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

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

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2014
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 001-34452

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

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

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Part I — FINANCIAL INFORMATION
ITEM 1. Financial Statements
Apollo Commercial Real Estate Finance, Inc. and Consolidated Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)
(in thousands—except share and per share data)

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

See notes to unaudited condensed consolidated financial statements.

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

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

See notes to unaudited condensed consolidated financial statements.

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

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

See notes to unaudited condensed consolidated financial statements.

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

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

* Rounds to zero.

See notes to unaudited condensed consolidated financial statements.
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Apollo Commercial Real Estate Finance, Inc. and Subsidiaries
Condensed Consolidated Statement of Cash Flows (Unaudited)
(in thousands)

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

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

See notes to unaudited condensed consolidated financial statements.

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

Note 1 – Organization

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

These unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission (the "SEC"). In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows have been included.

The Company currently operates in one business segment.

Significant Accounting Policies

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

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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

Note 3 – Fair Value Disclosure

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

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

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Level II — Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
Level III — Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used.
While the Company anticipates that its valuation methods will be appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company will use inputs that are current as of the measurement date, which may include periods of market dislocation, during which price transparency may be reduced.
The estimated fair value of the CMBS portfolio is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the Company would receive in an actual trade for the applicable instrument. Management performs additional analysis on prices received based on broker quotes to validate the prices and adjustments are made as deemed necessary by management to capture current market information. The estimated fair values of the Company’s securities are based on observable market parameters and are classified as Level II in the fair value hierarchy.
The estimated fair values of the Company’s derivative instruments are determined using a discounted cash flow analysis on the expected cash flows of each derivative. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The fair values of interest rate caps are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected cash flows are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. The Company’s derivative instruments are classified as Level II in the fair value hierarchy.
The following table summarizes the levels in the fair value hierarchy into which the Company’s financial instruments were categorized as of September 30, 2014 and December 31, 2013:

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

Note 4 – Debt Securities
At September 30, 2014, all of the Company's CMBS (Available-for-Sale) and CMBS (Fair Value Option) were pledged to secure borrowings under the Company’s master repurchase agreements with Wells Fargo Bank, N.A. (“Wells Fargo”) (the “Wells Facility”), UBS AG, London Branch ("UBS") (the "UBS Facility") and Deutsche Bank AG ("DB") (the "DB Facility"). (See Note 9 for a description of these facilities).
CMBS (Held-to-Maturity) represents a loan the Company closed during May 2014 that was subsequently contributed to a securitization during August 2014. During May 2014, the Company closed a $155,000 floating-rate whole loan secured by the first mortgage and equity interests in an entity that owns a resort hotel in Aruba. The property consists of 442 hotels rooms, 114 timeshare units, two casinos and approximately 131,500 square feet of retail space. During June 2014, the Company syndicated a $90,000 senior participation in the loan and retained a $65,000 junior participation. We evaluated this transaction and concluded due to our continuing involvement it should not be

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

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

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

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

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

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

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

	September 30, 2014	December 31, 2013
Credit Ratings *	AAA - CCC-	AAA - CCC
Coupon	5.8 %	5.8 %
Yield	6.3 %	5.3 %
Weighted Average Life	2.5 years	3.1 years

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

The percentage vintage, property type and location of the collateral securing the Company's CMBS (Available-for-Sale) and CMBS (Fair Value Option) investments calculated on a weighted average basis as of September 30, 2014 and December 31, 2013 are as follows:

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

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

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

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

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

Note 5 – Commercial Mortgage Loans

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

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

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

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

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

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

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

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

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

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

The Company evaluates its loans for possible impairment on a quarterly basis. The Company regularly evaluates the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations are sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan and/or (iii) the property's liquidation value. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, the Company considers the overall economic environment, real estate sector and geographic sub-market in which the borrower operates. Such loan loss analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including (i) periodic financial data such as debt service coverage ratio, property occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, and capitalization and discount rates, (ii) site inspections and (iii) current credit spreads and discussions with market participants. An allowance for loan loss is established when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. The Company has determined that an allowance for loan losses was not necessary at September 30, 2014 and December 31, 2013.

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Note 6 – Subordinate Loans

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

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

(1) Includes a one-year extension option subject to certain conditions and the payment of an extension fee.
(2) Includes two one-year extension options subject to certain conditions and the payment of a fee for each extension.
(3) Includes a three-month extension option subject to certain conditions and the payment of an extension fee.
(4) Includes a one-year extension option subject to certain conditions and the payment of an extension fee.
(5) Includes three one-year extensions options subject to certain conditions and the payment of a fee for each extension.

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

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

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

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

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

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

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

(1) Includes a one-year extension option subject to certain conditions and the payment of an extension fee.
(2) Includes two one-year extension options subject to certain conditions and the payment of a fee for each extension.
(3) Includes a three-month extension option subject to certain conditions and the payment of an extension fee.
(4) Includes a one-year extension option subject to certain conditions and the payment of an extension fee. As of December 31, 2013, the Company had $29,106 of unfunded loan commitments related to this loan.

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

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

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

Note 7 – Unconsolidated Joint Venture

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

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

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KBC Bank specializes in corporate banking and financial services for medium-sized German companies. It also provides professional real estate financing, acquisition finance, institutional asset management and private wealth management services for German high-net-worth individuals. Following the closing of the transaction, KBC Bank was renamed Bremer Kreditbank AG and will operate under the name BKB Bank.

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

Note 8 – Repurchase Agreement

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

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

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

Note 9 – Borrowings Under Repurchase Agreements

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

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

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

*Assumes extension options are exercised.

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

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

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

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

*Assumes extension option is exercised.

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

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

DB Facility. During April 2014, the Company through an indirect wholly-owned subsidiary entered into the DB Facility with DB pursuant to which the Company may borrow up to $100,000 in order to finance the acquisition of CMBS