Apollo Commercial Real Estate Finance, Inc.
Form 10-Q
July 29, 2015

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 June 30, 2015
¨ 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	x	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 x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.
As of July 29, 2015, there were 58,429,155 shares, par value $0.01, of the registrant's common stock issued and outstanding.

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

	June 30, 2015	December 31, 2014
Assets:		
Cash	$48,848	$40,641
Restricted cash	34,547	30,127
Securities available-for-sale, at estimated fair value	—	17,105
Securities, at estimated fair value	518,851	522,730
Securities, held-to-maturity	154,391	154,283
Commercial mortgage loans, held for investment	704,040	458,520
Subordinate loans, held for investment	830,181	561,182
Investment in unconsolidated joint venture	20,021	37,016
Derivative assets	262	4,070
Interest receivable	12,817	10,829
Deferred financing costs, net	8,898	7,444
Other assets	582	1,200
Total Assets	$2,333,438	$1,845,147
Liabilities and Stockholders' Equity		
Liabilities:		
Borrowings under repurchase agreements	$878,352	$622,194
Convertible senior notes, net	247,305	246,464
Participations sold	120,991	89,584
Derivative liabilities	2,109	—
Accounts payable and accrued expenses	8,253	7,578
Payable to related party	3,890	3,240
Dividends payable	27,694	21,018
Total Liabilities	1,288,594	990,078
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, 58,429,155 and 46,900,442 shares issued and outstanding, respectively	584	469
Additional paid-in-capital	1,062,857	868,035
Retained earnings (accumulated deficit)	(15,965)	(10,485)
Accumulated other comprehensive loss	(2,667)	(2,985)
Total Stockholders' Equity	1,044,844	855,069
Total Liabilities and Stockholders' Equity	$2,333,438	$1,845,147

See notes to unaudited condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net interest income:				
Interest income from securities	$8,265	$4,366	$16,553	$6,785
Interest income from securities, held to maturity	3,349	—	6,394	—
Interest income from commercial mortgage loans	11,968	6,438	22,061	10,449
Interest income from subordinate loans	21,152	18,238	39,762	32,968
Interest expense	(11,917)	(5,258)	(23,399)	(7,015)
Net interest income	32,817	23,784	61,371	43,187
Operating expenses:				
General and administrative expenses (includes $821 and $1,939 of equity based compensation in 2015 and $362 and $788 in 2014, respectively)	(2,059)	(1,479)	(4,414)	(2,921)
Management fees to related party	(3,887)	(2,966)	(7,228)	(5,531)
Total operating expenses	(5,946)	(4,445)	(11,642)	(8,452)
Income from unconsolidated joint venture	384	—	384	—
Interest income from cash balances	6	4	16	4
Realized loss on sale of securities	—	—	(443)	—
Unrealized gain (loss) on securities	(2,273)	4,749	1,136	6,934
Foreign currency gain	2,867	959	5,588	959
Loss on derivative instruments	(3,197)	(1,093)	(6,241)	(1,093)
Net income	24,658	23,958	50,169	41,539
Preferred dividends	(1,860)	(1,860)	(3,720)	(3,720)
Net income available to common stockholders	$22,798	$22,098	$46,449	$37,819
Basic and diluted net income per share of common stock	$0.39	$0.51	$0.85	$0.94
Basic weighted average shares of common stock outstanding	58,429,155	42,888,747	54,020,978	40,021,722
Diluted weighted average shares of common stock outstanding	59,022,217	43,099,354	54,621,401	40,236,109
Dividend declared per share of common stock	$0.44	$0.40	$0.88	$0.80

See notes to unaudited condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income available to common stockholders	$22,798	$22,098	$46,449	$37,819
Change in net unrealized gain (loss) on securities available-for-sale	—	93	678	76
Foreign currency translation adjustment	738	—	(360)	—
Comprehensive income	$23,536	$22,191	$46,767	$37,895

See notes to unaudited condensed consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total
	Shares	Par	Shares	Par				
Balance at January 1, 2015	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	*	1,817	—	—	1,817
Issuance of restricted common stock	—	—	15,950	*	—	—	—	—
Issuance of common stock	—	—	11,500,000	115	193,315	—	—	193,430
Offering costs	—	—	—	—	(310)	—	—	(310)
Net income	—	—	—	—	—	50,169	—	50,169
Change in other comprehensive loss	—	—	—	—	—	—	318	318
Dividends on common stock	—	—	—	—	—	(51,929)	—	(51,929)
Dividends on preferred stock	—	—	—	—	—	(3,720)	—	(3,720)
Balance at June 30, 2015	3,450,000	$35	58,429,155	$584	$1,062,857	$ (15,965)	$ (2,667)	$1,044,844

* Rounds to zero.

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

	Six months ended June 30, 2015	Six months ended June 30, 2014
Cash flows provided by operating activities:		
Net income	$50,169	$41,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Premium amortization and (discount accretion), net	(5,040)	(1,285)
Amortization of deferred financing costs	1,377	662
Equity-based compensation	1,817	(88)
Unrealized (gain) loss on securities	(1,136)	(6,934)
Income from unconsolidated joint venture	(384)	—
Foreign currency (gain) loss	(2,329)	(959)
Unrealized loss on derivative instruments	6,241	1,093
Realized loss on sale of security	443	—
Changes in operating assets and liabilities:		
Accrued interest receivable, less purchased interest	(12,328)	(10,459)
Other assets	371	416
Accounts payable and accrued expenses	644	2,809
Payable to related party	650	338
Net cash provided by operating activities	40,495	27,132
Cash flows used in investing activities:		
Funding of securities at estimated fair value	—	(173,969)
Funding of commercial mortgage loans	(270,182)	(181,590)
Funding of subordinate loans	(278,929)	(318,922)
Funding of unconsolidated joint venture	(3,929)	—
Funding of other assets	(8)	(1,256)
Funding of derivative instruments	(327)	—
Increase in restricted cash related to investing activities	(4,420)	—
Proceeds from sale of securities available-for-sale	17,291	—
Proceeds from sale of securities at estimated fair value	6,338	—
Proceeds from sale of investment in unconsolidated joint venture	20,794	—
Principal payments received on securities available-for-sale	—	9,969
Principal payments received on securities at estimated fair value	32	14,009
Principal payments received on securities, held-to-maturity	250	—
Principal payments received on commercial mortgage loans	28,474	452
Principal payments received on subordinate loans	24,435	71,434
Principal payments received on other assets	125	21
Net cash used in investing activities	(460,056)	(579,852)
Cash flows from financing activities:		
Proceeds from issuance of common stock	193,430	158,693
Payment of offering costs	(279)	(208)
Proceeds from repurchase agreement borrowings	456,017	297,665
Repayments of repurchase agreement borrowings	(199,860)	(53,475)
Proceeds from issuance of convertible senior notes	—	143,750
Proceeds from participations sold	30,484	89,012
Repayments of participations sold	(220)	—

Payment of deferred financing costs	(2,830)	(5,433)
Dividends on common stock	(45,254)	(30,325)
Dividends on preferred stock	(3,720)	(3,720)
Net cash provided by financing activities	427,768	595,959
Net increase in cash and cash equivalents	8,207	43,239
Cash and cash equivalents, beginning of period	40,641	20,096
Cash and cash equivalents, end of period	$48,848	$63,335
Supplemental disclosure of cash flow information:		
Interest paid	$20,186	$2,998
Supplemental disclosure of non-cash financing activities:		
Dividend declared, not yet paid	$27,694	$20,665
Offering costs payable	$65	$212

See notes to unaudited condensed consolidated financial statements.

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

Note 1 – Organization

Apollo Commercial Real Estate Finance, Inc. (together with its consolidated subsidiaries, is referred to throughout this report as the "Company," "ARI," "we," "us" and "our") is a 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, 2014, as filed with the Securities and Exchange Commission (the "SEC"). In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows have been included. The Company's results of operations for the quarterly period ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year or any other future period.

The Company currently operates in one business segment.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued guidance which broadly amends the accounting guidance for revenue recognition. This guidance is effective for the first interim or annual period beginning after December 15, 2017, 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.

In February 2015, the FASB issued guidance which amends the guidance related to accounting for the consolidation of certain legal entities. The modifications impacts limited partnerships and similar legal entities, the evaluation of (i) fees paid to a decision maker or a service provider as a variable interest, (ii) fee arrangements, and (iii) related parties on the primary beneficiary determination. This guidance is effective for the first interim or annual period beginning after December 15, 2015. The Company does not anticipate that the adoption will have a material impact on its condensed consolidated financial statements.

In April 2015, the FASB issued guidance that simplifies the presentation of debt issuance costs by amending the accounting guidance to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. The amendments are consistent with the accounting guidance related to debt discounts. This guidance is effective for the first interim or annual period beginning after December 15, 2015. Early adoption is permitted, and the Company is currently assessing the impact of this guidance on its condensed 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.

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. In accordance with GAAP, the Company elects the fair value option for these securities at the date of purchase in order to allow the Company to measure these securities at fair value with the change in estimated fair value included as a component of earnings in order to reflect the performance of investment in a timely manner.

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

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determined by comparing the contracted forward exchange rate to the current market exchange rate. The current market exchange rates are determined by using market spot rates, forward rates and interest rate curves for the underlying countries. The Company’s derivative instruments are classified as Level II in the fair value hierarchy.

The following table summarizes the levels in the fair value hierarchy into which the Company’s financial instruments were categorized as of June 30, 2015 and December 31, 2014:

	Fair Value as of June 30, 2015				Fair Value as of December 31, 2014			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
CMBS (Available-for-Sale)	$—	$—	$—	$—	$—	$17,105	$—	$17,105
CMBS (Fair Value Option)	—	518,851	—	518,851	—	522,730	—	522,730
Derivative assets	—	262	—	262	—	4,070	—	4,070
Derivative liabilities	—	(2,109)	—	(2,109)	—	—	—	—
Total	$—	$517,004	$—	$517,004	$—	$543,905	$—	$543,905

Note 4 – Debt Securities

At June 30, 2015, all of the Company's CMBS (Fair Value Option) were pledged to secure borrowings under the Company’s master repurchase agreements with UBS AG, London Branch ("UBS") (the "UBS Facility") and Deutsche Bank AG ("DB") (the "DB Facility"). See "Note 8 - Borrowings Under Repurchase Agreements" for further information regarding these facilities.

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

CMBS (Held-to-Maturity) represents a loan the Company closed during May 2014 that was subsequently contributed to a securitization during August 2014. During May 2014, the Company closed a $155,000 floating-rate whole loan secured by the first mortgage and equity interests in an entity that owns a resort hotel in Aruba. The property consists of 442 hotels rooms, 114 timeshare units, two casinos and approximately 131,500 square feet of retail space. During June 2014, the Company syndicated a $90,000 senior participation in the loan and retained a $65,000 junior participation. The Company evaluated this transaction and concluded due to its continuing involvement the transaction should not be accounted for as a sale. During August 2014, both the $90,000 senior participation and the Company's $65,000 junior participation were contributed to a CMBS securitization. In exchange for contributing its $65,000 junior participation, the Company received a CMBS secured solely by the $65,000 junior participation. The whole loan has a three-year term with two one-year extension options and an appraised loan-to-value ("LTV") of approximately 60%.

The amortized cost and estimated fair value of the Company’s debt securities at June 30, 2015 are summarized as follows:

Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Carrying Value
CMBS (Fair Value Option)	$520,883	$511,412	$8,707	$(1,268)	$518,851
CMBS (Held-to-Maturity)	$154,750	$154,391	$—	$—	$154,391
Total	$675,633	$665,803	$8,707	$(1,268)	$673,242

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The amortized cost and estimated fair value of the Company’s debt securities at December 31, 2014 are summarized as follows:

Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
CMBS (Available-for-Sale)	$17,013	$17,783	$—	$(678)	$17,105
CMBS (Fair Value Option)	527,177	516,443	7,322	(1,035)	522,730
CMBS (Held-to-Maturity)	$155,000	$154,283	$—	$—	$154,283
Total	$699,190	$688,509	$7,322	$(1,713)	$694,118

The following table presents information about the Company's debt securities that were in an unrealized loss position at December 31, 2014:

	Unrealized Loss Position for Less than 12 months		Unrealized Loss Position for 12 months or More	
Security Description	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
CMBS (Available-for-Sale)	$—	$—	$17,105	$(678)
CMBS (Fair Value Option)	130,435	(1,019)	6,315	(16)
Total	$130,435	$(1,019)	$23,420	$(694)

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 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 June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015	December 31, 2014
Credit Ratings *	AAA to CC	AAA to CCC-
Coupon	5.9%	5.9%
Yield	6.6%	6.4%
Weighted Average Life	1.9 years	2.3 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 June 30, 2015 and December 31, 2014 are as follows:

Vintage	June 30, 2015	December 31, 2014
2005	9.8%	9.0%
2006	19.7	19.0
2007	61.5	63.0
2008	9.0	9.0
Total	100.0%	100.0%

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Property Type	June 30, 2015		December 31, 2014	
Office	32.5	%	33.4	%
Retail	29.5		29.1	
Multifamily	13.3		13.3	
Other *	24.7		24.2	
Total	100.0	%	100.0	%

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

Location	June 30, 2015		December 31, 2014	
South Atlantic	23.3	%	23.2	%
Middle Atlantic	18.3		21.1	
Pacific	17.4		17.0	
East North Central	12.4		11.0	
Other *	28.6		27.7	
Total	100.0	%	100.0	%

* 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 June 30, 2015:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon		Property Size
Condo Conversion – NY, NY (1)(2)	Aug-13	Sept-15	33,000	34,190	34,453	Floating		40,000 sq. ft.
Condo Construction - Potomac, MD (3)	Feb-14	Sept-16	50,000	50,000	49,682	Floating		50 units
Vacation Home Portfolio - Various (1)	Apr-14	Apr-19	101,000	97,413	96,493	Fixed		229 properties
Hotel - Philadelphia, PA (1)(4)	May-14	May-17	34,000	34,000	33,930	Floating		301 rooms
Condo Construction - Bethesda, MD (5)	Jun-14	Dec-16	26,000	26,000	25,814	Floating		40 units
Multifamily - Brooklyn, NY (1)(6)	Jul-14	Aug-16	34,500	34,500	34,752	Floating		63 units
Mixed Use - Cincinnati, OH (7)	Nov-14	May-18	67,000	67,000	65,458	Floating		65 acres
Condo Conversion - NY, NY (1)(8)	Nov-14	Dec-15	67,300	67,300	66,272	Floating		86,000 sq. ft.
Multifamily - Williston, ND (1)(4)	Nov-14	Nov-17	58,000	56,542	56,283	Floating		366 units/homes
Vacation Home Portfolio - Various U.S. (1)(4)	Nov-14	Nov-19	50,000	50,000	49,550	Fixed		24 properties
Mixed Use - Brooklyn, NY (1)(9)	Feb-15	Mar-17	85,770	85,770	85,110	Floating		330,000 sq. ft.
Hotel Portfolio - Various U.S. (1)(2)	Jun-15	Mar-17	45,400	45,400	45,204	Floating		2,690 rooms
Retail redevelopment - Miami, FL (1)(10)	Jun-15	Jan-17	45,000	45,000	44,566	Floating		63,300 sq. ft.
Retail redevelopment - Miami, FL (1)(11)	Jun-15	Jul-17	16,800	16,800	16,473	Floating		16,600 sq. ft.
Total/Weighted Average			$713,770	$709,915	$704,040	7.02	%	

(1) At June 30, 2015, this loan was pledged to secure borrowings under the Company’s master repurchase facilities entered into with JPMorgan Chase Bank, N.A. (the “JPMorgan Facility”) or Goldman Sachs Bank USA (the “Goldman Loan”). See "Note 8 – Borrowings Under Repurchase Agreements" for a description of these facilities.
(2) This loan includes a 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. At June 30, 2015, the Company had $30,000 of unfunded loan commitments related to this loan.
(4) This loan includes two one-year extension options subject to certain conditions and the payment of a fee.
(5) This loan includes a six-month extension option subject to certain conditions and the payment of a fee. At June 30, 2015, the Company had $39,100 of unfunded loan commitments related to this loan.
(6) This loan includes three one-year extension options subject to certain conditions and the payment of a fee for each extension.
(7) This loan includes two one-year extension options subject to certain conditions and the payment of a fee. At June 30, 2015, the Company had $98,000 of unfunded loan commitments related to this loan.

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(8) This loan includes a six-month extension option subject to certain conditions and the payment of a fee.
(9) At June 30, 2015, the Company had $6,730 of unfunded loan commitments related to this loan.
(10) This loan includes two six-month extension options subject to certain conditions and the payment of a fee.
(11) At June 30, 2015, the Company had $16,200 of unfunded loan commitments related to this loan.

During April 2015, the Company received the full repayment from a commercial mortgage loan secured by a hotel in Silver Spring, Maryland.

The Company's commercial mortgage loan portfolio was comprised of the following at December 31, 2014:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon	Property Size
Hotel - Silver Spring, MD (1)	Mar-10	Apr-15	$26,000	$24,590	$24,557	Fixed	263 rooms
Condo Conversion – NY, NY (1)(2)	Aug-13	Sept-15	33,000	33,846	33,961	Floating	40,000 sq. ft.
Condo Construction - Potomac, MD (3)	Feb-14	Sept-16	28,000	28,000	27,520	Floating	50 units
Vacation Home Portfolio - Various	Apr-14	Apr-19	101,000	100,046	99,086	Fixed	229 properties
Hotel - Philadelphia, PA (1)(4)	May-14	May-17	34,000	34,000	33,842	Floating	301 rooms
Condo Construction - Bethesda, MD (5)	Jun-14	Dec-16	20,000	20,000	19,616	Floating	40 units
Multifamily - Brooklyn, NY (1)(6)	Jul-14	Aug-16	30,000	30,000	30,110	Floating	63 units
Mixed Use - Cincinnati, OH (7)	Nov-14	May-18	20,000	20,000	18,309	Floating	65 acres
Condo Conversion - NY, NY (1)(8)	Nov-14	Dec-15	67,300	67,300	64,714	Floating	86,000 sq. ft.
Multifamily - Williston, ND (1)(4)	Nov-14	Nov-17	58,000	57,792	57,297	Floating	366 units/homes
Vacation Home Portfolio - Various U.S. (4)	Nov-14	Nov-19	50,000	50,000	49,508	Fixed	24 properties
Total/Weighted Average			$467,300	$465,574	$458,520	6.84 %	

(1) At December 31, 2014, this loan was pledged to secure borrowings under the JPMorgan Facility. See "Note 8 – Borrowings Under Repurchase Agreements" for a description of this facility.
(2) 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. At December 31, 2014, the Company had $52,000 of unfunded loan commitments related to this loan.
(4) This loan includes two one-year extension options subject to certain conditions and the payment of a fee.
(5) This loan includes a six-month extension option subject to certain conditions and the payment of a fee. At December 31, 2014, the Company had $45,100 of unfunded loan commitments related to this loan.
(6) This loan includes three one-year extension options subject to certain conditions and the payment of a fee for each extension. At December 31, 2014, the Company had $4,500 of unfunded loan commitments related to this loan.
(7) This loan includes two one-year extension options subject to certain conditions and the payment of a fee. At December 31, 2014, the Company had $145,000 of unfunded loan commitments related to this loan.
(8) This loan includes a six-month extension option subject to certain conditions and the payment of a fee.

The Company evaluates its loans for possible impairment on a quarterly basis. 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 June 30, 2015 or December 31, 2014.

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Note 6 – Subordinate Loans

The Company's subordinate loan portfolio was comprised of the following at June 30, 2015:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon	
Office - Michigan	May-10	Jun-20	$9,000	$8,782	$8,782	Fixed	
Ski Resort - California	Apr-11	May-17	40,000	40,000	39,888	Fixed	
Mixed Use – North Carolina	Jul-12	Aug-22	6,525	6,525	6,525	Fixed	
Office Complex - Missouri	Sept-12	Oct-22	10,000	9,639	9,639	Fixed	
Hotel Portfolio – Various (1)	Nov-12	Nov-15	50,000	32,566	32,575	Floating	
Condo Construction – NY, NY (1)	Jan-13	Jul-17	60,000	81,602	81,370	Fixed	
Multifamily Conversion – NY, NY (1)	Jan-13	Dec-15	18,000	14,608	14,658	Floating	
Hotel Portfolio – Rochester, MN (2)	Jan-13	Feb-18	25,000	24,334	24,334	Fixed	
Warehouse Portfolio - Various	May-13	May-23	32,000	32,000	32,000	Fixed	
Multifamily Conversion – NY, NY	May-13	Jun-15	44,000	44,000	43,992	Floating	
Office Condo - NY, NY	Jul-13	Jul-22	14,000	14,000	13,613	Fixed	
Condo Conversion – NY, NY (1)(2)	Aug-13	Sept-15	29,400	30,053	30,263	Floating	
Mixed Use - Various (3)	Dec-13	Dec-18	17,000	19,500	19,353	Fixed	
Mixed Use - London, England	Apr-14	Sept-15	54,033	54,033	54,033	Fixed	
Healthcare Portfolio - Various (4)	Jun-14	Jun-16	50,000	50,000	50,000	Floating	
Hotel - NY, NY (4)	Jul-14	Jul-16	20,000	20,000	19,929	Floating	
Ski Resort - Big Sky, MT	Aug-14	Sept-20	15,000	15,000	14,869	Fixed	
Mixed Use - New York, NY (5)	Dec-14	Dec-17	61,893	64,595	63,803	Floating	
Senior Housing - United Kingdom	Jan-15	Dec-17	85,445	85,445	85,445	Floating	
Hotel - Burbank, CA (2)	Feb-15	Jan-20	20,000	20,000	20,000	Fixed	
Multifamily Portfolio - Florida (2)(4)	Apr-15	May-17	22,000	22,000	21,811	Floating	
Multifamily Portfolio - Florida (2)(4)	Apr-15	May-17	15,500	15,500	15,367	Floating	
Mixed Use - Various (2)(4)	Jun-15	May-17	45,000	45,000	44,594	Floating	
Hotel - Phoenix, Arizona (2)	Jun-15	Jul-25	25,000	25,000	25,000	Fixed	
Hotel - Washington, DC (3)	Jun-15	Jul-17	20,000	20,000	19,860	Floating	
Condo development - New York, NY (1)(6)	Jun-15	Jul-19	41,226	41,226	38,478	Floating	
Total/Weighted Average			$830,022	$835,408	$830,181	11.20	%

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

(2) At June 30, 2015, this loan was pledged to secure borrowings under the JPMorgan Facility. See "Note 8 – Borrowings Under Repurchase Agreements" for a description of this facility.

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

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

(5) Includes two one-year extension options subject to certain conditions and the payment of a fee for each extension. At June 30, 2015, the Company had $20,607 of unfunded loan commitments related to this loan.

(6) At June 30, 2015, the Company had $233,774 of unfunded loan commitments related to this loan.

During June 2015, the Company received the full repayment of a mezzanine loan secured by a pledge of the equity interest in borrower that owns a mixed use property located in the central business district of Pittsburgh, PA.

During July 2015, the Company refinanced the multifamily conversion in New York City that matured in June 2015. See Note 19 - Subsequent Events for a description of the new loan.

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The Company's subordinate loan portfolio was comprised of the following at December 31, 2014:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon
Office - Michigan	May-10	Jun-20	$9,000	$8,813	$8,813	Fixed
Ski Resort - California	Apr-11	May-17	40,000	40,000	39,771	Fixed
Mixed Use – North Carolina	Jul-12	Aug-22	6,525	6,525	6,525	Fixed
Office Complex - Missouri	Sept-12	Oct-22	10,000	9,711	9,711	Fixed
Hotel Portfolio – Various (1)	Nov-12	Nov-15	50,000	34,042	33,995	Floating
Condo Construction – NY, NY (1)	Jan-13	Jul-17	60,000	76,344	76,005	Fixed
Multifamily Conversion – NY, NY (1)	Jan-13	Dec-15	18,000	14,608	14,703	Floating
Hotel Portfolio – Rochester, MN	Jan-13	Feb-18	25,000	24,486	24,486	Fixed
Warehouse Portfolio - Various	May-13	May-23	32,000	32,000	32,000	Fixed
Multifamily Conversion – NY, NY (2)	May-13	Feb-15	44,000	44,000	43,989	Floating
Office Condo - NY, NY	Jul-13	Jul-22	14,000	14,000	13,596	Fixed
Condo Conversion – NY, NY (1)	Aug-13	Sept-15	29,400	29,751	29,762	Floating
Mixed Use - Pittsburgh, PA (3)	Aug-13	Aug-16	22,500	22,500	22,473	Floating
Mixed Use - Various (3)	Dec-13	Dec-18	17,000	19,464	19,294	Fixed
Mixed Use - London, England	Apr-14	Jan-15	50,009	52,355	52,355	Fixed
Healthcare Portfolio - Various (4)	Jun-14	Jun-16	50,000	50,000	50,000	Floating
Hotel - NY, NY (4)	Jul-14	Jul-16	20,000	20,000	19,870	Floating
Ski Resort - Big Sky, MT	Aug-14	Sept-20	15,000	15,000	14,861	Fixed
Mixed Use - New York, NY (5)	Dec-14	Dec-17	50,000	50,000		