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Apollo Commercial Real Estate Finance, Inc.
Form 10-Q
August 01, 2017

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

FORM 10-Q

(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, 2017

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

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

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)

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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

Emerging growth company

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

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

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 31, 2017, there were 105,438,209 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, 2017	December 31, 2016
Assets:		
Cash and cash equivalents	\$214,016	\$ 200,996
Restricted cash	57,665	62,457
Securities, at estimated fair value	254,484	331,076
Securities, held-to-maturity	—	146,352
Commercial mortgage loans, held for investment, net	2,037,971	1,641,856
Subordinate loans, held for investment, net	1,240,363	1,051,236
Investment in unconsolidated joint venture	—	22,103
Derivative assets, net	—	5,906
Interest receivable	21,998	19,281
Other assets, net	40	1,714
Total Assets	\$3,826,537	\$ 3,482,977
Liabilities and Stockholders' Equity		
Liabilities:		
Borrowings under repurchase agreements (net of deferred financing costs of \$9,345 and \$6,763 in 2017 and 2016, respectively)	\$ 1,330,909	\$ 1,139,803
Convertible senior notes, net	250,949	249,994
Participations sold	—	84,979
Derivative liabilities, net	4,435	—
Accounts payable, accrued expenses and other liabilities	12,346	17,681
Payable to related party	7,742	7,015
Dividends payable	57,464	51,278
Total Liabilities	1,663,845	1,550,750
Commitments and Contingencies (see Note 14)		
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 2017 and 2016	35	35
Series B preferred stock, 8,000,000 shares issued and outstanding (\$200,000 aggregate liquidation preference) in 2017 and 2016	80	80
Series C preferred stock, 6,900,000 shares issued and outstanding (\$172,500 aggregate liquidation preference) in 2017 and 2016	69	69
Common stock, \$0.01 par value, 450,000,000 shares authorized, 105,437,919 and 91,422,676 shares issued and outstanding in 2017 and 2016, respectively	1,054	914
Additional paid-in-capital	2,236,694	1,983,010
Accumulated deficit	(75,240)	(48,070)
Accumulated other comprehensive loss	—	(3,811)
Total Stockholders' Equity	2,162,692	1,932,227
Total Liabilities and Stockholders' Equity	\$3,826,537	\$ 3,482,977

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,	
	2017	2016	2017	2016
Net interest income:				
Interest income from securities	\$3,366	\$ 7,607	\$6,622	\$ 15,656
Interest income from securities, held to maturity	1,334	2,826	4,132	5,722
Interest income from commercial mortgage loans	37,089	24,140	71,487	45,267
Interest income from subordinate loans	39,640	28,067	74,030	57,442
Interest expense	(19,205)	(15,722)	(36,235)	(30,364)
Net interest income	62,224	46,918	120,036	93,723
Operating expenses:				
General and administrative expenses (includes \$3,461 and \$7,252 of equity based compensation in 2017 and \$1,938 and \$3,606 of equity compensation in 2016, respectively)	(5,200)	(4,922)	(10,958)	(13,104)
Management fees to related party	(7,742)	(5,242)	(15,175)	(10,471)
Total operating expenses	(12,942)	(10,164)	(26,133)	(23,575)
Income (loss) from unconsolidated joint venture	(3,305)	59	(2,847)	127
Other income	244	22	352	25
Provision for loan losses and impairments	(5,000)	(15,000)	(5,000)	(15,000)
Realized (loss) on sale of assets	—	—	(1,042)	—
Unrealized (loss) on securities	(4,510)	(11,728)	(1,658)	(26,802)
Foreign currency gain (loss)	6,913	(13,082)	10,085	(17,557)
Gain (loss) on derivative instruments (includes unrealized gains (losses) of (\$7,435) and (\$10,324) in 2017 and \$13,408 and \$12,026 in 2016, respectively)	(7,389)	13,313	(10,434)	18,015
Net income	36,235	10,338	83,359	28,956
Preferred dividends	\$(9,310)	\$(5,860)	\$(18,620)	\$(11,675)
Net income available to common stockholders	26,925	4,478	64,739	17,281
Basic and diluted net income per share of common stock	\$0.28	\$ 0.06	\$0.68	\$0.24
Basic weighted average shares of common stock outstanding	95,428,134	67,402,311	93,530,831	67,393,751
Diluted weighted average shares of common stock outstanding	96,796,288	68,374,557	94,907,762	68,351,137
Dividend declared per share of common stock	\$0.46	\$ 0.46	\$0.92	\$0.92

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,	
	2017	2016	2017	2016
Net income available to common stockholders	\$26,925	\$4,478	\$64,739	\$17,281
Foreign currency translation adjustment	3,560	(492)	3,811	426
Comprehensive income	\$30,485	\$3,986	\$68,550	\$17,707

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, 2017	18,350,000	\$ 184	91,422,676	\$ 914	\$ 1,983,010	\$ (48,070)	\$ (3,811)	\$ 1,932,227
Capital increase related to Equity Incentive Plan	—	—	215,243	2	4,922	—	—	4,924
Issuance of restricted common stock	—	—	—	—	—	—	—	—
Issuance of common stock	—	—	13,800,000	138	248,882	—	—	249,020
Offering costs	—	—	—	—	(120)	—	—	(120)
Net income	—	—	—	—	—	83,359	—	83,359
Change in other comprehensive loss	—	—	—	—	—	—	3,811	3,811
Dividends on common stock	—	—	—	—	—	(91,910)	—	(91,910)
Dividends on preferred stock	—	—	—	—	—	(18,619)	—	(18,619)
Balance at June 30, 2017	18,350,000	\$ 184	105,437,919	\$ 1,054	\$ 2,236,694	\$ (75,240)	\$ —	\$ 2,162,692

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, 2017	Six months ended June 30, 2016
Cash flows provided by operating activities:		
Net income	\$83,359	\$28,956
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of discount/premium and PIK interest	(7,934)	(4,445)
Amortization of deferred financing costs	2,761	2,038
Equity-based compensation	4,921	1,258
Unrealized loss on securities	1,658	26,802
Provision for loan losses and impairment	5,000	15,000
Income (loss) from unconsolidated joint venture	2,259	(127)
Foreign currency (gain) loss	(10,014)	17,559
Realized (gain) loss on derivative instruments	110	(5,989)
Unrealized loss on derivative instruments	10,433	(12,026)
Realized loss on sale of security	1,042	—
Changes in operating assets and liabilities:		
Accrued interest receivable, less purchased interest	(16,717)	(16,888)
Other assets	(1,017)	(9,117)
Accounts payable, accrued expenses and other liabilities	(5,127)	2,124
Payable to related party	728	(55)
Net cash provided by operating activities	71,462	45,090
Cash flows used in investing activities:		
Funding of commercial mortgage loans, net of fees received	(395,177)	(313,607)
Funding of subordinate loans, net of fees received	(222,296)	(40,920)
Funding of unconsolidated joint venture	(726)	(362)
Funding of other assets	(1,379)	—
Proceeds (payments) on settlements of derivative instruments	(201)	5,989
Increase in collateral held related to derivative contracts	(22)	13,210
Proceeds from sale of securities	69,248	—
Proceeds from sale of investment in unconsolidated joint venture	24,498	—
Payments received on securities	1,930	14,545
Payments received on securities, held-to-maturity	146,530	1,500
Payments received on commercial mortgage loans	10,452	36,044
Payments received on subordinate loans	58,740	26,538
Payments received on other assets	—	51
Net cash used in investing activities	(308,403)	(257,012)
Cash flows from financing activities:		
Proceeds from issuance of common stock	249,021	—
Payment of offering costs	(359)	(45)
Proceeds from repurchase agreement borrowings	464,153	380,458
Repayments of repurchase agreement borrowings	(272,878)	(80,137)
Repayments of participations sold	(85,081)	(1,013)
Payment of deferred financing costs	(5,343)	(2,846)

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Dividends on common stock	(85,724)	(63,183)
Dividends on preferred stock	(18,620)	(12,786)
Net cash provided by financing activities	245,169	220,448
Net increase in cash, cash equivalents, and restricted cash	8,228	8,527
Cash, cash equivalents, and restricted cash, beginning of period	263,453	97,542
Cash, cash equivalents, and restricted cash, end of period	\$271,681	\$106,069
Supplemental disclosure of cash flow information:		
Interest paid	\$11,916	\$26,991
Supplemental disclosure of non-cash investing and financing activities:		
Dividend declared, not yet paid	\$57,464	\$36,427
Offering costs payable	\$41	\$220

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

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

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying 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, loan loss reserves and impairment. 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, 2016, 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 three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year or any other future period.

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

Under Financial Accounting Standards Board (the “FASB”) ASC Topic 805, “Business Combinations”, or ASC 805, the acquirer in a business combination must recognize, with certain exceptions, the fair values of assets acquired, liabilities assumed, and non-controlling interests when the acquisition constitutes a change in control of the acquired entity. We applied the provisions of ASC 805 in accounting for the Company’s acquisition of AMTG. In doing so, we recorded provisional amounts for certain items as of the date of the acquisition, including the fair value of certain assets and liabilities. During the measurement period, a period which shall not exceed one year, the Company retrospectively adjusted the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of such date that, if known, would have affected the measurement of the amounts recognized. See further discussion in “Note 17 - Business Combination.”

The Company currently operates in one business segment.

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Recent Accounting Pronouncements

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

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

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

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

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

periods presented. The following is a reconciliation of the Company's cash, cash equivalents, and restricted cash to the total presented in the Company's condensed consolidated statement of cash flows for the six months ended June 30, 2017 and June 30, 2016:

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	Six months ended June 30,	
	2017	2016
Cash and cash equivalents	\$214,016	\$38,631
Restricted cash	57,665	67,438
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statement of cash flows	\$271,681	\$106,069

Note 3 – Fair Value Disclosure

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

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

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

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

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

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

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

spot rates, forward rates and interest rate curves for the underlying countries. The Company's derivative instruments are classified as Level II in the fair value hierarchy.

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The following table summarizes the levels in the fair value hierarchy into which the Company's financial instruments were categorized as of June 30, 2017 and December 31, 2016:

	Fair Value as of June 30, 2017			Fair Value as of December 31, 2016		
	Level II	Level III	Total	Level II	Level III	Total
CMBS (Fair Value Option)	\$—	\$254,484	\$254,484	\$—	\$—	\$—
Derivative instruments, net	\$(4,435)	—	\$(4,435)	\$(5,906)	—	\$(5,906)
Total	\$(4,435)	\$254,484	\$250,049	\$(5,906)	—	\$(5,906)

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

	CMBS
Fair value at December 31, 2016	\$—
Transfers into Level III ⁽¹⁾	254,484
Fair value at June 30, 2017	\$254,484

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

The following table summarizes information about significant unobservable inputs used in the fair value measurement of Level III investments as of June 30, 2017. There were no Level III investments as of December 31, 2016:

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input	
			Input	Range
CMBS	254,484	Broker quotes	Price ⁽¹⁾	63 - 100

(1) A significant increase (decrease) in the unobservable input in isolation would result in significantly higher (lower) fair value measurement.

Note 4 – Securities

At June 30, 2017, 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 7 - 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 hotel 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 that due to its continuing involvement, the transaction should not be accounted for as a sale. During August 2014, both the \$90,000 senior participation and the Company's \$65,000 junior participation were contributed to a CMBS securitization. In exchange for contributing its \$65,000 junior participation, the Company received a CMBS secured solely by the \$65,000 junior participation.

During May 2017, the loan and associated CMBS (Held-to-Maturity) were fully repaid and the related Securities, held-to-maturity and participation sold line items were removed from the Company's condensed consolidated balance sheet.

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The amortized cost and estimated fair value of the Company's debt securities at June 30, 2017 are summarized as follows:

Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
CMBS (Fair Value Option)	\$300,064	\$293,312	\$ 147	\$(38,975)	\$254,484

During the six months ended June 30, 2017, the Company sold securities resulting in a net realized loss of \$1,042.

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

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

During the six months ended June 30, 2016, the Company did not sell any securities.

The overall statistics for the Company's CMBS (Fair Value Option) calculated on a weighted average basis as of June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017	December 31, 2016		
Credit Ratings *	B-NR	B+-NR		
Coupon	5.8	% 5.9	%	
Yield	4.6	% 6.0	%	
Weighted Average Life	2.3 years	2.5 years		

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

The percentage vintage, property type and location of the collateral securing the Company's CMBS (Fair Value Option) calculated on a weighted average basis as of June 30, 2017 and December 31, 2016 are as follows:

Vintage	June 30, 2017	December 31, 2016		
2005	0.9	% 2.0	%	
2006	15.4	12.1		
2007	68.0	73.5		
2008	15.7	12.4		
Total	100.0	% 100.0	%	

Property Type	June 30, 2017	December 31, 2016		
Office	35.8	% 34.6	%	
Retail	30.6	29.0		
Multifamily	12.4	12.4		
Other ⁽¹⁾	21.2	24.0		
Total	100.0	% 100.0	%	

(1) No other individual category comprises more than 10% of the total.

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Location	June 30, December 31,			
	2017	%	2016	%
South Atlantic	26.9	%	23.8	%
Middle Atlantic	16.5		16.7	
Pacific	14.3		15.3	
East North Central	14.4		10.8	
Other ⁽¹⁾	27.9		33.4	
Total	100.0	%	100.0	%

(1) No other individual category comprises more than 10% of the total.

Note 5 – Loans, Held for Investment

The Company's loans receivable are comprised of the following:

Loan Type	June 30,	December
	2017	31, 2016
Commercial mortgage loans, held for investment, net	\$2,037,971	\$1,641,856
Subordinate loans, held for investment, net	1,240,363	1,051,236
Total loans, held for investment, net	\$3,278,334	\$2,693,092

Activity relating to our loans, held for investment portfolio was as follows:

	Principal Balance	Deferred Fees/Other Items ⁽¹⁾	Provision for Loan Loss ⁽²⁾	Carrying Value
December 31, 2016	2,720,344	(12,252)	(15,000)	2,693,092
Loan fundings	624,602	—	—	624,602
Loan repayments	(69,192)	—	—	(69,192)
Unrealized gain on foreign currency translation	12,376	—	—	12,376
Provision for loan loss ⁽²⁾	—	—	(1,981)	(1,981)
Deferred fees and other items ⁽¹⁾	—	(7,141)	—	(7,141)
PIK interest, amortization of fees and other items ⁽¹⁾	14,000	12,578	—	26,578
June 30, 2017	3,302,130	(6,815)	(16,981)	3,278,334

(1) Other items primarily consist of purchase discounts or premiums, exit fees, and deferred origination expenses.

(2) In addition to the \$1,981 provision for loan loss, the Company recorded an impairment of \$3,019 against a related investment previously recorded under other assets on the Company's condensed consolidated balance sheet.

The following table details overall statistics for our loan portfolio:

	June 30, 2017	December 31, 2016
Number of loans	52	45
Principal balance	\$3,302,130	\$2,720,344
Carrying value	\$3,278,334	\$2,693,092
Unfunded loan commitments ⁽¹⁾	\$119,813	\$170,365
Weighted-average cash coupon ⁽²⁾	8.55 %	8.88 %

Unfunded loan commitments are primarily funded to finance property improvements or lease-related expenditures (1) by the borrowers. These future commitments are funded over the term of each loan, subject in certain cases to an expiration date.

(2)

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For floating rate loans, assumes one-month LIBOR of 1.22% and 0.77%, as of June 30, 2017 and December 31, 2016, respectively.

The tables below detail the property type and geographic distribution of the properties securing the loans in our portfolio:

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Property Type	June 30, 2017		December 31, 2016	
	Carrying Value	% of Portfolio	Carrying Value	% of Portfolio
Hotel	\$702,447	21.4%	\$408,428	15.2%
Residential - for sale	547,113	16.7%	469,997	17.5%
Urban Retail Predevelopment	583,241	17.8%	491,187	18.2%
Office	257,291	7.8%	255,031	9.5%
Residential Rental	290,152	8.9%	309,243	11.5%
Mixed Use	253,649	7.7%	134,797	4.9%
Retail Center	240,902	7.3%	209,401	7.8%
Healthcare	172,872	5.3%	170,549	6.3%
Industrial	157,040	4.8%	156,809	5.8%
Other	73,627	2.3%	87,650	3.3%
Total	\$3,278,334	100%	\$2,693,092	100%

Geographic Location	June 30, 2017		December 31, 2016	
	Carrying Value	% of Portfolio	Carrying Value	% of Portfolio
New York City	\$1,255,668	38.3%	\$1,034,303	38.4%
Midwest	498,767	15.2%	405,992	15.1%
Southeast	596,664	18.2%	332,276	12.3%
United Kingdom	252,881	7.7%	244,756	9.1%
West	226,977	6.9%	219,664	8.2%
Mid Atlantic	198,501	6.1%	263,717	9.8%
Southwest	25,000	0.8%	54,614	2%
Northeast	181,987	5.5%	137,770	5.1%
Other International	41,889	1.3%	—	—%
Total	\$3,278,334	100%	\$2,693,092	100%

The Company evaluates its loans for possible impairment on a quarterly basis. The Company regularly evaluates the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations are sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan and/or (iii) the property's liquidation value. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, the Company considers the overall economic environment, real estate sector and geographic sub-market in which the borrower operates. Such loan loss analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including (i) periodic financial data such as debt service coverage ratio, property occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, and capitalization and discount rates, (ii) site inspections and (iii) current credit spreads and discussions with market participants. 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 second quarter of 2017, the Company recorded a loan loss provision of \$1,981 on a commercial mortgage loan secured by fully-built, for-sale residential condominium units located in Bethesda, MD. In addition to the \$1,981 provision for loan loss, the Company recorded an impairment of \$3,019 on a related investment previously recorded under other assets on the Company's condensed consolidated balance sheet. The loan loss provision and impairment was based on the difference between fair value of the underlying collateral, and the carrying value of the loan (prior to

the loan loss provision and related impairment). Fair value of the collateral was determined using a discounted cash flow analysis. The significant unobservable

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inputs used in determining the collateral value were sales price per square foot and discount rate which were an average of \$678 dollars per square foot across properties and 15%, respectively. Effective April 1, 2017, the Company has ceased accruing all interest associated with the loan and accounts for the loan on a cost-recovery basis (all proceeds are applied towards the loan balance).

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

As of June 30, 2017, the aggregate loan loss provision was \$11,981 and \$5,000 for commercial mortgage loans and subordinate loans, respectively. As of December 31, 2016, the aggregate loan loss provision was \$10,000 and \$5,000 for commercial mortgage loans and subordinate loans, respectively.

Note 6 – Unconsolidated Joint Venture

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

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

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

In January 2015, the Company funded an additional investment of €3,331 (or \$3,929) related to its investment in Champ LP. In February 2015, the Company sold approximately 48% of its ownership interest in Champ LP at cost to an investment fund managed by Apollo for €16,314 (or \$20,794) (of which \$2,614 related to foreign exchange losses which were previously included in accumulated other comprehensive loss). In June 2016, the Company transferred €427 of its unfunded commitment to Apollo, reducing its unfunded commitment to Champ LP to €2,802 (or \$2,985). In May 2017, the Company sold its remaining ownership interest in Champ LP to unaffiliated third parties for €21,792 or \$24,498, resulting in a loss of \$3,305. As of June 30, 2017, the Company had no interest in Champ LP.

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Note 7 – Borrowings Under Repurchase Agreements

At June 30, 2017 and December 31, 2016, the Company's borrowings had the following outstanding balances, maturities and weighted average interest rates:

Lender	June 30, 2017				December 31, 2016			
	Maximum Amount of Borrowings	Borrowings Outstanding	Maturity ⁽¹⁾	Weighted Average Rate ⁽²⁾	Maximum Amount of Borrowings	Borrowings Outstanding	Maturity ⁽¹⁾	Weighted Average Rate ⁽²⁾
JPMorgan Facility ⁽³⁾	\$ 1,118,000	\$ 794,404	March 2020	L+2.26%	\$ 943,000	\$ 657,452	January 2019	L+2.25%
DB Repurchase Facility ⁽⁴⁾	563,813	263,980	March 2020	L+2.56%	300,000	137,355	September 2019	L+2.66%
Goldman Loan	37,700	37,700	April 2019	L+3.50%	N/A	40,657	April 2019	L+3.50%
Sub-total	1,719,513	1,096,084		L+2.37%		835,464		L+2.38%
UBS Facility	133,899	100,798	September 2018	2.77 %	N/A	133,899	September 2018	2.79 %
DB Facility ⁽⁵⁾	300,000	143,372	April 2018	3.59 %	N/A	177,203	April 2018	3.63 %
Sub-total	433,899	244,170		3.25 %		311,102		3.27 %
Less: deferred financing costs	N/A	(9,345)		N/A	N/A	(6,763)		N/A
Total / Weighted Average	\$ 2,153,412	\$ 1,330,909		3.53 %		\$ 1,139,803		3.18 %

(1) Maturity date assumes all extensions are exercised.

(2) Assumes one-month LIBOR was 1.22% and 0.77% as of June 30, 2017 and December 31, 2016, respectively.

(3) As of June 30, 2017, the Company's master repurchase agreement with JPMorgan Chase Bank, National Association

(the "JPMorgan Facility") provided for maximum total borrowings comprised of the \$975,000 repurchase facility and a \$143,000 asset specific financing.

(4) As of June 30, 2017, the Company's master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch (the "DB Repurchase Facility") provided for maximum total borrowings comprised of the \$450,000 and £45,000 repurchase facility and a \$55,200 asset specific financing.

(5) 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, 2017, 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	\$ 436,546	\$ 357,858	\$ —	—	\$ 794,404

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DB Repurchase Facility	58,613	205,367	—	—	263,980
Goldman Loan	—	37,700	—	—	37,700
UBS Facility	—	100,798	—	—	100,798
DB Facility	143,372	—	—	—	143,372
Total	\$638,531	\$701,723	\$ —	—	—\$1,340,254

At June 30, 2017, the Company's collateralized financings were comprised of borrowings outstanding under the JPMorgan Facility, the DB Repurchase Facility, the Company's repurchase agreement with Goldman Sachs Bank USA (the "Goldman Loan"), the UBS Facility and the DB Facility. The table below summarizes the outstanding balances at June 30, 2017, as well as the maximum and average month-end balances for the six months ended June 30, 2017 for the Company's borrowings under repurchase agreements.

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	For the six months ended June 30, 2017		
	Balance at June 30, 2017	Maximum Balance	Month-End Balance
JPMorgan Facility borrowings	\$794,404	\$ 894,031	\$ 832,685
DB Repurchase Facility borrowings	263,980	367,010	297,148
Goldman Loan borrowings	37,700	39,590	38,707
UBS Facility borrowings	100,798	133,899	111,832
DB Facility borrowings	143,372	177,203	149,453
Total	\$1,340,254		

JPMorgan Facility

On March 31, 2017, the Company, through two indirect wholly owned subsidiaries, amended and restated the JPMorgan Facility, which currently provides for maximum total borrowings of \$1,118,000, comprised of the \$975,000 repurchase facility and a \$143,000 asset specific financing, and a term expiring in March 2019 plus a one-year extension option available at the Company's option, subject to certain conditions. Amounts borrowed under the JPMorgan Facility bear interest at spreads ranging from 2.25% to 4.75% over one-month LIBOR. Margin calls may occur any time the aggregate repurchase price exceeds the agreed upon advance rate multiplied by the market value of the assets by more than \$250. The Company has agreed to provide a limited guarantee of the obligations of its indirect wholly-owned subsidiaries under the JPMorgan Facility.

As of June 30, 2017, the Company had \$794,404 of borrowings outstanding under the JPMorgan Facility secured by certain of the Company's commercial mortgage and subordinate loans.

DB Repurchase Facility

On September 29, 2016, the Company, through indirect wholly-owned subsidiaries, entered into the DB Repurchase Facility which provides for maximum total borrowings of \$563,813 comprised of the \$450,000 and £45,000 repurchase facility and a \$55,200 asset specific financing in connection with financing first mortgage loans secured by real estate. The DB Repurchase Facility matures in March 2018 with two one-year extension options available at the Company's option, subject to certain conditions. Amounts borrowed under the DB Repurchase Facility bear interest at spreads ranging from 2.10% to 3.00% over one-month LIBOR. Margin calls may occur any time at specified aggregate margin deficit thresholds. The Company has agreed to provide a guarantee of the obligations of its indirect wholly-owned subsidiaries under this facility.

As of June 30, 2017, the Company had \$263,980 borrowings outstanding under the DB Repurchase Facility secured by certain of the Company's commercial mortgage loans.

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 \$37,700 (as of June 30, 2017) 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 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, 2017, the Company had \$37,700 of borrowings outstanding under the Goldman Loan secured by one commercial mortgage loan held by the Company.

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.

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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 posted agreed-upon initial margin in cash and is required to post additional margin based on the fair value of the underlying collateral. 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 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, 2017, the Company had \$100,798 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 \$300,000 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.

The Company posted agreed-upon initial margin in cash and is required to post additional margin based on the fair value of the underlying collateral. The margin posted is classified as restricted cash on the Company's condensed consolidated balance sheets.

Additionally, the undrawn amount is subject to a 1.8% non-use fee. The DB Facility contains customary terms and conditions for 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.

As of June 30, 2017, the Company had \$143,372 of borrowings outstanding under the DB Facility secured by CMBS held by the Company.

The Company was in compliance with the financial covenants under its borrowing agreements at June 30, 2017 and December 31, 2016.

Note 8 – Convertible Senior Notes

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, 2017, the March 2019 Notes had a carrying value of \$142,007 and an unamortized discount of \$1,743.

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, 2017, the August 2019 Notes had a carrying value of \$108,942 and an unamortized discount of \$2,058.

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%	57.1177	3/15/2019	1.71 years
August 2019 Notes	\$111,000	5.50%	6.50%	57.1177	3/15/2019	1.71 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 (2)2019 Notes converted, and includes adjustments relating to cash dividend payments made by the Company to stockholders that have been deferred and carried-forward in accordance with, and are not yet required to be made pursuant to, the terms of the applicable supplemental indenture.

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The Company may not redeem the 2019 Notes prior to maturity. The sale price of the Company's common stock on June 30, 2017 of \$18.55 was greater than the per share conversion price of the 2019 Notes. The Company has the intent and ability to settle the 2019 Notes in cash and, as a result, the 2019 Notes did not have any impact on the Company's diluted earnings per share.

In accordance with ASC 470 the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) is to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. GAAP requires that the initial proceeds from the sale of the 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, 2017. 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, 2017, respectively. The aggregate contractual interest expense was approximately \$3,503 and \$7,006 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 \$913 and \$1,814 for the three and six months ended June 30, 2017, 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.

Note 9 – Participations Sold

Participations sold represent the interests in loans the Company originated and subsequently partially sold. The Company presents the participations sold as both assets and non-recourse liabilities because the participation does not qualify as a sale according to ASC 860, Transfers and Servicing. The income earned on the participation sold is recorded as interest income and an identical amount is recorded as interest expense on the Company's 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, the Company closed an additional £20,000 (or \$30,672) and participated that balance to an investment fund affiliated with Apollo. During December 2016, the Company qualified for sale accounting with respect to the previous participation sold that was converted to a discrete financial instrument, and therefore deconsolidated the participation sold.

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

Note 10 – 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 March 2018. 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 the Company's non-designated foreign exchange ("Fx") forwards as of June 30, 2017:

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Type of Derivative June 30, 2017

Type of Derivative	Number of Contracts	Aggregate Notional Amount	Notional Currency	Maturity
Fx Contracts - GBP	9	156,458	GBP	July 2017- March 2018

The following table summarizes the Company's non-designated Fx forwards as of December 31, 2016:

Type of Derivative December 31, 2016

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

The Company has not designated any of its derivative instruments as hedges as defined in ASC 815, Derivatives and Hedging and, therefore, changes in the fair value of the Company's derivative instruments are recorded directly in earnings. The following table summarizes the amounts recognized on the condensed consolidated statements of operations related to the Company's derivative instruments for the three and six months ended June 30, 2017 and 2016.

Location of Loss Recognized in Income	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Forward currency contract Gain (loss) on derivative instruments - unrealized	\$(7,438)	\$13,426	\$(10,321)	\$12,116
Forward currency contract Gain (loss) on derivative instruments - realized	46	(95)	(110)	5,989
Interest rate caps ⁽¹⁾ Gain (loss) on derivative instruments - unrealized	3	(18)	(3)	(90)
Sub-total	\$(7,389)	\$13,313	\$(10,434)	\$18,015
Forward currency contract Income (loss) from unconsolidated joint venture	(587)	—	(587)	—
Total	\$(7,976)	\$13,313	\$(11,021)	\$18,015

(1) With a notional amount of \$42,830 and \$48,120 at June 30, 2017 and 2016, respectively.

The following table summarizes the gross asset and liability amounts related to the Company's derivative instruments at June 30, 2017 and December 31, 2016.

	June 30, 2017			December 31, 2016		
	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheet	Gross Amount of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet
Interest rate caps	\$—	\$ 3	\$ 3	\$23	\$ —	\$ 23
Forward currency contract	(4,691)) 253	(4,438)) 5,883	—	5,883
Total derivative instruments	\$(4,691)	\$ 256	\$(4,435)) \$5,906	\$ —	\$ 5,906

Note 11 – Related Party Transactions

AMTG Merger

As fully described in "Note 17- Business Combination", in August 2016, the Company acquired AMTG, an entity managed by an affiliate of Apollo.

Management Agreement

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

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

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

For the three and six months ended June 30, 2017, the Company incurred approximately \$7,742 and \$15,175, respectively, in base management fees under the Management Agreement. 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. 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, 2017, the Company paid expenses totaling \$76 and \$194, respectively, 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, 2016, the Company paid expenses totaling \$44 and \$842, respectively, 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, 2017 and December 31, 2016 are approximately \$7,742 and \$7,015, respectively, 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 \$2,985).

In May 2017, the Company sold its remaining ownership interest in Champ LP, to unaffiliated third parties for €21,792 or \$24,498, resulting in a loss of \$3,305. As of June 30, 2017, the Company had no interest in Champ LP.

Loans receivable

In June, 2017, the Company increased its outstanding loan commitment through the acquisition of an additional \$25,000 of interests in an existing pre-development mezzanine loan from a fund managed by an affiliate of the Manager, increasing the Company's total outstanding loan commitment to \$100,000. The pre-development mezzanine loan is for the construction of a residential condominium building in New York, New York and is part of a \$300,000 mezzanine loan.

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Note 12 – Share-Based Payments

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

The Company recognized stock-based compensation expense of \$3,461 and \$7,252, respectively, for the three and six months ended June 30, 2017, related to restricted stock and RSU vesting. The Company recognized stock-based compensation expense of \$1,938 and \$3,606, respectively, for the three and six months ended June 30, 2016, related to restricted common stock and RSU vesting. The following table summarizes the activity related to restricted common stock and RSUs during the six months ended June 30, 2017:

Type	Date	Restricted Stock	RSUs	Estimated Fair Value on Grant Date	Initial Vesting	Final Vesting
Outstanding at December 31, 2016		150,110	1,703,775			
Cancelled upon delivery	January 2017	—	(332,349)	n/a	n/a	n/a
Vested	January 2017	(5,161)	—	n/a	n/a	n/a
Forfeiture	March 2017	—	(1,971)	n/a	n/a	n/a
Vested	April 2017	(5,164)	—	n/a	n/a	n/a
Grant	April 2017	14,674	—	\$ 275	April 2018	April 2020
Canceled upon delivery	May 2017	—	(1,971)	n/a	n/a	n/a
Outstanding at June 30, 2017		154,459	1,367,484			

Below is a summary of restricted stock and RSU vesting dates as of June 30, 2017.

Vesting Date	Restricted Stock Vesting	RSU Vesting	Total Awards
July 2017	4,004	544	4,548
October 2017	3,997	—	3,997
December 2017	53,923	601,218	655,141
January 2018	2,749	—	2,749
April 2018	7,645	—	7,645
June 2018	—	544	544
July 2018	1,420	—	1,420
October 2018	1,424	—	1,424
December 2018	41,670	484,066	525,736
January 2019	1,419	—	1,419
April 2019	6,314	—	6,314
December 2019	25,000	281,112	306,112
April 2020	4,894	—	4,894
	154,459	1,367,484	1,521,943

At June 30, 2017, the Company had unrecognized compensation expense of approximately \$2,063 and \$19,937, respectively, related to the vesting of restricted stock awards and RSUs noted in the table above.

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RSU Deliveries

During the six months ended June 30, 2017, the Company delivered 200,569 shares of common stock for 334,320 vested RSUs. The Company allows RSU participants to settle their tax liabilities with a reduction of their share delivery from the originally granted and vested RSUs. The amount, when agreed to by the participant, results in a cash payment to the Manager related to this tax liability and a corresponding adjustment to additional paid-in-capital on the condensed consolidated statement of changes in stockholders' equity. The adjustment was \$2,330 for the six months ended June 30, 2017, and is included as a reduction of capital increase related to the Company's equity incentive plan in the condensed consolidated statement of changes in stockholders' equity.

Note 13 – Stockholders' Equity

The Company's authorized capital stock consists of 450,000,000 shares of common stock, \$0.01 par value per share and 50,000,000 shares of preferred stock, \$0.01 par value per share. As of June 30, 2017, 105,437,919 shares of common stock

were issued and outstanding and there were 3,450,000 shares of 8.625% Series A Cumulative Redeemable Perpetual Preferred

Stock ("Series A Preferred Stock") issued and outstanding, 8,000,000 shares of 8.00% Fixed-to-Floating Series B Cumulative

Redeemable Perpetual Preferred Stock ("Series B Preferred Stock") issued and outstanding and 6,900,000 shares of 8.00%

Fixed-to-Floating Series C Cumulative Redeemable Perpetual Preferred Stock ("Series C Preferred Stock") issued and outstanding.

Dividends. During 2017, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Per Share
March 14, 2017	March 31, 2017	April 17, 2017	\$0.4600
June 15, 2017	June 30, 2017	July 17, 2017	\$0.4600

During 2017, the Company declared the following dividends on its Series A Preferred Stock:

Declaration Date	Record Date	Payment Date	Per Share
March 14, 2017	March 31, 2017	April 17, 2017	\$0.5391
June 15, 2017	June 30, 2017	July 17, 2017	\$0.5391

During 2017, the Company declared the following dividends on its Series B Preferred Stock:

Declaration Date	Record Date	Payment Date	Per Share
March 14, 2017	March 31, 2017	April 17, 2017	\$0.5000
June 15, 2017	June 30, 2017	July 17, 2017	\$0.5000

During 2017, the Company declared the following dividends on its Series C Preferred Stock:

Declaration Date	Record Date	Payment Date	Per Share
March 14, 2017	March 31, 2017	April 28, 2017	\$0.5000
June 15, 2017	June 30, 2017	July 31, 2017	\$0.5000

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

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

AMTG Merger. In addition, in 2016 the Company issued common and preferred equity in connection with the AMTG Merger as described in "Note 17 - Business Combination."

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Note 14 – Commitments and Contingencies

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

After the announcement of the execution of the AMTG Merger Agreement, two putative class action lawsuits challenging the proposed First Merger (as defined in the AMTG 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, Arrow Merger Sub Inc., Apollo and Athene Holding Ltd. 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 Holding Ltd. 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. Defendants’ motions to dismiss have been fully briefed, and oral argument was held on December 8, 2016. On January 4, 2017, the United States Department of Justice served a Request for Information and Documents (the “Request”) on the Company, in connection with a preliminary investigation into certain aspects of the Company's former residential real estate portfolio, which the Company acquired in connection with the AMTG Merger and subsequently sold in 2016. The Request seeks a range of information in connection with the residential real estate portfolio, including, among other things, information concerning policies, procedures, and practices related to advertising, marketing, identifying, or acquiring residential properties for sale or rent, and various data for all rental and sales contracts executed since January 1, 2012. The Company is cooperating with the Department of Justice and fully complying with the Request.

Loan Commitments. As described in "Note 5 - Loans, Held for Investment", at June 30, 2017, the Company had \$119,813 of unfunded commitments related to its commercial mortgage loan portfolio and subordinate loan portfolio.

Note 15 – 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, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and cash equivalents	\$214,016	\$214,016	\$200,996	\$200,996
Restricted cash	57,665	57,665	62,457	62,457
Securities, held-to-maturity	—	—	146,352	146,352
Commercial mortgage loans	2,037,971	2,034,082	1,641,856	1,648,896
Subordinate loans	1,240,363	1,244,548	1,051,236	1,060,882
Borrowings under repurchase agreements	(1,340,254)	(1,338,368)	(1,146,566)	(1,146,807)

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Convertible senior notes, net	(250,949)	(274,262)	(249,994)	(268,124)
Participations sold	—	—	(84,979)	(85,072)

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

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

Note 16 – Net Income per Share

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

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

The table below presents basic and diluted net (loss) income per share of common stock using the two-class method for the three and six months ended June 30, 2017 and June 30, 2016:

	For the three months ended June 30, 2017		For the six months ended June 30, 2016	
Numerator:				
Net income	\$36,235	\$10,338	\$83,359	\$28,956
Preferred dividends	(9,310)	(5,860)	(18,620)	(11,675)
Net income available to common stockholders	26,925	4,478	64,739	17,281
Dividends declared on common stock	(48,501)	(31,005)	(90,647)	(62,002)
Dividends on participating securities	(630)	(437)	(1,259)	(885)
Net (loss) attributable to common stockholders	\$(22,206)	\$(26,964)	\$(27,167)	\$(45,606)
Denominator:				
Basic weighted average shares of common stock outstanding	95,428,134	67,402,311	93,530,831	67,393,751
Diluted weighted average shares of common stock outstanding	96,796,289	68,374,557	94,907,762	68,351,137
Basic and diluted net income per weighted average share of common stock				
Distributable Earnings	\$0.51	\$0.46	\$0.97	\$0.92
Undistributed (loss)	\$(0.23)	\$(0.40)	\$(0.29)	\$(0.68)
Basic and diluted net income per share of common stock	\$0.28	\$0.06	\$0.68	\$0.24

For the three and six months ended June 30, 2017, 1,368,155 and 1,376,930 unvested RSUs, respectively, 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, 2016, 972,246 and 957,386 unvested RSUs, respectively, were excluded from the calculation of diluted net income per share because the effect was anti-dilutive.

Note 17 – Business Combination

On August 31, 2016, the Company, pursuant to the terms and conditions of the AMTG Merger Agreement, acquired AMTG for consideration of common stock and preferred stock, as applicable and cash. AMTG merged with and into the Company with the Company continuing as the surviving entity. As a result, all operations of AMTG and its former subsidiaries are consolidated with the operations of the Company. In connection with financing the AMTG Merger, on

August 31, 2016, the Company entered into a Loan Agreement (the “Athene Loan Agreement”) with Athene USA Corporation, a subsidiary of Athene Holding Ltd., as lender (“Athene USA”), pursuant to which the Company borrowed \$175,000 in order to fund a portion

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of the Company's obligations under the AMTG Merger Agreement. The Athene Loan Agreement was repaid in full and terminated on September 1, 2016. On August 31, 2016, pursuant to an Asset Purchase and Sale Agreement, dated February 26, 2016 (as amended, the "Asset Purchase Agreement") by and among Athene Annuity & Life Assurance Company and Athene Annuity and Life Company (collectively, "Athene Annuity") and the Company, the Company sold primarily non-agency residential mortgage backed securities previously held by AMTG to Athene Annuity for cash consideration of approximately \$1,100,000. Proceeds from the sale were used to repay approximately \$804,000 in associated financing, \$175,000 to satisfy the Athene Loan Agreement and for general corporate purposes. All of the assets acquired from AMTG were sold during 2016.

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

The bargain purchase gain was computed as follows:

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

The Company incurred \$11,350 of transaction-related expenses related to the AMTG Merger during 2016.

Transaction-related expenses are comprised primarily of transaction fees and AMTG Merger costs, including legal, finance, consulting, professional fees and other third-party costs.

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

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	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
(in thousands, except per share data)		
Total revenue	\$ 94,257	\$ 190,565
Net income attributable to common shareholders	24,778	24,546

Common shares outstanding at June 30, 2016	67,402,311	67,402,311
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Net income per common share, basic and diluted	\$ 0.36	\$ 0.36
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The pro forma consolidated operational data is based on assumptions and estimates considered appropriate by our management; however, these pro forma results are not necessarily indicative of the results of operations that would have been obtained had the AMTG Merger occurred at the beginning of the period presented, nor do they purport to represent the consolidated results of operations for future periods. The pro forma consolidated operational data does not include the impact of any synergies that may be achieved from the AMTG Merger or any strategies that management may consider in order to continue to efficiently manage operations.

Note 18 – Subsequent Events

On July 3, 2017, the Company announced that it will redeem all 3,450,000 issued and outstanding shares of the Series A Preferred Stock on August 2, 2017. The Series A Preferred Stockholders are entitled to the redemption price of \$25.00 plus unpaid dividends of \$0.1079 per share.

In July 2017, the Company received approximately \$60,000 in proceeds from sales and principal pay downs from two CMBS.

Subsequent to the end of the second quarter, the Company committed capital to the following commercial real estate debt investments:

\$125,000 and £60,000 of first mortgage loans (\$125,000 and £32,190 of which were funded);

\$37,500 of subordinate loans (\$37,500 of which were funded); and

\$2,900 for previously closed loans.

The Company received approximately \$50,400 from loan repayments.

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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 Sections. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the Company’s control. These forward-looking statements include information about possible or assumed future results of the Company’s business, financial condition, liquidity, results of operations, plans and objectives. When the Company uses the words “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “may” or similar expressions, it intends to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking: market trends in the Company’s industry, interest rates, real estate values, the debt securities markets or the general economy 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 governments outside of the United States and changes to government policies and the execution and impact of these actions, initiatives and policies; the state of the economy generally or in specific geographic regions; economic trends and economic recoveries; the Company’s ability to obtain and maintain financing arrangements, including repurchase agreement financing and securitizations; the availability of debt financing from traditional lenders; the volume of short-term loan extensions; the demand for new capital to replace maturing loans; expected leverage; general volatility of the securities markets in which the Company participates; changes in the value of the Company’s assets; the scope of the Company’s target assets; interest rate mismatches between the Company’s target assets and any borrowings used to fund such assets; changes in interest rates and the market value of the Company’s target assets; changes in prepayment rates on the Company’s target assets; effects of hedging instruments on the Company’s target assets; rates of default or decreased recovery rates on the Company’s target assets; the degree to which hedging strategies may or may not protect the Company from interest rate volatility; impact of and changes in governmental regulations, tax law and rates, accounting, legal or regulatory issues or guidance and similar matters; the Company’s continued maintenance of its qualification as a 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; and unexpected costs or unexpected liabilities, including those related to litigation, including litigation arising from the AMTG Merger and related transactions.

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, 2016. 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 \$197 billion as of March 31, 2017.

The Manager is led by an experienced team of senior real estate professionals who have significant expertise in underwriting and structuring commercial real estate financing transactions. The Company benefits from Apollo's global

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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

Based on the current market dynamics, including significant upcoming commercial real estate debt maturities, we believe there remain compelling opportunities 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.

Although the Company does not participate in the conduit lending market, the Company believes that an active CMBS market can be viewed as an indicator of the active commercial real estate lending markets. New-issue CMBS issuance continued in 2016 with total issuance in the United States of approximately \$76 billion. Despite the robust issuance in 2016, 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.

On February 3, 2017, President Trump signed an executive order for a broad review of federal regulation of the U.S. financial system by the Secretary of the Treasury, in consultation with the heads of the member agencies of the Financial Stability Oversight Council, a panel comprising top U.S. financial regulators, to be reported within 120 days of the day of the order. While the outcome is uncertain, there have been several indications that the new administration will seek to deregulate the U.S. financial industry, including by altering the Dodd-Frank Act, which may, among other things, decrease the restrictions on banks and other financial institutions and allow them to compete with us for investment opportunities that were previously not available to them.

The Company believes 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, the Company expects 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, 2016 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 the Company’s critical accounting policies described in the Company’s Annual Report on Form 10-K filed with the SEC on February 28, 2017.

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, 2017:

Description	Current Principal Balance	Amortized Cost	Weighted Debt Average Yield (2)	Cost of Funds	Equity at cost	Current Weighted Average Underwritten IRR (1)(2)	Fully-Levered Weighted Average Underwritten IRR
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										(1)(2)(3)		
First mortgages	\$2,054,855	\$2,037,971	7.3	%	\$1,096,084	3.6	%	\$941,887	11.3	%	14.1	%
Subordinate loans	1,247,275	1,240,363	13.5		—	—		1,240,363	13.5		13.5	
CMBS ⁽⁴⁾	300,064	293,312	4.3		244,170	3.3		106,806	4.3		4.3	
Total/Weighted Average	\$3,602,194	\$3,571,646	9.2	%	\$1,340,254	3.5	%	\$2,289,056	12.2	%	13.3	%

Internal rate of return ("IRR") is the annualized effective compounded return rate that accounts for the time-value (1) 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

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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. 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” in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 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 the Company's annual report over time.

(2) Beginning this quarter, and going forward, both the weighted average yields and the weighted average IRRs in the chart above reflect LIBOR at quarter end. Historically, The Company reported weighted average yields and weighted average underwritten IRRs reflecting the forward LIBOR curve.

(3) The Company's ability to achieve the underwritten levered weighted average IRR depends upon the availability of the JPMorgan Facility or any replacement facility with similar terms with regard to its portfolio of first mortgage loans. Without such availability, the levered weighted average underwritten IRR will be lower than the amount shown above.

(4) CMBS includes \$57,665 of restricted cash related to the UBS Facility and the DB Facility.

The Company's average asset and debt balances for the six months ended June 30, 2017, were:

Description	Average month-end balances for the six months ended June 30,2017	
	Assets	Related debt
First mortgages	\$1,950,575	\$1,165,539
Subordinate loans ⁽¹⁾	1,180,951	3,000
CMBS	277,035	261,285

(1) Subordinate loans also include CMBS (Held-to-Maturity).

Investment Activity

During the first quarter of 2017, the Company committed capital of \$332,800 to first mortgage loans (\$259,000 of which were funded during the first quarter). The Company also committed \$117,500 of subordinate loans, all of which were funded during the first quarter. In addition, during the first quarter the Company funded approximately \$115,800 for previously closed loans and received repayments of \$44,075.

During the second quarter of 2017, the Company committed capital of \$74,931 to first mortgage loans, all of which were funded during the second quarter. The Company also committed \$33,000 of subordinate loans (\$28,000 of which were funded during the second quarter). In addition, during the second quarter the Company funded approximately \$29,389 for previously closed loans and received repayments of \$86,251.

Net Income Available to Common Stockholders

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For the three months ended June 30, 2017 and June 30, 2016, respectively, the Company's net income available to common stockholders was \$26,925, or \$0.28 per share, and \$4,478, or \$0.06 per share. For the six months ended June 30, 2017 and June 30, 2016, respectively, the Company's net income available to common stockholders was \$64,739, or \$0.68 per share, and \$17,281, or \$0.24 per share.

Operating Results

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

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	Three Months		2017 vs.	Six Months Ended		2017 vs.
	Ended June 30,		2016	June 30,		2016
	2017	2016	\$	2017	2016	\$
Net interest income:						
Interest income from securities	\$3,366	\$7,607	\$(4,241)	\$6,622	\$15,656	\$(9,034)
Interest income from securities, held to maturity	1,334	2,826	(1,492)	4,132	5,722	(1,590)
Interest income from commercial mortgage loans	37,089	24,140	12,949	71,487	45,267	26,220
Interest income from subordinate loans	39,640	28,067	11,573	74,030	57,442	16,588
Interest expense	(19,205)	(15,722)	(3,483)	(36,235)	(30,364)	(5,871)
Net interest income	62,224	46,918	15,306	120,036	93,723	26,313
Operating expenses:						
General and administrative expenses	(5,200)	(4,922)	(278)	(10,958)	(13,104)	2,146
Management fees to related party	(7,742)	(5,242)	(2,500)	(15,175)	(10,471)	(4,704)
Total operating expenses	(12,942)	(10,164)	(2,778)	(26,133)	(23,575)	(2,558)
Income (loss) from unconsolidated joint venture	(3,305)	59	(3,364)	(2,847)	127	(2,974)
Other income	244	22	222	352	25	327
Provision for loan losses and impairments	(5,000)	(15,000)	10,000	(5,000)	(15,000)	10,000
Realized loss on sale of assets	—	—	—	(1,042)	—	(1,042)
Unrealized (loss) on securities	(4,510)	(11,728)	7,218	(1,658)	(26,802)	25,144
Foreign currency gain (loss)	6,913	(13,082)	19,995	10,085	(17,557)	27,642
Gain (loss) on derivative instruments	(7,389)	13,313	(20,702)	(10,434)	18,015	(28,449)
Net income	\$36,235	\$10,338	\$25,897	\$83,359	\$28,956	\$54,403
Net interest income						

Net interest income increased by \$15,306 and \$26,313 during the three and six months ended June 30, 2017, respectively as compared to the same periods in 2016. The increase was primarily due to an increase in the principal balance of the Company's loan portfolio, by \$1,073,199 as of June 30, 2017 compared to June 30, 2016 and an increase in one-month LIBOR of 0.75% from 0.47% as of June 30, 2016 to 1.12% as of June 30, 2017. This increase in net interest income was partially offset by an increase in interest expense due to an increase in the Company's debt balance of \$114,159 as of June 30, 2017 compared to June 30, 2016 and a decrease in the principal balance of the Company's securities by \$260,716 as of June 30, 2017 compared to June 30, 2016.

General and administrative expenses

Excluding \$1,325 in expenses related to the AMTG merger, general and administrative expenses increased by \$1,603 for the three months ended June 30, 2017 compared to the same period in 2016. The increase was primarily driven by \$1,523 of additional non-cash restricted stock amortization related to shares awarded under the Company's long-term incentive plans and a \$80 increase in general operating expenses.

Excluding \$6,400 in expenses related to the AMTG merger, general and administrative expenses increased by \$4,254 for the six months ended June 30, 2017 compared to the same period in 2016. The increase was primarily driven by \$3,646 of additional non-cash restricted stock amortization related to shares awarded under the Company's long-term incentive plans and a \$608 increase in general operating expenses.

Management fees to related party

Management fee expense increased by \$2,500 and \$4,704 during the three and six months ended June 30, 2017, respectively as compared to the same periods in 2016. The increase is primarily attributable to an increase in the Company's stockholders' equity (as defined in the Management Agreement) as a result of the Company's issuance of common and preferred equity in connection with the AMTG Merger in 2016, and the Company's follow-on common equity offerings in December 2016 and June 2017. Management fees and the relationship between the Company and the Manager under the Management Agreement are discussed further in the accompanying condensed consolidated financial statements, in "Note 11—Related Party Transactions."

Income (loss) from unconsolidated joint venture

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Income (loss) from unconsolidated joint ventures consists of activity related to our ownership interest in Champ LP, as described in Note 6 to the unaudited condensed consolidated financial statements - Unconsolidated Joint Ventures. In May 2017, the Company sold its remaining ownership interest in Champ LP, to unaffiliated third parties, resulting in a loss of \$3,305, which is the primary driver for the increase in the loss from unconsolidated joint ventures during the three and six months ended June 2017 compared to the same periods in 2016. The realized loss included currency translation losses, which were previously included in accumulated other comprehensive loss on the Company's condensed consolidated statement of changes in stockholders' equity.

Provision for loan losses and impairments

During the three and six months ended June 30, 2017, the Company recorded a \$5,000 provision for loan losses and impairment on an investment in a fully-built, for-sale residential condominium units located in Bethesda, MD. During the three and six months June 30, 2016, the Company recorded a loan loss provision of \$10,000 on a multifamily commercial mortgage loan and \$5,000 on a multifamily subordinate loan secured by a multifamily property located in Williston, ND.

Realized loss on sale of assets

Realized losses on the sale of assets relate to the sale of CMBS. These losses were \$0 and \$1,042 for the three and six months ended June 30, 2017, respectively and there were no losses for the three and six months ended June 30, 2016. The \$1,042 in realized losses on the sale of assets during the six months ended June 30, 2017 as compared to the same period in 2016 resulted from the sale of securities during the first quarter of 2017 and no such sales occurred during the comparative period. There were no realized gains or losses on the sale of assets during the three months ended June 30, 2017.

Unrealized (loss) on securities

Unrealized losses on securities relate to the change in fair value of the CMBS portfolio where the Company has elected the fair value option and were \$4,510 and \$1,658 for the three and six months ended June 30, 2017, respectively and \$11,728 and \$26,802 for the three and six months ended June 30, 2016, respectively.

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

The Company uses forward currency contracts to economically hedge interest and principal payments due under its loans denominated in currencies other than U.S. dollars. The Company has in the past used and may in the future use interest rate swaps and caps to manage exposure to variable cash flows on portions of its borrowings under repurchase agreements. Interest rate swap and cap agreements allow the Company to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure. As a result of mitigating the impact of this exposure, when foreign currency gains (losses) and gain (losses) on derivative instruments are looked at on a combined basis the net impact for the three and six months ended June 30, 2017 was (\$476) and (\$349), respectively and the net impact for the three and six months ended June 30, 2016 was \$231 and \$458, respectively.

Dividends

Dividends. For the six months ended June 30, 2017, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Amount
March 14, 2017	March 31, 2017	April 17, 2017	\$0.46
June 15, 2017	June 30, 2017	July 17, 2017	\$0.46

For the six months ended June 30, 2017, the Company declared the following dividends on its Series A Preferred Stock:

Declaration Date	Record Date	Payment Date	Amount
March 14, 2017	March 31, 2017	April 17, 2017	\$0.5391
June 15, 2017	June 30, 2017	July 17, 2017	\$0.5391

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For the six months ended June 30, 2017, the Company declared the following dividends on its Series B Preferred Stock:

Declaration Date	Record Date	Payment Date	Amount
March 14, 2017	March 31, 2017	April 17, 2017	\$0.5000
June 15, 2017	June 30, 2017	July 17, 2017	\$0.5000

For the six months ended June 30, 2017, the Company declared the following dividends on its Series C Preferred Stock:

Declaration Date	Record Date	Payment Date	Amount
March 14, 2017	March 31, 2017	April 28, 2017	\$0.5000
June 15, 2017	June 30, 2017	July 31, 2017	\$0.5000

Subsequent Events

Refer to "Note 18 - Subsequent Events" to the unaudited condensed consolidated financial statements for disclosure regarding significant transactions that occurred subsequent to June 30, 2017.

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, 2017. 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

On March 31, 2017, the Company, through two indirect wholly owned subsidiaries, amended and restated the JPMorgan Facility, which currently provides for maximum total borrowings of \$1,118,000, comprised of the \$975,000 repurchase facility and a \$143,000 asset specific financing, and a term expiring in March 2019 plus a one-year extension option available at the Company's option, subject to certain conditions. Amounts borrowed under the JPMorgan Facility bear interest at spreads ranging from 2.25% to 4.75% over one-month LIBOR. Margin calls may occur any time the aggregate repurchase price exceeds the agreed upon advance rate multiplied by the market value of the assets by more than \$250. The Company has agreed to provide a limited guarantee of the obligations of its indirect wholly-owned subsidiaries under the JPMorgan Facility.

As of June 30, 2017, the Company had \$794,404 of borrowings outstanding under the JPMorgan Facility secured by certain of the Company's commercial mortgage and subordinate loans.

DB Repurchase Facility

On September 29, 2016, the Company, through indirect wholly-owned subsidiaries, entered into the DB Repurchase Facility which provides for maximum total borrowings of \$563,813 comprised of the \$450,000 and £45,000

repurchase facility and a \$55,200 asset specific financing in connection with financing first mortgage loans secured by real estate. The DB

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Repurchase Facility matures in March 2018 with two one-year extension options available at the Company's option, subject to certain conditions. Amounts borrowed under the DB Repurchase Facility bear interest at spreads ranging from 2.10% to 3.00% over one-month LIBOR. Margin calls may occur any time at specified aggregate margin deficit thresholds. The Company has agreed to provide a guarantee of the obligations of its indirect wholly-owned subsidiaries under this facility.

As of June 30, 2017, the Company had \$263,980 borrowings outstanding under the DB Repurchase Facility secured by certain of the Company's commercial mortgage loans.

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 \$37,700 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 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, 2017, the Company had \$37,700 of borrowings outstanding under the Goldman Loan secured by one commercial mortgage loan held by the Company.

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 posted agreed-upon initial margin in cash and is required to post additional margin based on the fair value of the underlying collateral. The margin posted is classified as restricted cash on the Company's condensed consolidated balance sheets. 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 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, 2017, the Company had \$100,798 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 \$300,000 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.

The Company posted agreed-upon initial margin in cash and is required to post additional margin based on the fair value of the underlying collateral. The margin posted is classified as restricted cash on the Company's condensed consolidated balance sheets.

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Additionally, the undrawn amount is subject to a 1.8% non-use fee. The DB Facility contains customary terms and conditions for 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.

As of June 30, 2017, the Company had \$143,372 of borrowings outstanding under the DB Facility secured by CMBS held by the Company.

Convertible Senior Notes

In 2014, the Company issued, in two offerings with an aggregate principal amount of \$254,750, 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 second quarter of 2017, the Company completed a follow-on public offering of 13,800,000 shares of its common stock, at a price of \$18.05 per share. The aggregate net proceeds from the offering, including proceeds from the sale of the additional shares, were approximately \$248,900 after deducting estimated offering expenses.

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

During the third quarter of 2016, the Company consummated the AMTG Merger and issued 13,398,586 shares of its common stock and 6,900,000 shares of Series C Preferred Stock. As of December 31, 2016, the Company had liquidated all of the assets of AMTG and realized proceeds of approximately \$421,000 (net of expenses).

Other Potential Sources of Financing

The Company's primary sources of cash currently consist of cash available, which was \$214,016 as of June 30, 2017, 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 prepayments of principal received on the Company's portfolio of assets. Such prepayments are difficult to estimate in advance. Depending on market conditions, the Company may utilize additional borrowings as a source of cash, which may also include additional repurchase agreements as well as other borrowings such as credit facilities, or conduct additional public and private debt and equity offerings.

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

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

To maintain its qualification as a REIT under the Internal Revenue Code 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 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

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

Contractual Obligations and Commitments

The Company's contractual obligations including expected interest payments as of June 30, 2017 are summarized as follows:

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
JPMorgan Facility ⁽¹⁾	\$460,407	\$365,937	\$ —	—	—\$826,344
DB Repurchase Facility ⁽¹⁾	68,640	209,841	—	—	278,481
Goldman Loan ⁽¹⁾	1,799	39,059	—	—	40,858
UBS Facility	2,828	101,288	—	—	104,116
DB Facility	147,289	—	—	—	147,289
Convertible Senior Notes	12,844	265,842	—	—	278,686
Unfunded loan commitments ⁽²⁾	112,380	7,433	—	—	119,813
Total	\$806,187	\$989,400	\$ —	—	—\$1,795,587

(1) Assumes current LIBOR of 1.22% for interest payments due under the JPMorgan Facility, the DB Repurchase Facility and the Goldman Loan.

(2) Based on the Company's expected funding schedule, which is based upon the Manager's estimates based upon the best information available to the Manager at the time. There is no assurance that the payments will occur in accordance with these estimates or at all, which could affect the Company's operating results.

Loan Commitments. At June 30, 2017, the Company had \$119,813 of unfunded commitments related to its commercial mortgage loan portfolio and subordinate loan portfolio.

Management Agreement. On September 23, 2009, the Company entered into the Management Agreement with the Manager pursuant to which the Manager is entitled to receive a management fee and the reimbursement of certain expenses. The table above does not include amounts due under the Management Agreement as those obligations do not have fixed and determinable payments. Pursuant to the Management Agreement, the Manager is entitled to a base management fee calculated and payable quarterly in arrears in an amount equal to 1.5% of the Company's stockholders' equity (as defined in the Management Agreement), per annum. The Manager will use the proceeds from its management fee in part to pay compensation to its officers and personnel. The Company does not reimburse its Manager or its affiliates for the salaries and other compensation of their personnel, except for the allocable share of the compensation of (1) the Company's Chief Financial Officer based on the percentage of time spent on the Company's affairs and (2) other corporate finance, tax, accounting, internal audit, legal, risk management, operations, compliance and other non-investment professional personnel of the Manager or its affiliates who spend all or a portion of their time managing the Company's affairs based on the percentage of time devoted by such personnel to the

Company's affairs. The Company is also required to reimburse its Manager for operating expenses related to the Company incurred by its Manager, including expenses relating to legal, accounting, due diligence and

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other services. Expense reimbursements to the Manager are made in cash on a monthly basis following the end of each month. The Company's reimbursement obligation is not subject to any dollar limitation.

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

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

Dividends

The Company intends to continue to make regular quarterly distributions to holders of its common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. The Company generally intends over time to pay dividends to its stockholders in an amount equal to its net taxable income, if and to the extent authorized by its board of directors. Any distributions the Company makes 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 the rate of 8.625% per annum of the \$25.00 per share liquidation preference equivalent to \$2.16 per annum, per share. The dividends on the Series A Preferred Stock 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, 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.

The Company has 6,900,000 shares of Series C Preferred Stock outstanding, which entitles holders to receive dividends that are payable quarterly in arrears. The Series C Preferred Stock will pay cumulative cash dividends at the rate of 8.00% per annum of the \$25.00 per share liquidation preference (equivalent to \$2.00 per annum per share) from, and including July 29,

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2016 (the “Series C Initial Dividend Date”) and shall be payable (i) for the period from the Series C Initial Dividend Date to, but excluding, October 31, 2016, on October 31, 2016, and (ii) for each subsequent quarterly dividend period commencing on the last day of each of January, April, July and October and ending on, and including, the day before the first day of the next succeeding dividend period, quarterly in equal amounts in arrears on the last day of each April, July, October and January, commencing on January 31, 2017 at the then applicable annual rate. Except under certain limited circumstances, the Series C Preferred Stock is generally not convertible into or exchangeable for any other property or any other securities of the Company at the election of the holders. On or after September 20, 2017, the Company may, at its option, redeem the shares at a redemption price of \$25.00, plus any accrued unpaid distribution through the date of the redemption.

Non-GAAP Financial Measures

Operating Earnings

For the three and six months ended June 30, 2017, the Company’s Operating Earnings were \$44,596, or \$0.46 per share, and \$83,218, or \$0.88 per share, respectively. 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, respectively. Operating Earnings is a non-GAAP financial measure that is defined by the Company as net income available to common stockholders, computed in accordance with GAAP, adjusted for (i) equity-based compensation expense (a portion of which may become cash-based upon final vesting and settlement of awards should the holder elect net share settlement to satisfy income tax withholding), (ii) any unrealized gains or losses or other non-cash items included in net income available to common stockholders, (iii) unrealized income from unconsolidated joint ventures, (iv) foreign currency gains (losses) other than realized gains/(losses) related to interest income, (v) the non-cash amortization expense related to the reclassification of a portion of the convertible senior notes to stockholders’ equity in accordance with GAAP, and (vi) provision for loan losses and impairments. Operating Earnings may also be adjusted to exclude certain other non-cash items, as determined by the Manager and approved by a majority of the Company’s independent directors.

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

A significant limitation associated with Operating Earnings as a measure of the Company’s financial performance over any period is that it excludes 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.

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

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

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	For the three months ended		For the six months ended	
	June 30, 2017	2016	June 30, 2017	2016
Net income available to common stockholders	\$26,925	\$ 4,478	\$64,739	\$ 17,281
Adjustments:				
Equity-based compensation expense	3,461	1,938	7,252	3,606
Unrealized loss on securities	4,510	11,728	1,658	26,802
Unrealized (gain) loss on derivative instruments	7,389	(13,313)	10,434	(18,015)
Foreign currency (gain) loss, net	(6,958)	13,082	(10,284)	17,557
Amortization of the 2019 Notes related to equity reclassification	618	582	1,226	1,154
(Income) loss from unconsolidated joint venture	3,305	(59)	2,847	(127)
Provision for loan losses and impairments	5,000	15,000	5,000	15,000
Realized gain from unconsolidated joint venture	346	—	346	—
Total adjustments:	17,671	28,958	18,479	45,977
Operating Earnings	\$44,596	\$ 33,435	\$83,218	\$ 63,258
Basic and diluted Operating Earnings per share of common stock	\$0.46	\$ 0.49	\$0.88	\$ 0.93
Basic weighted average shares of common stock outstanding	95,428,134	67,402,311	93,530,831	67,393,751
Diluted weighted average shares of common stock outstanding	96,796,289	68,374,557	94,907,762	68,351,137

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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 Manager seeks to enhance its due diligence and underwriting efforts by accessing the Manager's knowledge base and industry contacts. Nevertheless, unanticipated credit losses could occur, which could adversely impact the Company's operating results.

Interest Rate Risk

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond the Company's control. The Company is subject to interest rate risk in connection with its target assets and its related financing obligations. To the extent consistent with maintaining the Company's REIT qualification, the Company seeks to manage risk exposure to protect its portfolio of financial assets against the effects of major interest rate changes. The Company generally seeks to manage this risk by:

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

At June 30, 2017, all of the Company's borrowings outstanding under the Goldman Loan, the JPM Facility and the DB Repurchase Facility were floating-rate borrowings. At June 30, 2017, the Company also had floating rate assets with a face amount of \$2,969,161 resulting in net variable rate exposure of \$1,873,076. A 50 basis point increase in LIBOR would increase the quarterly net interest income related to this variable rate exposure by approximately \$3,512. 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 most of the commercial loans held directly by the Company or securing the Company's CMBS assets 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 are interest rate sensitive in nature. As a result, interest rates and other factors influence the Company's performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. The Company's financial statements are prepared in accordance with GAAP and distributions are determined by the Company's board of directors consistent with the Company's obligation to distribute to its stockholders at least 90% of its REIT taxable income, excluding net capital gains and determined without regard to the dividends paid deduction, on an annual basis in order to maintain the Company's REIT qualification. In each case, the Company's activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

ITEM 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, 2017, 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 in the ordinary course of business. After the announcement of the execution of the AMTG Merger Agreement, two putative class action lawsuits challenging the proposed First Merger (as defined in the AMTG 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. 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, ARI, Arrow Merger Sub Inc., Apollo and Athene Holding Ltd. 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 Holding Ltd. 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. Defendants' motions to dismiss have been fully briefed, and oral argument was held on December 8, 2016.

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

ITEM 1A. Risk Factors

See the Company's Annual Report on Form 10-K for the year ended December 31, 2016. There have been no material changes to the Company's risk factors during the three and six months ended June 30, 2017.

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

- 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).
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- 3.5 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 reference \$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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- 4.5 Indenture, dated as of March 17, 2014, between the Company and Wells Fargo Bank, National Association, as Trustee, incorporated by reference to Exhibit 4.1 of the Registrant’s Form 8-K filed on March 21, 2014 (File No.: 001-34452).
- 4.6 First Supplemental Indenture, dated as of March 17, 2014, between the Company and Wells Fargo Bank, National Association, as Trustee (including the form of 5.50% Convertible Senior Note due 2019), incorporated by reference to Exhibit 4.2 of the Registrant’s Form 8-K filed on March 21, 2014 (File No.: 001-34452).
- 31.1* Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2* Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1* Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of 18 U.S.C. Section 1350 as adopted pursuant to the Sarbanes-Oxley Act of 2002.

101.INS * XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema

101.CAL* XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Taxonomy Extension Presentation Linkbase

*Filed herewith.

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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.

August 1, 2017

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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