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Apollo Commercial Real Estate Finance, Inc.  
Form 10-Q  
October 31, 2014

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 September 30, 2014

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  
(State or other jurisdiction of  
incorporation or organization)  
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)

27-0467113  
(I.R.S. Employer  
Identification Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.  
As of October 31, 2014, there were 46,848,675 shares, par value \$0.01, of the registrant's common stock issued and outstanding.



Table of Contents

Table of Contents

	Page
<u>Part I — Financial Information</u>	
<u>ITEM 1. Financial Statements</u>	<u>3</u>
<u>ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>37</u>
<u>ITEM 4. Controls and Procedures</u>	<u>38</u>
<u>Part II — Other Information</u>	
<u>ITEM 1. Legal Proceedings</u>	<u>39</u>
<u>ITEM 1A. Risk Factors</u>	<u>39</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>39</u>
<u>ITEM 3. Defaults Upon Senior Securities</u>	<u>39</u>
<u>ITEM 4. Mine Safety Disclosures</u>	<u>39</u>
<u>ITEM 5. Other Information</u>	<u>39</u>
<u>ITEM 6. Exhibits</u>	<u>39</u>

Table of Contents

## 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)

	September 30, 2014	December 31, 2013
Assets:		
Cash	\$58,649	\$20,096
Restricted cash	30,127	30,127
Securities available-for-sale, at estimated fair value	17,919	33,362
Securities, at estimated fair value	499,701	158,086
Securities, held-to-maturity	153,998	—
Commercial mortgage loans, held for investment	369,924	161,099
Subordinate loans, held for investment	585,504	497,484
Investment in unconsolidated joint venture	38,719	—
Derivative instrument	1,933	—
Interest receivable	17,072	6,022
Deferred financing costs, net	8,124	628
Other assets	1,342	600
Total Assets	\$1,783,012	\$907,504
Liabilities and Stockholders' Equity		
Liabilities:		
Borrowings under repurchase agreements	\$537,766	\$202,033
Convertible senior notes, net	246,054	—
Participations sold	89,418	—
Investments purchased, not yet settled	26,540	—
Accounts payable and accrued expenses	3,602	2,660
Payable to related party	3,193	2,628
Dividends payable	20,753	17,227
Total Liabilities	927,326	224,548
Commitments and Contingencies (see Note 16)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, 3,450,000 shares issued and outstanding (\$86,250 aggregate liquidation preference)	35	35
Common stock, \$0.01 par value, 450,000,000 shares authorized, 46,848,675 and 36,888,467 shares issued and outstanding, respectively	468	369
Additional paid-in-capital	867,598	697,610
Retained earnings (accumulated deficit)	(11,661	) (14,188
Accumulated other comprehensive loss	(754	) (870
Total Stockholders' Equity	855,686	682,956
Total Liabilities and Stockholders' Equity	\$1,783,012	\$907,504

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net interest income:				
Interest income from securities	\$6,129	\$2,533	\$12,914	\$8,634
Interest income from securities, held to maturity	2,219	—	2,219	—
Interest income from commercial mortgage loans	8,025	4,954	18,475	12,222
Interest income from subordinate loans	18,983	12,184	51,951	35,137
Interest income from repurchase agreements	—	—	—	2
Interest expense	(8,786)	(885)	(15,802)	(2,909)
Net interest income	26,570	18,786	69,757	53,086
Operating expenses:				
General and administrative expenses (includes \$308 and \$1,096 of equity based compensation in 2014 and \$784 and \$2,095 in 2013, respectively)	(1,434)	(1,793)	(4,355)	(5,126)
Management fees to related party	(3,193)	(2,625)	(8,725)	(7,384)
Total operating expenses	(4,627)	(4,418)	(13,080)	(12,510)
Income from unconsolidated joint venture	(88)	—	(88)	—
Interest income from cash balances	21	3	26	19
Unrealized gain (loss) on securities	(2,147)	(1,472)	4,787	(3,973)
Foreign currency gain (loss)	(3,596)	—	(2,637)	—
Loss on derivative instruments (includes \$3,026 and \$1,933 of unrealized gains in 2014 and \$25 and \$155 of unrealized gains in 2013, respectively)	3,026	1	1,933	(1)
Net income	19,159	12,900	60,698	36,621
Preferred dividends	(1,860)	(1,859)	(5,580)	(5,580)
Net income available to common stockholders	\$17,299	\$11,041	\$55,118	\$31,041
Basic and diluted net income per share of common stock	\$0.37	\$0.29	\$1.30	\$0.88
Basic weighted average shares of common stock outstanding	46,848,675	36,883,002	42,322,380	34,647,941
Diluted weighted average shares of common stock outstanding	47,068,929	37,379,469	42,538,744	35,103,285
Dividend declared per share of common stock	\$0.40	\$0.40	\$1.20	\$1.20

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income available to common stockholders	\$17,299	\$11,041	\$55,118	\$31,041
Change in net unrealized gain (loss) on securities available-for-sale	39	43	116	(589 )
Comprehensive income	\$17,338	\$11,084	\$55,234	\$30,452

See notes to unaudited condensed consolidated financial statements.

5

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Table of Contents

Apollo Commercial Real Estate Finance, Inc. and 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 Income	Total
	Shares	Par	Shares	Par				
Balance at January 1, 2014	3,450,000	\$35	36,888,467	\$369	\$697,610	\$ (14,188 )	\$ (870 )	\$682,956
Capital decrease related to Equity Incentive Plan	—	—	240,277	2	217	—	—	219
Issuance of restricted common stock	—	—	13,931	*	—	—	—	—
Issuance of common stock	—	—	9,706,000	97	158,596	—	—	158,693
Offering costs	—	—	—	—	(270 )	—	—	(270 )
Convertible senior notes	—	—	—	—	11,445	—	—	11,445
Net income	—	—	—	—	—	60,698	—	60,698
Change in net unrealized gain on securities available-for-sale	—	—	—	—	—	—	116	116
Dividends on common stock	—	—	—	—	—	(52,591 )	—	(52,591 )
Dividends on preferred stock	—	—	—	—	—	(5,580 )	—	(5,580 )
Balance at September 30, 2014	3,450,000	\$35	46,848,675	\$468	\$867,598	\$ (11,661 )	\$ (754 )	\$855,686

\* Rounds to zero.

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Nine months ended September 30, 2014	Nine months ended September 30, 2013	
Cash flows provided by operating activities:			
Net income	\$60,698	\$36,621	
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization and (discount accretion), net	(3,018	) (4,181	)
Amortization of deferred financing costs	1,252	639	
Equity-based compensation	220	2,095	
Unrealized (gain) loss on securities	(4,787	) 3,973	
Income from unconsolidated joint venture	88	—	
Foreign currency (gain) loss	2,623	—	
Unrealized gain on derivative instruments	(1,933	) (155	)
Changes in operating assets and liabilities:			
Accrued interest receivable, less purchased interest	(16,521	) (6,441	)
Other assets	200	203	
Accounts payable and accrued expenses	1,077	509	
Payable to related party	565	588	
Net cash provided by operating activities	40,464	33,851	
Cash flows used in investing activities:			
Fees received from commercial mortgage loans	—	280	
Funding of securities at estimated fair value	(325,961	) (70,490	)
Funding of commercial mortgage loans	(211,738	) (32,643	)
Funding of subordinate loans	(353,386	) (213,515	)
Funding of unconsolidated joint venture	(39,477	) —	
Funding of other assets	(1,258	) —	
Principal payments received on securities available-for-sale	15,289	28,485	
Principal payments received on securities at estimated fair value	15,306	49,164	
Principal payments received on commercial mortgage loans	666	17,898	
Principal payments received on subordinate loans	117,003	71,173	
Principal payments received on other assets	86	—	
Principal payments received on repurchase agreements	—	6,598	
Proceeds from sale of commercial mortgage loan	4,950	—	
Net cash used in investing activities	(778,520	) (143,050	)
Cash flows from financing activities:			
Proceeds from issuance of common stock	158,693	148,804	
Payment of offering costs	(308	) (814	)
Proceeds from repurchase agreement borrowings	441,391	70,195	
Repayments of repurchase agreement borrowings	(105,658	) (68,187	)
Proceeds from issuance of convertible senior notes	256,970	—	
Participations sold	89,012	—	
Increase in restricted cash related to financing activities	—	(15,794	)
Payment of deferred financing costs	(8,846	) (504	)
Dividends on common stock	(49,065	) (40,717	)
Dividends on preferred stock	(5,580	) (5,579	)



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Net cash provided by financing activities	776,609	87,404	
Net increase in cash and cash equivalents	38,553	(21,795	)
Cash and cash equivalents, beginning of period	20,096	108,619	
Cash and cash equivalents, end of period	\$58,649	\$86,824	
Supplemental disclosure of cash flow information:			
Interest paid	\$14,565	\$2,335	
Supplemental disclosure of non-cash financing activities:			
Dividend declared, not yet paid	\$20,753	\$17,023	
Deferred financing costs, not yet paid	\$213	\$250	
Offering costs payable	\$71	\$—	

See notes to unaudited condensed consolidated financial statements.

7

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Table of Contents

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

Note 1 – Organization

Apollo Commercial Real Estate Finance, Inc. (together with its consolidated subsidiaries, is referred to throughout this report as the “Company,” “ARI,” “we,” “us” and “our”) is a real estate investment trust (“REIT”) that primarily originates, acquires, invests in and manages performing commercial first mortgage loans, subordinate financings, commercial mortgage-backed securities (“CMBS”) and other commercial real estate-related debt investments. These asset classes are referred to as the Company’s target assets.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

These unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, 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 currently operates in one business segment.

Significant Accounting Policies

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

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

Securitization/Sale and Financing Arrangements. We periodically sell our financial assets, such as commercial mortgage loans, CMBS and other assets. In connection with these transactions, we may retain or acquire senior or subordinated interests in the related assets. Gains and losses on such transactions are recognized using the guidance in Accounting Standards Codification (“ASC”) Topic 860, Transfers and Servicing, which is based on a financial components approach that focuses on control. Under this approach, after a transfer of financial assets that meets the criteria for treatment as a sale-legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transferred control-an entity recognizes the financial assets it retains and any liabilities it has incurred, derecognizes the financial assets it has sold, and derecognizes liabilities when extinguished. We determine the gain or loss on sale of the assets by allocating the carrying value of the sold asset between the sold asset and the interests retained based on their relative fair values, as applicable. The gain or loss on sale is the difference between the cash

proceeds from the sale and the amount allocated to the sold asset. If the sold asset is being accounted for pursuant to the fair value option, there is no gain or loss.

Recent Accounting Pronouncements

8

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Table of Contents

In June 2013, the Financial Accounting Standards Board (the "FASB") issued guidance to change the assessment of whether an entity is an investment company by developing a new two-tiered approach that requires an entity to possess certain fundamental characteristics while allowing judgment in assessing certain typical characteristics. The fundamental characteristics that an investment company is required to have include the following: (1) it obtains funds from one or more investors and provides the investor(s) with investment management services; (2) it commits to its investor(s) that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income or both; and (3) it does not obtain returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests. The typical characteristics of an investment company that an entity should consider before concluding whether it is an investment company include the following: (1) it has more than one investment; (2) it has more than one investor; (3) it has investors that are not related parties of the parent or the investment manager; (4) it has ownership interests in the form of equity or partnership interests; and (5) it manages substantially all of its investments on a fair value basis. The new approach requires an entity to assess all of the characteristics of an investment company and consider its purpose and design to determine whether it is an investment company. The guidance includes disclosure requirements about an entity's status as an investment company and financial support provided or contractually required to be provided by an investment company to its investees. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2013. Earlier application is prohibited. The guidance prohibits REITs from qualifying for investment company accounting, as such, we have determined that we will not meet the definition of an investment company under this ASU.

In May 2014, the FASB issued guidance which broadly amends the accounting guidance for revenue recognition. This guidance is effective for the first interim or annual period beginning after December 15, 2016, and is to be applied prospectively. The Company does not anticipate that the adoption of this guidance will have a material impact on the Company's consolidated financial statements.

In June 2014, the FASB issued guidance which amends the accounting guidance for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings, and requires additional disclosure about certain transactions by the transferor. The guidance is effective for certain transactions that qualify for sales treatment for the first interim or annual period beginning after December 15, 2014. The new disclosure requirements for repurchase agreements, securities lending transactions and repurchase-to-maturity transactions that qualify for secured borrowing treatment is effective for annual periods beginning after December 15, 2014 and for interim periods beginning after March 15, 2014. The Company currently records repurchase arrangements as secured borrowings and does not anticipate this guidance will have an impact on the Company's consolidated financial statements.

In August 2014, the FASB issued guidance regarding management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new guidance requires that management evaluate each annual and interim reporting period whether conditions exist that give rise to substantial doubt about the entity's ability to continue as a going concern within one year from the financial statement issuance date, and if so, provide related disclosures. Disclosures are only required if conditions give rise to substantial doubt, whether or not the substantial doubt is alleviated by management's plans. No disclosures are required specific to going concern uncertainties if an assessment of the conditions does not give rise to substantial doubt. Substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable that a company will be unable to meet its obligations as they become due within one year after the financial statement issuance date. If substantial doubt is alleviated as a result of the consideration of management's plans, a company should disclose information that enables users of financial statements to understand all of the following (or refer to similar information disclosed elsewhere in the footnotes): (1) principal conditions that initially give rise to substantial doubt, (2) management's evaluation of the significance of those conditions in relation to the company's ability to meet its obligations, and (3) management's plans that alleviated substantial doubt. If substantial doubt is not alleviated after considering management's plans, disclosures should enable investors to understand the underlying conditions, and include the following: (1) a statement indicating that there is substantial doubt about the company's ability to continue as a going concern within one year after the issuance date, (2) the principal conditions that give rise to substantial doubt, (3) management's evaluation of the significance of those conditions in relation to the company's ability to meet its obligations, and (4) management's plans that are intended to mitigate the adverse conditions. The new guidance

applies to all companies. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company does not anticipate that the adoption of this guidance will have a material impact on the Company's consolidated financial statements.

Note 3 – Fair Value Disclosure

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

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

Table of Contents

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

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

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

The estimated fair value of the CMBS portfolio is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the Company would receive in an actual trade for the applicable instrument. Management performs additional analysis on prices received based on broker quotes to validate the prices and adjustments are made as deemed necessary by management to capture current market information. The estimated fair values of the Company's securities are based on observable market parameters and are classified as Level II in the fair value hierarchy.

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

The following table summarizes the levels in the fair value hierarchy into which the Company's financial instruments were categorized as of September 30, 2014 and December 31, 2013:

	Fair Value as of September 30, 2014				Fair Value as of December 31, 2013			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
CMBS (Available-for-Sale)	\$—	\$17,919	\$—	\$17,919	\$—	\$33,362	\$—	\$33,362
CMBS (Fair Value Option)	—	499,701	—	499,701	—	158,086	—	158,086
Derivative instruments	—	1,933	—	1,933	—	—	—	—
Total	\$—	\$519,553	\$—	\$519,553	\$—	\$191,448	\$—	\$191,448

## Note 4 – Debt Securities

At September 30, 2014, all of the Company's CMBS (Available-for-Sale) and CMBS (Fair Value Option) were pledged to secure borrowings under the Company's master repurchase agreements with Wells Fargo Bank, N.A. ("Wells Fargo") (the "Wells Facility"), UBS AG, London Branch ("UBS") (the "UBS Facility") and Deutsche Bank AG ("DB") (the "DB Facility"). (See Note 9 for a description of these facilities).

CMBS (Held-to-Maturity) represents a loan the Company closed during May 2014 that was subsequently contributed to a securitization during August 2014. During May 2014, the Company closed a \$155,000 floating-rate whole loan secured by the first mortgage and equity interests in an entity that owns a resort hotel in Aruba. The property consists of 442 hotels rooms, 114 timeshare units, two casinos and approximately 131,500 square feet of retail space. During June 2014, the Company syndicated a \$90,000 senior participation in the loan and retained a \$65,000 junior participation. We evaluated this transaction and concluded due to our continuing involvement it should not be

accounted for as a sale. During August 2014, both the \$90,000 senior participation and the Company's \$65,000 junior participation were contributed to a CMBS securitization. In exchange for contributing its \$65,000 junior participation, the Company received a CMBS secured solely by the \$65,000 junior participation. The whole loan has a three-year term with two one-year extension options and an appraised loan-to-value ("LTV") of approximately 60%.

Table of Contents

The amortized cost and estimated fair value of the Company's debt securities at September 30, 2014 are summarized as follows:

Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Carrying Value
CMBS (Available-for-Sale)	\$17,777	\$18,673	\$—	\$(754)	) \$17,919
CMBS (Fair Value Option)	503,768	492,772	7,306	(377)	) 499,701
CMBS (Held to Maturity)	155,000	153,998	—	—	) 153,998
Total	\$676,545	\$665,443	\$7,306	\$(1,131)	) \$671,618

The gross unrealized loss related to the available-for-sale securities results from the fair value of the securities falling below the amortized cost basis. The unrealized losses are primarily the result of market factors other than credit impairment and the Company believes the carrying value of the securities are fully recoverable over their expected holding period. Management does not intend to sell or expect to be forced to sell the securities prior to the Company recovering the amortized cost. As such, management does not believe any of the securities are other than temporarily impaired.

The amortized cost and estimated fair value of the Company's debt securities at December 31, 2013 are summarized as follows:

Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
CMBS (Available-for-Sale)	\$33,066	\$34,232	\$—	\$(870)	) \$33,362
CMBS (Fair Value Option)	155,577	155,946	2,313	(173)	) 158,086
Total	\$188,643	\$190,178	\$2,313	\$(1,043)	) \$191,448

The overall statistics for the Company's CMBS (Available-for-Sale) and CMBS (Fair Value Option) investments calculated on a weighted average basis assuming no early prepayments or defaults as of September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014	December 31, 2013
Credit Ratings *	AAA - CCC-	AAA - CCC
Coupon	5.8 %	5.8 %
Yield	6.3 %	5.3 %
Weighted Average Life	2.5 years	3.1 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 (Available-for-Sale) and CMBS (Fair Value Option) investments calculated on a weighted average basis as of September 30, 2014 and December 31, 2013 are as follows:

Vintage	September 30, 2014	December 31, 2013
2005	9.8 %	— %
2006	19.6	3.0
2007	61.6	97.0
2008	9.0	—
Total	100 %	100 %





Table of Contents

Property Type	September 30, 2014	December 31, 2013
Office	33.5 %	33.2 %
Retail	28.4	25.1
Multifamily	13.7	15.3
Hotel	9.3	12.0
Other *	15.1	14.4
Total	100 %	100 %

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

Location	September 30, 2014	December 31, 2013
South Atlantic	23.6 %	23.4 %
Middle Atlantic	20.9	22.8
Pacific	17.3	17.6
East North Central	11.0	—
Other *	27.2	36.2
Total	100 %	100 %

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

## Note 5 – Commercial Mortgage Loans

The Company's commercial mortgage loan portfolio was comprised of the following at September 30, 2014:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon	Property Size
Hotel - NY, NY	Jan-10	Feb-15	\$32,000	\$31,115	\$31,115	Fixed	151 rooms
Office Condo (Headquarters) - NY, NY	Feb-10	Feb-15	28,000	26,968	26,968	Fixed	73,419 sq. ft.
Hotel - Silver Spring, MD	Mar-10	Apr-15	26,000	24,684	24,617	Fixed	263 rooms
Condo Conversion – NY, NY (1)	Dec-12	Jan-15	45,000	45,496	45,781	Floating	119,000 sq. ft.
Condo Conversion – NY, NY (2)	Aug-13	Sept-15	33,000	33,675	33,691	Floating	40,000 sq. ft.
Condo Construction - Potomac, MD (3)	Feb-14	Sept-16	25,000	25,000	24,436	Floating	50 units
Vacation Home Portfolio - Various	Apr-14	Apr-19	101,000	101,000	100,018	Fixed	229 properties
Hotel - Philadelphia, PA (1)	May-14	May-17	34,000	34,000	33,775	Floating	301 rooms
Condo Construction - Bethesda, MD (4)	Jun-14	Dec-16	20,000	20,000	19,497	Floating	40 units
Multifamily - Brooklyn, NY (5)	Jul-14	Aug-16	30,000	30,000	30,026	Floating	63 units
Total/Weighted Average			\$374,000	\$371,938	\$369,924	7.95 %	

(1) These loans include two one-year extension options subject to certain conditions and the payment of a fee for each extension.

(2) This loan includes a one-year extension option subject to certain conditions and the payment of a fee.

(3) This loan includes a six-month extension option subject to certain conditions and the payment of a fee. As of September 30, 2014, the Company had \$55,000 of unfunded loan commitments related to this loan.

(4) This loan includes a six-month extension option subject to certain conditions and the payment of a fee. As of September 30, 2014, the Company had \$45,100 of unfunded loan commitments related to this loan.

(5) This loan includes three one-year extension options subject to certain conditions and the payment of a fee for each extension. As of September 30, 2014, the Company had \$4,500 of unfunded loan commitments related to this loan.

12

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Table of Contents

The Company's commercial mortgage loan portfolio was comprised of the following at December 31, 2013:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon	Property Size
Hotel - NY, NY	Jan-10	Feb-15	\$32,000	\$31,317	\$31,317	Fixed	151 rooms
Office Condo (Headquarters) - NY, NY	Feb-10	Feb-15	28,000	27,169	27,169	Fixed	73,419 sq. ft.
Hotel - Silver Spring, MD	Mar-10	Apr-15	26,000	24,947	24,785	Fixed	263 rooms
Condo Conversion – NY, NY (1)	Dec-12	Jan-15	45,000	45,000	44,867	Floating	119,000 sq. ft.
Condo Conversion – NY, NY (2)	Aug-13	Sept-15	33,000	33,167	32,961	Floating	40,000 sq. ft.
Total/Weighted Average			\$164,000	\$161,600	\$161,099	8.82 %	

(1) This loan includes two one-year extension options subject to certain conditions and the payment of a fee for each extension.

(2) This loan includes a one-year extension option subject to certain conditions and the payment of a fee.

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. The Company has determined that an allowance for loan losses was not necessary at September 30, 2014 and December 31, 2013.

Table of Contents

## Note 6 – Subordinate Loans

The Company's subordinate loan portfolio was comprised of the following at September 30, 2014:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon	
Office - Michigan	May-10	Jun-20	\$9,000	\$8,828	\$8,828	Fixed	
Ski Resort - California	Apr-11	May-17	40,000	40,000	39,714	Fixed	
Mixed Use – North Carolina	Jul-12	Jul-22	6,525	6,525	6,525	Fixed	
Office Complex - Missouri	Sept-12	Oct-22	10,000	9,747	9,747	Fixed	
Hotel Portfolio – Various (1)	Nov-12	Nov-15	50,000	47,172	47,260	Floating	
Condo Conversion – NY, NY (2)	Dec-12	Jan-15	35,000	35,545	35,722	Floating	
Condo Construction – NY, NY (1)	Jan-13	Jul-17	60,000	73,844	73,457	Fixed	
Multifamily Conversion – NY, NY (1)	Jan-13	Dec-14	18,000	14,608	14,683	Floating	
Hotel Portfolio – Rochester, MN	Jan-13	Feb-18	25,000	24,560	24,560	Fixed	
Warehouse Portfolio - Various	May-13	May-23	32,000	32,000	32,000	Fixed	
Multifamily Conversion – NY, NY (3)	May-13	Dec-14	44,000	44,000	43,907	Floating	
Office Condo - NY, NY	Jul-13	Jul-22	14,000	14,000	13,588	Fixed	
Condo Conversion – NY, NY (4)	Aug-13	Sept-15	29,400	29,601	29,491	Floating	
Mixed Use - Pittsburgh, PA (1)	Aug-13	Aug-16	22,500	22,500	22,445	Floating	
Mixed Use - Various (2)	Dec-13	Dec-18	17,000	18,791	18,608	Fixed	
Mixed Use - London, England	Apr-14	Jan-15	54,926	52,034	52,034	Fixed	
Hotel - NY, NY	Jun-14	Dec-14	28,250	28,250	28,250	Fixed	
Healthcare Portfolio - Various (5)	Jun-14	Jun-16	50,000	50,000	50,000	Floating	
Hotel - NY, NY (5)	Jul-14	Jul-16	20,000	20,000	19,834	Floating	
Ski Resort - Big Sky, Montana	Aug-14	Sept-20	15,000	15,000	14,851	Fixed	
Total/Weighted Average			\$580,601	\$587,005	\$585,504	11.20	%

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

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

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

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

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

During January 2014, the Company received a \$15,000 principal repayment from a subordinate loan secured by a pledge of the equity interests in the owner of a New York City hotel. The Company realized a 14% internal rate of return ("IRR") on this subordinate loan. See below for a description of how the IRR is calculated.

During June 2014, the Company received a \$47,000 principal repayment from a mezzanine loan secured by a pledge of the equity interests in a portfolio of skilled nursing facilities. The Company realized a 12% IRR on this mezzanine loan.

During August 2014, the Company received the final repayment from a \$50,000 mezzanine loan secured by a pledge of the equity interests in a borrower that owns a portfolio of seven office parks throughout Florida. The Company realized a 13% IRR on this mezzanine loan.

IRR is the annualized effective compounded return rate that accounts for the time-value of money and represents the rate of return on an investment over a holding period expressed as a percentage of the investment. It is the discount rate that makes the net present value of all cash outflows (the costs of investment) equal to the net present value of

cash inflows (returns on investment). It is derived from the negative and positive cash flows resulting from or produced by each transaction (or for a transaction involving more than one investment, cash flows resulting from or produced by each of the investments), whether positive, such as investment returns, or negative, such as transaction expenses or other costs of investment, taking into account the dates on which such cash flows occurred or are expected to occur, and compounding interest accordingly.

14

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Table of Contents

The Company's subordinate loan portfolio was comprised of the following at December 31, 2013:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon	
Office - Michigan	May-10	Jun-20	\$9,000	\$8,866	\$8,866	Fixed	
Ski Resort - California	Apr-11	May-17	40,000	40,000	39,781	Fixed	
Hotel- New York (1)	Jan-12	Feb-14	15,000	15,000	15,207	Fixed	
Mixed Use – North Carolina	Jul-12	Jul-22	6,525	6,525	6,525	Fixed	
Office Complex - Missouri	Sept-12	Oct-22	10,000	9,849	9,849	Fixed	
Hotel Portfolio – Various (1)	Nov-12	Nov-15	50,000	48,431	48,397	Floating	
Condo Conversion – NY, NY (2)	Dec-12	Jan-15	35,000	35,000	34,734	Floating	
Condo Construction – NY, NY (1)	Jan-13	Jul-17	60,000	66,800	66,340	Fixed	
Multifamily Conversion – NY, NY (1)	Jan-13	Dec-14	18,000	18,000	17,906	Floating	
Hotel Portfolio – Rochester, MN	Jan-13	Feb-18	25,000	24,771	24,771	Fixed	
Warehouse Portfolio - Various	May-13	May-23	32,000	32,000	32,000	Fixed	
Multifamily Conversion – NY, NY (3)	May-13	Jun-14	44,000	44,000	43,859	Floating	
Office Condo - NY, NY	Jul-13	Jul-22	14,000	14,000	13,565	Fixed	
Condo Conversion – NY, NY (4)	Aug-13	Sept-15	294	295	2	Floating	
Mixed Use - Pittsburgh, PA (1)	Aug-13	Aug-16	22,500	22,500	22,342	Floating	
Healthcare Portfolio - Various	Oct-13	Jun-14	47,000	47,000	47,000	Floating	
Mixed Use - Florida (2)	Nov-13	Oct-18	50,000	50,000	49,535	Floating	
Mixed Use - Various (2)	Dec-13	Dec-18	17,000	17,000	16,805	Fixed	
Total/Weighted Average			\$495,319	\$500,037	\$497,484	11.60	%

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

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

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

(4) Includes a one-year extension option subject to certain conditions and the payment of an extension fee. As of December 31, 2013, the Company had \$29,106 of unfunded loan commitments related to this loan.

During February 2013, the Company received principal repayment on two mezzanine loans totaling \$50,000 secured by a portfolio of retail shopping centers located throughout the United States. In connection with the repayment, the Company received a yield maintenance payment totaling \$2,500. With the yield maintenance payment, the Company realized a 15% IRR on its mezzanine loan investment.

During June 2013, the Company received the repayment of a \$15,000 mezzanine loan secured by a hotel in New York City. In connection with the repayment, the Company received a yield maintenance payment totaling \$1,233. With the yield maintenance payment, the Company realized a 19% IRR on its mezzanine loan investment.

The Company evaluates its loans for possible impairment on a quarterly basis. See “Note 5 – Commercial Mortgage Loans” for a summary of the metrics reviewed. The Company has determined that an allowance for loan loss was not necessary at September 30, 2014 and December 31, 2013.

#### Note 7 – Unconsolidated Joint Venture

On September 30, 2014, the Company, through a wholly owned subsidiary, acquired a 59% ownership interest in Champ Limited Partnership (“Champ LP”) following which a wholly-owned subsidiary of Champ LP then acquired a 35% ownership interest in KBC Bank Deutschland AG (“KBC Bank”), the German subsidiary of Belgian KBC Group NV. The Company acquired its ownership interest in Champ LP for an initial purchase price paid at closing of approximately €30,724 (\$39,477). The Company committed to invest up to approximately €38,000 (\$50,000). Through

its interest in Champ LP, the Company holds an indirect ownership interest in KBC Bank of approximately 21%. The Company together with other affiliated investors, in aggregate, own 100% of Champ LP. Champ LP together with certain unaffiliated third party investors, in aggregate, own 100% of KBC Bank.



Table of Contents

KBC Bank 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. Following the closing of the transaction, KBC Bank was renamed Bremer Kreditbank AG and will operate under the name BKB Bank.

The Company determined that Champ LP met the definition of a VIE and that it was not the primary beneficiary; therefore, we did not consolidate the assets and liabilities of the partnership. Our investment in Champ LP is accounted for as an equity method investment. Additionally, due to the nature of its investment in KBC Bank, we determined Champ LP is an Investment Company under GAAP, and is therefore reflected at fair value.

**Note 8 – Repurchase Agreement**

During 2011, the Company funded a \$47,439 investment structured in the form of a repurchase facility secured by a Class A-2 collateralized debt obligation (“CDO”) bond. The \$47,439 of borrowings provided under the facility financed the purchase of a CDO bond with an aggregate face amount of \$68,726, representing an advance rate of 69% on the CDO bond’s face amount. The CDO was comprised of 58 senior and subordinate commercial real estate debt positions and commercial real estate securities with the majority of the debt and securities underlying the CDO being first mortgages.

The repurchase facility had an interest rate of 13.0% (10.0% current pay with a 3.0% accrual) on amounts outstanding and had an initial term of 18 months with three six-month extensions options available to the borrower. Any principal repayments that occurred prior to the 21st month were subject to a make-whole provision at the full 13.0% interest rate.

In January 2013, the repurchase agreement was repaid in full. Upon the repayment, the Company realized a 17% IRR on its investment.

**Note 9 – Borrowings Under Repurchase Agreements**

At September 30, 2014 and December 31, 2013, the Company had borrowings outstanding under the Company’s master repurchase agreement with JPMorgan Chase Bank, N.A. (“JPMorgan”) (the “JPMorgan Facility”), the Wells Facility, the UBS Facility and the DB Facility.

At September 30, 2014 and December 31, 2013, the Company’s borrowings had the following debt balances, weighted average maturities and interest rates:

	September 30, 2014			December 31, 2013			
	Debt Balance	Weighted Average Remaining Maturity	Weighted Average Rate	Debt Balance	Weighted Average Remaining Maturity	Weighted Average Rate	
Wells Facility borrowings	\$20,990	0.4 years	1.0 %	\$47,751	0.2 years	* 1.2 %	**
UBS Facility borrowings	133,899	4.0 years	* 2.8 %	133,899	4.7 years	2.8 %	Fixed
DB Facility borrowings	260,155	3.5 years	3.8 %	—	0.0 years	— %	***
JPMorgan Facility borrowings	122,722	0.3 years	2.7 %	20,383	1.1 years	2.7 %	L+250
Total borrowings	\$537,766	2.8 years	3.2 %	\$202,033	3.3 years	2.4 %	

\*Assumes extension options are exercised.

\*\*At December 31, 2013, borrowings outstanding under the Wells Facility bore interest at LIBOR plus 105 basis points. At September 30, 2014, borrowings outstanding under the Wells Facility bore interest at LIBOR plus 80 basis points.

\*\*\* 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 September 30, 2014, the Company’s borrowings had the following remaining maturities:



Table of Contents

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Wells Facility borrowings	\$20,990	\$—	\$—	\$—	\$20,990
UBS Facility borrowings *	—	133,899	—	—	133,899
DB Facility borrowings	5,530	153,463	101,162	—	260,155
JPMorgan Facility borrowings	122,722	—	—	—	122,722
Total	\$149,242	\$287,362	\$101,162	\$—	\$537,766

\*Assumes extension option is exercised.

At September 30, 2014, the Company's collateralized financings were comprised of borrowings outstanding under the Wells Facility, the UBS Facility, the DB Facility and the JPMorgan Facility. The table below summarizes the outstanding balances at September 30, 2014, as well as the maximum and average balances for the nine months ended September 30, 2014.

	Balance at September 30, 2014	For the nine months ended September 30, 2014 Maximum Month-End Balance	Average Month-End Balance
Wells Facility borrowings	\$20,990	\$47,751	\$ 31,436
UBS Facility borrowings	133,899	133,899	133,899
DB Facility borrowings	260,155	260,155	99,611
JPMorgan Facility borrowings	122,722	169,066	92,026
Total	\$537,766		

DB Facility. During April 2014, the Company through an indirect wholly-owned subsidiary entered into the DB Facility with DB pursuant to which the Company may borrow up to \$100,000 in order to finance the acquisition of CMBS. As of September 30, 2014, the DB Facility was amended to permit the Company to borrow up to \$275,000. Subsequent to September 30, 2014, the DB Facility was further amended to permit the Company to borrow up to \$300,000. The DB Facility has a term of four years, subject to certain restrictions. 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 borrows an amount equal to the product of the estimated fair value of the collateral pledged divided by a margin ratio ranging from 125.00% to 181.82% depending on the collateral pledged.

Additionally, beginning on December 7, 2014 and depending on the utilization rate of the facility, a portion of the undrawn amount may be subject to non-use fees. The DB Facility contains customary terms and conditions for repurchase facilities of this type and financial covenants to be met by the Company, including minimum shareholder's equity of 50% of the gross capital proceeds of its initial public offering and any subsequent public or private offerings. JPMorgan Facility. On April 25, 2014, the Company, through two subsidiaries (the "Funding Subsidiaries"), entered into a letter agreement to temporarily waive, for a period of up to 30 days, compliance with the minimum liquidity covenant under the JPMorgan Facility that requires the Company to maintain minimum liquidity of the greater of 10% of total consolidated recourse indebtedness and \$12,500.

On May 9, 2014, the Company and the Funding Subsidiaries entered into an amendment letter to temporarily increase the maximum permitted borrowing under the JPMorgan Facility from \$100,000 to approximately \$146,814 and to amend the terms of the JPMorgan Facility in order to finance the acquisition of certain mezzanine real estate loans. This letter expired on May 23, 2014.

On May 22, 2014, the Company and the Funding Subsidiaries entered into an amendment letter to extend, until June 6, 2014, (i) the temporary increase of the maximum permitted borrowing under the JPMorgan Facility from \$100,000 to approximately \$146,814 and (ii) the waiver of compliance with the minimum liquidity covenant under the JPMorgan Facility that was previously granted on April 25, 2014.

On June 6, 2014, the Company and the Funding Subsidiaries entered into amendment letters to extend, as applicable, (i) until June 12, 2014, the temporary increase of the maximum permitted borrowing under the JPMorgan Facility from \$100,000 to approximately \$146,814, and (ii) until July 1, 2014, the waiver of compliance with the minimum liquidity covenant under the JPMorgan Facility that was previously granted on April 25, 2014.

On June 12, 2014, the Company and the Funding Subsidiaries entered into a third amendment and restatement of the JP Morgan Facility (the "Third Amendment and Restatement") with JPMorgan. The Third Amendment and Restatement amended

Table of Contents

the JPMorgan Facility to facilitate the financing of mezzanine loans under the JPMorgan Facility and increased the maximum permitted borrowing to \$175,000. In connection with the Third Amendment and Restatement, the guarantee provided by the Company for the obligations of the Funding Subsidiaries was also amended to require the Company to hold minimum liquidity equal to the greater of 5% of its total recourse indebtedness and \$15,000. The Third Amendment and Restatement contains affirmative and negative covenants and provisions regarding events of default that are customary for similar repurchase facilities. The Third Amendment and Restatement expires in January 2015. Wells Facility. In February 2014, the maturity date of the Wells Facility was extended to March 2015. In addition, the Company reduced the interest rate to LIBOR plus 80 basis points from LIBOR plus 105 basis points. The Company was in compliance with the financial covenants under its repurchase agreements at September 30, 2014 and December 31, 2013.

## Note 10 – 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 September 30, 2014, the March 2019 Notes had a carrying value of \$139,564 and an unamortized discount of \$4,186.

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 \$109,593. At September 30, 2014, the August 2019 Notes had a carrying value of \$106,490 and an unamortized discount of \$4,511.

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	%55.3649	3/15/2019	4.46 years
August 2019 Notes	\$111,000	5.50	%6.50	%55.3649	3/15/2019	4.46 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.

(2) The conversion rate represents the number of shares of common stock issuable per \$1,000 principal amount of 2019 Notes converted. The if-converted value of the 2019 Notes does not exceed their principal amount at

September 30, 2014 since the closing market price of the Company's common stock of \$15.71 per share does not exceed the implicit conversion prices of \$18.06 for the 2019 Notes.

GAAP requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. GAAP requires that the initial proceeds from the sale of the 2019 Notes be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt that could have been issued by the Company at such time. The Company measured the fair value of the debt components of the 2019 Notes as of their issuance date based on effective interest rates. As a result, the Company attributed approximately \$11,445 of the proceeds to the equity component of the 2019 Notes, which represents the excess proceeds received over the fair value of the liability component of the 2019 Notes at the date of issuance. The equity component of the 2019 Notes has been reflected within additional paid-in capital in the condensed consolidated balance sheet as of September 30, 2014. 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 \$2,706 and \$4,990 for the three and nine months ended September 30, 2014, 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 \$299 and \$529 for the three and nine months ended September 30, 2014.

18

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Table of Contents

As of September 30, 2014 potential shares of common stock contingently issuable upon the conversion of the 2019 Notes were excluded from the calculation of diluted income per share because it is management's intent and ability to settle the obligation in cash.

## Note 11 – Participations Sold

During May 2014, the Company closed a \$155,000 floating-rate whole loan secured by the first mortgage and equity interests in an entity that owns a resort hotel in Aruba. During June 2014, the Company syndicated a \$90,000 senior participation in the loan and retained a \$65,000 junior participation in the loan. During August 2014, both the \$90,000 senior participation and the Company's \$65,000 junior participation were contributed to a CMBS securitization. In exchange for contributing its \$65,000 junior participation, the Company received a CMBS secured solely by the \$65,000 junior participation and classified it as CMBS (Held-to-Maturity) on its consolidated financial statements. Participations sold represent the interest in the Aruba loan the Company originated and subsequently sold. The Company presents the participation sold as both assets and non-recourse liabilities because the participation does not qualify as a sale according to GAAP. At September 30, 2014, the Company had one such participation sold with a face amount of \$90,000 and a carrying amount of \$89,418. The participation sold has a cash coupon of LIBOR plus 440 basis points. The income earned on the participation sold is recorded as interest income and an identical amount is recorded as interest expense on the Company's consolidated statements of operations.

## Note 12 – Derivative Instruments

The Company used 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. All of the Company's interest rate swaps and caps matured during the third quarter of 2013.

During April 2014, the Company entered into a forward contract whereby it agreed to sell £34,389 in exchange for \$57,631 in January 2015. The forward contract was executed to economically fix the U.S. dollar amounts of foreign denominated cash flows expected to be received related to a foreign denominated loan investment which closed in the second quarter of 2014.

The Company has not designated any of its derivative instruments as hedges under GAAP and therefore, changes in the fair value of the Company's derivatives are recorded directly in earnings. The following table summarizes the amounts recognized on the consolidated statements of operations related to the Company's derivatives for the three and nine months ended September 30, 2014 and 2013.

		Three months ended September 30,		Nine months ended September 30,	
	Location of Loss Recognized in Income	2014	2013	2014	2013
Interest rate swaps	Loss on derivative instruments – realized *	\$—	\$(24 )	\$—	\$(156)
Interest rate swaps	Gain on derivative instruments – unrealized	—	25	—	155
Forward currency contract	Loss on derivative instruments - unrealized	3,026	—	1,933	—
Total		\$3,026	\$1	\$1,933	\$(1 )

\* Realized losses represent net amounts accrued for the Company's derivative instruments during the period.

## Note 13 – Related Party Transactions

## Management Agreement

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

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

cash) quarterly in arrears.

19

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Table of Contents

The current term of the Management Agreement expired on September 29, 2014 and was 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 2014, 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 nine months ended September 30, 2014, respectively, the Company incurred approximately \$3,193 and \$8,725 in base management fees. For the three and nine months ended September 30, 2013, respectively, the Company incurred approximately \$2,625 and \$7,384 in base management fees. 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 nine months ended September 30, 2014, respectively, the Company recorded expenses totaling \$312 and \$712 related to reimbursements for certain expenses paid by the Manager on behalf of the Company. For the three and nine months ended September 30, 2013, respectively, the Company recorded expenses totaling \$208 and \$542 related to reimbursements for certain expenses paid by the Manager on behalf of the Company. Expenses incurred by the Manager and reimbursed by the Company are reflected in the respective consolidated statement of operations expense category or the consolidated balance sheet based on the nature of the item.

Included in payable to related party on the consolidated balance sheet at September 30, 2014 and December 31, 2013, respectively is approximately \$3,193 and \$2,628 for base management fees incurred but not yet paid.

Unconsolidated Joint Venture

On September 30, 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 KBC Bank, the German subsidiary of Belgian KBC Group NV. The Company acquired its ownership interest in Champ LP for an initial purchase price paid at closing of approximately €30,724 (\$39,477). The Company committed to invest up to approximately €38,000 (\$50,000). Through its interest in Champ LP, the Company holds an indirect ownership interest in KBC Bank of approximately 21%. The Company together with other affiliated investors, in aggregate, own 100% of Champ LP. Champ LP together with certain unaffiliated third party investors, in aggregate, own 100% of KBC Bank.

Note 14 – Share-Based Payments

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

The Company recognized stock-based compensation expense of \$308 and \$1,096 for the three and nine months ended September 30, 2014, respectively, related to restricted stock and RSU vesting. The Company recognized stock-based compensation expense of \$784 and \$2,095 for the three and nine months ended September 30, 2013, respectively, related to restricted stock and RSU vesting. The following table summarizes the grants, exchanges and forfeitures of restricted common stock and RSUs during the nine months ended September 30, 2014:

Type	Date	RSUs	Initial Vesting	Final Vesting
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		Restricted Stock		Estimate Fair Value on Grant Date		
Outstanding at December 31, 2013		208,416	503,750			
Canceled upon delivery	January 2014	—	(288,750 )	n/a	n/a	n/a
Grant	April 2014	13,931	—	\$235	July 2014	April 2017
Canceled upon delivery	April 2014	—	(5,000 )	n/a	n/a	n/a
Grant	June 2014	—	10,254	\$169	December 2014	December 2016
Outstanding at September 30, 2014		222,347	220,254			

20

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Table of Contents

Below is a summary of expected restricted common stock and RSU vesting dates as of September 30, 2014.

Vesting Date	Shares Vesting	RSU Vesting	Total Awards
October 2014	3,313	—	3,313
December 2014	6,668	66,750	73,418
January 2015	3,320	—	3,320
March 2015	—	6,667	6,667
April 2015	3,321	—	3,321
July 2015	2,522	—	2,522
July 2015	500	—	500
October 2015	2,522	—	2,522
December 2015	6,668	66,759	73,427
January 2016	2,521	—	2,521
April 2016	2,522	—	2,522
July 2016	1,578	—	1,578
October 2016	1,577	—	1,577
December 2016	—	3,418	3,418
January 2017	1,161	—	1,161
April 2017	1,164	—	1,164
	39,357	143,594	182,951

At September 30, 2014, the Company had unrecognized compensation expense of approximately \$540 and \$1,611, respectively, related to the vesting of restricted stock awards and RSUs noted in the table above.

## RSU Deliveries

During the nine months ended September 30, 2014, the Company delivered 240,277 shares of common stock for 283,750 vested RSUs. The Company allows RSU participants to settle their tax liabilities with a reduction of their share delivery from the originally granted and vested RSUs. The amount, when agreed to by the participant, results in a cash payment to the Manager related to this tax liability and a corresponding adjustment to additional paid in capital on the consolidated statement of changes in stockholders' equity. The adjustment was \$876 for the nine months ended September 30, 2014, and is included as a component of the capital decrease related to the Company's equity incentive plan in the consolidated statement of changes in stockholders' equity.

## Note 15 – Stockholders' Equity

Common Stock Offering. During the second quarter of 2014, the Company completed a follow-on public offering of 9,706,000 shares of its common stock, including the partial exercise of the underwriters' option to purchase additional shares, at a price of \$16.35 per share. The aggregate net proceeds from the offering, including proceeds from the sale of the additional shares, were approximately \$158,439 after deducting estimated offering expenses payable by the Company.

Dividends. For 2014, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Amount
February 26, 2014	March 31, 2014	April 15, 2014	\$0.40
April 29, 2014	June 30, 2014	July 15, 2014	\$0.40
July 28, 2014	September 30, 2014	October 15, 2014	\$0.40

For 2014, the Company declared the following dividends on its 8.625% Series A Cumulative Redeemable Perpetual Preferred Stock (the "Series A Preferred Stock"):



Table of Contents

Declaration Date	Record Date	Payment Date	Amount
March 17, 2014	March 31, 2014	April 15, 2014	\$0.5391
June 9, 2014	June 30, 2014	July 15, 2014	\$0.5391
September 8, 2014	September 30, 2014	October 15, 2014	\$0.5391

## Note 16 – Commitments and Contingencies

KBC Bank Deutschland AG. In September 2013, the Company, together with other affiliates of Apollo, reached an agreement to make an investment in an entity that has agreed to acquire a minority participation in KBC Bank. The Company committed to invest up to approximately €38,000 (\$50,000), representing approximately 21% of the ownership in KBC Bank. The acquisition closed during September 2014 and the Company funded an initial investment of €30,724 (\$39,477).

Loan Commitments. As described in Note 5, at September 30, 2014, the Company had \$104,600 of unfunded loan commitments.

## Note 17 – Fair Value of Financial Instruments

The following table presents the carrying value and estimated fair value of the Company's financial instruments not carried at fair value on the consolidated balance sheet at September 30, 2014 and December 31, 2013:

	September 30, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and cash equivalents	\$58,649	\$58,649	\$20,096	\$20,096
Restricted cash	30,127	30,127	30,127	30,127
Securities, held-to-maturity	153,998	154,984	—	—
Commercial first mortgage loans	369,924	372,228	161,099	164,405
Subordinate loans	585,504	589,818	497,484	503,267
Borrowings under repurchase agreements	(537,766 )	(536,612 )	(202,033 )	(202,148 )
Convertible senior notes, net	(246,054 )	(253,476 )	—	—
Participations sold	(89,418 )	(89,996 )	—	—

To determine estimated fair values of the financial instruments listed above, market rates of interest, which include credit assumptions, are used to discount contractual cash flows. The estimated fair values are not necessarily indicative of the amount the Company could realize on disposition of the financial instruments. The use of different market assumptions or estimation methodologies could have a material effect on the estimated fair value amounts. The Company's commercial first mortgage loans, subordinate loans and repurchase agreements are carried at amortized cost on the condensed consolidated financial statements and are classified as Level III in the fair value hierarchy.

## Note 18 – Net Income per Share

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

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



Table of Contents

The table below presents basic and diluted net (loss) income per share of common stock using the two-class method for the three and nine months ended September 30, 2014 and 2013:

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Numerator:				
Net income	\$19,159	\$12,900	\$60,698	\$36,621
Preferred dividends	(1,860 )	(1,859 )	(5,580 )	(5,580 )
Net income available to common stockholders	17,299	11,041	55,118	31,041
Dividends declared on common stock	(18,739 )	(14,753 )	(52,329 )	(44,253 )
Dividends on participating securities	(88 )	(202 )	(262 )	(596 )
Net income (loss) attributable to common stockholders	\$(1,528 )	\$(3,914 )	\$2,527	\$(13,808 )
Denominator:				
Basic weighted average shares of common stock outstanding	46,848,675	36,883,002	42,322,380	34,647,941
Diluted weighted average shares of common stock outstanding	47,068,929	37,379,469	42,538,744	35,103,285
Basic and diluted net income per weighted average share of common stock				
Distributable Earnings	\$0.40	\$0.40	\$1.24	\$1.28
Undistributed income (loss)	\$(0.03 )	\$(0.11 )	\$0.06	\$(0.40 )
Basic and diluted net income per share of common stock	\$0.37	\$0.29	\$1.30	\$0.88

## Note 19 – Subsequent Events

Dividends. On October 28, 2014, the Company declared a dividend of \$0.40 per share of common stock, which is payable on January 15, 2015 to common stockholders of record on December 31, 2014.

Repurchase Agreements. On October 1, 2014, the DB Facility was amended to increase the maximum permitted borrowing under the DB Facility from \$275,000 to \$300,000.

Investment Activity. During the fourth quarter of 2014, the Company deployed \$4,657 of equity to acquire legacy CMBS with an aggregate purchase price of \$23,283. The Company financed the CMBS utilizing \$18,626 of borrowings under the DB Facility. The CMBS have a weighted average life of 3.0 years and have been underwritten to generate an IRR of approximately 15%.

Table of Contents

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

FORWARD-LOOKING INFORMATION

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

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, 2013. 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 REIT that 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 \$167 billion as of June 30, 2014.



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

## Table of Contents

### Market Overview

The commercial real estate market has largely recovered from the downturn experienced as part of the correction in the global financial markets which began in mid-2007. Property values in many markets and across multiple property types have recovered and the lending market is functioning with both established and new entrants. Based on the current market dynamics, including increasing real estate transaction activity and over \$1 trillion of commercial real estate debt scheduled to mature through 2017, there remains a compelling opportunity for the Company to source and originate investments in its target assets at attractive risk adjusted returns. The Company will continue to focus on underlying real estate value, and transactions that benefit from the Company's ability to execute complex and sophisticated transactions.

During and immediately following the financial crisis, due to the prevalence of lenders granting extensions across the commercial mortgage loan industry, the demand for new capital to refinance maturing commercial mortgage debt was somewhat tempered. This trend has abated to a certain extent in more recent periods as many borrowers have refinanced legacy loans and pursued new acquisitions. While the frequency of extensions and modifications had a meaningful impact on the timing of loan maturities, the Company believes the next phase will involve rising volumes of commercial mortgage lending activity which should allow lenders to capitalize on the impending maturity wall. Additionally, as the European senior lending market continues to expand and strengthen, we expect to see an increase in the number and availability of target opportunities.

With the continued tapering of its bond purchases, the Federal Reserve continues to demonstrate a desire to continue reducing the amount of stimulus in the economy, while still maintaining an accommodative monetary policy. As a result, while the Federal Reserve has decreased the pace of its bond purchases, the low interest rate environment is expected to persist, remain attractive to borrowers and is projected to continue to drive significant refinancing activity across all property types during 2014.

After seeing substantial growth in 2012 and 2013, new-issue CMBS volume in the first three quarters of 2014 was approximately \$71 billion, slightly ahead of the the \$69 billion of volume during the same period in the prior year. In 2013, approximately \$86 billion of CMBS were issued in the United States, an increase of approximately 78% over 2012 and an increase of 163% over 2011. While not directly related to many of the transactions we often pursue, the active CMBS market can be viewed as an indication of the strength and recovery of the commercial real estate lending market.

However, 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. We perceive that lenders still appear to be focused on stabilized cash flowing assets with LTV ratios lower than peak. As a result, we expect to continue to see opportunities to originate mezzanine and first mortgage financings in transactions which benefit from the Company's ability to source, structure and execute complex transactions.

### Critical Accounting Policies

A summary of the Company's accounting policies is set forth in its Annual Report on Form 10-K for the year ended December 31, 2013 under "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Use of Estimates."

### Significant Accounting Policies

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

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

right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE. Securitization/Sale and Financing Arrangements. We periodically sell our financial assets, such as commercial mortgage loans, CMBS and other assets. In connection with these transactions, we may retain or acquire senior or subordinated interests in the related assets. Gains and losses on such transactions are recognized using the guidance in ASC Topic 860, Transfers and Servicing, which is based on a financial components approach that focuses on control. Under this approach, after a transfer of financial assets that meets the criteria for treatment as a sale-legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transferred control-an entity recognizes the financial assets it retains and

Table of Contents

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

## Financial Condition and Results of Operations

(in thousands—except share and per share data)

## Investments

The following table sets forth certain information regarding the Company's investments at September 30, 2014:

Description	Face Amount	Amortized Cost	Remaining		Debt	Cost of Funds	Remaining		Equity at cost (2)	Current Weighted Average Underwritten IRR (3) (4)	Levered Weighted Average Underwritten IRR (3) (4)
			Weighted Average Yield	Weighted Average Life (years)			Term (years) (1)	Debt			
First mortgages	\$371,938	\$369,924	8.9 %	2.9	\$122,722	2.7 %	0.3	\$247,202	13.0 %	15.6 %	
Subordinate loans	587,005	585,504	12.0	3.2	—	—	—	585,504	12.8	12.8	
CMBS, held-to-maturity (5)	65,000	64,580	12.2	4.6	—	—	—	64,580	12.2	12.2	
CMBS	521,545	511,445	6.3	2.5	415,044	3.3	3.5	99,988	16.1	16.1	
Total/Weighted Average	\$1,545,488	\$1,531,453	9.4 %	3.0	\$537,766	3.2 %	2.8	\$997,274	13.1 %	13.7 %	

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

(2) CMBS includes \$30,127 of restricted cash related to the UBS Facility and \$26,540 related to investments purchased, not yet settled.

The underwritten IRR for the investments shown in the above table reflect the returns underwritten by the Manager, calculated on a weighted average basis assuming no dispositions, early prepayments or defaults but assuming that extension options are exercised and that the cost of borrowings remains constant over the remaining term. With respect to certain loans, the underwritten IRR calculation assumes certain estimates with respect to the timing and magnitude of future fundings for the remaining commitments and associated loan repayments, and assumes no defaults. IRR is the annualized effective compounded return rate that accounts for the time-value of money and represents the rate of return on an investment over a holding period expressed as a percentage of the investment. It is the discount rate that makes the net present value of all cash outflows (the costs of investment) equal to the net present value of cash inflows (returns on investment). It is derived from the negative and positive cash flows resulting from or produced by each transaction (or for a transaction involving more than one investment, cash flows resulting from or produced by each of the investments), whether positive, such as investment returns, or negative, such as transaction expenses or other costs of investment, taking into account the dates on which such cash flows occurred or are expected to occur, and compounding interest accordingly. There can be no assurance that the actual IRRs will equal the underwritten IRRs shown in the table. See “Item 1A-Risk Factors-The Company may not achieve its underwritten internal rate of return on its investments which may lead to future returns that may be significantly lower than anticipated” included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of some of the factors that could adversely impact the returns received by the Company from the investments shown in the table or elsewhere in this quarterly report over time.

(4) The Company's ability to achieve its underwritten levered weighted average IRR with regard to its portfolio of first mortgage loans is dependent upon the Company borrowing approximately \$52,278 under the JPMorgan Facility or any replacement facility. Without such reborrowing, the levered weighted average underwritten IRRs will be as indicated in the current weighted average underwritten IRR column above.

(5) CMBS (Held-to-Maturity) are net of a participation sold during June 2014. The Company presents the participation sold as both assets and non-recourse liabilities because the participation does not qualify as a sale according to GAAP. At September 30, 2014, the Company had one such participation sold with a face amount of \$90,000 and a carrying amount of \$89,418.

Investment Activity

Table of Contents

Investment activity. During February 2014, the Company provided a \$80,000, floating rate first mortgage loan (\$25,000 of which was funded at closing) for the development of a 50-unit luxury residential condominium in Montgomery County, Maryland. The Company's loan is expected to fund the first phase of a two-phase development and has a 30-month term with a 6-month extension option. On a fully funded basis, the Company expects that the first mortgage loan will represent an underwritten loan-to-net sellout of approximately 68% and has been underwritten to generate a 15% IRR. See "—Investments" above for a discussion of IRR.

During April 2014, the Company closed a \$210,000 fixed-rate, five-year first mortgage loan secured by a portfolio of 229 single-family and condominium homes located across North and Central America, the Caribbean and England. Simultaneous with closing, the Company syndicated \$104,000 of the loan to other funds managed by affiliates of Apollo Global Management, LLC and retained \$106,000. During August 2014, the Company sold an additional \$5,000. The first mortgage loan has an appraised LTV of approximately 49% and was underwritten to generate an IRR of approximately 8.2% on an unlevered basis. The Company anticipates financing the investment and on a levered basis, the investment was underwritten to generate an IRR of approximately 15%.

During April 2014, the Company closed a \$53,954 (£32,100) fixed-rate, nine-month mezzanine loan in connection with the purchase of an existing commercial building that is expected to be re-developed into a 173,000 salable square foot residential condominium in Central London. The mezzanine loan is part of a \$126,060 (£75,000) pre-development loan comprised of a \$72,106 (£42,900) first mortgage and the Company's \$53,954 (£32,100) mezzanine loan. The Company will have the option, but not the obligation, to participate in the development financing. The Company's loan basis represents a 78% appraised LTV and the mezzanine loan has been underwritten to generate an IRR of approximately 12%.

During May 2014, the Company closed a \$155,000 floating-rate whole loan secured by the first mortgage and equity interests in an entity that owns a resort hotel in Aruba. The property consists of 442 hotels rooms, 114 timeshare units, two casinos and approximately 131,500 square feet of retail space. During June 2014, the Company syndicated a \$90,000 senior participation in the loan and retained a \$65,000 junior participation in the loan. The whole loan has a three-year term with two one-year extension options and an appraised LTV of approximately 60%. The junior participation was underwritten to generate an IRR of approximately 14%.

During May 2014, the Company closed a \$34,000 floating-rate first mortgage loan for the acquisition of a newly renovated 301-key hotel located in downtown Philadelphia. The first mortgage has a three-year term with two one-year extension options and an underwritten loan-to-cost of approximately 58%. The first mortgage loan was underwritten to generate an IRR of approximately 13% on a levered basis.

During June 2014, the Company closed a \$65,100 floating-rate first mortgage loan (\$20,000 of which was funded at closing) for the development of a 40-unit luxury residential condominium in downtown Bethesda, Maryland. The Company's loan has a 30-month term with a six-month extension option. On a fully funded basis, the first mortgage loan has a projected appraised loan-to-net sellout of approximately 67% and has been underwritten to generate an IRR of approximately 14%.

During June 2014, the Company closed a \$28,250 fixed-rate mezzanine loan secured by the equity interest in a 795-key full-service hotel and 226,000 square foot office and retail condominium in the Times Square neighborhood of New York City. The mezzanine loan has a remaining six month term and an underwritten LTV of approximately 67%. The mezzanine loan was underwritten to generate an IRR of approximately 8%.

During June 2014, the Company closed a \$50,000 floating-rate mezzanine loan secured by the equity interest in a portfolio of 167 wholly owned skilled nursing facilities located across 19 states. The mezzanine loan was issued in connection with the refinancing of the portfolio and paid off the existing \$47,000 mezzanine loan acquired in 2013. The new mezzanine loan has a two-year initial term with three one-year extension options and an underwritten LTV of approximately 62%. The mezzanine loan was underwritten to generate an IRR of approximately 12%.

During July 2014, the Company closed a \$20,000 floating-rate mezzanine loan secured by the equity interest in a 280-key hotel in the NoMad neighborhood of New York City. The mezzanine loan has a two-year initial term and three one-year extension options and an appraised LTV of approximately 61%. The mezzanine loan was underwritten to generate an IRR of approximately 12%.

During July 2014, the Company closed a \$34,500 (\$30,000 of which was funded at closing) floating-rate, first mortgage loan secured by a newly constructed, Class-A, 63-unit multifamily property located in Brooklyn, New York, which also includes approximately 7,300 square feet of retail space and 31 parking spaces. The first mortgage loan has a two-year initial term with three one-year extension options and an appraised LTV of approximately 70% on a fully funded basis. The Company anticipates financing the loan, and on a levered basis, the loan was underwritten to generate an IRR of approximately 12%.

During August 2014, the Company closed a \$15,000 fixed-rate subordinate loan secured by a top-tier ski resort located in Montana. The Company's loan has a six-year term, an appraised LTV of approximately 59% and has been underwritten to generate an IRR of approximately 15%.

Table of Contents

On September 30, 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 KBC Bank. KBC Bank, the German subsidiary of Belgian KBC Group NV. The Company acquired its ownership interest in Champ LP for an initial purchase price paid at closing of approximately €30,724 (\$39,477 million). The Company committed to invest up to approximately €38,000 (\$50,000). Through its interest in Champ LP, the Company holds an indirect ownership interest in KBC Bank of approximately 21%. The Company together with other affiliated investors, in aggregate, own 100% of Champ LP. Champ LP together with certain unaffiliated third party investors, in aggregate, own 100% of KBC Bank.

During 2014, the Company deployed \$70,345 of equity to acquire legacy CMBS with an aggregate purchase price of \$351,724. The Company financed the CMBS utilizing \$281,379 of borrowings under the DB Facility. The CMBS have a weighted average life of 2.8 years and have been underwritten to generate an IRR of approximately 17%.

Repayments. During January 2014, the Company received a \$15,000 principal repayment from a subordinate loan secured by a pledge of the equity interests in the owner of a New York City hotel. The Company realized an IRR of 14% on this subordinate loan.

During June 2014, the Company received a \$47,000 principal repayment from a mezzanine loan secured by a pledge of the equity interests in a portfolio of skilled nursing facilities. The Company realized a 12% IRR on this mezzanine loan.

During August 2014, the Company received the final repayment from a \$50,000 mezzanine loan secured by a pledge of the equity interests in a borrower that owns a portfolio of seven office parks throughout Florida. The Company realized a 13% IRR on this mezzanine loan.

**Net Income Available to Common Stockholders**

For the three and nine months ended September 30, 2014, respectively, the Company's net income available to common stockholders was \$17,299, or \$0.37 per share, and \$55,118, or \$1.30 per share. For the three and nine months ended September 30, 2013, respectively, the Company's net income available to common stockholders was \$11,041, or \$0.29 per share, and \$31,041, or \$0.88 per share.

**Net Interest Income**

The following table sets forth certain information regarding the Company's net investment income for the three and nine months ended September 30, 2014 and 2013:

	Three months ended September 30,				Nine months ended September 30,				
	2014	2013	Change (amount)	Change (%)	2014	2013	Change (amount)	Change (%)	
Interest income from:									
Securities	\$6,129	\$2,533	\$3,596	142.0 %	\$12,914	\$8,634	\$4,280	49.6 %	
Securities, held to maturity	2,219	—	2,219	n/a	2,219	—	2,219	n/a	
Commercial mortgage loans	8,025	4,954	3,071	62.0 %	18,475	12,222	6,253	51.2 %	
Subordinate loans	18,983	12,184	6,799	55.8 %	51,951	35,137	16,814	47.9 %	
Repurchase agreements	—	—	—	— %	—	2	(2)	(100.0 %)	
Interest expense	(8,786)	(885)	(7,901)	892.8 %	(15,802)	(2,909)	(12,893)	443.2 %	
Net interest income	\$26,570	\$18,786	\$7,784	41.4 %	\$69,757	\$53,086	\$16,671	31.4 %	

Net interest income for the three and nine months ended September 30, 2014, respectively, increased \$7,784, or 41.4%, and \$16,671, or 31.4%, from the same periods in 2013. The increase is primarily the result of additional interest income from securities, commercial mortgage loans and subordinate loans which was partially offset by an increase in interest expense.

Interest income related to securities for the three and nine months ended September 30, 2014, respectively, increased \$3,596, or 142.0%, and \$4,280, or 49.6%, from the same periods in 2013. The increase is attributable to the purchase of \$325,961 of CMBS during the first nine months of 2014. This increase was partially offset by the repayment of \$30,595 of CMBS during the first nine months of 2014.



Interest income related to securities (held-to-maturity) of \$2,219 for the three and nine months ended September 30, 2014 is attributable to the Company's investment in a subordinate loan during May 2014 that was subsequently converted to a CMBS during August 2014. See Note 4 of the consolidated financial statements for further discussion of this investment.

Table of Contents

The increase in interest income related to commercial mortgage loans for the three and nine months ended September 30, 2014, respectively, of \$3,071, or 62.0%, and \$6,253, or 51.2%, from the same periods in 2013, is primarily attributable to the funding of \$211,738 of commercial mortgage loans net of repayments of \$666 during 2014.

The increase in interest income related to subordinate loans for the three and nine months ended September 30, 2014, respectively, of \$6,799, or 55.8%, and \$16,814, or 47.9%, from the same periods in 2013 is primarily attributable to the funding of \$353,386 of subordinate loans net of repayments of \$117,003 during 2014. The increase in interest income was offset by a one-time \$2,500 prepayment penalty received upon the repayment of two mezzanine loans in February 2013.

The decrease in interest related to repurchase agreements for the nine months ended September 30, 2014 of \$(2), or (100.0)%, from the same period in 2013 is attributable to the final repayment of the repurchase facility in January 2013.

Interest expense for the three and nine months ended September 30, 2014, respectively, increased \$7,901, or 892.8%, and \$12,893, or 443.2%, from the same periods in 2013. In addition to the Company's issuance of the 2019 Notes, the increase is primarily attributable to the increase in the weighted average cost of funds from 1.9% at September 30, 2013 to 3.2% at September 30, 2014. This increase in the weighted average cost of funds was primarily related to the Company's borrowings under the UBS Facility and DB Facility. This increase in interest expense was also attributable to the increase in the average balance of the Company's borrowings under repurchase agreements from \$204,169 for the nine months ended September 30, 2013 to \$356,972 for the nine months ended September 30, 2014.

Operating Expenses

The following table sets forth the Company's operating expenses for the three and nine months ended September 30, 2014 and 2013:

	Three months ended September 30,				Nine months ended September 30,				
	2014	2013	Change (amount)	Change (%)	2014	2013	Change (amount)	Change (%)	
General and administrative expense	\$ 1,126	\$ 1,009	\$ 117	11.6	% \$ 3,259	\$ 3,031	\$ 228	7.5	%
Stock-based compensation expense	308	784	(476)	(60.7)	% 1,096	2,095	(999)	(47.7)	%
Management fee expense	3,193	2,625	568	21.6	% 8,725	7,384	1,341	18.2	%
Total operating expense	\$4,627	\$4,418	\$209	4.7	% \$13,080	\$12,510	\$570	4.6	%

General and administrative expense for the three and nine months ended September 30, 2014, respectively, increased \$117, or 11.6%, and \$228, or 7.5%, from the same periods in 2013. Stock-based compensation expense for the three and nine months ended September 30, 2014, respectively, decreased \$476, or 60.7%, and \$999, or 47.7%, from the same periods in 2013. The decrease is primarily attributable to final vesting of 288,750 RSUs on January 1, 2014.

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

Management fee expense for the three and nine months ended September 30, 2014, respectively, increased \$568, or 21.6%, and \$1,341, or 18.2%, from the same periods in 2013. The increase is primarily attributable to increases in the Company's stockholders' equity (as defined in the Management Agreement) as a result of the Company's follow-on common equity offering completed in March 2013 and, to a lesser extent, the Company's follow-on common equity offering completed during the second quarter of 2014. Management fees and the relationship between the Company and the Manager are discussed further in the accompanying consolidated financial statements, "Note 13—Related Party Transactions."

Realized and unrealized gain/loss

The following amounts related to realized and unrealized gains (losses) on the Company's CMBS, non U.S. dollar denominated loans and derivative instruments are included in the Company's consolidated statement of operations for the three and nine months ended September 30, 2014 and 2013:



Table of Contents

	Location of Gain (Loss) Recognized in Income	Three months ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
Securities	Unrealized gain (loss) on securities	\$(2,147)	\$(1,472)	\$4,787	\$(3,973)
Foreign currency	Foreign currency gain (loss) - unrealized	(3,596 )	—	(2,637 )	—
Interest rate swaps	Loss on derivative instruments – realized *	—	(24 )	—	(156 )
Interest rate swaps	Gain on derivative instruments – unrealized	—	25	—	155
Forward currency contract	Loss on derivative instruments - unrealized	3,026	0	1,933	0
Total		\$(2,717 )	\$(1,471 )	\$4,083	\$(3,974 )

\* Realized losses represent net amounts expensed related to the exchange of fixed and floating rate cash flows for the Company's derivative instruments during the period.

The Company used 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. All of the Company's interest rate swaps and caps matured during the third quarter of 2013.

During April 2014, the Company entered into a forward contract whereby it agreed to sell £34,389 in exchange for \$57,631 in January 2015. The forward contract was executed to economically fix the U.S. dollar amounts of foreign denominated cash flows expected to be received related to a foreign denominated loan investment which closed in the second quarter of 2014.

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

For the three and nine months ended September 30, 2014, respectively, the Company recognized an unrealized gain (loss) on securities of \$(2,147) and \$4,787. For the three and nine months ended September 30, 2013, respectively, the Company recognized an unrealized gain (loss) on securities of \$(1,472) and \$(3,973). These gains (losses) resulted from mark-to-market adjustments related to those securities for which the fair value option has been elected.

**Dividends**

Dividends. For 2014, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Amount
February 26, 2014	March 31, 2014	April 15, 2014	\$0.40
April 29, 2014	June 30, 2014	July 15, 2014	\$0.40
July 28, 2014	September 30, 2014	October 15, 2014	\$0.40

For 2014, the Company declared the following dividends on its Series A Preferred Stock:

Declaration Date	Record Date	Payment Date	Amount
March 17, 2014	March 31, 2014	April 15, 2014	\$0.5391
June 9, 2014	June 30, 2014	July 15, 2014	\$0.5391
September 8, 2014	September 30, 2014	October 15, 2014	\$0.5391

**Subsequent Events**

Dividends. On October 28, 2014, the Company declared a dividend of \$0.40 per share of common stock, which is payable on January 15, 2015 to common stockholders of record on December 31, 2014.

Repurchase Agreements. On October 1, 2014, the DB Facility was amended to increase the maximum permitted borrowing under the DB Facility from \$275,000 to \$300,000.

Investment Activity. During the fourth quarter of 2014, the Company deployed \$4,657 of equity to acquire legacy CMBS with an aggregate purchase price of \$23,283. The Company financed the CMBS utilizing \$18,626 of borrowings under the DB



Table of Contents

Facility. The CMBS have a weighted average life of 3.0 years and have been underwritten to generate an IRR of approximately 15%.

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 September 30, 2014. While there are no contractual paydowns related to the Company's CMBS, periodic paydowns do occur. Repayments on the debt secured by the Company's CMBS occur in conjunction with the paydowns on the collateral pledged.

Borrowings Under Various Financing Arrangements

JPMorgan Facility

In January 2010, the Company entered into the JPMorgan Facility, pursuant to which the Company may borrow up to \$100,000 in order to finance the origination and acquisition of commercial first mortgage loans and AAA-rated CMBS. Per the terms of the original agreement, amounts borrowed under the JPMorgan Facility bore interest at a spread of 3.00% over one-month LIBOR with no floor. During April 2012, the Company amended the JPMorgan Facility to reduce the interest rate spread by 50 basis points to LIBOR+2.50%. Advance rates under the JPMorgan Facility typically range from 65%-90% on the estimated fair value of the pledged collateral depending on its LTV. Margin calls will occur any time the outstanding loan balance exceeds the lender's required advance in accordance with agreed upon advance rates by more than \$250. In February 2013, the Company, through two of the Company's subsidiaries, amended and restated the JPMorgan Facility to extend the maturity date to January 31, 2014, which was subsequently extended for an additional 364 days pursuant to the exercise of the extension option during January 2014. The Company paid JPMorgan an upfront structuring fee of 0.50% of the facility amount for the first year of the term and an extension fee of 0.25% for the January 2014 extension. During the second quarter of 2014, through a series of letter agreements, JPMorgan agreed to temporarily waive compliance with the minimum liquidity covenant under the JPMorgan Facility that requires the Company to maintain minimum liquidity of the greater of 10% of total consolidated recourse indebtedness and \$12,500, and temporarily amended the JPMorgan Facility to increase the maximum permitted borrowing from \$100,000 to approximately \$146,814 and amended the terms in order to finance the acquisition of certain mezzanine real estate loans. On June 12, 2014, the Company and two of the Company's subsidiaries entered into the Third Amendment and Restatement with JPMorgan. The Third Amendment and Restatement amended the JPMorgan Facility to facilitate the financing of mezzanine loans under the JPMorgan Facility and increased the maximum permitted borrowing to \$175,000. Pricing on the JPMorgan Facility will remain at LIBOR+2.5%. In connection with the Third Amendment and Restatement, the full guarantee provided by the Company for the obligations of its borrower subsidiaries under the JPMorgan Facility was also amended to require the Company to hold minimum liquidity equal to the greater of 5% of its total recourse indebtedness and \$15,000. The JPMorgan Facility contains, among others, the following restrictive covenants: (1) negative covenants relating to restrictions on the Company's operations that would cease to allow the Company to qualify as a REIT and (2) financial covenants to be met by the Company when the repurchase facility is being utilized, including a minimum consolidated tangible net worth covenant (\$125,000), a maximum total debt to consolidated tangible net worth covenant (3:1), a minimum liquidity covenant (the greater of 10% of total consolidated recourse indebtedness and \$12,500) and a minimum net income covenant (\$1 during any four consecutive fiscal quarters). As amended and restated, the JPMorgan Facility expires in January 2015.

As of September 30, 2014, the Company had \$122,722 of borrowings outstanding under the JPMorgan Facility.  
Wells Facility

31

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Table of Contents

During August 2010, the Company, through an indirect wholly-owned subsidiary, entered into the Wells Facility, pursuant to which the Company may borrow up to \$250,000 in order to finance the acquisition of AAA-rated CMBS. The Wells Facility had a term of one year, with two one-year extensions available at the Company's option, subject to certain restrictions, and upon the payment of an extension fee equal to 25 basis points on the then outstanding balance of the facility for each one-year extension. Advances under the Wells Facility accrue interest at a per annum pricing rate equal to the sum of (i) 30 day LIBOR and (ii) a pricing margin of 1.25%. The purchase price of the CMBS is determined on a per asset basis by applying an advance rate schedule agreed upon by the Company and Wells Fargo. Advance rates under the Wells Facility typically range from 85%-90% on the face amount of the underlying collateral depending on the weighted average life of the collateral pledged. Margin calls will occur any time the outstanding loan balance exceeds the lender's required advance in accordance with agreed upon advance rates by more than \$250. The Wells Facility contains, among others, the following restrictive covenants: (1) negative covenants intended to restrict the Company from failing to qualify as a REIT and (2) 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 (i) \$100,000, (ii) 75% of the greatest net asset value during the prior calendar quarter and (iii) 65% of the greatest net asset value during the prior calendar year), a maximum total debt to consolidated tangible net worth covenant (8:1), a minimum liquidity covenant (\$2,500) and a minimum EBITDA to interest expense covenant (1.5:1). The Company has agreed to provide a limited guarantee of up to 15%, or a maximum of \$37,500, of the obligations of its indirect wholly-owned subsidiary under the Wells Facility.

During December 2011, the Company, through an indirect wholly-owned subsidiary, entered into an amendment letter (the "Amendment Letter") related to the Wells Facility to increase its maximum permitted borrowing under the facility from \$250,000 to \$506,000 in order to pay down its borrowings under the Term Asset-Backed Securities Loan Facility (the "TALF") program administered by the Federal Reserve Bank of New York and to finance the CMBS that had been financed under the TALF program. The Amendment Letter additionally adjusted the pricing margin for all assets financed under the Wells Facility occurring after December 22, 2011 from 1.25% to 1.50%, and added a minimum liquidity covenant, requiring the Company to maintain at all times an amount in Repo Liquidity (as generally defined under the Wells Facility to include all amounts held in the collection account established under the Wells Facility for the benefit of Wells Fargo, cash, cash equivalents, super-senior CMBS rated AAA by at least two rating agencies, and total amounts immediately and unconditionally available on an unrestricted basis under all outstanding capital commitments, subscription facilities and secured revolving credit or repurchase facilities) no less than the greater of 10% of the total consolidated recourse indebtedness of the Company and \$12,500. Advances under the Wells Facility accrue interest at a per annum pricing rate equal to the sum of (i) 30 day LIBOR and (ii) the applicable pricing margin.

The Wells Facility was further amended during the second quarter of 2012 to provide an additional \$100,000 of financing capacity for the purchase of Hilton CMBS at a rate of LIBOR plus 235 basis points with respect to borrowings secured by the Hilton CMBS. The additional \$100,000 of capacity to finance the Hilton CMBS matures in November 2014 and may be extended for an additional year upon the payment of an extension fee equal to 0.50% on the then aggregate outstanding repurchase price for all such assets. Additionally, during August 2012, the Company exercised the final one-year extension of the term of the Wells Facility and extended the maturity date to August 2013 (except with respect to \$100,000 of capacity under the facility to finance the Hilton CMBS described below). In February 2013, the Company further amended the Wells Facility to reduce the interest rate as follows: (i) with respect to the outstanding borrowings used to provide financing for the AAA CMBS, the interest rate was reduced to LIBOR+1.05% from LIBOR+1.25%-1.50% (depending on the collateral pledged); and (ii) with respect to the outstanding borrowings used to provide financing for the Hilton CMBS, the interest rate was reduced to LIBOR+1.75% from LIBOR+2.35%. In addition, the maturity date of the Wells Facility with respect to the outstanding borrowings used to provide financing for the AAA CMBS was extended to March 2014. The Hilton CMBS and related borrowings were repaid in November 2013. In February 2014, the maturity date of the Wells Facility was extended to March 2015. In addition, the Company reduced the interest rate to LIBOR + 80 basis points from LIBOR + 105 basis points.



At September 30, 2014, the Company had \$20,990 of borrowings outstanding under the Wells Facility secured by CMBS held by the Company.

UBS Facility

During September 2013, the Company through an indirect wholly-owned subsidiary entered into the UBS Facility with UBS pursuant to which the Company may borrow up to \$133,333 in order to finance the acquisition of CMBS. The UBS Facility has a term of four years, with a one-year extension available at the Company's option, subject to certain restrictions. Advances under the UBS Facility accrue interest at a per annum pricing rate equal to a spread of 1.55% per annum over the rate implied by the fixed rate bid under a fixed-for-floating interest rate swap for the receipt of payments indexed to six-month U.S. dollar LIBOR. The Company borrows 100% of the estimated fair value of the collateral pledged and posts margin equal to

## Table of Contents

22.5% of that borrowing amount in cash. The margin posted is classified as restricted cash on the Company's condensed consolidated balance sheets. Additionally, beginning on the 121st day following the closing date and depending on the utilization rate of the facility, a portion of the undrawn amount may be subject to non-use fees. The UBS Facility contains customary terms and conditions for repurchase facilities of this type and financial covenants to be met by the Company, including a minimum net asset value covenant (which shall not be less than an amount equal to \$500,000 and a maximum total debt to consolidated tangible net worth covenant (3:1). The Company has agreed to provide a full guarantee of the obligations of its indirect wholly-owned subsidiary under the UBS Facility. During December 2013, the UBS Facility was amended to increase the maximum amount to \$133,899.

As of September 30, 2014, the Company had \$133,899 of borrowings outstanding under the UBS Facility secured by CMBS held by the Company.

### DB Facility

During April 2014, the Company through an indirect wholly-owned subsidiary entered into the DB Facility with DB pursuant to which the Company may borrow up to \$100,000 in order to finance the acquisition of CMBS. The DB Facility was amended during 2014 to permit the Company to borrow up to \$275,000. The DB Facility has a term of four years, subject to certain restrictions. 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 borrows an amount equal to the product of the estimated fair value of the collateral pledged divided by a margin ratio ranging from 125.00% to 181.82% depending on the collateral pledged. Additionally, beginning on December 7, 2014 and depending on the utilization rate of the facility, a portion of the undrawn amount may be subject to non-use fees. The DB Facility contains customary terms and conditions for repurchase facilities of this type and financial covenants to be met by the Company, including minimum shareholder's equity of 50% of the gross capital proceeds of its initial public offering and any subsequent public or private offerings. As of September 30, 2014, the Company had \$260,155 of borrowings outstanding under the DB Facility secured by CMBS held by the Company.

### Convertible Senior Notes

On March 17, 2014, the Company issued \$143,750 aggregate principal amount of 5.50% Convertible Senior Notes due 2019, for which the Company received net proceeds, after deducting the underwriting discount and estimated offering expenses payable by the Company, of approximately \$139,037.

On August 18, 2014, the Company issued an additional \$111,000 aggregate principal amount of 5.50% Convertible Senior Notes due 2019, for which the Company received net proceeds, after deducting the underwriting discount and estimated offering expense payable by the Company, of approximately \$109,593.

### Other Potential Sources of Financing

The Company's primary sources of cash currently consist of the \$58,649 of cash available at September 30, 2014, principal and interest payments the Company receives on its portfolio of assets, as well as available borrowings under its repurchase agreements. The Company expects its other sources of cash to consist of cash generated from operations and the possible prepayments of principal received on the Company's portfolio of assets. Such prepayments are difficult to estimate in advance. At September 30, 2014, \$52,278 of borrowing capacity under the JPMorgan Facility was available; however, the Company may need to acquire additional commercial first mortgage loans or CMBS in order to utilize all of that capacity. 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.

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 capital, issue debt securities 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.



Table of Contents

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

During April 2014, based on the Manager's recommendation, the Company's board of directors amended the Company's investment guidelines by removing certain limitations related to non-U.S. assets, undeveloped land, construction loans and for-sale residential real-estate loans. The Company's board of directors adopted the following investment guidelines:

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

Contractual obligations and commitments

The Company's contractual obligations including expected interest payments as of September 30, 2014 are summarized as follows:

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Wells Facility borrowings *	\$21,079	\$—	\$—	\$—	\$21,079
UBS Facility borrowings **	3,794	140,499	—	—	144,293
DB Facility borrowings	15,387	168,948	102,413	—	286,748
JPMorgan Facility borrowings*	123,835	—	—	—	123,835
Total	\$164,095	\$309,447	\$102,413	\$—	\$575,955

\* Assumes current LIBOR of 0.15% for interest payments due under the JPMorgan Facility and Wells Facility.

\*\* Assumes extension options are exercised.

KBC Bank Deutschland AG. In September 2013, the Company, together with other affiliates of Apollo, reached an agreement to make an investment in an entity that agreed to acquire a minority participation in KBC Bank. The Company committed to invest up to approximately €38,000 (\$50,000), representing approximately 21% of the ownership in KBC Bank. The acquisition closed during September 2014 and the Company funded an initial investment of €30,724 (\$39,477).

Loan Commitments. At September 30, 2014, the Company had \$104,600 of unfunded loan commitments.

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,

## Table of Contents

internal audit, legal, risk management, operations, compliance and other non-investment professional personnel of the Manager or its affiliates who spend all or a portion of their time managing the Company's affairs based on the percentage of time devoted by such personnel to the Company's affairs. The Company is also required to reimburse its Manager for operating expenses related to the Company incurred by its Manager, including expenses relating to legal, accounting, due diligence and other services. Expense reimbursements to the Manager are made in cash on a monthly basis following the end of each month. The Company's reimbursement obligation is not subject to any dollar limitation.

The current term of the Management Agreement expired on September 29, 2014 and was automatically renewed for successive one-year terms on each anniversary thereafter. The Management Agreement may be terminated upon expiration of the one-year terms 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 2014, which included a discussion of the Manager's performance and the level of the management fees thereunder, the Company determined not to terminate the Management Agreement.

### Off-balance sheet arrangements

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

### Dividends

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

The Company has 3,450,000 shares of Series A Preferred Stock outstanding, which entitles holders to receive dividends at an annual rate of 8.625% of the liquidation preference of \$25.00 per share, or \$2.16 per share per annum. The dividends on the Series A Preferred Stock are cumulative and payable quarterly in arrears. Except under certain limited circumstances, the Series A Preferred Stock is generally not convertible into or exchangeable for any other property or any other securities of the Company at the election of the holders. After August 1, 2017, the Company may, at its option, redeem the shares at a redemption price of \$25.00, plus any accrued unpaid distribution through the date of the redemption.



Table of Contents

## Non-GAAP Financial Measures

## Operating Earnings

For the three and nine months ended September 30, 2014, respectively, the Company's Operating Earnings were \$20,768, or \$0.44 per share, and \$52,805, or \$1.24 per share. For the three and nine months ended September 30, 2013, respectively, the Company's Operating Earnings were \$13,272, or \$0.35 per share, and \$36,954, or \$1.05 per share. Operating Earnings is a non-GAAP financial measure that is used by the Company to approximate cash available for distribution and is defined 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, (iii) unrealized income from unconsolidated joint ventures and (iv) the non-cash amortization expense related to the reclassification of a portion of the senior convertible notes to stockholders' equity in accordance with GAAP.

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

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income available to common stockholders	\$17,299	\$11,041	\$55,118	\$31,041
Adjustments:				
Income from unconsolidated joint venture	88	—	88	—
Unrealized (gain) loss on securities	2,147	1,472	(4,787	) 3,973
Unrealized (gain) loss on derivative instruments	(3,026	) (25	) (1,933	) (155
Equity-based compensation expense	308	784	1,096	2,095
Foreign currency (gain) loss	3,596	—	2,637	—
Amortization of the 2019 Notes related to equity reclassification	356	—	586	—
Total adjustments:	3,469	2,231	(2,313	) 5,913
Operating Earnings	\$20,768	\$13,272	\$52,805	\$36,954
Basic and diluted Operating Earnings per share of common stock	\$0.44	\$0.35	\$1.24	\$1.05
Basic weighted average shares of common stock outstanding	46,848,675	36,883,002	42,322,380	34,647,941
Diluted weighted average shares of common stock outstanding	47,068,929	37,379,469	42,538,744	35,103,285





Table of Contents

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

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

Credit risk

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

Interest rate risk

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

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

At September 30, 2014, all of the Company's borrowings outstanding under the Wells Facility and the JPM Facility were floating-rate borrowings. At September 30, 2014, the Company also had floating rate assets with a face amount of \$583,406, resulting in net variable rate exposure of \$439,694. A 50 basis point increase in LIBOR would increase the quarterly net interest income related to the \$439,694 in variable rate exposure by approximately \$400. Any such hypothetical impact on interest rates on the Company's variable rate borrowings does not consider the effect of any change in overall economic activity that could occur in a rising interest rate environment. Further, in the event of a change in interest rates of that magnitude, the Company may take actions to further mitigate the Company's exposure to such a change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, this analysis assumes no changes in the Company's financial structure.

Prepayment risk

Prepayment risk is the risk that principal will be repaid at a different rate than anticipated, causing the return on an asset to be less than expected. The Company does not anticipate facing prepayment risk on most of its portfolio of assets since the Company anticipates that most of the commercial loans held directly by the Company or securing the Company's CMBS assets will contain provisions preventing prepayment or imposing prepayment penalties in the event of loan prepayments.

Market risk

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



Table of Contents

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

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

**Inflation**

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

**ITEM 4. Controls and Procedures**

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

During the period ended September 30, 2014, 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.

Table of Contents

PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, the Company may be involved in various claims and legal actions arising in the ordinary course of business. As of September 30, 2014, the Company was not involved in any material legal proceedings.

ITEM 1A. Risk Factors

See the Company's Annual Report on Form 10-K for the year ended December 31, 2013. There have been no material changes to the Company's risk factors during the nine months ended September 30, 2014.

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

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	By-laws of Apollo Commercial Real Estate Finance, Inc., incorporated by reference to Exhibit 3.2 of the Registrant's Form S-11, as amended (Registration No. 333-160533).
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).
4.3	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.
4.4	First Supplemental Indenture, dated as of March 17, 2014, between the Company and Wells Fargo Bank, National Association, as Trustee (including the form of 5.50% Convertible Senior Note due 2019), incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on March 21, 2014.
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

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

39

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Table of Contents

101.INS *	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
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\* Filed herewith.

Table of Contents

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.

October 31, 2014

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

By: /s/ Megan B. Gaul  
Megan B. Gaul  
Chief Financial Officer, Treasurer and Secretary  
(Principal Financial Officer and Principal Accounting  
Officer)



Table of Contents

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