



2016 ANNUAL REPORT



Dear Fellow Stockholders,

2016 was a transformative year for Apollo Commercial Real Estate Finance, Inc. (“ARI” or the “Company”). The Company completed the acquisition of Apollo Residential Mortgage, Inc. (“AMTG”), originated and funded over \$1.4 billion of commercial real estate debt investments and successfully grew ARI’s equity market capitalization to over \$2.0 billion. The Company’s ability to both source compelling investments and be strategic and creative in raising capital resulted in ARI delivering strong operating results and well-covered, common stock dividends to our investors.

Since the Company’s IPO in 2009, ARI has invested over \$4.1 billion of equity into over \$5.6 billion of commercial real estate debt investments. We have worked hard to execute ARI’s business plan, maintain a disciplined credit approach, grow the Company’s market presence and provide our stockholders with an attractive, risk-adjusted return. As we enter 2017, we believe ARI is well positioned to build on the success achieved in 2016 and to continue to grow and prosper.

Year in Review

Highlighting ARI’s accomplishments in 2016 was the acquisition of AMTG. We believe this was a significant transaction for ARI stockholders as it enabled the Company to expand ARI’s capital base in an accretive manner. In August, ARI acquired AMTG for 89.25% of AMTG’s book value. In connection with the transaction, ARI issued 13.4 million shares of common stock at an 8% premium to ARI’s book value per share(1) and assumed \$172.5 million of AMTG’s 8.0% Series A Cumulative Redeemable Perpetual Preferred Stock. Following the closing, ARI subsequently sold all of AMTG’s assets and generated approximately \$420 million of capital to be redeployed into commercial real estate loans.

Also highlighting ARI’s activities in 2016 was the record level of loan originations. ARI completed over \$1.2 billion of new investments and funded an incremental \$142 million during the year for previously closed loans. As a result of this record level of investment activity, ARI’s portfolio grew 27% from the prior year-end and finished the year over \$3.1 billion.

Beyond just the volume of capital deployed in 2016, it is worth noting several important trends with respect to ARI’s investment activity and growing portfolio. Over the past 12 months, ARI increased the Company’s first mortgage loan portfolio by over 60%, to \$1.6 billion in amortized cost at year end, as compared to \$994 million at the end of 2015. As ARI’s capital base has expanded, the Company has become more active in the larger, floating rate first mortgage loan market. During 2016, we originated 10 floating rate first mortgage loan transactions at an average size of approximately \$84 million and an average rate of approximately LIBOR+596 basis points. Using modest leverage from ARI’s attractive in-place bank financing facilities, ARI has underwritten attractive, low- to-mid double-digit returns on these investments. Our investment activity in 2016 clearly demonstrates the value of the platform ARI has built over the past eight years. During the year, we directly originated approximately 83% of our loans and over 60% of our transactions were with repeat borrowers.

Our real estate debt portfolio totaled \$3.1 billion at year end and continues to maintain a conservative weighted average loan-to-value of 63%. As we head into 2017, ARI’s loan portfolio is well-positioned for an expected rise in short-term interest rates driven by Fed activity. Specifically, at

December 31, 2016, 87% of the loans in ARI's portfolio had floating interest rates tied to LIBOR and the Company continues to position the portfolio to benefit from a potential increase in short term rates. We believe that every 50 basis point increase in LIBOR would increase net interest income per diluted share of common stock by approximately \$0.09 on an annual basis⁽²⁾.

ARI's investment activity in 2016 was complemented by the Company's efforts in managing and optimizing its balance sheet. In addition to the AMTG transaction, ARI completed an accretive common stock offering in December, raising net proceeds of \$178 million. ARI also expanded the Company's primary repurchase facility with JPMorgan Chase Bank, N.A., increasing the maximum capacity to \$800 million and entered into a new \$300 million repurchase facility with Deutsche Bank to finance first mortgage loans. The Company continues to maintain a conservative capital structure, ending the year with a 1.0x debt-to-equity ratio.

As a result of ARI's diligent efforts throughout the year executing the Company's business plan, managing the portfolio and maximizing the capital structure, ARI reported Operating Earnings per share of common stock, excluding the expenses associated with the AMTG transaction, of \$2.02 for the twelve months ended December 31, 2016, a 6.3% increase over Operating Earnings per share of common stock for the twelve months ended December 31, 2015.

Looking Ahead to 2017

Looking to the year ahead, we believe the current economic climate remains very favorable for ARI's business model. 2017 is a peak year for commercial real estate loan maturities, with close to \$400 billion of loans maturing. In addition, we believe there continues to be a surplus of dry powder to invest from real estate private equity funds, many of which will target transitional assets that will be in need of flexible, structured financing. Since January, ARI already has closed almost \$200 million of new investments and the current pipeline remains robust. ARI's relatively low level of leverage gives the Company financial flexibility to take advantage of the most attractive opportunities in our pipeline and fund new investments. We understand the importance of the dividend to our investors and we remain focused on using the strength of our platform to enable ARI to continue to provide a well-covered, attractive dividend to our stockholders in 2017.

As the Company grows, we remain focused on delivering solid returns to our stockholders, including consistent, current income in the form of a stable dividend. As always, we appreciate your continued support.

Sincerely,

/s/ Stuart A. Rothstein

Stuart A. Rothstein
Chief Executive Officer and President

(1) Premium to June 30, 2016 book value per share of common stock of \$15.51.

(2) Based upon the Company's portfolio as of December 31, 2016, 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.

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

FORM 10-K

- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2016
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission File Number: 1-34452

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

Maryland
(State or other jurisdiction of
incorporation or organization)
c/o Apollo Global Management, LLC
9 West 57th Street, 43rd Floor, New York, New York
(Address of principal executive offices)

27-0467113
(I.R.S. Employer
Identification No.)

10019
(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$0.01 par value	New York Stock Exchange
8.625% Series A Cumulative Redeemable Perpetual Preferred Stock, \$0.01 par value, \$25.00 mandatory liquidation preference	New York Stock Exchange
8.00% Series C Cumulative Redeemable Perpetual Preferred Stock, \$0.01 par value, \$25.00 mandatory liquidation preference	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

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.

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 ☒

As of June 30, 2016, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,052,366,802.

based on the closing sales price of our common stock on such date as reported on the New York Stock Exchange.

On February 27, 2017, the registrant had a total of 91,621,274 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2017 annual meeting of stockholders scheduled to be held on or about May 11, 2017 are incorporated by reference into Part III of this annual report on Form 10-K.

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FORWARD-LOOKING STATEMENTS

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

The Company makes forward-looking statements in this annual report on Form 10-K within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). For these statements, the Company claims the protections of the safe harbor for forward-looking statements contained in such Sections. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the Company’s control. These forward-looking statements include information about possible or assumed future results of the Company’s business, financial condition, liquidity, results of operations, plans and objectives. When the Company uses the words “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “may” or similar expressions, it intends to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking: market trends in the Company’s industry, interest rates, real estate values, the debt securities markets or the general economy or the demand for commercial real estate loans; the Company’s business and investment strategy; the Company’s operating results; actions and initiatives of the United States government and governments outside of the U.S. and changes to government policies and the execution and impact of these actions, initiatives and policies; the state of the economy generally or in specific geographic regions; economic trends and economic recoveries; the Company’s ability to obtain and maintain financing arrangements, including repurchase agreement financing and securitizations; availability of debt financing from traditional lenders; volume of short-term loan extensions; 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 real estate investment trust 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 “1940 Act”); the availability of opportunities to acquire commercial mortgage-related, real estate-related and other securities; the availability of qualified personnel; estimates relating to the Company’s ability to make distributions to its stockholders in the future; the Company’s present and potential future competition; and unexpected costs or unexpected liabilities, including those related to litigation arising from the merger of Apollo Residential Mortgage, Inc., a Maryland corporation (“AMTG”), with and into the Company (the “AMTG Merger”).

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

PART I

Item 1. Business.

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

GENERAL

Apollo Commercial Real Estate Finance, Inc. is a corporation that has elected to be taxed as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and primarily originates, acquires, invests in and manages performing commercial first mortgage loans, subordinate financings, 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.

The Company is externally managed and advised by ACREFI Management, LLC (the “Manager”), an indirect subsidiary of Apollo Global Management, LLC (together with its subsidiaries, “Apollo”), a leading global alternative investment manager with a contrarian and value oriented investment approach in private equity, credit and real estate. Apollo had total assets under management of approximately \$192 billion as of December 31, 2016. The Manager is led by an experienced team of senior real estate professionals who have significant experience in underwriting and structuring commercial real financing transactions. The Company benefits from Apollo’s global infrastructure and operating platform, through which the Company is able to source, evaluate and manage potential investments in the Company’s target assets.

The Company’s principal business objective is to make investments in its target assets in order to provide attractive risk adjusted returns to its stockholders over the long term, primarily through dividends and secondarily through capital appreciation. As of December 31, 2016, the Company held a diversified portfolio comprised of approximately \$1,641,856 of commercial mortgage loans, \$1,051,236 of subordinate loans, \$331,076 of CMBS and \$146,352 of CMBS, held-to-maturity. The Company has financed this portfolio with \$1,146,566 of borrowings under repurchase agreements, and \$254,750 aggregate principal amount of 5.50% Convertible Senior Notes due 2019 (the “Convertible Senior Notes”).

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

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

INVESTMENT STRATEGY

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

The Company targets investments that are secured by institutional quality real estate. The Company's underwriting includes a focus on stressed in-place cash flows, debt yields, debt service coverage ratios, loan-to-values, property quality and market and sub-market dynamics. The Manager may also take advantage of opportunistic pricing dislocations created by distressed sellers or distressed capital structures where a lender or holder of a loan or security is in a compromised situation due to the relative size of its portfolio, the magnitude of nonperforming loans, or regulatory/rating agency issues driven by potential capital adequacy or concentration issues. In pursuing investments with attractive risk-reward profiles, the Company incorporates its views of the current and future economic environment, its outlook for real estate in general and particular asset classes and its assessment of the risk-reward profile derived from its underwriting and cash flow analysis, including taking into account relative valuation, supply and demand fundamentals, the level of interest rates, the shape of the yield curve, prepayment rates, financing and liquidity, real estate prices, delinquencies, default rates, recovery of various sectors and vintage of collateral. In general, the Company pursues a value-driven approach to underwriting and diligence, consistent with the historical investment strategy of the Manager and its affiliates. Each prospective investment receives a rigorous, credit-oriented evaluation towards determining the risk/return profile of the opportunity and the appropriate pricing and structure for the prospective investment. On the Company's behalf, the Manager has implemented underwriting standards founded on fundamental market and credit analyses with a focus on current and sustainable cash flows. These underwriting standards place a particular emphasis on due diligence of the sponsor/borrower. The Company also utilizes forward currency contracts to economically hedge interest and principal payments due under its loans denominated in currencies other than U.S. dollars. All investment decisions are made with a view to maintaining the Company's qualification as a REIT and its exclusion from registration under the 1940 Act.

FINANCING STRATEGY

The Company uses borrowings as part of its financing strategy. The Company believes the amount of leverage it uses is consistent with the Company's intention of keeping total borrowings within a prudent range, as determined by the Manager, taking into account a variety of factors, which may include the anticipated liquidity and price volatility of target assets in the Company's investment portfolio, the potential for losses and extension risk in the Company's investment portfolio, the gap between the duration of assets and liabilities, including hedges, the availability and cost of financing the assets, the creditworthiness of the Company's financing counterparties, the health of the global economy and commercial and residential mortgage markets, the outlook for the level, slope, and volatility of interest rate movement, the credit quality of the Company's target assets and the type of collateral underlying such target assets. In utilizing leverage, the Company seeks to enhance equity returns while limiting interest rate exposure. In addition to current repurchase facilities, the Company may access additional repurchase facilities and more traditional borrowings such as credit facilities. As of December 31, 2016, the Company had \$657,452 of borrowings outstanding under the Company's repurchase facility with JPMorgan Chase Bank, N.A. ("JPMorgan") (the "JPMorgan Facility"), \$137,355 of borrowings outstanding under the Company's repurchase facility with Deutsche Bank AG, Cayman Islands Branch (the "DB Repurchase Facility"), \$133,899 of borrowings outstanding under the Company's repurchase facility with UBS AG, London Branch ("UBS") (the "UBS Facility"), \$177,203 of borrowings outstanding under the Company's repurchase facility with Deutsche Bank AG ("DB") (the "DB Facility") and \$40,657 of borrowings outstanding under the Company's repurchase agreement with Goldman Sachs Bank USA (the "Goldman Loan").

In the future, the Company may increase its borrowing levels and also seek to raise further equity or debt capital in order to fund future investments. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a further discussion of the Company's borrowings as of December 31, 2016.

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

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

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

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of the Company’s borrowings under repurchase agreements as of December 31, 2016.

CORPORATE GOVERNANCE

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

- The Company's board of directors is composed of a majority of independent directors. The Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee of the Company's board of directors are composed exclusively of independent directors.
- In order to foster the highest standards of ethics and conduct in all business relationships, the Company has adopted a Code of Business Conduct and Ethics and Corporate Governance Guidelines, which cover a wide range of business practices and procedures that apply to all of its directors and officers. In addition, the Company has implemented Whistle Blowing Procedures for Accounting and Auditing Matters (the "Whistleblower Policy") that set forth procedures by which Covered Persons (as defined in the Whistleblower Policy) may raise, on a confidential basis, concerns regarding, among other things, any questionable or unethical accounting, internal accounting controls or auditing matters with the Audit Committee. Third parties, such as clients, shareholders or competitors of the Company may also report a good faith complaint regarding such matters.
- The Company has an insider trading policy that prohibits any of its directors or employees, partners, directors and officers of Apollo, as well as others, from buying or selling the Company's securities on the basis of material nonpublic information.

COMPETITION

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

EMPLOYEES; STAFFING

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

AVAILABLE INFORMATION

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

Item 1A.**Risk Factors**

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

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

RISKS RELATED TO THE COMPANY'S RELATIONSHIP WITH ITS MANAGER

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The current term of the Management Agreement will expire on September 29, 2017 and is automatically renewed for successive one-year terms on each anniversary thereafter; provided, however, that either the Company, under the certain limited circumstances described above that would require the Company to pay the fee described above, or the Manager may terminate the Management Agreement annually upon 180 days prior notice. If the Management Agreement is terminated and no suitable replacement is found to manage the Company, the Company may not be able to continue to execute its business plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

The departure of any senior personnel of the Manager, or of a significant number of the investment professionals or partners of Apollo, could have a material adverse effect on the Company's ability to achieve its investment objectives. In addition, the Company offers no assurance that the Manager will remain its investment manager or that the Company will continue to have access to the Manager's or Apollo's executive officers and other investment professionals. The current term of the Management Agreement with the Manager expires on September 29, 2017, with automatic one-year renewals thereafter absent termination by the Company or the Manager pursuant to the Management Agreement. If the Management Agreement is terminated and no suitable replacement is found to manage it, the Company may not be able to continue to execute its business plan.

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

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

RISKS RELATED TO THE COMPANY'S BUSINESS AND STRUCTURE

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

A number of entities compete with the Company to make the types of investments that the Company targets. The Company competes with other REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies and other entities. In addition, other REITs with similar asset acquisition objectives, including others that may be organized in the future, compete with the Company in acquiring assets and obtaining financing. These competitors may be significantly larger than the Company, may have access to greater capital and other resources or may have other advantages. Some competitors may have a lower cost of funds and access to funding sources that may not be available to the Company. Many of the Company's competitors are not subject to the operating constraints associated with REIT qualification or maintenance of the Company's exclusion from registration under the 1940 Act. Furthermore, competition for investments in the Company's target assets may lead to the price of such assets increasing, which may further limit the Company's ability to generate desired returns. The Company cannot assure that the competitive pressures it faces will not have a material adverse effect on its business, financial condition and results of operations. Also, as a result of this competition, the Company may not be able to take advantage of attractive investment opportunities from time to time, and the Company can offer no assurance that it will be able to identify and make investments that are consistent with its investment objective.

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

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

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

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

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

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

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

The Company is generally required to annually distribute to its stockholders at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, for the Company to qualify as a

REIT under the Internal Revenue Code. The Company currently intends to make quarterly distributions of all or substantially all of its REIT taxable income in each year. Dividends will be declared and paid at the discretion of the Company's board of directors and will depend on the Company's REIT taxable earnings, its financial condition, maintenance of its REIT qualification and such other factors as the board may deem relevant from time to time. The Company's ability to pay dividends may be negatively impacted by adverse changes in its operating results.

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

The U.S. government, the U.S. Federal Reserve (the "Federal Reserve"), the U.S. Treasury, the SEC and other governmental and regulatory bodies have taken or are taking various actions to address the underlying causes of, and to contain the fallout from, the global financial crisis in 2007 and 2008. For example, on July 21, 2010 former President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which has changed the regulation of financial institutions and the financial services industry, including the mortgage industry. The Dodd-Frank Act impacted the asset-backed securitization markets, including the CMBS market, most notably by imposing credit risk retention requirements on securitizers, which became effective on December 24, 2016 for commercial mortgage-backed securitizations. On February 3, 2017, President Trump signed an executive order for a broad review of federal regulation of the U.S. financial system by the Secretary of the Treasury, in consultation with the heads of the member agencies of the Financial Stability Oversight Council, a panel comprising top U.S. financial regulators, to be reported within 120 days of the day of the order. While the outcome is uncertain, there have been several indications that the new administration will seek to deregulate the U.S. financial industry, including by altering the Dodd-Frank Act, which may, among other things, decrease the restrictions on banks and other financial institutions and allow them to compete with us for investment opportunities that were previously not available to them. The Company cannot predict, the ultimate content, timing, or effect of changes that may result from such review, nor is it possible at this time to estimate the impact of any potential resulting legislation which could have a dramatic impact on the Company's business, results of operations and financial condition.

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

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

Past and potential future credit rating downgrades of the United States and certain European countries lower economic growth forecasts for emerging markets and the failure to resolve issues related to U.S. fiscal policy may materially adversely affect the Company's business, liquidity, financial condition and results of operations.

Financial markets have been and continue to be affected by concerns over U.S. fiscal policy. Although the U.S. government passed legislation at the beginning of 2013 averting the so-called “fiscal cliff” (which, in the absence of such legislation, would have resulted in automatic tax increases and spending cuts at the end of 2012), uncertainty remains relating to the stability of the U.S. fiscal and budgetary policy. This uncertainty, as well as issues from time to time relating to sovereign debt conditions in Europe and lower economic growth forecasts in emerging markets, continue to contribute to the possibility of additional economic slowdowns and/or credit rating downgrades. The impact of U.S. fiscal uncertainty, or any further downgrades to the U.S. government’s sovereign credit rating, or its perceived creditworthiness, or the impact of the crisis in Europe with respect to the ability of certain countries to continue to service their sovereign debt obligations or the impact of reduced growth forecasts for emerging markets, is inherently unpredictable and could adversely affect U.S. and global financial markets and economic conditions. In addition, any further acceleration of these conditions may have an adverse impact on fixed income markets, which in turn could cause the Company's net income to decline or have a material adverse effect on the Company's financial condition.

If the European economic situation were to worsen, or expand to other countries within Europe, the Company may be subject to enhanced risk of counterparty failure as well as related problems arising from a lack of liquidity in the Company's markets. There can be no assurance that governmental or other measures to aid economic recovery will be effective. These developments and the government’s credit concerns in general could cause interest rates and borrowing costs to rise, which may negatively impact the Company's ability to access the debt markets on favorable terms. Continued adverse economic conditions may negatively impact the value of the assets in the Company's portfolio, the Company's net income, liquidity and the Company's ability to finance its assets on favorable terms.

Certain provisions of Maryland law could inhibit changes in control.

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

The “control share” provisions of the MGCL provide that a holder of “control shares” of a Maryland corporation (defined as shares which, when aggregated with all other shares controlled by the stockholder (except solely by virtue of a revocable proxy), entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of issued and outstanding “control shares”) has no voting rights with respect to such shares except to the extent approved by the Company’s stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes entitled to be cast

by the acquiror of control shares, the Company's officers and personnel who are also directors. The Company's bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of the Company's stock. There can be no assurance that this provision will not be amended or eliminated at any time in the future.

The "unsolicited takeover" provisions of the MGCL permit the Company's board of directors, without stockholder approval and regardless of what is currently provided in the Company's charter or bylaws, to implement takeover defenses, some of which (for example, a classified board) the Company does not yet have. The Company's charter contains a provision whereby it has elected to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on its board of directors. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for the Company or of delaying, deferring or preventing a change in control of the Company under the circumstances that otherwise could provide the holders of shares of common stock with the opportunity to realize a premium over the then current market price.

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

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

Certain of the Company's subsidiaries qualify to be excluded from registration as investment companies under the 1940 Act pursuant to Section 3(c)(5)(C) of the 1940 Act, which is available for an entity "not engaged in the business of issuing redeemable securities, face-amount certificates of the installment type or periodic payment plan certificates, and who is primarily engaged in ... the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exclusion generally requires that at least 55% of the assets of an entity relying on this exclusion be comprised of what the SEC staff through a series of no-action letters has characterized as "qualifying assets" and at least another 25% of the assets of such entity be comprised of either qualifying assets or what the SEC staff in such guidance has characterized as "real estate-related assets" under the 1940 Act (and no more than 20% comprised of miscellaneous assets). The Company expects any of its subsidiaries relying on Section 3(c)(5)(C) to rely on guidance published by the SEC staff to determine which assets are qualifying assets and which assets are real estate related under this exclusion to the extent such guidance is available. The SEC staff has determined in various no-action letters that qualifying assets for this purpose include senior, first ranking mortgage loans, certain B-Notes and mezzanine loans that satisfy various conditions specified in such SEC staff no-action letters. Neither the SEC nor its staff has, however, published guidance in respect of Section 3(c)(5)(C) regarding some of the Company's other target assets. For assets for which the SEC and its staff has not published guidance, the Company intends to rely on its own analysis to determine which of such assets are qualifying assets and which of such assets are real estate related under the Section 3(c)(5)(C) exclusion. For example, in the absence of additional guidance from the SEC staff, the Company intends to treat as real estate related assets CMBS, B-Notes and mezzanine loans that do not satisfy the qualifying asset conditions set forth in the relevant SEC staff no-action letters, as well as debt and equity securities of companies primarily engaged in real estate businesses. To the extent that the SEC staff publishes new or different guidance with respect to these matters, the Company may be required to adjust its strategy accordingly. In addition, the Company may be limited in its ability to make certain investments and these limitations could result in the subsidiary holding assets the Company might wish to sell or selling assets the Company might wish to hold. Although the Company monitors the portfolios of its subsidiaries relying on the Section 3(c)(5)(C) exclusion periodically and prior to each acquisition, there can be no assurance that such subsidiaries will be able to maintain their respective satisfaction of the requirements of this exclusion.

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

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

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

- the issuer issues securities the payment of which depends primarily on the cash flow from “eligible assets,” which are assets that by their terms convert into cash within a finite time period;
- the securities sold are fixed-income securities rated investment grade by at least one rating agency except that fixed-income securities which are unrated or rated below investment grade may be sold to institutional accredited investors and any securities may be sold to “qualified institutional buyers” and to persons involved in the organization or operation of the issuer;
- the issuer acquires and disposes of eligible assets (1) only in accordance with the agreements pursuant to which the securities are issued and (2) so that the acquisition or disposition does not result in a downgrading of the issuer’s fixed-income securities and (3) the primary purpose of which is not recognizing gains or decreasing losses resulting from market value changes; and
- unless the issuer is issuing only commercial paper, the issuer appoints an independent trustee, takes reasonable steps to transfer to the trustee an ownership or perfected security interest in the eligible assets, and meets rating agency requirements for commingling of cash flows.

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

In the absence of further SEC or SEC staff guidance, the aggregate value of the Company’s interests in its subsidiaries that rely on Rule 3a-7, must amount to less than 20% of the Company’s total assets on an unconsolidated basis.

In August 2011, the SEC issued a release in which it indicated that it is considering proposing amendments to Rule 3a-7 to “reflect market developments since 1992, when Rule 3a-7 was adopted, and recent developments affecting asset-backed issuers.” Any amendments to Rule 3a-7 could provide additional flexibility or could inhibit the ability of any Company subsidiary to rely on this rule or to pursue certain strategies it has identified for such subsidiary.

The Company’s subsidiaries may rely on alternative exclusions or exemptions from registration as investment companies under the 1940 Act other than Section 3(c)(1) or Section 3(c)(7) for purposes of complying with the 40% test. These alternative exclusions or exemptions may impose limitations on a subsidiary’s organizational form, the types of assets that such subsidiary may hold or require such subsidiary to qualify under a banking, insurance or other regulatory regime. There is no assurance that the Company’s subsidiaries will be able to rely on any alternative exclusions or exemptions and the Company’s ability to manage assets held in subsidiaries that rely on these alternative exclusions or exemptions will be limited.

The determination of whether an entity is a majority-owned subsidiary of the Company is made by the Company. The 1940 Act defines a majority-owned subsidiary of a person as a company 50% or more of the outstanding voting securities of which are owned by such person, or by another company which is a majority-owned subsidiary of such person. The 1940 Act further defines voting securities as any security presently entitling the owner or holder thereof to vote for the election of directors of a company. The Company treats entities in which it owns at least a majority of the outstanding voting securities as majority-owned subsidiaries for purposes of the 40% test. The Company has not requested the SEC or its staff to approve the Company’s treatment of any company as a majority-owned subsidiary and the SEC has not done so. If the SEC or its staff were to disagree with the Company’s treatment of one of more companies as majority-owned subsidiaries, the Company would need to adjust its strategy and its assets in order to continue to pass the 40% test. Any such adjustment in the Company’s strategy could have a material adverse effect on the Company.

The Company has organized special purpose subsidiaries that rely on Section 3(c)(7) to avoid registration as investment companies under the 1940 Act to hold certain assets and, therefore, the Company’s interest in each of these Section 3(c)(7)-reliant subsidiaries constitutes an “investment security” for purposes of determining whether the Company passes the 40% test.

Qualification for exclusion from registration under the 1940 Act will limit the Company’s ability to make certain investments. For example, these restrictions will limit the ability of the Company’s subsidiaries to invest directly in CMBS that represent less than the entire ownership in a pool of mortgage loans, debt and equity tranches of securitizations and certain in assets not related to real estate.

If the Company failed to maintain its excluded status under the 1940 Act and became regulated as an investment company, the Company’s ability to, among other things, use leverage would be substantially reduced and, as a result, the Company would be unable to conduct its business as described in this annual report on Form 10-K.

If the Company’s subsidiaries fail to maintain an exclusion or exemption from registration pursuant to the 1940 Act, the Company could, among other things, be required either to (a) change the manner in which the Company conducts its operations to avoid being required to register as an investment company, (b) effect sales of the Company’s assets in a manner that, or at a

time when, the Company would not otherwise choose to do so, or (c) register as an investment company, any of which could negatively affect the value of the Company's common stock, the sustainability of its business model, and its ability to make distributions which could have an adverse effect on its business and the market price for shares of its common stock.

Securities eligible for future sale may have adverse effects on the market price of the Company's common stock.

Subject to applicable law, the Company's board of directors has the authority, without further stockholder approval, to issue additional authorized shares of common stock and securities convertible into or exchangeable for the Company's common stock on the terms and for the consideration it deems appropriate. Additional securities offerings or issuance of additional common stock in connection with the conversion of convertible or exchangeable securities may dilute the holdings of the Company's existing stockholders or reduce the market price of its common stock, or both. Sales or other issuances of substantial amounts of the Company's common stock or the perception that such sales or issuances could occur, may adversely affect the prevailing market price the common stock.

The Company's authorized but unissued shares of common and preferred stock may prevent a change in control.

The Company's charter authorizes it to issue additional authorized but unissued shares of common or preferred stock. In addition, the board of directors may, without stockholder approval, amend the Company's charter to increase the aggregate number of the Company's shares of stock or the number of shares of stock of any class or series that the Company has the authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the terms of the classified or reclassified shares. As a result, the Company's board of directors may establish a series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for shares of the Company's common stock or otherwise be in the best interests of its stockholders.

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

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

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

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

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

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

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

The Company's charter provides that, subject to the rights of any series of preferred stock, a director may be removed with or without cause upon the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. Vacancies may be filled only by a majority of the remaining directors in office, even if less than a quorum. These

requirements make it more difficult to change the Company's management by removing and replacing directors and may prevent a change in control of the Company that is in the best interests of stockholders.

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

In order for the Company to qualify as a REIT, no more than 50% in value of its outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year, and at least 100 persons must beneficially own the Company's stock during at least 335 days of a taxable year of 12 months, or during a proportionate portion of a shorter taxable year. "Individuals" for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. To preserve the Company's REIT qualification, among other purposes, the Company's charter generally prohibits any person from directly or indirectly owning more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of the Company's capital stock or more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of the Company's common stock. The Articles Supplementary for the Company's Preferred Stock prohibits any stockholder from beneficially or constructively owning more than 9.8% in value or in number of shares, whichever is more restrictive, of its outstanding Preferred Stock. The indenture governing the Convertible Senior Notes prohibits a holder of notes from receiving shares of the Company's stock upon conversion of the notes if such receipt would violate the ownership limitations contained in the Company's charter. These ownership limits in the Company's charter could have the effect of discouraging a takeover or other transaction in which holders of the Company's common stock might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests. The Company's board of directors has established exemptions from the ownership limits in the Company's charter which permit Apollo and certain of its affiliates to collectively hold up to 25% of the Company's common stock, a certain institutional investor to hold up to 19.9% of the Company's common stock and certain institutional investors and certain of their specified affiliates to each collectively hold up to 15% of the Company's common stock.

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

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

RISKS RELATED TO THE COMPANY'S FINANCING

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

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

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

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

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

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

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

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

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

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

- the Company's cash flow from operations may be insufficient to make required payments of principal of and interest on the debt or the Company may fail to comply with all of the other covenants contained in the debt documents, which is likely to result in (i) acceleration of such debt (and any other debt containing a cross-default or cross-acceleration provision) that the Company may be unable to repay from internal funds or to refinance on favorable terms, or at all, (ii) the Company's inability to borrow unused amounts under the Company's financing arrangements, even if the Company is current in payments on borrowings under those arrangements and/or (iii) the loss of some or all of the Company's assets to foreclosure or sale;
- the Company's debt may increase its vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase with higher financing costs;
- the Company may be required to dedicate a substantial portion of its cash flow from operations to payments on its debt, thereby reducing funds available for operations, future business opportunities, stockholder distributions or other purposes; and
- the Company may not be able to refinance debt that matures prior to the investment it was used to finance on favorable terms, or at all.

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

As of December 31, 2016, the Company had five repurchase agreements in place, with an aggregate borrowing capacity of \$1,594,759. The Company may utilize credit facilities and additional repurchase agreements to finance its assets if they become available on acceptable terms. In the event the Company utilizes such financing arrangements, they may involve the risk that the market value of the Company's assets pledged or sold by the Company to the repurchase agreement counterparty or provider of the credit facility may decline in value, in which case the lender may require the Company to provide additional collateral or to repay all or a portion of the funds advanced. The Company may not have the funds available to repay its debt at that time, which would likely result in defaults unless the Company is able to raise the funds from alternative sources, which the Company may not be able to achieve on favorable terms or at all. Posting additional collateral would reduce the Company's liquidity and limit its ability to leverage its assets. If the Company cannot meet these requirements, the lender could accelerate the Company's indebtedness, increase the interest rate on advanced funds and terminate the Company's ability to borrow funds from them, which could materially and adversely affect the Company's financial condition and ability to implement its business plan. In addition, in the event that the lender files for bankruptcy or becomes insolvent, the Company's loans may become subject to bankruptcy or insolvency proceedings, thus depriving the Company, at least temporarily, of the benefit of these assets. Such an event could restrict the Company's access to credit facilities and increase the Company's cost of capital. The providers of repurchase agreement financing and credit facilities may also require the Company to maintain a certain amount of cash or set aside assets sufficient to maintain a specified liquidity position that would allow the Company to satisfy its collateral obligations. In the event that the Company is unable to meet these collateral obligations, the Company's financial condition and prospects could deteriorate rapidly.

The Company's existing repurchase facilities impose restrictive covenants.

The Company's repurchase facilities contain restrictive covenants which impose limitations on the manner in which the Company conducts its business. These covenants may restrict the Company's ability to engage in transactions that it believes would otherwise be in the best interests of its stockholders. Failure to comply with any of the covenants in the Company's repurchase facilities could result in a default in those facilities. This could cause the Company's lenders to accelerate the timing of payments which could have a material adverse effect on the Company's business, financial condition and results of operations, its ability to make distributions to stockholders and the trading price of its common stock. For additional information about the Company's repurchase facilities, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Borrowings Under Various Financing Arrangements."

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

The Company may seek to enhance the returns of all or a senior portion of the Company's commercial mortgage loans through securitizations. To securitize the Company's portfolio investments, the Company may create a wholly-owned subsidiary and contribute a pool of assets to the subsidiary. This could include the sale of interests in the subsidiary on a non-recourse basis to purchasers whom the Company would expect to be willing to accept a lower interest rate to invest in investment grade loan pools, and the Company would retain a portion of the equity in the securitized pool of portfolio investments. The successful securitization of the Company's portfolio investments might expose the Company to losses as the commercial real estate investments in which the Company does not sell interests will tend to be those that are riskier and more likely to generate losses. Securitization financings could also restrict the Company's ability to sell assets when it would otherwise be advantageous to do so.

An increase in the Company's borrowing costs relative to the interest it receives on its leveraged assets may adversely affect the Company's profitability and its cash available for distribution to its stockholders.

Borrowing rates are currently at historically low levels that may not be sustained in the long run. As the Company's repurchase agreements and other short-term borrowings mature, it will be required either to enter into new borrowings or to sell certain of the Company's assets. An increase in short-term interest rates at the time that the Company seeks to enter into new borrowings would reduce the spread between the returns on its assets and the cost of its borrowings. This could adversely affect the returns on the Company's assets, which might reduce earnings and, in turn, cash available for distribution to its stockholders. In addition, because repurchase agreements and warehouse facilities are short-term commitments of capital, lenders may respond to market conditions making it more difficult for the Company to secure continued financing. If the Company is not able to renew its then existing facilities or arrange for new financing on terms acceptable to the Company, or if it defaults on its covenants or is otherwise unable to access funds under any of these facilities, the Company may have to curtail its asset acquisition activities and/or dispose of assets.

Interest rate fluctuations could reduce the income on the Company's investments and could increase the Company's financing costs, which may adversely affect the Company's earnings and its cash available for distribution to its stockholders.

Changes in interest rates will affect the Company's operating results as such changes will affect the interest the Company receives on any floating rate interest bearing investments and the financing cost of its floating rate debt, as well as the Company's interest rate swaps that it may utilize for hedging purposes. Changes in interest rates may also affect borrower default rates, which may result in losses for the Company. If a counterparty to the Company's repurchase transactions defaults on its obligation to resell the underlying security back to the Company at the end of the transaction term or if the value of the underlying security has declined as of the end of that term or if the Company defaults on its obligations under the repurchase agreement, the Company will lose money on its repurchase transactions.

When the Company engages in repurchase transactions, it sells securities to lenders (i.e., repurchase agreement counterparties) and receives cash from the lenders. The lenders are obligated to resell the same securities back to the Company at the end of the term of the transaction. Because the cash the Company receives from the lender when it initially sells the securities to the lender is less than the value of those securities (this difference is referred to as the haircut), if the lender defaults on its obligation to resell the same securities back to the Company, the Company could incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities). The Company could also lose money on a repurchase transaction if the value of the underlying securities has declined as of the end of the transaction term, as the Company would have to repurchase the securities for their initial value but would receive securities worth less than that amount. Further, if the Company defaults on one of its obligations under a repurchase transaction, the lender will be able to terminate the transaction and cease entering into any other repurchase transactions with the Company. Any losses the Company incurs on its repurchase transactions could adversely affect the Company's earnings and thus its cash available for distribution to stockholders.

The Company's rights under its repurchase agreements may be subject to the effects of the bankruptcy laws in the event of the bankruptcy or insolvency of the Company or its lenders under the repurchase agreements, which may allow the Company's lenders to repudiate its repurchase agreements.

In the event of the Company's insolvency or bankruptcy, certain repurchase agreements may qualify for special treatment under the U.S. Bankruptcy Code, the effect of which, among other things, would be to allow the lender under the applicable repurchase agreement to avoid the automatic stay provisions of the U.S. Bankruptcy Code and to foreclose on the collateral agreement without delay. In the event of the insolvency or bankruptcy of a lender during the term of a repurchase agreement, the lender may be permitted, under applicable insolvency laws, to repudiate the contract, and the Company's claim against the lender for damages may be treated simply as an unsecured creditor. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, the Company's ability to exercise its rights to recover its securities under a repurchase agreement or to be compensated for any damages resulting from the lender's insolvency may be further limited by those statutes. These claims would be subject to significant delay and, if and when received, may be substantially less than the damages the Company actually incurs.

The Company may enter into hedging transactions that could expose it to contingent liabilities in the future and adversely impact its financial condition.

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

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

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

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

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

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

In May 2008, the Financial Accounting Standards Board (the "FASB") issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, or ASC 470-20. ASC 470-20 requires an entity to separately account for the liability and equity components of convertible debt instruments whose conversion may be settled entirely or partially in cash (such as the Convertible Senior Notes) in a manner that reflects the issuer's economic interest cost for non-convertible debt. The liability component of the Convertible Senior Notes were initially valued at the fair value of a similar debt instrument that does not have an associated equity component and is reflected as a liability in the Company's consolidated balance sheet. The equity component of the Convertible Senior Notes is included in the additional paid-in capital section of the Company's stockholders' equity on the

consolidated balance sheet, and the value of the equity component is treated as original issue discount for purposes of accounting for the debt component. This original issue discount will be amortized to non-cash interest expense over the term of the Convertible Senior Notes, and the Company will record a greater amount of non-cash interest expense in current periods as a result of this amortization. Accordingly, the Company will report lower net income in its financial results because ASC 470-20 will require the interest expense associated with the Convertible Senior Notes to include both the current period's amortization of the debt discount and the Convertible Senior Notes' coupon interest, which could adversely affect the Company's reported or future financial results, the trading price of the Company's common stock.

Furthermore, under certain circumstances, convertible debt instruments whose conversion may be settled entirely or partly in cash (such as the Convertible Senior Notes) are currently accounted for using the treasury stock method. Under this method, the shares issuable upon conversion of the Convertible Senior Notes are not included in the calculation of diluted earnings per share unless the conversion value of the notes exceeds their principal amount at the end of the relevant reporting period. If the conversion value exceeds their principal amount, then, for diluted earnings per share purposes, the Convertible Senior Notes are accounted for as if the number of shares of common stock that would be necessary to settle the excess, if the Company elected to settle the excess in shares, are issued. The accounting standards in the future may not continue to permit the use of the treasury stock method. If the Company is unable to use the treasury stock method in accounting for the shares, if any, issuable upon conversion of the Convertible Senior Notes, then the Company's diluted earnings per share could be adversely affected.

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

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

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

RISKS RELATED TO THE COMPANY'S INVESTMENTS

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

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

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

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

The Company may be subject to lender liability claims.

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

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

Some of the Company’s assets may be rated by nationally recognized statistical rating organizations. Any credit ratings on the Company’s assets are subject to ongoing evaluation by credit rating agencies, and these ratings could be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of the Company’s investments in the future, the value of these investments could significantly decline, which would adversely affect the value of the Company’s investment portfolio and could result in losses upon disposition. An investment grade credit rating does not provide assurance that the subject investment will not become impaired.

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

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

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

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

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

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

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

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

The presence of hazardous substances may adversely affect an owner’s ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of a property underlying one of the Company’s debt investments becomes liable

for removal costs, the ability of the owner to make payments to the Company may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by the Company and on the Company's ability to make distributions to its stockholders.

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

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

The Company may invest in real estate preferred equity as an alternative to mezzanine loans, which involves a higher degree of risk than first mortgage loans due to a variety of factors, including the risk that, similar to mezzanine loans, such investments are subordinate to first mortgage loans and are not collateralized by property underlying the investment and, in certain instances, may not have financial performance covenants. Although as a holder of preferred equity the Company may enhance its position with covenants that limit the activities of the entity in which the Company has an interest and protect its equity by obtaining an exclusive right to control the underlying property after an event of default, should such a default occur on its investment, the Company would only be able to proceed against the entity in which it has an interest, and not the property owned by such entity and underlying the Company's investment. Further, similar to mezzanine loans, preferred equity does not ordinarily afford the holder with the full range of protections of a creditor. As a result, the Company may not recover some or all of its investment.

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

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

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

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

The Company's results of operations are materially affected by conditions in the markets for mortgages and mortgage-related assets as well as the broader financial markets and the economy generally. Beginning in mid-2007, global financial markets encountered a series of events from the collapse of the sub-prime mortgage market to the ensuing dramatic widening of credit spreads and corresponding broad-scale freezing of corporate lending. These events led to a significant dislocation in capital markets and created a severe shortage of debt capital for commercial real estate, a deleveraging of the entire global financial system and the forced sale of large quantities of mortgage-related and other financial assets. As a result of these conditions, many traditional commercial mortgage loan and securities investors suffered severe losses in their loan and securities portfolios and several major market participants failed or were impaired, resulting in a severe contraction in market

liquidity and in a sharp reduction in the availability of credit for real estate-related assets. Further certain lenders have been impacted by the European sovereign debt crisis. The resulting illiquidity negatively affected both the terms and availability of financing for all real estate-related assets, and generally resulted in real estate-related assets trading at significantly lower prices and higher yields compared to prior periods. Many lenders have continued to maintain tight lending standards and have reduced their lending capacity in response to the difficulties and changed economic conditions that have adversely affected the mortgage market. Further increased volatility and deterioration in the markets for mortgages and mortgage-related assets as well as the broader financial markets may adversely affect the performance and market value of the Company's investments. Furthermore, if these conditions persist, institutions from which the Company may seek financing for its investments may become insolvent or tighten their lending standards, which could make it more difficult for the Company to obtain financing on favorable terms or at all. The Company's profitability may be adversely affected if it is unable to obtain cost-effective financing for its investments.

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

Commercial mortgage loans are secured by multifamily or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with mortgage loans made on the security of one to four family residential properties. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. The Manager makes certain estimates of losses during its underwriting of commercial mortgage loans. However, estimates may not prove accurate, as actual results may vary from estimates. Net operating income of an income-producing property can be affected by, among other things: tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property, the occurrence of any uninsured casualty at the property, changes in national, regional or local economic conditions and/or specific industry segments, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances.

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

Foreclosure of a commercial mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on the Company's anticipated return on the foreclosed mortgage loan. CMBS evidence interests in or are secured by a single commercial mortgage loan or a pool of commercial mortgage loans. Accordingly, the CMBS the Company invests in are subject to all of the risks of the underlying mortgage loans.

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

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

the event a borrower defaults on a loan and lacks sufficient assets to satisfy the Company's loan, the Company may suffer a loss of principal or interest. In the event a borrower declares bankruptcy, the Company may not have full recourse to the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy the loan. In addition, mezzanine loans are by their nature structurally subordinated to more senior property level financings. If a borrower defaults on the Company's mezzanine loan or on debt senior to the Company's loan, or in the event of a borrower bankruptcy, the Company's mezzanine loan will be satisfied only after the property level debt and other senior debt is paid in full. Significant losses related to the Company's B Notes or mezzanine loans would result in operating losses for the Company and may limit the Company's ability to make distributions to its stockholders.

The Company generally does not control the special servicing of the mortgage loans included in the CMBS in which it invests and, in such cases, the special servicer may take actions that could adversely affect the Company's interests.

With respect to each series of the CMBS in which the Company invests, overall control over the special servicing of the related underlying mortgage loans will be held by a "directing certificate-holder" or a "controlling class representative," which is appointed by the holders of the most subordinate class of certificates in such series (except in the case of certain CMBS, where control over the servicing of the underlying mortgage loans must not be held by investors in a subordinate class of the CMBS once the principal balance of that class is reduced to less than 25% of its initial principal balance as a result of both actual realized losses and "appraisal reduction amounts"). In general, the Company targets for acquisition "investment grade" CMBS (which are rated Aaa/AAA through Baa3/BBB- by nationally recognized statistical rating organizations) issued on or after September 1, 2009. In addition, the Company also seeks to acquire CMBS issued prior to January 1, 2009 with an emphasis on tranches that have retained their AAA credit rating. Since the Company focuses on these classes of CMBS, the Company will likely not have the right to appoint the directing certificate-holder. In connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificate-holder, take actions with respect to the specially serviced mortgage loans that could adversely affect the Company's interests. However, the special servicer is generally not permitted to take actions that are prohibited by law or violate the applicable servicing standard or the terms of the mortgage loan documents.

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

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

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

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

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

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

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

period of increased payment delinquencies, foreclosures or losses could adversely affect the Company's manager's ability to invest in, sell and securitize loans, which would materially and adversely affect the Company's results of operations, financial condition, liquidity and business and the Company's ability to pay dividends to stockholders.

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

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

- acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- costs of remediation and liabilities associated with environmental conditions such as indoor mold; and
- the potential for uninsured or under-insured property losses.

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

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

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

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

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

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

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

RISKS RELATED TO THE COMPANY'S TAXATION AS A REIT

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

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

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

Complying with REIT requirements may force the Company to liquidate or forego otherwise attractive investments.

To qualify as a REIT, the Company must ensure that it meets the REIT gross income test annually and that, at the end of each calendar quarter, at least 75% of the value of its assets consists of cash, cash items, government securities, shares in REITs and other qualifying real estate assets, including certain mortgage loans and certain kinds of mortgage-backed securities. The remainder of the Company's investments in securities (other than government securities and REIT qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of the Company's assets (other than government securities and securities that are qualifying real estate assets) can consist of the securities of any one issuer, no more than 25% of the value of the Company's total securities (20% beginning January 1, 2018) can be represented by securities of one or more taxable REIT subsidiaries, or TRSs and, for taxable years beginning after December 31, 2015, not more than 25% of the value of the Company's assets can consist of debt instruments issued by publicly offered REITs that are not secured by real property. If the Company fails to comply with these requirements at the end of any calendar quarter, it must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing its REIT qualification and suffering adverse tax consequences. As a result, the Company may be required to liquidate from its portfolio, or contribute to a TRS, otherwise attractive investments, and may be unable to pursue investments that would be otherwise advantageous to the Company in order to satisfy the source of income or asset diversification requirements for qualifying as a REIT. These actions could have the effect of reducing the Company's income and amounts available for distribution to its stockholders.

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

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

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

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

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

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

The Internal Revenue Code and the Treasury Regulations promulgated thereunder provide a specific exemption from U.S. federal income tax that applies to a non-U.S. corporation that restricts its activities in the United States to trading in stock and securities (or any activity closely related thereto) for its own account whether such trading (or such other activity) is conducted by such a non-U.S. corporation or its employees through a resident broker, commission agent, custodian or other agent. Certain U.S. stockholders of such a non-U.S. corporation are required to include in their income currently their proportionate share of the earnings of such a corporation, whether or not such earnings are distributed. ACREFI II TRS intends to operate in a manner so that it will not be subject to U.S. federal income tax on its net income. Therefore, despite the status of ACREFI II TRS as a TRS, it should generally not be subject to U.S. federal corporate income tax on its earnings. However, there is no assurance that ACREFI II TRS will successfully operate in this manner. If ACREFI II TRS were subject to U.S. federal income tax on all or a portion of its income, this would reduce the amount of cash it had available for distributions to the Company, which could in turn reduce the amount of cash the Company was able to distribute to its shareholders.

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

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

In addition, the Company has and may continue to acquire and originate mezzanine loans, which are loans secured by equity interests in a partnership or limited liability company that directly or indirectly owns real property. In Revenue Procedure 2003-65, the IRS provided a safe harbor pursuant to which a mezzanine loan, if it meets each of the requirements contained in the Revenue Procedure, will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% gross income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of

substantive tax law. The Company expects to treat certain mezzanine loans that may not meet all of the requirements for reliance on this safe harbor as real estate assets giving rise to qualifying mortgage interest for purposes of the REIT asset and income requirements, or otherwise not adversely affecting the Company's qualification as a REIT. There can be no assurance that the IRS will not challenge the tax treatment of these mezzanine loans, and if such a challenge were sustained, the Company could in certain circumstances be required to pay a penalty tax or fail to qualify as a REIT.

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

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

Similarly, some of the CMBS that the Company acquires may have been issued with original issue discount. The Company will be required to report such original issue discount based on a constant yield method and will be taxed based on the assumption that all future projected payments due on such CMBS will be made. If such CMBS turns out not to be fully collectible, an offsetting loss deduction will become available only in the later year that uncollectability is provable.

Finally, in the event that any debt instruments or CMBS acquired by the Company are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular debt instrument are not made when due, the Company may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. Similarly, the Company may be required to accrue interest income with respect to subordinate mortgage-backed securities at its stated rate regardless of whether corresponding cash payments are received or are ultimately collectable. In each case, while the Company would in general ultimately have an offsetting loss deduction available to the Company when such interest was determined to be uncollectible, the utility of that deduction could depend on the Company's having taxable income in that later year or thereafter.

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

Securitizations by the Company or its subsidiaries could result in the creation of taxable mortgage pools for U.S. federal income tax purposes. As a result, the Company could have "excess inclusion income." Certain categories of stockholders, such as non-U.S. stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from the Company that is attributable to any such excess inclusion income. In addition, to the extent that the Company's common stock is owned by tax-exempt "disqualified organizations," such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, the Company may incur a corporate level tax on a portion of any excess inclusion income. Moreover, the Company could face limitations in selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent the Company from using certain techniques to maximize its returns from securitization transactions.

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

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% of the value of a REIT's assets (20% beginning January 1, 2018) may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

ACREFI TRS, ARM TRS and any other domestic TRSs that the Company may form will pay U.S. federal, state and local income tax on their taxable income, and their after-tax net income will be available for distribution to the Company but will not be required to be distributed to the Company, unless necessary to maintain the Company's REIT qualification. In addition, while not intended, it is possible that ACREFI II TRS could be subject to U.S. federal, state, and local income tax on all or a portion of its income. While the Company will be monitoring the aggregate value of the securities of the Company's TRSs and intends to conduct its affairs so that such securities will represent less than 25% (20% beginning January 1, 2018) of the value of the Company's total assets, there can be no assurance that the Company will be able to comply with the TRS limitation in all market conditions.

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

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

The maximum U.S. federal income tax rate for certain qualified dividends payable to domestic stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, are generally not eligible for the reduced rates and therefore may be subject to a 39.6% maximum U.S. federal income tax rate on ordinary income. Although the reduced U.S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including the Company's shares.

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

The REIT provisions of the Internal Revenue Code may limit the Company's ability to hedge its assets and operations. Under these provisions, any income that the Company generates from transactions intended to hedge its interest rate exposure or currency fluctuations will be excluded from gross income for purposes of the REIT 75% and 95% gross income tests if the instrument hedges either (i) interest rate risk on liabilities used to carry or acquire real estate assets, (ii) currency fluctuations with respect to items of income that qualify for purposes of the REIT 75% or 95% gross income tests or assets that generate such income, or (iii) an instrument that hedges risks described in clause (i) or (ii) for a period following the extinguishment of the liability or the disposition of the asset that was previously hedged by the instrument, and, in each case, such instrument is properly identified under applicable Treasury Regulations. Income from hedging transactions that do not meet these requirements will generally constitute nonqualifying income for purposes of both the REIT 75% and 95% gross income tests. As a result of these rules, the Company may have to limit its use of hedging techniques that might otherwise be advantageous or implement those hedges through ACREFI TRS, ARM TRS, ACREFI II TRS, or another TRS. This could increase the cost of the Company's hedging activities because the Company's TRS could be subject to tax on gains or expose the Company to greater risks associated with changes in interest rates and currency fluctuations than the Company would otherwise want to bear. In addition, losses in the Company's TRS will generally not provide any tax benefit to the Company, although such losses may be carried forward to offset future taxable income of the TRS.

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

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

TRS, and the Company may be required to limit the structures it uses for its securitization transactions, even though such sales or structures might otherwise be beneficial for the Company.

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

At any time, the U.S. federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be changed, possibly with retroactive effect. In particular, the new Trump administration has suggested that it intends to promote significant changes to the U.S. federal tax laws, and legislators have drafted an initial proposal for comprehensive tax reform. The Company cannot predict if or when any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective nor is the long-term impact of proposed tax reforms (including future reforms that may be part of any enacted tax reform) on REITs or the mortgage industry clear. The Company and its stockholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation.

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

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

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

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

The Company may fail to qualify as a REIT or become subject to a penalty tax if the IRS successfully challenges the Company's treatment of its mezzanine loans and certain preferred equity investments as debt for U.S. federal income tax purposes.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Item 3. Legal Proceedings

From time to time, the Company may be involved in various claims and legal actions in the ordinary course of business. After the announcement of the execution of the AMTG Merger Agreement, 2 putative class action lawsuits challenging the proposed First Merger (as defined in the Merger Agreement), captioned Aivasian v. Apollo Residential Mortgage, Inc., et al., No. 24-C-16-001532 and Wiener v. Apollo Residential Mortgage, Inc., et al., No. 24-C-16-001837, were filed in the Circuit Court for Baltimore City, (the "Court"). A putative class and derivative lawsuit was later filed in the Court captioned Crago v. Apollo Residential Mortgage, Inc., No. 24-C-16-002610. Following a hearing on May 6, 2016, the Court entered orders among other things, consolidating the three actions under the caption In Re Apollo Residential Mortgage, Inc. Shareholder Litigation, Case No.: 24-C-16-002610. The plaintiffs have designated the Crago complaint as the operative complaint. The operative complaint includes both direct and derivative claims, names as defendants AMTG, the board of directors of AMTG (the "AMTG Board"), ARI, Arrow Merger Sub Inc., Apollo and Athene Holding Ltd. and alleges, among other things, that the members of the AMTG Board breached their fiduciary duties to the AMTG stockholders and that the other corporate defendants aided and abetted such fiduciary breaches. The operative complaint further alleges, among other things, that the proposed First Merger involves inadequate consideration, was the result of an inadequate and conflicted sales process, and includes unreasonable deal protection devices that purportedly preclude competing offers. It also alleges that the transactions with Athene Holding Ltd. are unfair and that the registration statement on Form S-4 filed with the SEC on April 6, 2016 contains materially misleading disclosures and omits certain material information. The operative complaint seeks, among other things, certification of the proposed class, declaratory relief, preliminary and permanent injunctive relief, including enjoining or rescinding the First Merger, unspecified damages, and an award of other unspecified attorneys' and other fees and costs. On May 6, 2016, counsel for the plaintiffs filed with the Court a stipulation seeking the appointment of interim co-lead counsel, which stipulation was approved by the Court on June 9, 2016. Defendants' motions to dismiss have been fully briefed, and oral argument was held on December 8, 2016.

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

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

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

Market Information

The Company's common stock is listed on the New York Stock Exchange, under the symbol "ARI." On February 27, 2017, the last sales price for the Company's common stock on the New York Stock Exchange was \$17.98 per share. The following table sets forth the high and low sales prices per share of the common stock during each calendar quarter for the years indicated:

	High		Low	
2016				
Fourth quarter	\$	18.05	\$	15.58
Third quarter	\$	17.24	\$	15.84
Second quarter	\$	16.57	\$	15.56
First quarter	\$	17.35	\$	15.13
2015				
Fourth quarter	\$	18.25	\$	15.41
Third quarter	\$	17.24	\$	12.92
Second quarter	\$	17.62	\$	16.42
First quarter	\$	17.73	\$	16.25

Holders

As of February 27, 2017, the Company had 417 registered holders of its common stock. The 417 holders of record include Cede & Co., which holds shares as nominee for The Depository Trust Company, which itself holds shares on behalf of the beneficial owners of the Company's common stock. Such information was obtained through the Company's registrar and transfer agent, based on the results of a broker search.

Dividends

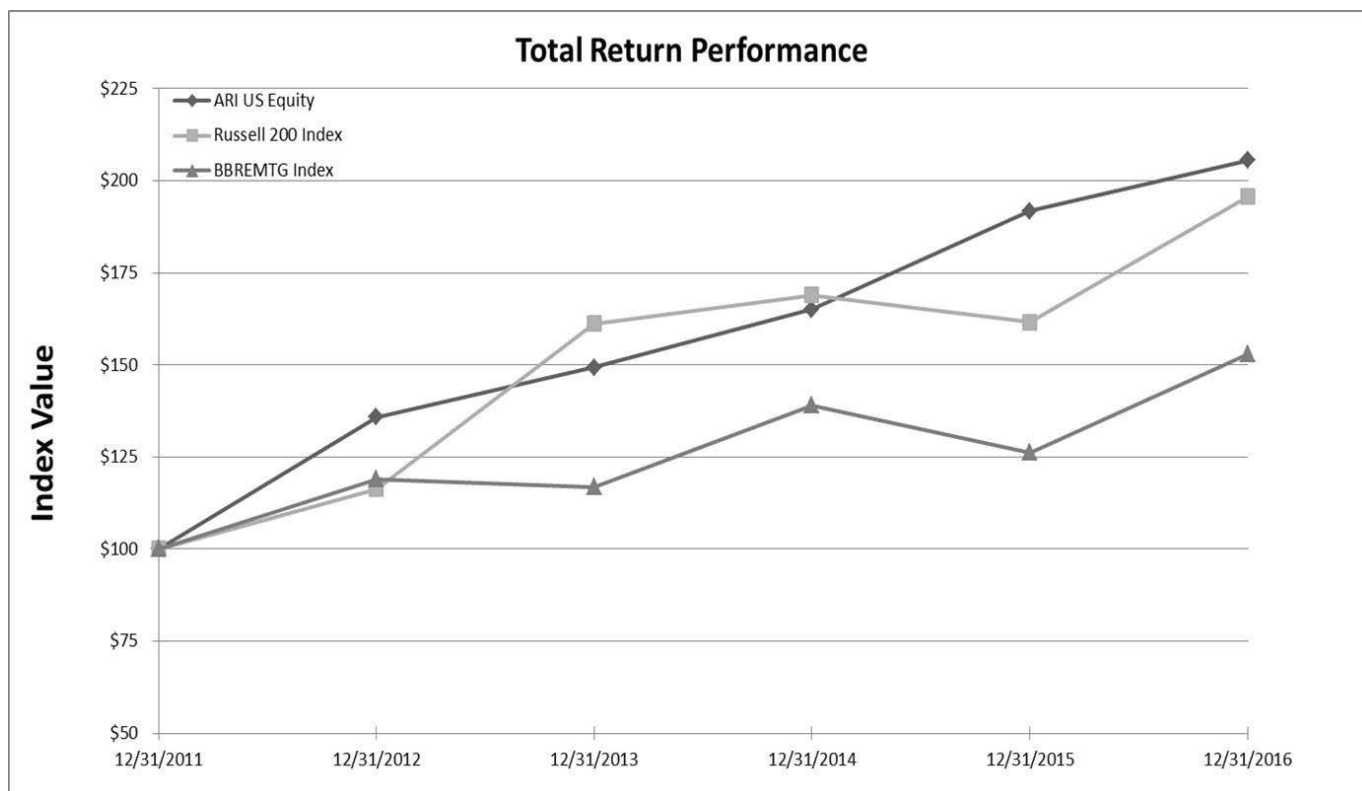
The Company elected to be taxed as a REIT for U.S. federal income tax purposes commencing with the taxable year ended December 31, 2009 and, as such, anticipates distributing annually at least 90% of its REIT taxable income, excluding net capital gains and determined without regard to the dividends paid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

The following table sets forth the dividends declared and paid during each calendar quarter for 2016 and 2015:

	Declaration Date	Record Date	Payment Date	Amount per Share
2016				
	March 15, 2016	March 31, 2016	April 15, 2016	\$0.46
	June 17, 2016	June 30, 2016	July 15, 2016	\$0.46
	September 14, 2016	September 30, 2016	October 17, 2016	\$0.46
	December 12, 2016	December 30, 2016	January 17, 2017	\$0.46
2015				
	February 25, 2015	March 31, 2015	April 15, 2015	\$0.44
	April 28, 2015	June 30, 2015	July 15, 2015	\$0.44
	July 28, 2015	September 30, 2015	October 15, 2015	\$0.44
	December 14, 2015	December 31, 2015	January 15, 2016	\$0.46

Stockholder Return Performance

The following graph is a comparison of the cumulative total stockholder return on shares of the Company's common stock, the Russell 2000 Index (the "Russell 2000"), and the Bloomberg REIT Mortgage Index (the "BBREMTG Index"), a published industry index, from December 31, 2011 to December 31, 2016. The graph assumes that \$100 was invested on December 31, 2011 in the Company's common stock, the Russell 2000 and the BBREMTG Index and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of the Company's shares will continue in line with the same or similar trends depicted in the graph below.



	Period Ending					
	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Apollo Commercial Real Estate Finance, Inc.	100.00	135.80	149.35	165.07	191.80	205.50
Russell 2000	100.00	116.29	161.16	168.95	161.60	195.57
BBREMTG Index	100.00	118.99	116.87	139.07	126.20	152.94

Securities Authorized For Issuance Under Equity Compensation Plans

During 2009, the Company adopted the 2009 Equity Incentive Plan (the "2009 Plan"). The 2009 Plan provides for grants of restricted common stock and other equity-based awards up to an aggregate of 7.5% of the issued and outstanding shares of the Company's common stock at the time of the award. As of December 31, 2016, 3.2%, or a total of 2,963,759 shares of restricted common stock and restricted stock units, had been granted and 4.3%, or 3,892,942 shares, remained available for future issuance under the 2009 Plan. (For further discussion of the 2009 Plan, see "Note 14- Share-Based Payments" to the consolidated financial statements included under Item 8, "Financial Statements and Supplementary Data" of this annual report on Form 10-K.)

The following table presents certain information about the Company's equity compensation plans as of December 31, 2016:

<u>Plan Category</u>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table)
Equity compensation plans approved by stockholders	—	\$ —	2,963,759
Equity compensation plans not approved by stockholders	—	—	—
Total	—	\$ —	2,963,759

Recent Sales of Unregistered Securities

None.

Recent Purchases of Equity Securities

The Company did not repurchase any of its equity securities from October 1, 2016 to December 31, 2016.

Item 6. Selected Financial Data

The selected financial data set forth below as of December 31, 2016, 2015, 2014, 2013 and 2012, for the years ended December 31, 2016, 2015, 2014, 2013 and 2012 has been derived from the Company's audited consolidated financial statements.

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

	For the Year Ended December 31,				
	2016	2015	2014	2013	2012
Operating Data:					
Interest income	\$ 264,376	\$ 192,164	\$ 123,347	\$ 77,463	\$ 57,079
Interest expense	(63,759)	(48,861)	(26,541)	(4,356)	(8,402)
Net interest income	200,617	143,303	96,806	73,107	48,677
Operating expenses	(48,371)	(26,111)	(18,111)	(17,575)	(14,682)
Income (loss) from unconsolidated joint venture	(96)	3,464	(157)	—	—
Interest on cash balances	1,094	1,239	34	20	7
Provision for loan losses	(15,000)	—	—	—	—
Realized gain (loss) on sale of assets	3,834	(443)	—	—	262
Unrealized gain (loss) on securities	(26,099)	(17,408)	4,147	(3,065)	6,489
Foreign currency loss	(29,284)	(4,894)	(4,050)	—	—
Bargain Purchase gain	40,021	—	—	—	—
Gain (loss) on derivative instruments	31,160	4,106	4,070	(2)	(572)
Net income (loss)	157,876	103,256	82,739	52,485	40,181
Preferred dividends	(30,295)	(11,884)	(7,440)	(7,440)	(3,079)
Net income (loss) available to common stockholders	127,581	91,372	75,299	45,045	37,102
Net income (loss) per share—basic and diluted	\$ 1.74	\$ 1.54	\$ 1.72	\$ 1.26	\$ 1.64
Dividends declared per share	1.84	1.78	1.60	1.60	1.60
Balance Sheet Data (at period end):					
Total assets	\$ 3,482,977	\$ 2,712,590	\$ 1,837,703	\$ 906,876	\$787,752
Total liabilities	1,550,750	1,337,166	982,634	223,900	240,828
Total stockholders' equity	1,932,227	1,375,424	855,069	682,956	546,924

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

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

Overview

The Company is a commercial real estate finance company that primarily originates, acquires, invests in and manages performing commercial first mortgage loans, subordinate financings, CMBS and other commercial real estate-related debt investments. The Company refers to these asset classes as its target assets.

The Company is externally managed and advised by the Manager, an indirect subsidiary of Apollo. The Company's principal business objective is to make investments in its target assets in order to provide attractive risk adjusted returns to stockholders over the long term, primarily through dividends and secondarily through capital appreciation. As of December 31, 2016, the Company held a diversified portfolio comprised of approximately \$1,641,856 of commercial mortgage loans, \$1,051,236 of subordinate loans, \$331,076 of CMBS and \$146,352 of CMBS, held-to-maturity. The Company has financed this portfolio with \$1,146,566 of borrowings under repurchase agreements, and \$254,750 aggregate principal amount of Convertible Senior Notes.

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

Results of Operations

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

Investments

The following table sets forth certain information regarding the Company's commercial real estate debt portfolio as of December 31, 2016:

Description	Amortized Cost	Debt	Equity at Cost (1)	Remaining Weighted Average Life (years) (2)	Current Weighted Average Underwritten IRR (3)	Fully-Levered Weighted Average Underwritten IRR (3)(4)
First mortgages	\$ 1,641,856	\$ 835,464	\$ 806,392	2.3	12.8%	15.4%
Subordinate loans (5)	1,112,609	—	1,112,609	2.9	13.2	13.2%
CMBS	368,247	311,102	119,602	2.5	8.4	8.4%
Total/Weighted Average	\$ 3,122,712	\$ 1,146,566	\$ 2,038,603	2.5	12.8%	13.8%

- (1) CMBS includes \$62,457 of restricted cash related to the UBS Facility and the DB Facility.
- (2) Remaining Weighted Average Life assumes all extension options are exercised.
- (3) Internal rate of return ("IRR") is the annualized effective compounded return rate that accounts for the time-value of money and represents the rate of return on an investment over a holding period expressed as a percentage of the investment. It is the discount rate that makes the net present value of all cash outflows (the costs of investment) equal to the net present value of cash inflows (returns on investment). It is derived from the negative and positive cash flows resulting from or produced by each transaction (or for a transaction involving more than one investment, cash flows resulting from or produced by each of the investments), whether positive, such as investment returns, or negative, such as transaction expenses or other costs of investment, taking into account the dates on which such cash flows occurred or are expected to occur, and compounding interest accordingly. The underwritten IRR for the investments shown in the above table reflect the returns underwritten by the Manager, taking into account leverage and calculated on a weighted average basis assuming no dispositions, early prepayments or defaults but assuming that extension options are exercised and that the cost of borrowings remains constant over the remaining term. With respect to certain loans, the underwritten IRR calculation assumes certain estimates with respect to the timing and magnitude of future fundings for the remaining

commitments and associated loan repayments, and assumes no defaults. IRR is the annualized effective compounded return rate that accounts for the time-value of money and represents the rate of return on an investment over a holding period expressed as a percentage of the investment. It is the discount rate that makes the net present value of all cash outflows (the costs of investment) equal to the net present value of cash inflows (returns on investment). It is derived from the negative and positive cash flows resulting from or produced by each transaction (or for a transaction involving more than one investment, cash flows resulting from or produced by each of the investments), whether positive, such as investment returns, or negative, such as transaction expenses or other costs of investment, taking into account the dates on which such cash flows occurred or are expected to occur, and compounding interest accordingly. There can be no assurance that the actual IRRs will equal the underwritten IRRs shown in the table. See “Item 1A - Risk Factors -The Company may not achieve its underwritten internal rate of return on its investments which may lead to future returns that may be significantly lower than anticipated” for a discussion of some of the factors that could adversely impact the returns received by the Company from the investments shown in the table or elsewhere in the Company's annual report over time.

- (4) Represents an underwritten levered weighted average IRR. The Company's ability to achieve the underwritten levered weighted average IRR additionally depends upon the availability of the JPMorgan Facility or any replacement facility with similar terms with regard to its portfolio of first mortgage loans. Without such availability, the levered weighted average underwritten IRR will be lower than the amount shown above.
- (5) Subordinate loans also include CMBS (Held-to-Maturity) and are net of a participation 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 December 31, 2016, the Company had one such participation sold with a carrying amount of \$84,979.

The Company's average asset and debt balances for the year ended December 31, 2016 , were:

Average month-end balances for the year ended December 31,2016		
Description	Assets	Related debt
First mortgages	1,256,914	707,844
Subordinate loans (1)	1,116,580	15,983
CMBS	418,385	380,673

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

Investment Activity – 2016

During 2016, the Company completed \$1.2 billion of commercial real estate debt investments and funded an additional \$141,900 for previously closed loans.

Net Income Available to Common Stockholders

For the years ended December 31, 2016, 2015 and 2014, respectively, the Company's net income available to common stockholders was \$127,581, or \$1.74 per share, \$91,372, or \$1.54 per share and \$75,299, or \$1.72 per share.

Net Interest Income

The following table sets forth certain information regarding the Company's net investment income for the years ended December 31, 2016, 2015 and 2014:

	Variance						
	Year ended December 31,			2016 vs. 2015		2015 vs. 2014	
	2016	2015	2014	Variance	%	Variance	%
Interest income from:							
Securities	\$ 27,586	\$ 33,188	\$ 21,189	\$ (5,602)	(16.9)%	\$ 11,999	56.6%
Securities, held-to-maturity	11,469	12,054	4,613	(585)	(4.9)%	7,441	161.3%
Commercial mortgage loans	102,927	56,092	27,802	46,835	83.5 %	28,290	101.8%
Subordinate loans	122,394	90,830	69,743	31,564	34.8 %	21,087	30.2%
Interest expense	(63,759)	(48,861)	(26,541)	(14,898)	30.5 %	(22,320)	84.1%
Net interest income	<u>\$ 200,617</u>	<u>\$ 143,303</u>	<u>\$ 96,806</u>	<u>\$ 57,314</u>	<u>40.0 %</u>	<u>\$ 46,497</u>	<u>48.0%</u>

Net interest income for the year ended December 31, 2016 compared to 2015, and the year ended December 31, 2015 compared to 2014, respectively, increased \$57,314, or 40.0%, and \$46,497, or 48.0%. For the year ended December 31, 2016, the increase was primarily the result of additional interest income from commercial mortgage loans and subordinate loans offset by an increase in interest expense. For the year ended December 31, 2015, the increase was primarily the result of additional interest income from securities, commercial mortgage loans and subordinate loans offset by an increase in interest expense.

Interest income related to securities for the year ended December 31, 2016, decreased \$5,602, or 16.9%, compared to 2015. The decrease is primarily attributable to the sale of CMBS with an amortized cost of \$99,355 during 2016 and the repayment of \$35,623 of CMBS during 2016. The Company did not purchase any CMBS during 2016 or 2015. Interest income related to securities for the year ended December 31, 2015 increased \$11,999, or 56.6%, compared to 2014. This increase was attributable to the purchase of \$375,833 of CMBS during 2014. This increase was partially offset by the repayment of \$31,553 of CMBS during 2014, as well as the sale of CMBS with an amortized cost of \$24,038 during 2015.

Interest income related to securities held-to-maturity for the year ended December 31, 2016, decreased \$585, or 4.9%, compared to 2015. The decrease is attributable to the repayment of \$6,720 of securities, held-to maturity during 2016. Interest income related to held-to-maturity for the year ended December 31, 2015 increased \$7,441, or 161.3%, compared to 2014. This increase was primarily attributable to the Company's investment in a subordinate loan during May 2014 that was subsequently converted to a CMBS during August 2014. This investment is further discussed in the accompanying consolidated financial statements in "Note 4 - Debt Securities."

The increase in interest income from commercial mortgage loans for the year ended December 31, 2016 compared to 2015, and the year ended December 31, 2015 compared to 2014, respectively, of \$46,835, or 83.5%, and \$28,290, or 101.8%, was primarily attributable to the funding of \$843,791, \$637,582 and \$403,983 of commercial mortgage loans during 2016, 2015 and 2014, respectively. This was partially offset by the repayments of \$210,383, \$105,618 and \$105,501 of commercial mortgage loans during 2016, 2015 and 2014, respectively. The increase in 2016 is also attributable to an increase in LIBOR.

The increase in interest income from subordinate loans for the year ended December 31, 2016 compared to 2015, and the year ended December 31, 2015 compared to 2014, respectively, of \$31,564, or 34.8%, and \$21,087, or 30.2%, was primarily attributable to the funding of \$283,248, \$693,157 and \$402,336 of subordinate loans during 2016, 2015 and 2014, respectively. This was partially offset by the repayments of \$120,806, \$242,898 and \$194,050 of subordinate loans during 2016, 2015 and 2014, respectively. The increase in 2016 is also attributable to an increase in LIBOR, as well as a prepayment penalty of \$3,985.

Interest expense for the year ended December 31, 2016 compared to 2015, and the year ended December 31, 2015 compared to 2014, respectively, increased \$14,898, or 30.5%, and \$22,320, or 84.1%. The increase in interest expense for 2016 was primarily attributable to an increase in the average balance of the Company's borrowings under repurchase agreements from \$744,094 during 2015 to \$1,104,500 during 2016. In addition the increase in 2016 is also attributable to an increase in the weighted average cost of funds from 2.9% at December 31, 2015 to 3.2% at December 31, 2016. This increase in the weighted average cost of funds was primarily related to the Company's floating rate borrowing under the DB Repurchase facility. In addition to the Company's issuance of the Convertible Senior Notes during 2014, the increase for 2015 was primarily attributable to the increase in the average balance of the Company's borrowings under repurchase agreements from \$414,042 during 2014 to \$744,094 during 2015, which was partially offset by the decrease in the weighted average cost of funds from 3.2% at December 31, 2014 to 2.9% at December 31, 2015.

Operating Expenses

The following table sets forth the Company's operating expenses for the years ended December 31, 2016, 2015 and 2014:

	Year ended December 31,			Variance			
				2016 vs. 2015		2015 vs. 2014	
	2016	2015	2014	Variance	%	Variance	%
General and administrative expense-Other	\$ 6,543	\$ 5,105	\$ 4,575	\$ 1,438	28.2%	\$ 530	11.6%
General and administrative expense- AMTG Merger related	11,350	—	—	11,350	100.0%	—	—%
Stock-based compensation expense	7,090	4,387	1,576	2,703	61.6%	2,811	178.4%
Management fee expense	23,388	16,619	11,960	6,769	40.7%	4,659	39.0%
Total operating expense	<u>\$ 48,371</u>	<u>\$ 26,111</u>	<u>\$ 18,111</u>	<u>\$ 22,260</u>	<u>85.3%</u>	<u>\$ 8,000</u>	<u>44.2%</u>

General and administrative expense - Other for the year ended December 31, 2016 increased \$1,438, or 28.2%, from the same period in 2015. General and administrative expense - Other for the year ended December 31, 2015 increased \$530, or 11.6%, from the same period in 2014. The increase during 2016 and 2015 was primarily attributable to increased costs associated with managing the Company's increased assets under management.

General and administrative expense - AMTG Merger related for the year ended December 31, 2016 were \$11,350 in connection with the AMTG Merger. These were incurred in connection with the AMTG Merger and related transactions. There were no General and administrative expense - AMTG Merger related for the year ended December 31, 2015 and the year ended December 31, 2014.

Stock-based compensation expense for the year ended December 31, 2016 increased \$2,703, or 61.6% from the same period in 2015. Stock-based compensation expense for the year ended December 31, 2015 increased \$2,811, or 178.4% from the same period in 2014. The increase in 2016 was primarily attributable to the grant of 656,425 RSUs in December 2015. The increase in 2015 was primarily attributable to the grant of 390,000 RSUs on December 29, 2014 as well as the increase in the Company's stock price during 2015. Share-based payments are discussed further in the accompanying consolidated financial statements in "Note 14 – Share-Based Payments."

Management fee expense for the year ended December 31, 2016 compared to 2015, and the year ended December 31, 2015 compared to 2014, respectively, increased \$6,769, or 40.7%, and \$4,659, or 39.0%. These increases were primarily attributable to an increase in the Company's stockholders' equity (as defined in the Management Agreement) as a result of the Company's follow-on common equity offerings completed in 2015, issuance of common and preferred equity in connection with the AMTG Merger in 2016, and the Company's follow-on common equity offering that was completed in December 2016. Management fees and the relationship between the Company and the Manager are discussed further in the accompanying consolidated financial statements in "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 and derivative instruments are included in the Company's consolidated statement of operations for the years ended December 31, 2016, 2015 and 2014:

		For the year ended December 31,		
	Location of Gain (Loss) Recognized in Income	2016	2015	2014
Assets	Realized loss on sale of assets	\$ 3,834	\$ (443)	\$ —
Securities	Unrealized gain (loss) on securities	(26,099)	(17,408)	4,147
Loans	Provision for loan losses	(15,000)	—	—
Forward currency contract	Gain (loss) on derivative instruments - unrealized	2,665	(853)	4,070
Forward currency contract	Gain (loss) on derivative instruments - realized	28,552	5,169	—
Foreign Currency	Foreign Currency loss - unrealized	(29,284)	(4,894)	(4,050)
Interest rate swaps	Loss on derivative instruments – realized *	—	—	—
Interest rate swaps	Gain on derivative instruments – unrealized	—	—	—
Interest rate caps	Loss on derivative instruments - unrealized	(57)	(210)	—
Total		<u>\$ (35,389)</u>	<u>\$ (18,639)</u>	<u>\$ 4,167</u>

* 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.

In August 2016, the Company sold CMBS resulting in a net realized loss of \$225.

In October 2016, the Company sold CMBS resulting in a net realized loss of \$1,245. In addition, in December, 2016, the Company sold the last remaining asset acquired from the AMTG Merger and recognized a gain of \$5,304.

For the years ended December 31, 2016, 2015 and 2014, respectively, the Company recognized an unrealized gain (loss) on securities of \$(26,099), \$(17,408) and \$4,147. These gains (losses) resulted from mark-to-market adjustments related to those securities for which the fair value option has been elected.

As of December 31, 2016, the Company recorded a loan loss provision of \$10,000 and \$5,000 on a multifamily commercial mortgage loan and a multifamily subordinate loan in Williston, ND, respectively. The Company has ceased accruing interest associated with the loans. As of December 31, 2015, there was no provision for loan loss.

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

The Company has in the past used and may in the future use interest rate swaps and caps to manage exposure to variable cash flows on portions of its borrowings under repurchase agreements. Interest rate swap and cap agreements allow the Company to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure.

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.

Dividends

For 2016, the Company declared the following dividends:

Declaration Date	Record Date	Payment Date	Amount	Per Share Dividend Attributable to 2016
March 15, 2016	March 31, 2016	April 15, 2016	\$ 0.4600	\$ 0.4600
June 17, 2016	June 30, 2016	July 15, 2016	\$ 0.4600	\$ 0.4600
September 14, 2016	September 30, 2016	October 17, 2016	\$ 0.4600	\$ 0.4600
December 12, 2016	December 30, 2016	January 17, 2017	\$ 0.4600	\$ 0.0734

As the Company's aggregate distributions exceeded its earnings and profits, a portion of the January 2017 distribution declared in the fourth quarter of 2016 and payable to stockholders of record as of December 30, 2016 will be treated as a 2017 distribution for U.S. federal income tax purposes.

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

Declaration Date	Record Date	Payment Date	Amount	Per Share Dividend Attributable to 2016
March 15, 2016	March 31, 2016	April 15, 2016	\$ 0.5391	\$ 0.5391
June 17, 2016	June 30, 2016	July 15, 2016	\$ 0.5391	\$ 0.5391
September 14, 2016	September 30, 2016	October 17, 2016	\$ 0.5391	\$ 0.5391
December 12, 2016	December 30, 2016	January 17, 2017	\$ 0.5391	\$ 0.5391

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

Declaration Date	Record Date	Payment Date	Amount	Per Share Dividend Attributable to 2016
March 15, 2016	March 31, 2016	April 15, 2016	\$ 0.5000	\$ 0.5000
June 17, 2016	June 30, 2016	July 15, 2016	\$ 0.5000	\$ 0.5000
September 14, 2016	September 30, 2016	October 17, 2016	\$ 0.5000	\$ 0.5000
December 12, 2016	December 30, 2016	January 17, 2017	\$ 0.5000	\$ 0.5000

For 2016, the Company declared the following dividends on its 8.00% Series C Cumulative Redeemable Perpetual Preferred Stock ("Series C Preferred Stock"):

Declaration Date	Record Date	Payment Date	Amount	Per Share Dividend Attributable to 2016
September 14, 2016	September 30, 2016	October 31, 2016	\$ 0.5000	\$ 0.5000
December 12, 2016	December 30, 2016	January 31, 2017	\$ 0.5000	\$ 0.5000

Subsequent Events

Investment activity. Subsequent to year end, the Company closed approximately \$193,500 of commercial real estate debt investments, \$190,300 of which were funded. In addition the Company funded approximately \$67,700 for previously closed loans.

Loan Repayments. Subsequent to year end, the Company received approximately \$41,500 from loan repayments.

Management Agreement. Following a meeting by the Company's independent directors in February 2017, which included a discussion of the Manager's performance and the level of the management fees thereunder, the Company determined not to terminate the Management Agreement.

Factors Impacting Operating Results

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

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

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

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

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

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

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

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

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

Critical Accounting Policies and Use of Estimates

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

Loan Impairment

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

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

As of December 31, 2016, the Company recorded a loan loss provision of \$10,000 and \$5,000 on a multifamily commercial mortgage loan and a multifamily subordinate loan in Williston, ND, respectively. The Company has ceased accruing interest associated with the loans. As of December 31, 2015, there was no provision for loan loss.

Interest Income Recognition

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

Hedging Instruments and Hedging Activities

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

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

The Company has in the past used and may in the future use interest rate swaps and caps to manage exposure to variable cash flows on portions of its borrowings under repurchase agreements. Interest rate swap and cap agreements allow the Company to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure.

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

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

Recent Accounting Pronouncements

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

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 "- Results of Operations – Investments" for a summary of interest rates and weighted average lives related to the Company's investment portfolio as of December 31, 2016. While there are no scheduled paydowns related to the Company's CMBS, periodic paydowns do occur. Repayments on the debt secured by the Company's CMBS occur in conjunction with the paydowns on the collateral pledged.

Borrowings Under Various Financing Arrangements

JPMorgan Facility

In January 2010, the Company, through two indirect wholly owned subsidiaries, entered into the JPMorgan Facility, which as amended in 2015 and 2016, currently provides for a maximum total borrowings of \$943,000, comprised of the \$800,000 repurchase facility and a \$143,000 asset specific financing, and a three-year term expiring in January 2018 plus a one-year extension option available at the Company's option, subject to certain conditions. Amounts borrowed under the JPMorgan Facility bear interest at spreads ranging from 2.25% to 4.75% over one-month LIBOR. Maximum advance rates under the JPMorgan Facility range from 25% to 80% on the estimated fair value of the pledged collateral depending on its LTV. Margin calls may occur any time the aggregate repurchase price exceeds the agreed upon advance rate multiplied by the market value of the assets by more than \$250. The JPMorgan Facility contains, among others, the following restrictive covenants: (1) continuing to operate in a manner that allows the Company to qualify as a REIT and (2) financial covenants, including (A) a minimum consolidated tangible net worth covenant (\$750,000 plus 75% of the net cash proceeds of any equity issuance by the

Company), (B) maximum total indebtedness to consolidated tangible net worth (3:1), or (C) minimum liquidity (the greater of 5% of the Company's total recourse indebtedness or \$15,000). The Company has agreed to provide a limited guarantee of the obligations of its indirect wholly-owned subsidiaries under the JPMorgan Facility.

As of December 31, 2016, the Company had \$657,452 of borrowings outstanding under the JPMorgan Facility secured by certain of the Company's commercial mortgage and subordinate loans.

DB Repurchase Facility

On September 29, 2016, the Company, through an indirect wholly-owned subsidiary, entered into a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch (the "DB Repurchase Facility") to provide up to \$300,000 of advances in connection with financing first mortgage loans secured by real estate. The DB Repurchase Facility matures in September 2017 with two one-year extension options available at the Company's option, subject to certain conditions, and accrues interest at per annum pricing equal to the sum of one-month LIBOR plus an applicable spread. Maximum advance rates under the DB Repurchase Facility are 75% on the estimated fair value of the pledged collateral depending on its LTV. Margin calls may occur any time at specified aggregate margin deficit thresholds. The DB Facility contains customary covenants, including continuing to operate in a manner that allows the Company to qualify as a real estate investment trust for federal income tax purposes and financial covenants with respect to minimum consolidated tangible net worth, maximum total indebtedness to consolidated tangible net worth, and minimum liquidity. The Company has agreed to provide a guarantee of the obligations of its indirect wholly-owned subsidiaries under the DB Repurchase Facility.

As of December 31, 2016, the Company had \$137,355 of borrowings outstanding under the DB Repurchase Facility secured by certain of the Company's commercial mortgage loans.

UBS Facility

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

As of December 31, 2016, the Company had \$133,899 of borrowings outstanding under the UBS Facility secured by CMBS held by the Company.

DB Facility

In April 2014, the Company, through an indirect wholly-owned subsidiary, entered into the DB Facility, which currently provides that the Company may borrow up to \$300,000 in order to finance the acquisition of CMBS. The DB Facility matures in April 2018. Advances under the DB Facility accrue interest at a per annum pricing rate based on the rate implied by the fixed rate bid under a fixed for floating interest rate swap for the receipt of payments indexed to three-month U.S. dollar LIBOR, plus a financing spread ranging from 1.80% to 2.32% based on the rating of the collateral pledged.

Additionally, the undrawn amounts are subject to a 1.8% non-use fee. 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 December 31, 2016, the Company had \$177,203 of borrowings outstanding under the DB Facility secured by CMBS held by the Company.

Goldman Loan

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

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

As of December 31, 2016, the Company had \$40,657 of borrowings outstanding under the Goldman Loan secured by one commercial mortgage loan held by the Company.

Convertible Senior Notes

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

Cash Generated from Offerings

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

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

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

During the third quarter of 2015, the Company completed a private placement of 8,823,529 shares of its common stock at a price of \$17.00 per share and 8,000,000 shares of Series B Preferred Stock at a price of \$24.71 per share. The aggregate net proceeds from the common stock and Series B Preferred Stock private placement were approximately \$346,854 after deducting the \$500 placement agent fee paid to Apollo Global Securities, LLC acting as placement agent in the transaction and estimated offering expenses payable by the Company.

Other Potential Sources of Financing

The Company's primary sources of cash currently consist of the cash available, which was \$200,996 as of December 31, 2016, principal and interest the Company receives on its portfolio of assets, as well as available borrowings under its repurchase agreements. The Company's other sources of cash consist of cash generated from operations and prepayments of principal received on the Company's portfolio of assets. Such prepayments are difficult to estimate in advance. Depending on market conditions, the Company may utilize additional borrowings as a source of cash, which may also include additional repurchase agreements as well as other borrowings such as credit facilities, or conduct additional securities offerings.

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

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

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

Leverage Policies

The Company uses leverage for the sole purpose of financing its portfolio and not for the purpose of speculating on changes in interest rates. In addition to its 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

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

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

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

Contractual Obligations and Commitments

The Company's contractual obligations including expected interest payments as of December 31, 2016 are summarized as follows:

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
JPMorgan Facility *	\$ 259,083	\$ 423,100	\$ —	\$ —	\$ 682,183
DB Repurchase Facility	4,376	145,321	—	—	149,697
Goldman Loan *	6,816	36,963	—	—	43,779
UBS Facility **	136,737	—	—	—	136,737
DB Facility	8,005	177,898	—	—	185,903
Convertible Senior Notes	14,011	271,096	—	—	285,107
Unfunded loan commitments***	152,415	17,950	—	—	170,365
Total	<u>\$ 581,443</u>	<u>\$ 1,072,328</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,653,771</u>

* Assumes current LIBOR of 0.77% for interest payments due under the JPMorgan Facility and the Goldman Loan.

** Assumes extension options are exercised.

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

Bremer Kreditbank AG. In September 2013, the Company, together with other affiliates of Apollo, reached an agreement to make an investment in an entity that agreed to acquire a minority participation in Bremer Kreditbank AG ("BKB"). The Company committed to invest up to approximately €38,000 (or \$50,000), representing approximately 21% of the ownership in BKB. In September 2014, the Company, through a wholly owned subsidiary, acquired a 59% ownership interest in Champ Limited Partnership ("Champ LP") following which a wholly-owned subsidiary of Champ LP then acquired a 35% ownership interest in BKB.

In February 2015, the Company sold approximately 48% of its ownership interest in Champ LP at cost to an account managed by Apollo for approximately €16,314 (or \$20,794). In June 2016, the Company transferred €427 of its unfunded commitment to Apollo, reducing its unfunded commitment to Champ LP to €2,802 (or \$2,947). Through its interest in Champ LP, the Company now holds an indirect ownership interest of approximately 9.34% in BKB.

Loan Commitments. As of December 31, 2016, the Company had \$114,978 of unfunded loan commitments related to its commercial mortgage loan portfolio and \$55,387 of unfunded loan commitments related to its subordinate loan portfolio.

Management Agreement. On September 23, 2009, the Company entered into the Management Agreement with the Manager pursuant to which the Manager is entitled to receive a management fee and the reimbursement of certain expenses. The table above does not include amounts due under the Management Agreement as those obligations do not have fixed and

determinable payments. Pursuant to the Management Agreement, the Manager is entitled to a base management fee calculated and payable quarterly in arrears in an amount equal to 1.5% of the Company's stockholders' equity (as defined in the Management Agreement), per annum. The Manager will use the proceeds from its management fee in part to pay compensation to its officers and personnel. The Company does not reimburse its Manager or its affiliates for the salaries and other compensation of their personnel, except for the allocable share of the compensation of (1) the Company's Chief Financial Officer based on the percentage of time spent on the Company's affairs and (2) other corporate finance, tax, accounting, internal audit, legal, risk management, operations, compliance and other non-investment professional personnel of the Manager or its affiliates who spend all or a portion of their time managing the Company's affairs based on the percentage of time devoted by such personnel to the Company's affairs. The Company is also required to reimburse its Manager for operating expenses related to the Company incurred by its Manager, including expenses relating to legal, accounting, due diligence and other services. Expense reimbursements to the Manager are made in cash on a monthly basis following the end of each month. The Company's reimbursement obligation is not subject to any dollar limitation.

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

Off-balance Sheet Arrangements

Except as disclosed in "Note 7 - Unconsolidated Joint Venture," the Company does not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, or special purpose or variable interest entities, established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes. Further, the Company has not guaranteed any obligations of unconsolidated entities or entered into any commitment to provide additional funding to any such entities.

Dividends

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

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 \$2.00 per share per annum. The dividends on Series A Preferred Stock are cumulative and payable quarterly in arrears. Except under certain limited circumstances, the Series A Preferred Stock is generally not convertible into or exchangeable for any other property or any other securities of the Company at the election of the holders. After August 1, 2017, the Company may, at its option, redeem the shares at a redemption price of \$25.00, plus any accrued unpaid distribution through the date of the redemption.

The Company has 8,000,000 shares of Series B Preferred Stock outstanding, which entitles holders to receive dividends that are payable quarterly in arrears: (i) from, and including, the original date of issuance of the Series B Preferred Stock to, but excluding, September 20, 2020, at the rate of 8.00% per annum of the \$25.00 per share liquidation preference; and (ii) from, and including, September 20, 2020, at the rate per annum equal to the greater of (a) 8.00% and (b) a floating rate equal to the 3-month LIBOR rate as calculated on each applicable date of determination plus 6.46% of the \$25.00 liquidation preference. Except under certain limited circumstances, the Series B Preferred Stock is generally not convertible into or exchangeable for any other property or any other securities of the Company at the election of the holders. On or after September 21, 2020, the Company may, at its option, redeem the shares at a redemption price of \$25.00, plus any accrued unpaid distribution through the date of the redemption.

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

Non-GAAP Financial Measures

Operating Earnings

For the years ended December 31, 2016, 2015 and 2014, respectively, the Company's Operating Earnings were \$136,966, \$112,697, and \$73,982. Operating Earnings is a non-GAAP financial measure that is defined by the Company as net income available to common stockholders, computed in accordance with GAAP, adjusted for (i) equity-based compensation expense (a portion of which may become cash-based upon final vesting and settlement of awards should the holder elect net share settlement to satisfy income tax withholding), (ii) any unrealized gains or losses or other non-cash items included in net income available to common stockholders, (iii) unrealized income from unconsolidated joint ventures, (iv) foreign currency gains/(losses) other than realized gains/(losses) related to interest income (v) the non-cash amortization expense related to the reclassification of a portion of the Convertible Senior Notes to stockholders' equity in accordance with GAAP, and (vi) provision for loan losses. Operating Earnings may also be adjusted to exclude certain other non-cash items, as determined by the Manager and approved by a majority of the Company's independent directors.

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

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

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

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

	Year ended December 31,		
	2016	2015	2014
Net income available to common stockholders	\$ 127,581	\$ 91,372	\$ 75,299
Adjustments:			
(Income) loss from unconsolidated joint venture	96	(3,464)	157
Equity-based compensation expense	7,090	4,387	1,576
Provision for loan losses	15,000	—	—
Unrealized (gain) loss on securities	26,099	17,408	(4,147)
Unrealized (gain) loss on derivative instruments	(31,160)	(4,106)	(4,070)
Foreign currency (gain) loss, net	29,937	4,894	4,050
Bargain purchase gain	(40,021)	—	—
Amortization of the Convertible Senior Notes related to equity reclassification	2,344	2,206	1,117
Total adjustments:	9,385	21,325	(1,317)
Operating Earnings	\$ 136,966	\$ 112,697	\$ 73,982
AMTG Merger - related expenses	11,350	—	—
Operating Earnings excluding AMTG Merger-related expenses	\$ 148,316	\$ 112,697	\$ 73,982
Basic and diluted Operating Earnings per Share of common stock	\$ 1.87	\$ 1.90	\$ 1.69
Basic and diluted Operating Earnings per Share of common stock (excluding AMTG Merger related expenses)	\$ 2.02	\$ 1.90	\$ 1.69
Basic weighted average shares of common stock outstanding	72,371,374	58,674,046	43,464,255
Diluted weighted average shares of common stock outstanding	73,305,101	59,273,280	43,684,805

Item 7A.**Quantitative and Qualitative Disclosures About Market Risk**

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

Credit risk

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

Interest rate risk

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

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

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

At December 31, 2016, all of the Company's borrowings outstanding under the Goldman Loan, JPM Facility and participations sold were floating-rate borrowings. At December 31, 2016, the Company also had floating rate assets with a face amount of \$2,469,061 resulting in net variable rate exposure of \$1,572,150. A 50 basis point increase in LIBOR would increase the annual net interest income related to the \$1,572,150 in variable rate exposure by approximately \$7,861. Any such hypothetical impact on interest rates on the Company's variable rate borrowings does not consider the effect of any change in overall economic activity that could occur in a rising interest rate environment. Further, in the event of a change in interest rates of that magnitude, the Company may take actions to further mitigate the Company's exposure to such a change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, this analysis assumes no changes in the Company's financial structure.

Prepayment risk

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

Market risk

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

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

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

Inflation

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

Item 8.**Financial Statements and Supplementary Data.****Index to Consolidated Financial Statements and Schedule**

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Apollo Commercial Real Estate Finance, Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015 and the related consolidated statements of operations, changes in stockholders' equity, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 8. We also have audited the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and the financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Apollo Commercial Real Estate Finance, Inc. and subsidiaries as of December 31, 2016, and 2015, and the results of their operations and their cash flows for each of the three years ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

New York, New York
February 28, 2017

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries

Consolidated Balance Sheets
(in thousands—except share data)

	December 31, 2016	December 31, 2015
Assets:		
Cash	\$ 200,996	\$ 67,415
Restricted cash	62,457	30,127
Securities, at estimated fair value	331,076	493,149
Securities, held-to-maturity	146,352	153,193
Commercial mortgage loans, held for investment, net	1,641,856	994,301
Subordinate loans, held for investment	1,051,236	931,351
Investment in unconsolidated joint venture	22,103	22,583
Derivative assets	5,906	3,327
Interest receivable	19,281	16,908
Other assets	1,714	236
Total Assets	\$ 3,482,977	\$ 2,712,590
Liabilities and Stockholders' Equity		
Liabilities:		
Borrowings under repurchase agreements (net of deferred financing costs of \$6,763 and \$7,353 in 2016 and 2015, respectively)	\$ 1,139,803	\$ 918,421
Convertible senior notes, net	249,994	248,173
Participations sold	84,979	118,201
Accounts payable and accrued expenses	17,681	9,246
Payable to related party	7,015	5,297
Dividends payable	51,278	37,828
Total Liabilities	1,550,750	1,337,166
Commitments and Contingencies (see Note 16)		
Stockholders' Equity:		
Series A preferred stock, 3,450,000 shares issued and outstanding (\$86,250 aggregate liquidation preference) in 2016 and 2015	35	35
Series B preferred stock, 8,000,000 shares issued and outstanding (\$200,000 aggregate liquidation preference) in 2016 and 2015	80	80
Series C preferred stock, 6,900,000 shares issued and outstanding (\$172,500 aggregate liquidation preference) in 2016	69	—
Common stock, \$0.01 par value, 450,000,000 shares authorized, 91,422,676 and 67,195,252 shares issued and outstanding in 2016 and 2015, respectively	914	672
Additional paid-in-capital	1,983,010	1,410,138
Retained earnings (accumulated deficit)	(48,070)	(32,328)
Accumulated other comprehensive loss	(3,811)	(3,173)
Total Stockholders' Equity	1,932,227	1,375,424
Total Liabilities and Stockholders' Equity	\$ 3,482,977	\$ 2,712,590

See notes to consolidated financial statements.

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries

Consolidated Statements of Operations
(in thousands—except share and per share data)

	Year Ended December 31,		
	2016	2015	2014
Net interest income:			
Interest income from securities	\$ 27,586	\$ 33,188	\$ 21,189
Interest income from securities, held-to-maturity	11,469	12,054	4,613
Interest income from commercial mortgage loans	102,927	56,092	27,802
Interest income from subordinate loans	122,394	90,830	69,743
Interest expense	(63,759)	(48,861)	(26,541)
Net interest income	200,617	143,303	96,806
Operating expenses:			
General and administrative expenses (includes equity-based compensation of \$7,090 in 2016, \$4,387 in 2015 and \$1,576 in 2014)	(24,983)	(9,492)	(6,151)
Management fees to related party	(23,388)	(16,619)	(11,960)
Total operating expenses	(48,371)	(26,111)	(18,111)
Income (loss) from unconsolidated joint venture	(96)	3,464	(157)
Interest income from cash balances	1,094	1,239	34
Provision for loan losses	(15,000)	—	—
Realized gain (loss) on sale of assets	3,834	(443)	—
Unrealized gain (loss) on securities	(26,099)	(17,408)	4,147
Foreign currency gain (loss)	(29,284)	(4,894)	(4,050)
Bargain Purchase gain	40,021	—	—
Gain (loss) on derivative instruments (includes unrealized gains (losses) of \$2,608 in 2016, \$(1,063) in 2015 and \$4,070 in 2014)	31,160	4,106	4,070
Net income	157,876	103,256	82,739
Preferred dividends	(30,295)	(11,884)	(7,440)
Net income available to common stockholders	\$ 127,581	\$ 91,372	\$ 75,299
Basic and diluted net income per share of common stock	\$ 1.74	\$ 1.54	\$ 1.72
Basic weighted average shares of common stock outstanding	72,371,374	58,674,046	43,464,255
Diluted weighted average shares of common stock outstanding	73,305,101	59,273,280	43,684,805

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2016	2015	2014
Net income available to common stockholders	\$ 127,581	\$ 91,372	\$ 75,299
Change in net unrealized gain (loss) on securities available-for-sale	—	678	192
Foreign currency translation adjustment	\$ (638)	\$ (866)	\$ (2,307)
Comprehensive income	<u>\$ 126,943</u>	<u>\$ 91,184</u>	<u>\$ 73,184</u>

See notes to consolidated financial statements.

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
(in thousands—except share and per share data)

	Preferred Stock		Common Stock		Additional Paid In Capital	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
	Shares	Par	Shares	Par				
Balance at December 31, 2013	3,450,000	\$ 35	36,888,467	\$ 369	\$ 697,610	\$ (14,188)	\$ (870)	\$ 682,956
Capital increase related to Equity Incentive Plan	—	—	240,277	2	696	—	—	698
Issuance of restricted stock	—	—	65,698	1	—	—	—	1
Issuance of common stock	—	—	9,706,000	97	158,596	—	—	158,693
Offering costs	—	—	—	—	(312)	—	—	(312)
Convertible senior notes	—	—	—	—	11,445	—	—	11,445
Net income	—	—	—	—	—	82,739	—	82,739
Change in Other Comprehensive Income	—	—	—	—	—	—	(2,115)	(2,115)
Preferred stock	—	—	—	—	—	(7,440)	—	(7,440)
Common stock - \$1.60 per share	—	—	—	—	—	(71,596)	—	(71,596)
Balance at December 31, 2014	3,450,000	\$ 35	46,900,442	\$ 469	\$ 868,035	\$ (10,485)	\$ (2,985)	\$ 855,069
Capital increase related to Equity Incentive Plan	—	—	12,763	*	4,265	—	—	4,265
Issuance of preferred stock	8,000,000	80	—	—	197,600	—	—	197,680
Issuance of restricted stock	—	—	65,950	1	—	—	—	1
Issuance of common stock	—	—	20,323,529	203	343,227	—	—	343,430
Repurchase of common stock	—	—	(107,432)	(1)	(1,740)	—	—	(1,741)
Offering costs	—	—	—	—	(1,249)	—	—	(1,249)
Net income	—	—	—	—	—	103,256	—	103,256
Change in Other Comprehensive Income	—	—	—	—	—	—	(188)	(188)
Preferred stock	—	—	—	—	—	(11,884)	—	(11,884)
Common stock - \$1.78 per share	—	—	—	—	—	(113,215)	—	(113,215)
Balance at December 31, 2015	11,450,000	\$ 115	67,195,252	\$ 672	\$ 1,410,138	\$ (32,328)	\$ (3,173)	\$ 1,375,424
Capital increase related to Equity Incentive Plan	—	—	236,782	2	4,459	—	—	4,461
Issuance of preferred stock - Merger	6,900,000	69	—	—	172,431	—	—	172,500
Issuance of restricted common stock	—	—	92,056	1	—	—	—	1
Issuance of common stock	—	—	10,500,000	105	178,080	—	—	178,185
Issuance of common stock-Merger	—	—	13,398,586	134	218,263	—	—	218,397
Offering costs	—	—	—	—	(361)	—	—	(361)
Net income	—	—	—	—	—	157,876	—	157,876
Change in other comprehensive loss	—	—	—	—	—	—	(638)	(638)
Dividends on preferred stock	—	—	—	—	—	(30,295)	—	(30,295)
Dividends on common stock - \$1.84 per share	—	—	—	—	—	(143,323)	—	(143,323)
Balance at December 31, 2016	18,350,000	\$ 184	91,422,676	\$ 914	\$ 1,983,010	\$ (48,070)	\$ (3,811)	\$ 1,932,227

* Rounds to zero.

See notes to consolidated financial statements.

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

	For the year ended December 31,		
	2016	2015	2014
Cash flows provided by operating activities:			
Net income	\$ 157,876	\$ 103,256	\$ 82,739
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization and (discount accretion), net	(10,679)	(11,211)	(4,221)
Amortization of deferred financing costs	4,607	2,992	1,979
Equity-based compensation	4,464	4,266	698
Unrealized gain (loss) on securities	26,099	17,408	(4,147)
Provision for loan losses	15,000	—	—
Income (loss) from unconsolidated joint venture	97	(3,480)	157
Foreign currency loss	28,789	5,192	4,038
Realized gain (loss) on derivative instruments	(28,552)	(5,169)	—
Unrealized gain (loss) on derivative instruments	(2,608)	1,063	(4,070)
Realized loss on sale of security	(3,834)	443	—
Bargain purchase gain	(40,021)	—	—
Changes in operating assets and liabilities:			
Accrued interest receivable, less purchased interest	(27,773)	(30,220)	(16,453)
Other assets	2,194	120	500
Accounts payable and accrued expenses	(8,496)	1,405	5,205
Payable to related party	1,718	2,057	612
Net cash provided by operating activities	118,881	88,122	67,037
Cash flows used in investing activities:			
Funding of securities at estimated fair value	—	—	(375,833)
Funding of commercial mortgage loans	(843,791)	(637,582)	(403,983)
Funding of subordinate loans	(283,248)	(693,157)	(402,336)
Funding of unconsolidated joint venture	(362)	(3,929)	(39,477)
Funding of other assets	(1,640)	(8)	(1,258)
Funding of derivative instruments	—	(327)	—
Proceeds from settlement of derivative instruments	28,552	5,169	—
Increase in collateral held related to derivative contracts	2,480	—	—
Increase in restricted cash	(32,329)	—	—
Proceeds from sale of securities available-for-sale	—	17,291	—
Proceeds from sale of securities at estimated fair value	97,885	6,338	—
Proceeds from sale of subordinate loans	—	135,345	4,950
Proceeds from sale of investment in unconsolidated joint venture	—	20,794	—
Proceeds from sale of AMTG assets, net	1,508,198	—	—
Principal payments received on securities available-for-sale	—	32	16,053
Principal payments received on securities at estimated fair value	35,623	8,703	15,500
Principal payments received on securities, held-to-maturity	6,720	1,750	—
Principal payments received on commercial mortgage loans	210,383	105,618	105,501
Principal payments received on subordinate loans	120,806	242,898	194,050
Principal payments received on other assets	132	189	145
ARI investment in AMTG, net of cash acquired	189,795	—	—
Net cash used in investing activities	1,039,204	(790,876)	(886,688)
Cash flows from financing activities:			
Proceeds from issuance of common stock	178,185	343,430	158,693
Proceeds from issuance of preferred stock	—	197,680	—
Repurchase of common stock	—	(1,741)	—
Payment of offering costs	(406)	(987)	(389)
Proceeds from repurchase agreement borrowings	721,992	778,675	567,192
Repayments of repurchase agreement borrowings	(501,200)	(475,094)	(147,032)
Repayments of AMTG repurchase agreement borrowings	(1,254,517)	—	—
Proceeds from issuance of convertible senior notes	—	—	256,970
Proceeds from participations sold	—	—	89,012
Repayments of participations sold	(4,372)	(1,246)	—

Payment of deferred financing costs	(4,017)	—	—
Dividends on common stock	(132,213)	(100,849)	(67,804)
Dividends on preferred stock	(27,956)	(7,440)	(7,440)
Net cash provided by financing activities	(1,024,504)	729,528	840,196
Net increase (decrease) in cash and cash equivalents	133,581	26,774	20,545
Cash and cash equivalents, beginning of period	\$ 67,415	\$ 40,641	20,096
Cash and cash equivalents, end of period	\$ 200,996	\$ 67,415	\$ 40,641
Supplemental disclosure of cash flow information:			
Interest paid	\$ 52,708	\$ 43,209	\$ 18,132
Supplemental disclosure of non-cash investing and financing activities:			
Offering costs payable	\$ 279	\$ 296	\$ 100
Dividend declared, not yet paid	\$ 51,278	\$ 37,828	\$ 21,018
Deferred financing costs, not yet paid	\$ —	\$ —	\$ 33
Participations sold	\$ (24,051)	\$ 30,672	\$ —
Securities, held-to-maturity	\$ —	\$ —	\$ 154,283
Funding of subordinate loans	\$ —	\$ 30,672	\$ —
Repayment of subordinate loans	\$ (24,051)	\$ —	\$ —
Fair value of assets acquired from AMTG	\$ 1,936,260	\$ —	\$ —
Fair value of liabilities assumed from AMTG	\$ (1,285,183)	\$ —	\$ —
Fair value of common stock issued to AMTG	\$ 218,397	\$ —	\$ —
Fair value of preferred stock issued to AMTG	\$ 172,500	\$ —	\$ —

See notes to consolidated financial statements.

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

Note 1 – Organization

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

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

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

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

Under Financial Accounting Standards Board (the “FASB”) ASC Topic 805, “Business Combinations”, or ASC 805, the acquirer in a business combination must recognize, with certain exceptions, the fair values of assets acquired, liabilities assumed, and non-controlling interests when the acquisition constitutes a change in control of the acquired entity. We applied the provisions of ASC 805 in accounting for our acquisition of AMTG. In doing so, we recorded provisional amounts for certain items as of the date of the acquisition, including the fair value of certain assets and liabilities. During the measurement period, a period which shall not exceed one year, we retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of such date that, if known, would have affected the measurement of the amounts recognized. See further discussion in “Note 19 - Business Combination.”

The Company currently operates in one reporting segment.

Restricted Cash

Restricted cash represents cash held by the Company’s counterparties as collateral against repurchase agreement borrowings. Restricted cash is not available for general corporate purposes but may be applied against amounts due to counterparties under repurchase agreement borrowings, or returned to the Company when collateral requirements are exceeded or at the maturity of the repurchase agreement.

Classification of Investments and Valuations of Financial Instruments

The Company’s investments consist primarily of commercial mortgage loans, subordinate loans, CMBS and other real estate related assets that are classified as either available-for-sale or held-to-maturity. The Company has also elected the fair value option for certain CMBS.

Classification of Loans

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

Loan Impairment

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

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

As of December 31, 2016, the Company recorded a loan loss provision of \$10,000 and \$5,000, on a multifamily commercial mortgage loan and a multifamily subordinate loan in Williston, ND, respectively. As of December 31, 2016, the Company has ceased accruing interest associated with the loans. As of December 31, 2015, there was no provision for loan loss.

Fair Value Election

Securities at estimated fair value consist of CMBS which are pledged under the Company's master repurchase agreements with UBS AG, London Branch ("UBS") (the "UBS Facility") and Deutsche Bank AG ("DB") (the "DB Facility"). In accordance with GAAP, the Company elected the fair value option for these securities at the date of purchase in order to allow the Company to measure these securities at fair value with the change in estimated fair value included as a component of earnings in order to reflect the performance of the investments in a timely manner.

Securities Available-for-sale

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

When the estimated fair value of a security is less than amortized cost, the Company considers whether there is an other-than-temporary impairment ("OTTI") in the value of the security. An impairment is deemed an OTTI if (i) the Company intends to sell the security, (ii) it is more likely than not that the Company will be required to sell the security before recovering its cost basis, or (iii) the Company does not expect to recover the entire amortized cost basis of the security even if the Company does not intend to sell the security or believes it is more likely than not that the Company will be required to sell the security before recovering its cost basis. If the impairment is deemed to be an OTTI, the resulting accounting treatment depends on the factors causing the OTTI. If the OTTI has resulted from (i) the Company's intention to sell the security, or (ii) its judgment that it is more likely than not that it will be required to sell the security before recovering its cost basis, an impairment loss is recognized in current earnings equal to the difference between its amortized cost basis and fair value. Whereas, if the OTTI has resulted from the Company's conclusion that it will not recover its cost basis even if the Company does not intend to sell the security or believes it is more likely than not that the Company will be required to sell the security before recovering its cost basis, the credit loss portion of the impairment is recorded in current earnings and the portion of the loss related to other factors, such as changes in interest rates, continues to be recognized in accumulated other comprehensive

income. Determining whether there is an OTTI may require management to exercise significant judgment and make significant assumptions, including, but not limited to, estimated cash flows, estimated prepayments, loss assumptions, and assumptions regarding changes in interest rates. As a result, actual impairment losses could differ from reported amounts. Such judgments and assumptions are based upon a number of factors, including (i) credit of the issuer or the borrower, (ii) credit rating of the security, (iii) key terms of the security, (iv) performance of the loan or underlying loans, including debt service coverage and loan-to-value ratios, (v) the value of the collateral for the loan or underlying loans, (vi) the effect of local, industry, and broader economic factors, and (vii) the historical and anticipated trends in defaults and loss severities for similar securities.

As of December 31, 2015, the Company sold all securities available-for-sale.

Securities, held-to-maturity

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

Investments in unconsolidated joint venture

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

Interest Income Recognition

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

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

Interest income on securities rated below AA by a nationally recognized statistical rating organization is recognized based on the effective yield method. The effective yield on these securities is based on the projected cash flows from each security, which are estimated based on the Manager's observation of current information and events and may include assumptions related to prepayment rates and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to cash flow projections.

Deferred Financing Costs

Costs incurred in connection with financings are capitalized and amortized over the respective financing terms and are reflected on the accompanying consolidated statement of operations as a component of interest expense. At December 31, 2016 and 2015, respectively, the Company had approximately \$6,763 and \$7,353 of capitalized financing costs, net of amortization included, as a direct deduction from the carrying amount of the related debt obligation on the consolidated balance sheets.

Earnings per Share

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

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

Hedging Instruments and Hedging Activities

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

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

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

Repurchase Agreements

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

Share-based Payments

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

Income Taxes

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

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

The Company's major tax jurisdictions are U.S. federal, New York State and New York City and the statute of limitations is open for all jurisdictions for the years 2013 through 2016. The Company does not have any unrecognized tax benefits and does not expect a change in its position for unrecognized tax benefits in the next 12 months. The Company has a net operating loss carryforward of approximately \$1,400 which expires in the year 2029.

Foreign Currency

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

Principles of Consolidation

We consolidate all entities that we control through either majority ownership or voting rights. In addition, we consolidate all variable interest entities ("VIE") of which we are considered the 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.

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

Recent Accounting Pronouncements

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

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

In April 2015, the FASB issued guidance that simplifies the presentation of debt issuance costs by amending the accounting guidance to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. The amendments are consistent with the accounting guidance related to debt discounts. The Company adopted this guidance and applied its provisions retrospectively. This resulted in the reclassification of unamortized deferred financing costs from deferred financing costs, net to reductions in borrowings under repurchase agreements of \$6,763 and \$7,353 as of December 31, 2016 and 2015, respectively. Other than this reclassification, the adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting (Topic 718)," or ASU 2016-09. ASU 2016-09 requires all income tax effects of share-based payment awards to be recognized in the income statement when the awards vest or are settled. It also allows an employer to repurchase more of an employee's shares for tax withholding purposes than is permitted under current guidance without triggering liability accounting. Finally, the guidance allows a policy election to account for employee forfeitures as they occur. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early application is permitted for any entity in any interim or annual period. The Company is currently assessing the impact that this accounting guidance will have on the Company's consolidated financial statements when adopted.

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

In August 2016, the FASB issued ASU 2016-15 "Statement of Cash Flows (Topic 230)," or ASU 2016-15. ASU 2016-15 is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The new guidance addresses the classification of various transactions including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, distributions received from equity method investments, beneficial interests in securitization transactions, and others. The Company is currently assessing the impact that this guidance will have on the Company's consolidated financial statements when adopted.

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

Note 3 – Fair Value Disclosure

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

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

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

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

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

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

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

The following table summarizes the levels in the fair value hierarchy into which the Company's financial instruments were categorized as of December 31, 2016 and 2015:

	Fair Value as of December 31, 2016				Fair Value as of December 31, 2015			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
CMBS (Fair Value Option)	\$ —	\$ 331,076	\$ —	\$ 331,076	\$ —	\$ 493,149	\$ —	\$ 493,149
Derivative instruments	—	5,906	—	5,906	—	3,327	—	3,327
Total	\$ —	\$ 336,982	\$ —	\$ 336,982	\$ —	\$ 496,476	\$ —	\$ 496,476

Note 4 – Debt Securities

At December 31, 2016, all of the Company's CMBS (Fair Value Option) were pledged to secure borrowings under the Company's master repurchase agreements with UBS AG, London Branch ("UBS") (the "UBS Facility") and Deutsche Bank AG ("DB") (the "DB Facility"). See "Note 8 - Borrowings" for further information regarding these facilities.

CMBS (Held-to-Maturity) represents a loan the Company closed during May 2014 that was subsequently contributed to a securitization during August 2014. During May 2014, the Company closed a \$155,000 floating-rate whole loan secured by the first mortgage and equity interests in an entity that owns a resort hotel in Aruba. The property consists of 442 hotels rooms, 114 timeshare units, two casinos and approximately 131,500 square feet of retail space. During June 2014, the Company syndicated a \$90,000 senior participation in the loan and retained a \$65,000 junior participation. The Company evaluated this transaction and concluded due to 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%.

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

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

During August 2016, the Company sold CMBS resulting in a net realized loss of \$225.

During October 2016, the Company sold CMBS resulting in a net realized loss of \$1,245.

The following table presents information about the Company's debt securities that were in an unrealized loss position at December 31, 2016:

Security Description	Unrealized Loss Position for Less than 12 months		Unrealized Loss Position for 12 months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
CMBS (Fair Value Option)	63,589	(1,780)	228,206	(35,683)
Total	<u>\$ 63,589</u>	<u>\$ (1,780)</u>	<u>\$ 228,206</u>	<u>\$ (35,683)</u>

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

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

During February 2015, the Company sold CMBS with an amortized cost of \$24,038 resulting in a net realized loss of \$443, which was comprised of realized gains of \$43 and realized losses of \$486. As a result of the sale, \$678 was reclassified out of accumulated other comprehensive income. The sale generated proceeds of \$1,341 after the repayment of \$22,254 of borrowings under the Company's master repurchase agreement with Wells Fargo Bank, N.A., which was repaid in February 2015 and expired in March 2016.

The overall statistics for the Company's CMBS (Fair Value Option) calculated on a weighted average basis as of December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Credit Ratings *	B+-NR	BB-D
Coupon	5.9%	5.9%
Yield	6.0%	6.5%
Weighted Average Life	2.5 years	1.6 years

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

The percentage vintage, property type, and location of the collateral securing the Company's CMBS (Fair Value Option) calculated on a weighted average basis as of December 31, 2016 and 2015 are as follows:

<u>Vintage</u>	December 31, 2016	December 31, 2015
2005	2.0%	8.3%
2006	12.1	20.0
2007	73.5	62.4
2008	12.4	9.3
Total	100%	100%

<u>Property Type</u>	December 31, 2016	December 31, 2015
Office	34.6%	32.0%
Retail	29.0	30.2
Multifamily	12.4	13.5
Other *	24.0	24.3
Total	100%	100%

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

<u>Location</u>	December 31, 2016	December 31, 2015
South Atlantic	23.8%	23.0%
Middle Atlantic	16.7	18.1
Pacific	15.3	17.8
East North Central	10.8	12.5
Other *	33.4	28.6
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 December 31, 2016:

Description	Maturity Date (2)	Current Principal Balance	Carrying Value	Unfunded Commitment	Fixed / Floating	Property Size
Condominium - Bethesda, MD	Apr-17	\$ 51,695	\$ 52,476	—	Floating	50 units
Vacation Home Portfolio - Various (1)	Apr-19	88,876	88,195	—	Fixed	229 properties
Hotel - Philadelphia, PA (1)	May-17	34,000	33,987	—	Floating	301 keys
Mixed Use - Cincinnati, OH (1)	May-18	165,000	163,987	—	Floating	65 acres
Multifamily - Williston, ND	Nov-17	49,706	39,713	—	Floating	366 units/ homes
Vacation Home Portfolio - Various U.S. (1)	Nov-19	59,500	59,193	—	Fixed	29 properties
Mixed Use - Brooklyn, NY (1)	Mar-17	85,770	86,142	6,730	Floating	330,000 sq. ft.
Retail redevelopment - Miami, FL (1)	Jun-17	45,000	45,415	—	Floating	63,300 sq. ft.
Retail - Brooklyn, NY (1)	Mar-17	23,000	23,012	—	Floating	10,500 sq. ft.
Hotel - New York, NY (1)	Sept-18	108,857	108,768	29,549	Floating	317 keys
Retail - Brooklyn, NY (1)	Mar-17	5,910	5,921	—	Floating	5,500 sq. ft.
Hotel - U.S. Virgin Islands (1)	Jan-18	42,000	41,795	1,500	Floating	180 keys
Office - Richmond, VA (1)	Jan-18	54,000	53,849	1,000	Floating	262,000 sq. ft.
Retail redevelopment - Miami, FL (1)	Jan-18	220,000	218,771	—	Floating	113,000 sq. ft.
Office - Boston, MA (1)	Mar-18	28,659	28,543	2,341	Floating	114,000 sq. ft.
Mixed Use - New York, NY (1)	Jun-18	45,789	45,541	4,211	Floating	91,584 sq. ft.
Condo Conversion - Brooklyn, NY (1)	Jun-18	41,016	40,825	4,484	Floating	133,550 sq. ft.
Hotel - New York, NY (1)	Aug-18	78,140	77,297	26,860	Floating	612 keys
Mixed Use - Chicago, IL (1)	Oct-18	129,397	128,271	3,603	Floating	737,382 sq. ft.
Retail - Brooklyn, NY (1)	Mar-17	7,500	7,489	—	Floating	6,500 sq. ft.
Data Center - Manassas, VA	Aug-19	80,000	79,634	—	Fixed	460,000 sq. ft.
Retail - New York, NY (1)	Jun-18	60,300	59,775	4,700	Floating	84,374 sq. ft.
Office - New York, NY (1)	Jun-18	105,000	104,005	—	Floating	419,190 sq. ft.
Mixed Use Pre-development - Los Angeles, CA	Dec-18	50,000	49,252	30,000	Floating	75,000 sq. ft.
Total		<u>\$ 1,659,115</u>	<u>\$ 1,641,856</u>	<u>\$ 114,978</u>		

- (1) At December 31, 2016, this loan was pledged to secure borrowings under the Company's master repurchase facility entered into with JPMorgan Chase Bank, N.A. (the "JPMorgan Facility"), the Company's repurchase agreement with Goldman Sachs Bank USA (the "Goldman Loan") or Company's master repurchase agreement with Deutsche Bank AG (the "DB Repurchase Facility"). See "Note 8 – Borrowings" for a description of this agreements.
- (2) Represents contractual maturity date excluding extension options.

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

Description	Maturity Date (2)	Current Principal Balance	Carrying Value	Unfunded Commitment	Fixed / Floating	Property Size
Condo Conversion – New York, NY (1)	Sept-16	\$ 24,114	\$ 24,289	\$ —	Floating	40,000 sq. ft.
Condo Construction - Potomac, MD	Sept-16	65,125	65,087	—	Floating	50 units
Vacation Home Portfolio - Various (1)	Apr-19	94,147	93,277	—	Fixed	229 properties
Hotel - Philadelphia, PA (1)	May-17	34,000	33,994	—	Floating	301 rooms
Condo Construction - Bethesda, MD	Dec-16	50,000	49,960	15,100	Floating	40 units
Multifamily - Brooklyn, NY (1)	Aug-16	34,500	34,886	—	Floating	63 units
Mixed Use - Cincinnati, OH (1)	May-18	165,000	163,173	—	Floating	65 acres
Condo Conversion - New York, NY (1)	Jun-16	67,300	67,038	—	Floating	86,000 sq. ft.
Multifamily - Williston, ND (1)	Nov-17	49,691	49,665	—	Floating	366 units/homes
Vacation Home Portfolio - Various U.S. (1)	Nov-19	50,000	49,595	—	Fixed	24 properties
Mixed Use - Brooklyn, NY (1)	Mar-17	85,770	85,658	6,730	Floating	330,000 sq. ft.
Retail redevelopment - Miami, FL (1)	Jan-17	45,000	44,925	—	Floating	63,300 sq. ft.
Retail redevelopment - Miami, FL (1)	Jul-17	33,000	32,804	—	Floating	16,600 sq. ft.
Retail - Brooklyn, NY (1)	Mar-17	1,653	1,636	9,000	Floating	10,500 sq. ft.
Hotel - New York, NY (1)	Sept-18	98,373	97,381	40,034	Floating	317 rooms
Retail - Brooklyn, NY (1)	Mar-17	5,910	5,858	—	Floating	5,500 sq. ft.
Hotel - U.S. Virgin Islands	Jan-18	42,000	41,600	1,500	Floating	180 rooms
Office - Richmond, VA	Jan-18	54,000	53,475	1,000	Floating	262,000 sq. ft.
Total		<u>\$ 999,583</u>	<u>\$ 994,301</u>	<u>\$ 73,364</u>		

- (1) At December 31, 2015, this loan was pledged to secure borrowings under the JPMorgan Facility or the Goldman Loan. See "Note 8 – Borrowings" for a description of this agreements.
- (2) Represents contractual maturity date excluding extension options.

The Company evaluates each loan for possible impairment on a quarterly basis. The Company regularly evaluates the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations are sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan, and/or (iii) the property's liquidation value. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, the Company considers the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such loan loss analyses are completed and reviewed by asset management and finance personnel, who utilize various data sources, including (i) periodic financial data such as debt service coverage ratio, property occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and discussions with market participants. An allowance for loan loss is established when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan.

During the year ended December 31, 2016, the Company recorded a loan loss provision of \$10,000 on a multifamily commercial mortgage loan in Williston, ND, which was based on the difference between the fair value of the underlying collateral, and the carrying value of the loan (prior to the loan loss provision). Fair value of the collateral was determined using a discounted cash flow analysis. The significant unobservable inputs used in determining the collateral value are the terminal capitalization rate and discount rate which are 11% and 10% respectively. As of December 31, 2016, the aggregate loan loss provision was \$10,000. The Company has ceased accruing interest associated with the loan. As of December 31, 2015, there were no provision for loan loss.

Note 6 – Subordinate Loans

The Company's subordinate loan portfolio was comprised of the following as of December 31, 2016:

Description	Maturity Date (1)	Current Principal Balance	Carrying Value	Unfunded Commitment	Fixed / Floating
Subordinate to the Company's commercial mortgage loans					
Hotel - New York, NY	Sept-18	\$ 7,573	\$ 7,513	\$ 7,501	Floating
Multifamily - Williston, ND	Nov-17	5,000	—	—	Floating
Total - Subordinate to the Company's commercial mortgage loans		\$ 12,573	\$ 7,513	\$ 7,501	
Subordinate to third party commercial mortgage loans					
Mixed Use – North Carolina	Aug-22	\$ 6,525	\$ 6,525	\$ —	Fixed
Office Complex - Missouri	Oct-22	9,414	9,414	—	Fixed
Hotel Portfolio – Rochester, MN	Feb-18	23,863	23,863	—	Fixed
Warehouse Portfolio - Various	May-23	32,000	32,000	—	Fixed
Office Condo - New York, NY	Jul-22	14,000	13,679	—	Fixed
Ski Resort - Big Sky, MT	Sept-20	15,000	14,773	—	Fixed
Mixed Use - New York, NY	Dec-17	99,581	99,660	—	Floating
Senior Housing - United Kingdom	Dec-17	41,693	41,693	—	Floating
Hotel - Burbank, CA	Jan-20	20,000	20,000	—	Fixed
Multifamily Portfolio - Florida	May-17	22,000	21,967	—	Floating
Multifamily Portfolio - Florida	May-17	15,500	15,477	—	Floating
Mixed Use - Various	May-17	45,000	45,174	—	Floating
Hotel - Phoenix, AZ	Jul-25	25,000	25,000	—	Fixed
Hotel - Washington, DC	Jul-17	20,000	19,978	—	Floating
Condo Development - New York, NY	Jul-19	56,925	56,693	19,830	Floating
Condo Conversion - New York, NY	Aug-18	59,636	59,442	—	Floating
Mixed Use - New York, NY	Oct-18	30,000	29,926	—	Floating
Destination Resort - Various	May-18	75,000	72,877	—	Floating
Multifamily - New York, NY	Nov-18	55,000	54,775	—	Floating
Hotel - New York, NY	Mar-17	50,000	50,228	—	Floating
Condo Pre-development - United Kingdom	Sept-17	123,400	123,400	—	Floating
Condo Conversion - New York, NY	Jul-19	48,944	48,399	28,056	Floating
Healthcare Portfolio - Various	Oct-18	130,000	128,856	—	Floating
Mixed Use - New York, NY	Oct-19	30,175	29,924	—	Floating
Total - Subordinate to third party commercial mortgage loans		\$1,048,656	\$1,043,723	\$ 47,886	
Total		\$1,061,229	\$1,051,236	\$ 55,387	

(1) Represents contractual maturity date excluding extension options.

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

Description	Maturity Date (2)	Current Principal Balance	Carrying Value	Unfunded Commitment	Fixed / Floating
Subordinate to the Company's commercial mortgage loans					
Condo Conversion – New York, NY (1)	Sept-16	\$ 6,386	\$ 6,415	\$—	Floating
Mixed Use - Brooklyn, NY (1)	Mar-17	12,347	12,222	—	Floating
Hotel - New York, NY (1)	Sept-18	2,595	2,458	12,478	Floating
Multifamily - Williston, ND (1)	Nov-17	5,000	5,000	—	Floating
Total - Subordinate to the Company's commercial mortgage loans		\$ 26,328	\$ 26,095	\$12,478	
Subordinate to third party commercial mortgage loans					
Office - Michigan	Jun-20	\$ 8,753	\$ 8,753	\$—	Fixed
Mixed Use – North Carolina	Aug-22	6,525	6,525	—	Fixed
Office Complex - Missouri	Oct-22	9,566	9,566	—	Fixed
Hotel Portfolio – Rochester, MN	Feb-18	24,182	24,182	—	Fixed
Warehouse Portfolio - Various	May-23	32,000	32,000	—	Fixed
Office Condo - New York, NY	Jul-22	14,000	13,631	—	Fixed
Mixed Use - Various	Dec-16	19,500	19,377	—	Fixed
Mixed Use - London, England	Jan-16	50,676	50,676	—	Fixed
Healthcare Portfolio - Various	Jun-16	39,223	39,223	—	Floating
Ski Resort - Big Sky, MT	Sept-20	15,000	14,878	—	Fixed
Mixed Use - New York, NY	Dec-17	88,368	87,818	785	Floating
Senior Housing - United Kingdom	Dec-17	79,735	79,735	—	Floating
Hotel - Burbank, CA	Jan-20	20,000	20,000	—	Fixed
Multifamily Portfolio - Florida	May-17	22,000	21,895	—	Floating
Multifamily Portfolio - Florida	May-17	15,500	15,426	—	Floating
Mixed Use - Various	May-17	45,000	44,854	—	Floating
Hotel - Phoenix, AZ	Jul-25	25,000	25,000	—	Fixed
Hotel - Washington, DC	Jul-17	20,000	19,934	—	Floating
Condo Development - New York, NY	Jul-19	34,184	33,567	41,160	Floating
Condo Conversion - New York, NY	Aug-18	52,418	51,941	—	Floating
Mixed Use - New York, NY	Oct-18	30,000	29,785	—	Floating
Destination Resort - Various	May-18	75,000	71,362	—	Floating
Multifamily - New York, NY	Nov-18	55,000	54,558	—	Floating
Hotel - New York, NY	Mar-17	50,000	49,522	—	Floating
Condo Pre-development - United Kingdom	Sept-16	81,048	81,048	—	Floating
Total - Subordinate to third party commercial mortgage loans		\$ 912,678	\$ 905,256	\$41,945	
Total		\$ 939,006	\$ 931,351	\$54,423	

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

(2) Represents contractual maturity date excluding extension options.

The Company evaluates its loans for possible impairment on a quarterly basis. See "Note 5 – Commercial Mortgage Loans" for a summary of the metrics reviewed. During the year ended December 31, 2016, the Company recorded a loan loss provision of \$5,000 on a multifamily subordinate loan in Williston, ND, which was based on the difference between the fair value of the underlying collateral, and the carrying value of the loan (prior to the loan loss provision). Fair value of the collateral was determined using a discounted cash flow analysis. The significant unobservable inputs used in determining the collateral value are the terminal capitalization rate and discount rate which are 11% and 10% respectively. As of December 31, 2016, the aggregate loan loss provision was \$5,000. The Company has ceased accruing PIK interest associated with the loan. As of December 31, 2015, there were no provision for loan loss.

Note 7 – Unconsolidated Joint Venture

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

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

In January 2015, the Company funded an additional investment of €3,331 (or \$3,929) related to its investment in Champ LP. In February 2015, the Company sold approximately 48% of its ownership interest in Champ LP at cost to an investment fund managed by Apollo Global Management, LLC (together with its subsidiaries, "Apollo") for €16,314 (or \$20,794) (of which \$2,614 related to foreign exchange losses which were previously included in accumulated other comprehensive loss). In June 2016, the Company transferred €427 of its unfunded commitment to Apollo. As of December 31, 2016, the Company's unfunded commitment to Champ LP was €2,802 (or \$2,947). Through its interest in Champ LP, as of December 31, 2016, the Company held an indirect ownership interest of approximately 9.34% in BKB.

The Company determined that Champ LP met the definition of a VIE and that it was not the primary beneficiary; therefore, the Company did not consolidate the assets and liabilities of the partnership. Additionally, Champ LP is an Investment Company under GAAP, and is therefore reflected at fair value. Our investment in Champ LP is accounted for as an equity method investment and therefore we record our proportionate share of the net asset value.

Note 8 – Borrowings

At December 31, 2016 and 2015, the Company's borrowings had the following debt balances, weighted average maturities and interest rates:

	December 31, 2016				December 31, 2015			
	Maximum Amount of Borrowings	Borrowings Outstanding	Maturity (1)	Weighted Average Rate (2)	Maximum Amount of Borrowings	Borrowings Outstanding	Maturity (1)	Weighted Average Rate (2)
JPMorgan Facility (3)	\$943,000	\$657,452	January 2019	L + 2.25%	\$600,000	\$445,942	January 2019	L + 2.25%
DB Repurchase Facility	300,000	137,355	September 2019	L + 2.66%	N/A	N/A	N/A	N/A
Goldman Loan	N/A	40,657	April 2019	L + 3.50%	N/A	45,928	April 2019	L + 3.50%
Sub-total		835,464		L + 2.38%		491,870		L + 2.37%
UBS Facility	N/A	133,899	September 2018	2.79%	N/A	133,899	September 2018	2.79%
DB Facility (4)	N/A	177,203	April 2018	3.63%	N/A	300,005	April 2018	3.69%
Sub-total		311,102		3.27%		433,904		3.39%
less: deferred financing costs		(6,763)				(7,353)		
Total / Weighted Average		<u>\$1,139,803</u>		<u>3.18%</u>		<u>\$918,421</u>		<u>2.92%</u>

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

(2) Assumes one-month LIBOR at December 31, 2016 and December 31, 2015 was 0.77% and 0.43% respectively.

(3) As of December 31, 2016, the JP Morgan Facility provided for a maximum total borrowings comprised of the \$800,000 repurchase facility and a \$143,000 asset specific financing .

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

At December 31, 2016, the Company's borrowings had the following remaining maturities:

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
JPMorgan Facility	\$ 245,908	\$ 411,544	\$ —	\$ —	\$ 657,452
DB Repurchase Facility	—	137,355	—	—	137,355
Goldman Loan	5,290	35,367	—	—	40,657
UBS Facility *	133,899	—	—	—	133,899
DB Facility	1,450	175,753	—	—	177,203
Total	<u>\$ 386,547</u>	<u>\$ 760,019</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,146,566</u>

* Assumes extension options are exercised.

The table below summarizes the outstanding balances, as well as the maximum and average balances as of December 31, 2016 and 2015.

	2016			2015		
	Balance at December 31, 2016	Maximum Month -End Balance	Average Month- End Balance	Balance at December 31, 2015	Maximum Month -End Balance	Average Month- End Balance
JPMorgan Facility	\$ 657,452	\$ 783,528	\$ 660,741	\$ 445,942	\$ 445,942	\$ 261,261
DB Repurchase Facility	137,355	137,355	19,582	—	—	—
Goldman Loan	40,657	45,928	43,505	45,928	52,524	45,665
UBS Facility	133,899	133,899	133,899	133,899	133,899	133,899
DB Facility	177,203	300,005	246,773	300,005	300,005	300,005
Total	<u>\$ 1,146,566</u>			<u>\$ 925,774</u>		

Repurchase Agreements

JPMorgan Facility

In January 2010, the Company, through two indirect wholly owned subsidiaries, entered into the JPMorgan Facility, which as amended in 2015 and 2016, currently provides for a maximum total borrowings of \$943,000, comprised of the \$800,000 repurchase facility and a \$143,000 asset specific financing, and a three-year term expiring in January 2018 plus a one-year extension option available at the Company's option, subject to certain conditions. Amounts borrowed under the JPMorgan Facility bear interest at spreads ranging from 2.25% to 4.75% over one-month LIBOR. Maximum advance rates under the JPMorgan Facility range from 25% to 80% on the estimated fair value of the pledged collateral depending on its LTV. Margin calls may occur any time the aggregate repurchase price exceeds the agreed upon advance rate multiplied by the market value of the assets by more than \$250. The JPMorgan Facility contains, among others, the following restrictive covenants: (1) continuing to operate in a manner that allows the Company to qualify as a REIT and (2) financial covenants, including (A) a minimum consolidated tangible net worth covenant (\$750,000 plus 75% of the net cash proceeds of any equity issuance by the Company), (B) maximum total indebtedness to consolidated tangible net worth (3:1), or (C) minimum liquidity (the greater of 5% of the Company's total recourse indebtedness or \$15,000). The Company has agreed to provide a limited guarantee of the obligations of its indirect wholly-owned subsidiaries under the JPMorgan Facility.

As of December 31, 2016, the Company had \$657,452 of borrowings outstanding under the JPMorgan Facility secured by certain of the Company's commercial mortgage and subordinate loans.

DB Repurchase Facility

On September 29, 2016, the Company, through an indirect wholly-owned subsidiary, entered into a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch (the "DB Repurchase Facility") to provide up to \$300,000 of advances in connection with financing first mortgage loans secured by real estate. The DB Repurchase Facility matures in September 2017, with two one-year extension options available at the Company's option, subject to certain conditions, and accrues interest at per annum pricing equal to the sum of one-month LIBOR plus an applicable spread. Margin calls may occur any time at specified aggregate margin deficit thresholds. The DB Facility contains customary covenants, including continuing to operate in a manner that allows the Company to qualify as a real estate investment trust for federal income tax purposes and financial covenants with respect to minimum consolidated tangible net worth, maximum total indebtedness to consolidated

tangible net worth, and minimum liquidity. The Company has agreed to provide a guarantee of the obligations of its indirect wholly-owned subsidiaries under the DB Repurchase Facility.

As of December 31, 2016, the Company had \$137,355 of borrowings outstanding under the DB Repurchase Facility secured by certain of the Company's commercial mortgage loans.

UBS Facility

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

As of December 31, 2016, the Company had \$133,899 of borrowings outstanding under the UBS Facility secured by CMBS held by the Company.

DB Facility

In April 2014, the Company, through an indirect wholly-owned subsidiary, entered into the DB Facility, which currently provides that the Company may borrow up to \$300,000 in order to finance the acquisition of CMBS. The DB Facility matures in April 2018. Advances under the DB Facility accrue interest at a per annum pricing rate based on the rate implied by the fixed rate bid under a fixed for floating interest rate swap for the receipt of payments indexed to three-month U.S. dollar LIBOR, plus a financing spread ranging from 1.80% to 2.32% based on the rating of the collateral pledged.

Additionally, the undrawn amount is subject to a 1.8% non-use fee. 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 December 31, 2016, the Company had \$177,203 of borrowings outstanding under the DB Facility secured by CMBS held by the Company.

Goldman Loan

On January 26, 2015, the Company, through an indirect wholly-owned subsidiary, entered into the Goldman Loan. The Goldman Loan provides for a purchase price of \$52,524 and a repurchase date of the earliest of: (1) April 30, 2019, (2) an early repurchase date as a result of repayment or sale of the purchased loan, or (3) an accelerated repurchase date as a result of certain events of default. Subject to the terms and conditions thereof, the Goldman Loan provides for the purchase and sale of certain participation interests in a mortgage loan secured by single-family and condominium properties. Prior to an event of default, amounts borrowed under the Goldman Loan bear interest at a spread of 3.5% plus one-month LIBOR. In addition, the Goldman Loan provides that margin calls may occur during the continuance of certain credit events if the market value of the mortgaged properties drop below an agreed upon percentage. The Goldman Loan contains affirmative and negative covenants and provisions regarding events of default that are normal and customary for similar repurchase agreements. The Company has agreed to the following restrictive covenants, among others: (1) continuing to operate in a manner that allows the Company to qualify as a REIT and (2) financial covenants, including (A) a minimum consolidated tangible net worth covenant (\$750,000), (B) maximum total indebtedness to consolidated tangible net worth (3:1), (C) minimum liquidity (\$15,000), (D) minimum sum of (i) cash liquidity and (ii) "near cash liquidity" (5.0% of the Company's total recourse indebtedness), (E) minimum net income (one U.S. dollar during any four consecutive fiscal quarters) and (F) a minimum ratio of EBITDA to interest expense (1.5 to 1.0). The Company has also agreed to provide a guarantee of the obligations under the Goldman Loan.

As of December 31, 2016, the Company had \$40,657 of borrowings outstanding under the Goldman Loan secured by one commercial mortgage loan held by the Company.

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

Note 9 – 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 December 31, 2016, the March 2019 Notes had a carrying value of \$141,531 and an unamortized discount of \$2,219.

On August 18, 2014, the Company issued an additional \$111,000 aggregate principal amount of 5.50% Convertible Senior Notes due 2019 (the "August 2019 Notes," and together with the March 2019 Notes, the "2019 Notes"), for which the Company received net proceeds, after deducting the underwriting discount and estimated offering expense payable by the Company of approximately \$109,615. At December 31, 2016, the August 2019 Notes had a carrying value of \$108,463 and an unamortized discount of \$2,537.

The following table summarizes the terms of the 2019 Notes.

	Principal Amount	Coupon Rate	Effective Rate (1)	Conversion Rate (2)	Maturity Date	Remaining Period of Amortization
March 2019 Notes	\$ 143,750	5.50%	6.25%	56.7586	3/15/2019	2.21 years
August 2019 Notes	\$ 111,000	5.50%	6.50%	56.7586	3/15/2019	2.21 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.
- (2) The Company has the option to settle any conversions in cash, shares of common stock or a combination thereof. The conversion rate represents the number of shares of common stock issuable per \$1,000 principal amount of 2019 Notes converted, and includes adjustments relating to cash dividend payments made by the Company to stockholders that have been deferred and carried-forward in accordance with, and are not yet required to be made pursuant to, the terms of the applicable supplemental indenture. The if-converted value of the 2019 Notes does not exceed their principal amount at December 31, 2016 since the closing market price of the Company's common stock of \$16.62 per share does not exceed the implicit conversion prices of \$17.62 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 consolidated balance sheet as of December 31, 2016. The resulting debt discount is being amortized over the period during which the 2019 Notes are expected to be outstanding (the maturity date) as additional non-cash interest expense. The additional non-cash interest expense attributable to each of the 2019 Notes will increase in subsequent reporting periods through the maturity date as the 2019 Notes accrete to their par value over the same period.

The aggregate contractual interest expense was approximately \$14,011 for the year ended December 31, 2016. 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 \$3,557 for the year ended December 31, 2016.

As of December 31, 2016 potential shares of common stock contingently issuable upon the conversion of the 2019 Notes were excluded from the calculation of diluted income per share because it is management's intent and ability to settle the obligation in cash.

Note 10 – Federal Home Loan Bank of Indianapolis Membership

In February 2015, the Company's wholly owned subsidiary, ACREFI Insurance Services, LLC, was accepted for membership in the Federal Home Loan Bank of Indianapolis ("FHLBI"), and as a member of the FHLBI had access to a variety of products and services offered by the FHLBI, including secured advances. As of December 31, 2016, ACREFI Insurance Services, LLC had not requested any secured advances.

On January 12, 2016, the Federal Housing Finance Agency ("FHFA") adopted a final rule revising its regulations governing Federal Home Loan Bank membership. As a result, the FHLBI may not make any advances to ACREFI Insurance

Services, LLC, and was required to terminate the membership of ACREFI Insurance Services, LLC no later than February 19, 2017 (one year after the effective date of the final rule) and to redeem at par value the FHLBI stock that had been purchased and held by ACREFI Insurance Services, LLC as a condition to membership in the FHLBI. At December 31, 2016, the Company had stock in the FHLBI totaling \$8, which is included in other assets on the consolidated balance sheet at December 31, 2016. Because ACREFI Insurance Services, LLC did not have any outstanding advances from the FHLBI, there were no advances that were required to be repaid as a result of membership termination.

Note 11 – Participations Sold

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

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

During May 2014, the Company closed a \$155,000 floating-rate whole loan secured by the first mortgage and equity interests in an entity that owns a resort hotel in Aruba. During June 2014, the Company syndicated a \$90,000 senior participation in the loan and retained a \$65,000 junior participation in the loan. During August 2014, both the \$90,000 senior participation and the Company's \$65,000 junior participation were contributed to a CMBS securitization. In exchange for contributing its \$65,000 junior participation, the Company received a CMBS secured solely by the \$65,000 junior participation and classified it as CMBS (held-to-maturity) on its consolidated financial statements. At December 31, 2016, the participation had a face amount of \$85,082, a carrying amount of \$84,979 and a cash coupon of LIBOR plus 440 basis points.

Note 12 – Derivative Instruments

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

The Company has entered into a series of forward contracts to sell an amount of foreign currency (British pound ("GBP")) for an agreed upon amount of U.S. dollars at various dates through December 2017. These forward contracts were executed to economically fix the U.S. dollar amounts of foreign denominated cash flows expected to be received by the Company related to foreign denominated loan investments.

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

Type of Derivative	12/31/16			
	Number of Contracts	Aggregate Notional Amount	Notional Currency	Maturity
Fx Contracts - GBP	11	148,310	GBP	January 2017- December 2017

The following table summarizes our non-designated foreign exchange (“Fx”) forwards as of December 31, 2015 :

Type of Derivative	12/31/15			
	Number of Contracts	Aggregate Notional Amount	Notional Currency	Maturity
Fx Contracts - GBP	5	130,272	GBP	January 2016-October 2016

The Company has not designated any of its derivative instruments as hedges under GAAP and therefore, changes in the fair value of the Company's derivative instruments are recorded directly in earnings. The following table summarizes the amounts recognized on the consolidated statements of operations related to the Company’s derivatives for the years ended December 31, 2016, 2015 and 2014.

	Location of Gain (Loss) Recognized in Income	Amount of gain (loss) recognized in income		
		2016	2015	2014
Forward currency contract	Gain (loss) on derivative instruments - unrealized	2,665	(853)	4,070
Forward currency contract	Gain (loss) on derivative instruments - realized	28,552	5,169	—
Interest rate caps (1)	Gain (loss) on derivative instruments - unrealized	(57)	(210)	—
Total		<u>\$ 31,160</u>	<u>\$ 4,106</u>	<u>\$ 4,070</u>

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

The following table summarizes the gross asset and liability amounts related to the Company’s derivatives at December 31, 2016 and 2015.

	December 31, 2016			December 31, 2015		
	Gross Amount of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amount of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet
Interest rate caps	\$ 23	\$ —	\$ 23	\$ 106	\$ —	\$ 106
Forward currency contract	5,883	—	5,883	3,221	—	3,221
Total derivative instruments	<u>\$ 5,906</u>	<u>\$ —</u>	<u>\$ 5,906</u>	<u>\$ 3,327</u>	<u>\$ —</u>	<u>\$ 3,327</u>

Note 13 – Related Party Transactions

AMTG Merger

As fully described in "Note 19- Business Combination", in August 2016, the Company acquired AMTG, an entity managed by an affiliate of Apollo.

Management Agreement

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

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

The current term of the Management Agreement expires on September 29, 2017 and is automatically renewed for successive one-year terms on each anniversary thereafter. The Management Agreement may be terminated upon expiration of the one-year extension term only upon the affirmative vote of at least two-thirds of the Company's independent directors, based upon (1) unsatisfactory performance by the Manager that is materially detrimental to the Company or (2) a determination that the management fee payable to the Manager is not fair, subject to the Manager's right to prevent such a termination based on unfair fees by accepting a mutually acceptable reduction of management fees agreed to by at least two-thirds of the Company's independent directors. The Manager must be provided with written notice of any such termination at least 180 days prior to the expiration of the then existing term and will be paid a termination fee equal to three times the sum of the average annual base management fee during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination. Following a meeting by the Company's independent directors in February 2017, which included a discussion of the Manager's performance and the level of the management fees thereunder, the Company determined not to seek termination of the Management Agreement. As described in "Note 16 - Commitments and Contingencies," the Company also made payments to the Manager in accordance with its letter agreement with the Manager.

For 2016, 2015 and 2014, respectively, the Company incurred approximately \$23,388, \$16,619 and \$11,960 in base management fees under the Management Agreement. In addition to the base management fee, the Company is also responsible for reimbursing the Manager for certain expenses paid by the Manager on behalf of the Company or for certain services provided by the Manager to the Company. For 2016, 2015 and 2014, respectively, the Company recorded expenses totaling \$2,526, \$1,421 and \$985 related to reimbursements for certain expenses paid by the Manager on behalf of the Company under the Management Agreement. Expenses incurred by the Manager and reimbursed by the Company are reflected in the respective consolidated statement of operations expense category or the consolidated balance sheet based on the nature of the item. Expenses incurred by the Manager and reimbursed by the Company are reflected in the respective condensed consolidated statement of operations expense category or the condensed consolidated balance sheet based on the nature of the item.

Included in payable to related party on the consolidated balance sheet at December 31, 2016 and December 31, 2015, respectively, is approximately \$7,015 and \$5,297 for base management fees incurred but not yet paid.

Unconsolidated Joint Venture

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

In January 2015, the Company funded an additional investment of €3,331 (or \$3,929) related to its investment in Champ LP. In February 2015, the Company sold approximately 48% of its ownership interest in Champ LP at cost to an account managed by Apollo for approximately €16,314 (or \$20,794). In June 2016, the Company transferred €427 of its unfunded commitment to Apollo, reducing its unfunded commitment to Champ LP to €2,802 (or \$2,947). Through its interest in Champ LP, as of December 31, 2016, the Company held an indirect ownership interest of approximately 9.34% in BKB. The Company together with certain other affiliated investors and unaffiliated third party investors, in aggregate, own 100% of BKB.

Placement Agent Fees

In connection with the private placement that closed on September 21, 2015, the Company agreed to pay a placement agent fee of \$500 to Apollo Global Securities, LLC. See "Note 15 - Stockholders' Equity" for further information related to the private placement.

GE Capital and Mubadala Loan Portfolio

On September 29, 2015, the Company entered into a commitment to purchase a real estate loan portfolio from Mubadala GE Capital Ltd representing approximately \$375,355 of first mortgage real estate loans (the "Real Estate Loans"). The commitment was part of a larger transaction in which affiliates of Apollo agreed to acquire a portfolio of loans from Mubadala GE Capital Ltd (the "Transaction"). On October 1, 2015, the Company and MidCap FinCo Limited ("MidCap"), an affiliate of Apollo, entered into an agreement (the "MidCap Agreement") whereby the Company granted MidCap an option to purchase the Real Estate Loans. In consideration of the option, MidCap paid the Company a fee of \$750 during the fourth quarter of 2015.

On December 2, 2015, MidCap provided the Company written notice that it exercised its option to purchase the Real Estate Loans, and upon such exercise, the Company transferred, assigned and conveyed to MidCap all of the Company's right, title and interest to purchase the Real Estate Loans under the Company's commitment with Mubadala GE Capital Ltd.

Increase and Extension of Mezzanine Loan for London, U.K. Pre-development Project

On October 5, 2016, the Company entered into a twelve month extension and increased the Company's outstanding loan amount through the acquisition of an additional £45,000 (approximately \$57,400) of pari passu interests in an existing pre-development mezzanine loan from various funds managed by an affiliate of the Company's manager, bringing the Company's total outstanding loan balance to £100,000 (approximately \$123,400). The pre-development mezzanine loan is for the development of a luxury condominium project in London, England.

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 \$7,090, \$4,387 and \$1,576 during 2016, 2015 and 2014, respectively, related to restricted stock and RSU vesting.

The following table summarizes the grants, exchanges and forfeitures of restricted common stock and RSUs during 2016, 2015 and 2014:

Type	Date	Restricted Stock	RSUs	Estimate Fair Value on Grant Date (\$)	Initial Vesting	Final Vesting
Outstanding at January 1, 2014		208,416	503,750			
Canceled upon delivery	January 2014	—	(288,750)	n/a	n/a	n/a
Grant	April 2014	8,931	—	150	July 2014	April 2017
Grant	April 2014	5,000	—	85	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
Grant	December 2014	51,767	—	855	December 2015	December 2017
Grant	December 2014	—	390,000	6,474	December 2015	December 2017
Grant	January 2015	—	8,000	132	December 2015	December 2017
Forfeiture	January 2015	—	(5,000)	n/a	n/a	n/a
Canceled upon delivery	March 2015	—	(20,000)	n/a	n/a	n/a
Grant	April 2015	15,950	—	275	July 2015	April 2018
Forfeiture	June 2015	—	(3,500)	n/a	n/a	n/a
Grant	July 2015	—	1,631	27	June 2016	June 2018
Forfeiture	August 2015	—	(5,000)	n/a	n/a	n/a
Grant	December 2015	50,000	—	874	December 2016	December 2018
Grant	December 2015	—	656,425	11,461	December 2016	December 2018
Canceled upon delivery	January 2016	—	(318,160)	n/a	n/a	n/a
Forfeiture	January 2016	—	(1,667)	n/a	n/a	n/a
Grant	February 2016	—	47,028	729	(1)	(1)
Grant	March 2016	—	5,095	81	December 2016	December 2017
Grant	April 2016	17,056	—	275	July 2016	April 2019
Forfeiture	June 2016	—	(14,972)	n/a	n/a	n/a
Canceled upon delivery	July 2016	—	(543)	n/a	n/a	n/a
Forfeiture	July 2016	—	(12,792)	n/a	n/a	n/a
Grant	July 2016	—	1,528	25	September 2016	September 2016
Forfeiture	August 2016	—	(15,642)	n/a	n/a	n/a
Grant	September 2016	—	6,146	101	October 2016	October 2016
Canceled upon delivery	September 2016	—	(41,281)	n/a	n/a	n/a
Canceled upon delivery	October 2016	—	(30,900)	n/a	n/a	n/a
Canceled upon delivery	November 2016	—	(6,146)	n/a	n/a	n/a
Grant	December 2016	75,000	—	1,251	December 2017	December 2019
Grant	December 2016	—	843,271	14,015	December 2017	December 2019
Outstanding at December 31, 2016		<u>432,120</u>	<u>1,703,775</u>			

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

Below is a summary of restricted stock and RSU vesting dates as of December 31, 2016.

Vesting Date	Shares Vesting	RSU Vesting	Total Awards
January 2017	5,161	—	5,161
April 2017	5,164	—	5,164
June 2017	—	544	544
July 2017	4,004	—	4,004
October 2017	3,997	—	3,997
December 2017	53,923	603,189	657,112
January 2018	2,749	—	2,749
April 2018	2,755	—	2,755
June 2018	—	544	544
July 2018	1,420	—	1,420
October 2018	1,424	—	1,424
December 2018	41,670	486,037	527,707
January 2019	1,419	—	1,419
April 2019	1,424	—	1,424
December 2019	25,000	281,112	306,112
	<u>150,110</u>	<u>1,371,426</u>	<u>1,521,536</u>

At December 31, 2016, the Company had unrecognized compensation expense of approximately \$2,439 and \$23,279, respectively, related to the vesting of restricted stock awards and RSUs noted in the table above.

RSU Deliveries

During 2016, 2015 and 2014, respectively, the Company delivered 236,782, 12,763 and 240,277 shares of common stock for 397,030, 20,000 and 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 adjustments were \$2,626, \$122, and \$876 in 2016, 2015 and 2014, respectively, and are included as reductions of capital increase related to the Company's equity incentive plan in the consolidated statement of changes in shareholders' equity.

Note 15 – Stockholders' Equity

The Company's authorized capital stock consists of 450,000,000 shares of common stock, \$0.01 par value per share and 50,000,000 shares of preferred stock, \$0.01 par value per share. As of December 31, 2016, 91,422,676 shares of common stock were issued and outstanding and there were 3,450,000 shares of 8.625% Series A Cumulative Redeemable Perpetual Preferred Stock ("Series A Preferred Stock") issued and outstanding, 8,000,000 shares of 8.00% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock ("Series B Preferred Stock") issued and outstanding and 6,900,000 shares of 8.00% Fixed-to-Floating Series C Cumulative Redeemable Perpetual Preferred Stock ("Series C Preferred Stock") issued and outstanding.

Dividends. During 2016 and 2015, the Company has declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Amount
February 25, 2015	March 31, 2015	April 15, 2015	\$ 0.44
April 28, 2015	June 30, 2015	July 15, 2015	\$ 0.44
July 28, 2015	September 30, 2015	October 15, 2015	\$ 0.44
December 14, 2015	December 31, 2015	January 15, 2016	\$ 0.46
March 15, 2016	March 31, 2016	April 15, 2016	\$ 0.46
June 17, 2016	June 30, 2016	July 15, 2016	\$ 0.46
September 14, 2016	September 30, 2016	October 17, 2016	\$ 0.46
December 12, 2016	December 30, 2016	January 17, 2017	\$ 0.46

During 2016 and 2015, the Company declared the following dividends on its Series A Preferred Stock:

Declaration Date	Record Date	Payment Date	Amount
March 16, 2015	March 31, 2015	April 15, 2015	\$ 0.5391
June 9, 2015	June 30, 2015	July 15, 2015	\$ 0.5391
September 9, 2015	September 30, 2015	October 15, 2015	\$ 0.5391
December 14, 2015	December 31, 2015	January 15, 2016	\$ 0.5391
March 15, 2016	March 31, 2016	April 15, 2016	\$ 0.5391
June 17, 2016	June 30, 2016	July 15, 2016	\$ 0.5391
September 14, 2016	September 30, 2016	October 17, 2016	\$ 0.5391
December 12, 2016	December 30, 2016	January 17, 2017	\$ 0.5391

During 2016 and 2015, the Company declared the following dividends on its Series B Preferred Stock:

Declaration Date	Record Date	Payment Date	Amount
December 14, 2015	December 31, 2015	January 15, 2016	\$ 0.6333
March 15, 2016	March 31, 2016	April 15, 2016	\$ 0.5000
June 17, 2016	June 30, 2016	July 15, 2016	\$ 0.5000
September 14, 2016	September 30, 2016	October 17, 2016	\$ 0.5000
December 12, 2016	December 30, 2016	January 17, 2017	\$ 0.5000

During 2016, the Company declared the following dividends on its Series C Preferred Stock:

Declaration Date	Record Date	Payment Date	Amount
September 14, 2016	September 30, 2016	October 31, 2016	\$ 0.5000
December 12, 2016	December 30, 2016	January 31, 2017	\$ 0.5000

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

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

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.

Common Stock and Preferred Stock Private Placement. On September 21, 2015, the Company completed a private placement of 8,823,529 shares of its common stock at a price of \$17.00 per share, and 8,000,000 shares of Series B Preferred Stock at a price of \$24.71 per share. The aggregate net proceeds from the common and Series B Preferred Stock private placement completed on September 21, 2015 were approximately \$346,855 after deducting the \$500 placement agent fee paid to Apollo Global Securities, LLC acting as placement agent in this transaction and estimated offering expenses payable by the Company.

Stock Repurchase Program. During the third quarter of 2015, the Company repurchased 107,432 shares of its common stock at a weighted average net price of \$16.20, resulting in a payment of \$1,741.

AMTG Merger. In addition, the company issued common and preferred equity in connection with the AMTG Merger as described in "Note 19 - Business Combination."

Note 16 – Commitments and Contingencies

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

After the announcement of the execution of the AMTG Merger Agreement, two putative class action lawsuits challenging the proposed First Merger (as defined in the AMTG Merger Agreement), captioned *Aivasian v. Apollo Residential Mortgage, Inc., et al.*, No. 24-C-16-001532 and *Wiener v. Apollo Residential Mortgage, Inc., et al.*, No. 24-C-16-001837, were filed in the Circuit Court for Baltimore City, (the "Court"). A putative class and derivative lawsuit was later filed in the Court captioned *Crago v. Apollo Residential Mortgage, Inc.*, No. 24-C-16-002610. Following a hearing on May 6, 2016, the Court entered orders among other things, consolidating the three actions under the caption *In Re Apollo Residential Mortgage, Inc. Shareholder Litigation*, Case No.: 24-C-16-002610. The plaintiffs have designated the Crago complaint as the operative complaint. The operative complaint includes both direct and derivative claims, names as defendants AMTG, the board of directors of AMTG (the "AMTG Board"), ARI, Arrow Merger Sub Inc., Apollo and Athene Holding Ltd. and alleges, among other things, that the members of the AMTG Board breached their fiduciary duties to the AMTG stockholders and that the other corporate defendants aided and abetted such fiduciary breaches. The operative complaint further alleges, among other things, that the proposed First Merger involves inadequate consideration, was the result of an inadequate and conflicted sales process, and includes unreasonable deal protection devices that purportedly preclude competing offers. It also alleges that the transactions with Athene Holding Ltd. are unfair and that the registration statement on Form S-4 filed with the SEC on April 6, 2016 contains materially misleading disclosures and omits certain material information. The operative complaint seeks, among other things, certification of the proposed class, declaratory relief, preliminary and permanent injunctive relief, including enjoining or rescinding the First Merger, unspecified damages, and an award of other unspecified attorneys' and other fees and costs. On May 6, 2016, counsel for the plaintiffs filed with the Court a stipulation seeking the appointment of interim co-lead counsel, which stipulation was approved by the Court on June 9, 2016. Defendants' motions to dismiss have been fully briefed, and oral argument was held on December 8, 2016.

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

Bremer Kreditbank AG. In September 2013, the Company, together with other affiliates of Apollo, reached an agreement to make an investment in an entity that agreed to acquire a minority participation in Bremer Kreditbank AG ("BKB"). The Company committed to invest up to approximately €38,000 (or \$50,000), representing approximately 21% of the ownership in BKB. In September 2014, the Company, through a wholly owned subsidiary, acquired a 59% ownership interest in Champ LP following which a wholly-owned subsidiary of Champ LP then acquired a 35% ownership interest in BKB.

In February 2015, the Company sold approximately 48% of its ownership interest in Champ LP at cost to an account managed by Apollo for approximately €16,314 (or \$20,794). In June 2016, the Company transferred €427 of its unfunded

commitment to Apollo, reducing its unfunded commitment to Champ LP to €2,802 (or \$2,947). Through its interest in Champ LP, the Company now holds an indirect ownership interest of approximately 9.34% in BKB.

Loan Commitments. As described in "Note 5 - Commercial Mortgage Loans" and "Note 6 - Subordinate Loans," respectively, at December 31, 2016, the Company had \$170,365 of unfunded commitments related to its commercial mortgage loan portfolio and subordinate loan portfolio.

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 December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and cash equivalents	\$ 200,996	\$ 200,996	\$ 67,415	\$ 67,415
Restricted cash	62,457	62,457	30,127	30,127
Securities, held-to-maturity	146,352	146,489	153,193	153,230
Commercial first mortgage loans	1,641,856	1,648,896	994,301	999,517
Subordinate loans	1,051,236	1,060,882	931,351	939,545
Borrowings under repurchase agreements	(1,146,566)	(1,146,807)	(925,774)	(925,920)
Convertible senior notes, net	(249,994)	(268,124)	(248,173)	(253,986)
Participations sold	(84,979)	(85,072)	(118,201)	(118,226)

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

Note 18 – Net Income (Loss) 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.

The table below presents basic and diluted net income per share of common stock using the two-class method for the years ended December 31, 2016, 2015 and 2014:

	For the year ended December 31,		
	2016	2015	2014
Numerator:			
Net income	\$ 157,876	\$ 103,256	\$ 82,739
Preferred dividends	(30,295)	(11,884)	(7,440)
Net income available to common stockholders	127,581	91,372	75,299
Dividends declared on common stock	(141,236)	(111,864)	(71,089)
Dividends on participating securities	(2,087)	(1,350)	(506)
Net income (loss) attributable to common stockholders	\$ (15,742)	\$ (21,842)	\$ 3,704
Denominator:			
Basic weighted average shares of common stock outstanding	72,371,374	58,674,046	43,464,255
Diluted weighted average shares of common stock outstanding	73,305,101	59,273,280	43,684,805
Basic and diluted net income (loss) per weighted average share of common stock			
Distributable Earnings	\$ 1.96	\$ 1.91	\$ 1.64
Undistributed income (loss)	(0.22)	(0.37)	0.08
Basic and diluted net income per share of common stock	\$ 1.74	\$ 1.54	\$ 1.72

For 2016 and 2015, respectively, 933,727 and 599,234 unvested RSUs were excluded from the calculation of diluted net loss per share because the effect was anti-dilutive.

Note 19 – Business Combination

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

As of December 31, 2016, all of the assets acquired from AMTG have been sold. The AMTG Merger provided the Company with the ability to expand the balance sheet in a cost effective and accretive manner at a time when ARI’s management believes there is significant opportunity to deploy capital into commercial real estate debt investments at attractive returns.

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

The bargain purchase gain was computed as follows:

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

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

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

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

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

Note 20 – Summarized Quarterly Results (Unaudited)

	March 31,		June 30,		September 30,		December 31,	
	2016	2015	2016	2015	2016	2015	2016	2015
Net interest income:								
Interest income from securities	\$ 8,049	\$ 8,287	\$ 7,607	\$ 8,265	\$ 8,029	\$ 8,293	\$ 3,901	\$ 8,343
Interest income from securities, held-to-maturity	2,896	3,045	2,826	3,349	2,875	2,956	2,872	2,704
Interest income from commercial mortgage loans	21,127	10,094	24,140	11,968	27,460	15,184	30,200	18,846
Interest income from subordinate loans	29,375	18,610	28,067	21,152	32,207	25,445	32,746	25,623
Interest expense	(14,642)	(11,482)	(15,722)	(11,917)	(17,256)	(13,187)	(16,139)	(12,275)
Net interest income	46,805	28,554	46,918	32,817	53,315	38,691	53,580	43,241
Operating expenses:								
General and administrative expenses	(8,185)	(2,355)	(4,922)	(2,059)	(8,352)	(2,099)	(3,527)	(2,979)
Management fees to related party	(5,229)	(3,341)	(5,242)	(3,887)	(5,903)	(4,097)	(7,015)	(5,294)
Total operating expenses	(13,414)	(5,696)	(10,164)	(5,946)	(14,255)	(6,196)	(10,542)	(8,273)
Income (loss) from unconsolidated joint venture	68	—	59	384	80	108	(303)	2,972
Interest income from cash balances	2	11	22	6	309	239	760	983
Provision for loan losses	—	—	(15,000)	—	—	—	—	—
Realized loss on sale of securities	—	(443)	—	—	(225)	—	4,059	—
Unrealized gain (loss) on securities	(15,074)	3,409	(11,728)	(2,273)	(9,798)	(6,926)	10,502	(11,618)
Foreign currency gain (loss)	(4,474)	(3,944)	(13,082)	6,169	(4,369)	(3,998)	(7,359)	(3,121)
Bargain purchase gain	—	—	—	—	40,021	—	—	—
Gain (loss) on derivative instruments	4,703	3,622	13,313	(6,499)	4,815	3,929	8,329	3,054
Net income	18,616	25,513	10,338	24,658	69,893	25,847	59,026	27,238
Preferred dividends	(5,815)	(1,860)	(5,860)	(1,860)	(9,310)	(2,304)	(9,310)	(5,860)
Net income available to common stockholders	\$ 12,801	\$ 23,653	\$ 4,478	\$ 22,798	60,583	\$ 23,543	\$ 49,716	\$ 21,378
Basic and diluted net income per share of common stock	\$ 0.18	\$ 0.47	\$ 0.06	\$ 0.39	\$ 0.83	\$ 0.39	\$ 0.60	\$ 0.32
Basic weighted average shares of common stock outstanding	67,385,191	49,563,822	67,402,311	58,429,155	71,919,549	59,355,613	82,670,237	67,146,882
Diluted weighted average shares of common stock outstanding	68,327,718	50,171,687	68,374,557	59,022,217	72,861,611	59,934,008	83,548,823	67,754,673
Dividend declared per share of common stock	\$ 0.46	\$ 0.44	\$ 0.46	\$ 0.44	\$ 0.46	\$ 0.44	\$ 0.46	\$ 0.46

Note 21 – Subsequent Events

Investment activity. Subsequent to year end, the Company closed approximately \$193,500 of commercial real estate debt investments, \$190,300 of which were funded. In addition the Company funded approximately \$67,700 for previously closed loans.

Loan Repayments. Subsequent to year end, the Company received approximately \$41,500 from loan repayments.

Management Agreement. Following a meeting by the Company's independent directors in February 2017, which included a discussion of the Manager's performance and the level of the management fees thereunder, the Company determined not to terminate the Management Agreement.

Schedule IV — Mortgage Loans on Real Estate
December 31, 2016

Property Type	Location	Contractual Interest Rate	Final Extended Maturity Date (1)	Periodic Payment Terms	Face amount of loans	Carrying amount of loans
Commercial mortgage loans						
Condo Construction	Maryland	L+15.00%	Apr-17	Interest only	\$51,695	\$52,476
Vacation Home Portfolio	Various	7.50%	Apr-19	Principal and interest	88,876	88,195
Hotel	Pennsylvania	L+4.55%	May-19	Interest only	34,000	33,987
Mixed Use	Ohio	L+9.00%	May-20	Interest only	165,000	163,987
Multifamily	North Dakota	L+5.90%	Nov-19	Interest only	49,706	39,713
Vacation Home Portfolio	Various US cities	7.00%	Nov-21	Interest only	59,500	59,193
Mixed Use	New York	L+7.00%	Mar-17	Interest only	85,770	86,142
Retail redevelopment	Florida	L+6.00%	Jan-18	Interest only	45,000	45,415
Retail	New York	L+7.00%	Mar-17	Interest only	23,000	23,012
Hotel	New York	L+5.25%	Sept-20	Interest only	108,857	108,768
Retail	New York	L+7.00%	Mar-17	Interest only	5,910	5,921
Hotel	U.S. Virgin Islands	L+4.95%	Jan-21	Interest only	42,000	41,795
Office	Virginia	L+5.15%	Jan-20	Interest only	54,000	53,849
Retail redevelopment	Florida	L+6.25%	Jan-19	Interest only	220,000	218,771
Office	Massachusetts	L+6.25%	Sept-18	Interest only	28,659	28,543
Mixed Use	New York	L+6.00%	Dec-18	Interest only	45,789	45,541
Condo Conversion	New York	L+6.50%	Jun-18	Interest only	41,016	40,825
Hotel	New York	L+6.30%	Aug-21	Interest only	78,140	77,297
Mixed Use	Illinois	L+5.50%	Oct-20	Interest only	129,397	128,271
Retail	New York	L+7.00%	Mar-17	Interest only	7,500	7,489
Data Center	Virginia	8.00%	Aug-19	Interest only	80,000	79,634
Retail	New York	L+5.75%	Dec-18	Interest only	60,300	59,775
Office	New York	L+4.70%	Dec-18	Interest only	105,000	104,005
Mixed Use Pre-development	California	L+6.75%	Dec-20	Interest only	50,000	49,252
Total commercial mortgage loans					<u>\$1,659,115</u>	<u>\$1,641,856</u>
Subordinate loans (2)						
Mixed Use	North Carolina	11.10%	Aug - 22	Interest only	\$6,525	\$6,525
Office Complex	Missouri	11.75%	Oct - 22	Principal and interest	9,414	9,414
Hotel Portfolio	Missouri	11.00%	Feb - 18	Principal and interest	23,863	23,863
Warehouse Portfolio	Various US cities	11.50%	May - 23	Interest only	32,000	32,000
Office Condo	New York	11.25%	Jul - 22	Interest only	14,000	13,679
Ski Resort	Montana	14.00%	Sept - 20	Interest only	15,000	14,773
Mixed Use	New York	L+10.50%	Dec - 19	Interest only	99,581	99,660
Senior Housing	United Kingdom	3ML+8.25%	Dec - 19	Principal and interest	41,693	41,693
Hotel	California	10.40%	Jan-20	Interest only	20,000	20,000

Multifamily Portfolio	Florida	L+11.50%	May-20	Interest only	22,000	21,967
Multifamily Portfolio	Florida	L+11.50%	May-20	Interest only	15,500	15,477
Mixed Use	Various US	L+9.05%	May-20	Interest only	45,000	45,174
Hotel	Arizona	11.50%	Jul-25	Interest only	25,000	25,000
Hotel	Washington, DC	L+9.60%	Jul-19	Interest only	20,000	19,978
Condo Development	New York	L+12.75%	Jul-20	Interest only	56,925	56,693
Condo Conversion	New York	L+12.25%	Aug-20	Interest only	59,636	59,442
Mixed Use	New York	L+10.00%	Oct-19	Interest only	30,000	29,926
Hotel	New York	L+5.25%	Sept-20	Interest only	7,573	7,513
Destination Resort	Various US cities	L+8.90%	May-22	Interest only	75,000	72,877
Multifamily	New York	L+10.50%	May-19	Interest only	55,000	54,775
Hotel	New York	L+12.00%	Mar-17	Interest only	50,000	50,228
Condo Pre-development	United Kingdom	3ML+12.50%	Dec-17	Interest only	123,400	123,400
Multifamily	North Dakota	L+5.90%	Nov-19	Interest only	5,000	—
Condo Conversion	New York	L+10.75%	Jul-20	Interest only	48,944	48,399
Healthcare Portfolio	Various US	L+10.00%	Oct-21	Interest only	130,000	128,856
Mixed Use	New York	L+12.00%	Oct-20	Interest only	30,175	29,924
Total subordinate loans					<u>\$1,061,229</u>	<u>\$1,051,236</u>
Total					<u><u>\$2,720,344</u></u>	<u><u>\$2,693,092</u></u> (3)

- (1) Assumes all extension options are exercised.
- (2) Subject to prior liens.
- (3) The aggregate cost for federal income tax purposes is \$2,708,092.

The following table summarizes the changes in the carrying amounts of mortgage loans during 2016 and 2015.

Reconciliation of Carrying Amount of Loans

	2016	2015
Balance at beginning of year	\$ 1,925,652	\$ 1,019,702
Funding of loans	1,127,039	1,366,062
Sales	—	(136,573)
Collections of principal	(331,189)	(348,516)
Participation sold	(24,051)	
Discount accretion	13,656	9,096
Provision for loan losses	(15,000)	—
Foreign currency loss	(33,383)	(6,116)
Payment-in-kind	30,368	21,997
Balance at the close of year	<u><u>\$ 2,693,092</u></u>	<u><u>\$ 1,925,652</u></u>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

A review and evaluation was performed by the Company's management, including the Company's Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this annual report on Form 10-K. Based on that review and evaluation, the CEO and CFO have concluded that the Company's current disclosure controls and procedures, as designed and implemented, were effective. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

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

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, the Company's management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013).

Based on its assessment, the Company's management believes that, as of December 31, 2016, the Company's internal control over financial reporting was effective based on those criteria. There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting. This report appears on page 60 of this annual report on Form 10-K.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information regarding the Company's directors, executive officers and certain other matters required by Item 401 of Regulation S-K is incorporated herein by reference to the Company's definitive proxy statement relating to its annual meeting of stockholders to be held on or about May 11, 2017 (the "Proxy Statement"), to be filed with the SEC within 120 days after December 31, 2016.

The information regarding compliance with Section 16(a) of the Exchange Act required by Item 405 of Regulation S-K is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2016.

The information regarding the Company's Code of Business Conduct and Ethics required by Item 406 of Regulation S-K is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2016.

The information regarding certain matters pertaining to the Company's corporate governance required by Item 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2016.

Item 11. Executive Compensation.

The information regarding executive compensation and other compensation related matters required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2016.

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

The tables on equity compensation plan information and beneficial ownership of the Company required by Items 201(d) and 403 of Regulation S-K are incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2016.

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

The information regarding transactions with related persons, promoters and certain control persons and director independence required by Items 404 and 407(a) of Regulation S-K is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2016.

Item 14. Principal Accountant Fees and Services.

The information concerning principal accounting fees and services and the Audit Committee's pre-approval policies and procedures required by Item 9(e) of Schedule 14A is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2016.

PART IV

Item 15. Exhibits and Financial Statement Schedule.

Documents filed as part of the report

The following documents are filed as part of this annual report on Form 10-K:

(1) Financial Statements:

The consolidated financial statements and related schedule of the Company, together with the independent registered public accounting firm's report thereon, are set forth on pages 59 through 94 of this annual report on Form 10-K and are incorporated herein by reference. See Item 8 "Financial Statements and Supplementary Data," filed herewith, for a list of financial statements.

(2) Financial Statement Schedule:

Schedule IV — Mortgage Loans on Real Estate as of December 31, 2016.

(3) Exhibits Files:

- 2.1** Agreement and Plan of Merger, dated as of February 26, 2016, by and among Apollo Commercial Real Estate Finance, Inc., Arrow Merger Sub, Inc. and Apollo Residential Mortgage, Inc., incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed on February 26, 2016 (File No.: 001-34452).
- 2.2** Asset Purchase and Sale Agreement, dated as of February 26, 2016, by and among Apollo Commercial Real Estate Finance, Inc., Athene Annuity & Life Assurance Company and Athene Annuity and Life Company, incorporated by reference to Exhibit 2.2 of the Registrant's Form 8-K filed on February 26, 2016 (File No.: 001-34452).
- 2.3** Amendment No. 1, dated as of June 30, 2016, to the Agreement and Plan of Merger, dated as of February 26, 2016, by and among Apollo Commercial Real Estate Finance, Inc., Arrow Merger Sub, Inc. and Apollo Residential Mortgage, Inc., incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed on June 30, 2016 (File No.: 001-34452).
- 3.1** Articles of Amendment and Restatement of Apollo Commercial Real Estate Finance, Inc., incorporated by reference to Exhibit 3.1 of the Registrant's Form S-11, as amended (Registration No. 333-160533).
- 3.2** Articles Supplementary designating Apollo Commercial Real Estate Finance, Inc.'s 8.625% Series A Cumulative Redeemable Perpetual Preferred Stock, liquidation preference \$25.00 per share, par value \$0.01 per share, incorporated by reference to Exhibit 3.3 of the Registrant's Form 8-A filed on July 30, 2012 (File No.: 001-34452).
- 3.3** Articles Supplementary designating Apollo Commercial Real Estate Finance, Inc.'s 8.800% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock, liquidation preference \$25.00 per share, par value \$0.01 per share, incorporated by reference to Exhibit 3.3 of \$0.01 per share, incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on September 23, 2015.
- 3.4** Articles Supplementary designating Apollo Commercial Real Estate Finance, Inc.'s 8.00% Series C Cumulative Redeemable Perpetual Preferred Stock, liquidation preference \$25.00 per share, par value \$0.01 per share, incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on September 1, 2016 (File No.: 001-34452).
- 3.5** By-laws of Apollo Commercial Real Estate Finance, Inc., incorporated by reference to Exhibit 3.2 of the Registrant's Form S-4 (Registration No. 333-210632).
- 4.1** Specimen Stock Certificate of Apollo Commercial Real Estate Finance, Inc., incorporated by reference to Exhibit 4.1 of the Registrant's Form S-11, as amended (Registration No. 333-160533).
- 4.2** Specimen Stock Certificate of 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 4.1 of the Registrant's Form 8-A filed on July 30, 2012 (File No.: 001-34452).

- 4.3** Specimen Stock Certificate of Apollo Commercial Real Estate Finance, Inc.'s 8.00% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock, liquidation preference \$25.00 per share, par value \$0.01 per share, incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on September 23, 2015.
- 4.4** Form of stock certificate evidencing the 8.00% Series C Cumulative Redeemable Perpetual Preferred Stock, liquidation preference \$25.00 per share, par value \$0.01 per share, incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-A filed on August 26, 2016 (File No.: 001-34452).
- 4.5** Indenture, dated as of March 17, 2014, between the Company and Wells Fargo Bank, National Association, as Trustee, incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on March 21, 2014 (File No.: 001-34452).
- 4.6** First Supplemental Indenture, dated as of March 17, 2014, between the Company and Wells Fargo Bank, National Association, as Trustee (including the form of 5.50% Convertible Senior Note due 2019), incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed on March 21, 2014 (File No.: 001-34452).
- 10.1** Registration Rights Agreement, dated as of September 29, 2009, between Apollo Commercial Real Estate Finance, Inc. and the parties named therein, incorporated by reference Exhibit 10.1 of the Registrant's Form 10-Q for the period ending September 30, 2009.
- 10.2** Management Agreement, dated as of September 23, 2009, between Apollo Commercial Real Estate Finance, Inc. and ACREFI Management, LLC., incorporated by reference Exhibit 10.2 of the Registrant's Form 10-Q for the period ending September 30, 2009.
- 10.3** License Agreement dated as of September 23, 2009, between Apollo Commercial Real Estate Finance, Inc. and Apollo Global Management, LLC, incorporated by reference Exhibit 10.3 of the Registrant's Form 10-Q for the period ending September 30, 2009.
- 10.4** Apollo Commercial Real Estate Finance, Inc. 2009 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 of the Registrant's Form S-8, as amended (Registration No. 333-162246).
- 10.5** Form of Restricted Stock Award Agreement entered into by Apollo Commercial Real Estate Finance, Inc.'s directors, officers, Manager and certain of its personnel, incorporated by reference to Exhibit 10.3 of the Registrant's Form S-11, as amended (Registration No. 333-160533).
- 10.6** Form of Restricted Stock Unit Award Agreement, incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on January 5, 2015.
- 10.7** Form of Indemnification Agreement entered into by Apollo Commercial Real Estate Finance, Inc.'s directors and officers, incorporated by reference to Exhibit 10.6 of the Registrant's Form S-11, as amended (Registration No. 333-160533).
- 10.8** Registration Rights Agreement, dated as of September 18, 2015, between Apollo Commercial Real Estate Finance, Inc. and QH RE Asset Company LLC, incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on September 23, 2015.
- 10.9** Registration Rights Agreement, dated as of September 18, 2015, between Apollo Commercial Real Estate Finance, Inc. and QH RE Asset Company LLC, incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed on September 23, 2015.
- 10.10** Stock Purchase Agreement, dated as of February 26, 2016, by and between Apollo Commercial Real Estate Finance, Inc. and Athene USA Corporation, incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on February 26, 2016 (File No.: 001-34452).
- 10.11** Commitment Letter, dated as of February 26, 2016, by and among Athene USA Corporation, Apollo Commercial Real Estate Finance, Inc. and Arrow Merger Sub, Inc., incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed on February 26, 2016 (File No.: 001-34452).
- 10.12** Letter Agreement, dated as of February 26, 2016 by and among Apollo Commercial Real Estate Finance, Inc., ACREFI Operating, LLC and ACREFI Management, LLC, incorporated by reference to Exhibit 10.3 of the Registrant's Form 8-K filed on February 26, 2016 (File No.: 001-34452).

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

* **Filed herewith.**

SIGNATURES

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

Apollo Commercial Real Estate Finance, Inc.

February 28, 2017

By: /s/ Stuart A. Rothstein

Stuart A. Rothstein

President and Chief Executive Officer

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

February 28, 2017

By: /s/ Stuart A. Rothstein

Stuart A. Rothstein

President, Chief Executive Officer and Director
(Principal Executive Officer)

February 28, 2017

By: /s/ Jai Agarwal

Jai Agarwal

Chief Financial Officer, Treasurer, Secretary
(Principal Financial Officer and Principal Accounting Officer)

February 28, 2017

By: /s/ Jeffrey M. Gault

Jeffrey M. Gault
Director

February 28, 2017

By: /s/ Mark C. Biderman

Mark C. Biderman
Director

February 28, 2017

By: /s/ Robert A. Kasdin

Robert A. Kasdin
Director

February 28, 2017

By: /s/ Eric L. Press

Eric L. Press
Director

February 28, 2017

By: /s/ Scott S. Prince

Scott S. Prince
Director

February 28, 2017

By: /s/ Michael E. Salvati

Michael E. Salvati
Director

Subsidiaries of the Registrant

Subsidiary	Jurisdiction of Formation
ACREFI Operating, LLC	Delaware
ACREFI Holdings DB Member, LLC	Delaware
ACREFI Holdings DB, LLC	Delaware
ACREFI Holdings DB-Series II	Delaware
ACREFI Holdings DB-Series III	Delaware
ACREFI Holdings DB-Series IV	Delaware
ACREFI Holdings DB-Series V	Delaware
ACREFI Currency, LLC	Delaware
ACREFI Lender, LLC	Delaware
ACREFI I TRS, Inc	Delaware
ACREFI II TRS, Ltd.	Cayman Islands
ACREFI Mezzanine, LLC	Delaware
ACREFI Holdings J-II, LLC	Delaware
ACREFI Mortgage Lending, LLC	Delaware
ACREFI Insurance Services, LLC	Michigan
PEM Kent Holdings, LLC	Delaware
ACREFI Holdings U-1, LLC	Delaware
ACREFI Holdings J-1, LLC	Delaware
ACREFI Cash Management, LLC	Delaware
ARM Operating, LLC	Delaware
ARM I, LLC	Delaware
ARM I WL, LLC	Delaware
ARM II, LLC	Delaware
ARM II SPE, LLC	Delaware
ARM I QRS, Inc.	Delaware
ARM Cash Management, LLC	Delaware
ARM TRS, LLC	Delaware
ARWL 2013-1 Trust	Delaware
ARWL 2013-1 REO Trust	Delaware
ARWL 2014-1 Trust	Delaware
Apollo Residential Mortgage Loans, LLC	Delaware
Apollo Residential Mortgage Securities, LLC	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our report dated February 28, 2017, relating to the consolidated financial statements and financial statement schedule of Apollo Commercial Real Estate Finance, Inc., and the effectiveness of Apollo Commercial Real Estate Finance, Inc.'s internal control over financial reporting appearing in this Annual Report on Form 10-K of Apollo Commercial Real Estate Finance, Inc. for the year ended December 31, 2016.

1. Registration Statement No. 333-203971 on Form S-3 pertaining to the offering from time to time of Common Stock, Preferred Stock, Depositary Shares, Debt Securities, Warrants & Rights
2. Registration Statement No. 333-200177 on Form S-3 pertaining to Apollo Commercial Real Estate Finance, Inc.'s Direct Stock Purchase and Dividend Reinvestment Plan
3. Registration Statement No. 333-214478 on Form S-3 pertaining to the offering and resale from time to time of 8,823,529 shares of Common Stock and 8,000,000 shares of 8.00% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock
4. Registration Statement No. 333-177556 on Form S-3 in pertaining to the offering and resale from time to time of 3,495,000 shares of Common Stock
5. Registration Statement No. 333-203972 on Form S-8 pertaining to the Apollo Commercial Real Estate Finance, Inc., 2009 Equity Incentive Plan
6. Registration Statement No. 333-162246 on Form S-8 pertaining to the Apollo Commercial Real Estate Finance, Inc., 2009 Equity Incentive Plan

/s/ DELOITTE & TOUCHE LLP

New York, New York
February 28, 2017

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Stuart A. Rothstein, certify that:

1. I have reviewed this annual report on Form 10-K of Apollo Commercial Real Estate Finance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

By: /s/ Stuart A. Rothstein

Name: Stuart A. Rothstein

Title: President and Chief Executive Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Jai Agarwal, certify that:

1. I have reviewed this annual report on Form 10-K of Apollo Commercial Real Estate Finance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

By: /s/ Jai Agarwal

Name: Jai Agarwal

Title: Chief Financial Officer, Treasurer and Secretary

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S. C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, the President and Chief Executive Officer of Apollo Commercial Real Estate Finance, Inc. (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K for the period ended December 31, 2016 (the “Form 10-K”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2017

By: /s/ Stuart A. Rothstein

Name: Stuart A. Rothstein

Title: President and Chief Executive Officer

The undersigned, the Chief Financial Officer, Treasurer and Secretary of Apollo Commercial Real Estate Finance, Inc. (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K for the period ended December 31, 2016 (the “Form 10-K”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2017

By: /s/ Jai Agarwal

Name: Jai Agarwal

Title: Chief Financial Officer, Treasurer and Secretary

Pursuant to the Securities and Exchange Commission Release 33-8238, dated June 5, 2003, this certification is being furnished and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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Apollo Commercial Real Estate Finance, Inc.

Corporate Information

Board of Directors

Jeffrey M. Gault

Chairman of the Board of Apollo Commercial Real Estate Finance, Inc.

Mark C. Biderman

Consultant

Robert A. Kasdin

Senior Vice President and Chief Operating Officer of Johns Hopkins Medicine

Michael E. Salvati

President of Oakridge Consulting, Inc.

Scott S. Prince

Consultant

Stuart A. Rothstein

Chief Executive Officer and President of Apollo Commercial Real Estate Finance, Inc.; Partner and Chief Operating Officer-Real Estate, Apollo Global Management, LLC

Eric L. Press

Senior Partner-Private Equity, Apollo Global Management, LLC

Executive Officers

Stuart A. Rothstein

Chief Executive Officer and President of Apollo Commercial Real Estate Finance, Inc.; Partner and Chief Operating Officer-Real Estate, Apollo Global Management, LLC

Jai Agarwal

Chief Financial Officer, Treasurer and Secretary of Apollo Commercial Real Estate Finance, Inc.

Other Information

Stock Listing

Apollo Commercial Real Estate Finance, Inc.'s common stock is listed on the New York Stock Exchange under the symbol "ARI."

Manager

ACREFI Management, LLC
c/o Apollo Global Management, LLC
9 West 57th Street, 43rd Floor
New York, NY 10019

Transfer Agent

Wells Fargo Bank, N.A.
Shareowner Services
1110 Centre Point Curve, Suite 101
Mendota Heights, MN 55120
Shareowner Relations: 800-468-9716
Internet site: <https://www.shareowneronline.com>

Annual Meeting of Stockholders

Stockholders of Apollo Commercial Real Estate Finance, Inc. are cordially invited to attend the 2017 Annual Meeting of Stockholders scheduled to be held at the offices of Clifford Chance US LLP, 31 West 52nd Street, New York, New York, 10019, on May 11, 2017, at 9:00 a.m., Eastern Time.



9 West 57th Street, 43rd Floor, New York, NY 10019