435, or \$0.49 per share, and \$63,258, or \$0.93 per share. For the three and six months ended June 30, 2015, the Company's Operating Earnings were \$26,385, or \$0.45 per share, and \$48,608, or \$0.89 per share. Operating Earnings is a non-GAAP financial measure that is used by the Company to approximate cash available for distribution and 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 or loss and (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.

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.

The primary limitation associated with Operating Earnings as a measure of the Company's financial performance over any period is that it excludes net realized and 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.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Net income available to common stockholders	\$4,478	\$ 22,798	\$ 17,281	\$ 46,449
Adjustments:				
Income from unconsolidated joint venture	(59 )	(384 )	(127 )	(384 )
Equity-based compensation expense	1,938	821	3,606	1,939
Provision for loan losses	15,000	—	15,000	—
Unrealized (gain) loss on securities	11,728	2,273	26,802	(1,136 )
Unrealized (gain) loss on derivative instruments	(13,313 )	3,197	(18,015 )	6,241
Foreign currency (gain) loss	13,082	(2,867 )	17,557	(5,588 )
Amortization of the 2019 Notes related to equity reclassification	582	547	1,154	1,087
Total adjustments:	28,958	3,587	45,977	2,159
Operating Earnings	\$33,435	\$ 26,385	\$ 63,258	\$ 48,608
Basic and diluted Operating Earnings per share of common stock	\$0.49	\$ 0.45	\$0.93	\$ 0.89
Basic weighted average shares of common stock outstanding	67,402,311	58,429,155	67,393,751	54,020,978
Diluted weighted average shares of common stock outstanding	68,374,557	59,022,217	68,351,137	54,621,401





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ITEM 3. 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 Company enhances 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 June 30, 2016, all of the Company's borrowings outstanding under the Goldman Loan, the JPM Facility and participations sold were floating-rate borrowings. At June 30, 2016, the Company also had floating rate assets with a face amount of \$1,816,228 resulting in net variable rate exposure of \$910,260. A 50 basis point increase in LIBOR would increase the quarterly net interest income related to this variable rate exposure by approximately \$1,138. 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. The Company does not anticipate facing prepayment risk on most of its portfolio of assets since the Company anticipates that most of the commercial loans held directly by the Company or securing the Company's CMBS assets will contain provisions preventing prepayment or imposing prepayment penalties in the event of loan prepayments.

Market Risk

Market value risk. The Company's available-for-sale securities and securities at estimated fair value are reflected at their estimated fair value. The change in estimated fair value of securities available-for-sale is reflected in accumulated other comprehensive income while the change in estimated fair value of securities at estimated fair value is reflected as a component of net income. The estimated fair value of these securities fluctuates primarily due to changes in interest rates and other factors. Generally, in a rising interest rate environment, the estimated fair value of these securities would be expected to decrease;



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conversely, in a decreasing interest rate environment, the estimated fair value of these securities would be expected to increase. As market volatility increases or liquidity decreases, the fair value of the Company's assets may be adversely impacted.

Real estate 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 will be 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 declared in order to distribute at least 90% of its REIT taxable income 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 4. Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer, based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, have concluded that as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to give reasonable assurances to the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Exchange Act, and the rules and regulations promulgated thereunder.

During the period ended June 30, 2016, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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.

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PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

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

After the announcement of the execution of the Merger Agreement, two putative class action lawsuits challenging the proposed First Merger (as defined in the Merger Agreement), captioned *Aivasian v. Apollo Residential Mortgage, Inc., et al.*, No. 24-C-16-001532 and *Wiener v. Apollo Residential Mortgage, Inc., et al.*, No. 24-C-16-001837, were filed in the Circuit Court for Baltimore City (the “Court”). A putative class and derivative lawsuit was later filed in the Court captioned *Crago v. Apollo Residential Mortgage, Inc.*, No. 24-C-16-002610. Following a hearing on May 6, 2016, the Court entered orders among other things, consolidating the three actions under the caption *In Re Apollo Residential Mortgage, Inc. Shareholder Litigation*, Case No.: 24-C-16-002610. The plaintiffs have designated the Crago complaint as the operative complaint. The operative complaint includes both direct and derivative claims, names as defendants AMTG, the board of directors of AMTG (the “AMTG Board”), ARI, Merger Sub, Apollo and Athene and alleges, among other things, that the members of the AMTG Board breached their fiduciary duties to the AMTG stockholders and that the other corporate defendants aided and abetted such fiduciary breaches. The operative complaint further alleges, among other things, that the proposed First Merger involves inadequate consideration, was the result of an inadequate and conflicted sales process, and includes unreasonable deal protection devices that purportedly preclude competing offers. It also alleges that the transactions with Athene are unfair and that the registration statement on Form S-4 filed with the SEC on April 6, 2016 contains materially misleading disclosures and omits certain material information. The operative complaint seeks, among other things, certification of the proposed class, declaratory relief, preliminary and permanent injunctive relief, including enjoining or rescinding the First Merger, unspecified damages, and an award of other unspecified attorneys’ and other fees and costs. On May 6, 2016, counsel for the plaintiffs filed with the Court a stipulation seeking the appointment of interim co-lead counsel, which stipulation was approved by the Court on June 9, 2016. The defendants believe that the claims asserted in the complaints are without merit and intend to vigorously defend the lawsuits.

ITEM 1A. Risk Factors

See the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 and the Company’s registration statement on Form S-4 (Registration No. 333-210632). There have been no material changes to the Company’s risk factors during the six months ended June 30, 2016 other than the risk factors disclosed in the Company’s registration statement on Form S-4 (Registration No. 333-210632).

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

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Exhibit No. Description

- 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 8.625% Series A Cumulative Redeemable Perpetual Preferred Stock, liquidation preference \$25.00 per share, par value \$0.01 per share, incorporated by reference to Exhibit 3.3 of the Registrant's Form 8-A filed on July 30, 2012 (File No.: 001-34452).
- 3.3 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).
- 3.4 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 Form of stock certificate evidencing the 8.625% Series A 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 July 30, 2012 (File No.: 001-34452).
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- 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.

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- 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.
- 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
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\*Filed herewith.

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SIGNATURES

Pursuant to the requirements 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.

July 28, 2016

By: /s/ Stuart A. Rothstein  
Stuart A. Rothstein  
President and Chief Executive Officer  
(Principal Executive Officer)

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



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