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Apollo Commercial Real Estate Finance, Inc.
Form 10-Q
July 28, 2016

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

FORM 10-Q

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2016

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 001-34452

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

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

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

As of July 28, 2016, there were 67,402,601 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, 2016	December 31, 2015
Assets:		
Cash	\$38,631	\$ 67,415
Restricted cash	67,438	30,127
Securities, at estimated fair value	452,704	493,149
Securities, held-to-maturity	151,726	153,193
Commercial mortgage loans, held for investment	1,278,034	994,301
Subordinate loans, held for investment	923,159	931,351
Investment in unconsolidated joint venture	23,571	22,583
Derivative assets	15,342	3,327
Interest receivable	19,185	16,908
Other assets	9,297	236
Total Assets	\$2,979,087	\$ 2,712,590
Liabilities and Stockholders' Equity		
Liabilities:		
Borrowings under repurchase agreements (net of deferred financing costs of \$8,160 and \$7,353 in 2016 and 2015, respectively)	\$1,217,935	\$ 918,421
Convertible senior notes, net	249,069	248,173
Participations sold	114,387	118,201
Accounts payable and accrued expenses	24,504	9,246
Payable to related party	5,242	5,297
Dividends payable	36,427	37,828
Total Liabilities	1,647,564	1,337,166
Commitments and Contingencies (see Note 16)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized:		
Series A Preferred stock, 3,450,000 shares issued and outstanding (\$86,250 aggregate liquidation preference) in 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
Common stock, \$0.01 par value, 450,000,000 shares authorized, 67,402,311 and 67,195,252 shares issued and outstanding in 2016 and 2015, respectively	674	672
Additional paid-in-capital	1,411,420	1,410,138
Accumulated deficit	(77,939)	(32,328)
Accumulated other comprehensive loss	(2,747)	(3,173)
Total Stockholders' Equity	1,331,523	1,375,424
Total Liabilities and Stockholders' Equity	\$2,979,087	\$ 2,712,590

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,	
	2016	2015	2016	2015
Net interest income:				
Interest income from securities	\$7,607	\$8,265	\$15,656	\$16,553
Interest income from securities, held to maturity	2,826	3,349	5,722	6,394
Interest income from commercial mortgage loans	24,140	11,968	45,267	22,061
Interest income from subordinate loans	28,067	21,152	57,442	39,762
Interest expense	(15,722)	(11,917)	(30,364)	(23,399)
Net interest income	46,918	32,817	93,723	61,371
Operating expenses:				
General and administrative expenses (includes \$1,938 and \$3,606 of equity based compensation in 2016 and \$821 and \$1,939 in 2015, respectively)	(4,922)	(2,059)	(13,104)	(4,414)
Management fees to related party	(5,242)	(3,887)	(10,471)	(7,228)
Total operating expenses	(10,164)	(5,946)	(23,575)	(11,642)
Income from unconsolidated joint venture	59	384	127	384
Other income	22	6	25	16
Provision for loan losses	(15,000)	—	(15,000)	—
Realized loss on sale of securities	—	—	—	(443)
Unrealized gain (loss) on securities	(11,728)	(2,273)	(26,802)	1,136
Foreign currency gain (loss)	(13,082)	2,867	(17,557)	5,588
Gain (loss) on derivative instruments (includes unrealized gains(losses) of \$13,408 and \$12,026 in 2016 and \$(3,197) and \$(6,241) in 2015, respectively)	13,313	(3,197)	18,015	(6,241)
Net income	10,338	24,658	28,956	50,169
Preferred dividends	\$(5,860)	\$(1,860)	\$(11,675)	\$(3,720)
Net income available to common stockholders	4,478	22,798	17,281	46,449
Basic and diluted net income per share of common stock	\$0.06	\$0.39	\$0.24	\$0.85
Basic weighted average shares of common stock outstanding	67,402,358	58,429,155	67,393,751	54,020,978
Diluted weighted average shares of common stock outstanding	68,374,559	59,022,217	68,351,135	54,621,401
Dividend declared per share of common stock	\$0.46	\$0.44	\$0.92	\$0.88

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,	
	2016	2015	2016	2015
Net income available to common stockholders	\$4,478	\$22,798	\$17,281	\$46,449
Change in net unrealized gain (loss) on securities available-for-sale	—	—	—	678
Foreign currency translation adjustment	(492)	738	426	(360)
Comprehensive income	\$3,986	\$23,536	\$17,707	\$46,767

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	Retained	Accumulated	
	Shares	Par	Shares	Par	Paid In Capital	Earnings (Accumulated Deficit)	Other Comprehensive Loss	Total
Balance at January 1, 2016	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	—	—	190,003	2	1,251	—	—	1,253
Issuance of restricted common stock	—	—	17,056	*	—	—	—	—
Offering costs	—	—	—	—	31	—	—	31
Net income	—	—	—	—	—	28,956	—	28,956
Change in other comprehensive loss	—	—	—	—	—	—	426	426
Dividends on common stock	—	—	—	—	—	(62,892)	—	(62,892)
Dividends on preferred stock	—	—	—	—	—	(11,675)	—	(11,675)
Balance at June 30, 2016	11,450,000	\$ 115	67,402,311	\$ 674	\$ 1,411,420	\$ (77,939)	\$ (2,747)	\$ 1,331,523

* 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, 2016	Six months ended June 30, 2015
Cash flows provided by operating activities:		
Net income	\$28,956	\$50,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Premium amortization and (discount accretion) on assets, net	(4,445)	(5,040)
Amortization of deferred financing costs	2,038	1,377
Equity-based compensation	1,258	1,817
Unrealized (gain) loss on securities	26,802	(1,136)
Provision for loan losses	15,000	—
Income from unconsolidated joint venture	(127)	(384)
Foreign currency (gain) loss	17,559	(2,329)
Realized (gain) loss on derivative instruments	(5,989)	—
Unrealized (gain) loss on derivative instruments	(12,026)	6,241
Realized (gain) loss on sale of security	—	443
Changes in operating assets and liabilities:		
Accrued interest receivable, less purchased interest	(16,888)	(12,328)
Other assets	(9,117)	371
Accounts payable and accrued expenses	2,124	644
Payable to related party	(55)	650
Net cash provided by operating activities	45,090	40,495
Cash flows used in investing activities:		
Funding of commercial mortgage loans	(313,607)	(270,182)
Funding of subordinate loans	(40,920)	(278,929)
Funding of unconsolidated joint venture	(362)	(3,929)
Funding of other assets	—	(8)
Funding of derivative instruments	—	(327)
Proceeds on settlements of derivative instruments	5,989	—
Increase in collateral held related to derivative contracts	13,210	—
Increase in restricted cash related to financing activities	(37,310)	(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 at estimated fair value	14,545	32
Principal payments received on securities, held-to-maturity	1,500	250
Principal payments received on commercial mortgage loans	36,044	28,474
Principal payments received on subordinate loans	26,538	24,435
Principal payments received on other assets	51	125
Net cash used in investing activities	(294,322)	(460,056)
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	193,430
Payment of offering costs	(45)	(279)
Proceeds from repurchase agreement borrowings	380,458	456,017

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Repayments of repurchase agreement borrowings	(80,137)	(199,860)
Proceeds from participations sold	—	30,484
Repayments of participations sold	(1,013)	(220)
Payment of deferred financing costs	(2,846)	(2,830)
Dividends on common stock	(63,183)	(45,254)
Dividends on preferred stock	(12,786)	(3,720)
Net cash provided by financing activities	220,448	427,768
Net decrease in cash and cash equivalents	(28,784)	8,207
Cash and cash equivalents, beginning of period	67,415	40,641
Cash and cash equivalents, end of period	\$38,631	\$48,848
Supplemental disclosure of cash flow information:		
Interest paid	\$26,991	\$20,186
Supplemental disclosure of non-cash financing activities:		
Dividend declared, not yet paid	\$36,427	\$27,694
Offering costs payable	\$220	\$65

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 Maryland corporation that has elected to be taxed as a real estate investment trust (“REIT”) for U.S. federal income tax purposes. The Company 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 condensed consolidated financial statements include the Company’s accounts and those of its consolidated subsidiaries. All intercompany amounts have been eliminated. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company’s most significant estimates include the fair value of financial instruments 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, 2015, 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, 2016 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. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. The Company is currently assessing the impact that this accounting guidance will have on the Company’s condensed consolidated financial statements when adopted.

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,

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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 condensed 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. The Company adopted this guidance and determined there was no material impact on the Company's 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. 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 \$8,160 and \$7,353 for the period ended June 30, 2016 and December 31, 2015 respectively. Other than this reclassification, the adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

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

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

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

The following table summarizes the levels in the fair value hierarchy into which the Company's financial instruments were categorized as of June 30, 2016 and December 31, 2015:

	Fair Value as of June 30, 2016			Fair Value as of December 31, 2015		
	Level II	Level III	Total	Level II	Level III	Total
CMBS (Fair Value Option)	\$—\$452,704	\$—	\$—\$452,704	\$—\$493,149	\$—	\$—\$493,149
Derivative instruments	\$—15,342	\$—	\$—15,342	\$—3,327	\$—	\$—3,327
Total	\$—\$468,046	\$—	\$—\$468,046	\$—\$496,476	\$—	\$—\$496,476

Note 4 – Debt Securities

At June 30, 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 Under Repurchase Agreements" for further information regarding these facilities.

CMBS (Held-to-Maturity) represents a loan the Company closed during May 2014 that was subsequently contributed to a securitization during August 2014. During May 2014, the Company closed a \$155,000 floating-rate whole loan secured by the first mortgage and equity interests in an entity that owns a resort hotel in Aruba. The property consists of 442 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, 2016 are summarized as follows:

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Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
CMBS (Fair Value Option)	\$497,143	\$490,601	\$ 1,149	\$(39,046)	\$452,704
CMBS (Held-to-Maturity)	151,750	151,726	—	—	151,726
Total	\$648,893	\$642,327	\$ 1,149	\$(39,046)	\$604,430

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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	\$664,732	\$657,446	\$ 2,614	\$(13,718)	\$646,342

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").

The overall statistics for the Company's CMBS (Fair Value Option) investments calculated on a weighted average basis assuming no early prepayments or defaults as of June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016	December 31, 2015
Credit Ratings *	B+ - D	BB-D
Coupon	5.9 %	5.9 %
Yield	5.9 %	6.5 %
Weighted Average Life	1.2 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 CMBS (Fair Value Option) investments calculated on a weighted average basis as of June 30, 2016 and December 31, 2015 are as follows:

Vintage	June 30, 2016	December 31, 2015
2005	6.7 %	8.3 %
2006	20.4	20.0
2007	63.6	62.4
2008	9.3	9.3
Total	100.0 %	100.0 %

Property Type	June 30, 2016	December 31, 2015
Office	34.2 %	32.0 %
Retail	29.9	30.2
Multifamily	13.5	13.5
Other *	22.4	24.3
Total	100.0 %	100.0 %

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

Location	June 30, 2016	December 31, 2015
South Atlantic	22.1 %	23.0 %
Middle Atlantic	16.5	18.1

Pacific	17.2	17.8
East North Central	11.4	12.5
Other *	32.8	28.6
Total	100.0%	100.0 %

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

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Note 5 – Commercial Mortgage Loans

The Company's commercial mortgage loan portfolio was comprised of the following at June 30, 2016:

Description	Maturity Date	Current Principal Balance	Carrying Value	Fixed/Floating	Property Size
Condominium – New York, NY (1)	Sept-16	13,789	13,874	Floating	40,000 sq. ft.
Condominium - Bethesda, MD (1)(2)	Sept-16	49,893	50,204	Floating	50 units
Vacation Home Portfolio - Various (1)	Apr-19	91,553	90,743	Fixed	229 properties
Hotel - Philadelphia, PA (1)(3)	May-17	34,000	33,972	Floating	301 keys
Condo Construction - Bethesda, MD (4)	Dec-16	49,162	49,374	Floating	40 units
Multifamily - Brooklyn, NY (1)(5)	Aug-16	34,500	34,940	Floating	63 units
Mixed Use - Cincinnati, OH (1)(3)	May-18	165,000	163,047	Floating	65 acres
Condo Conversion - New York, NY (1)	Sept-16	67,300	67,023	Floating	86,000 sq. ft.
Multifamily - Williston, ND (1)(3)	Nov-17	49,706	39,717	Floating	366 units/homes
Vacation Home Portfolio - Various U.S. (1)(3)	Nov-19	50,000	49,641	Fixed	24 properties
Mixed Use - Brooklyn, NY (1)(8)	Mar-17	85,770	85,959	Floating	330,000 sq. ft.
Retail redevelopment - Miami, FL (1)(7)	Jan-17	45,000	45,202	Floating	63,300 sq. ft.
Retail - Brooklyn, NY (1)	Mar-17	23,000	22,951	Floating	10,500 sq. ft.
Hotel - New York, NY (1)(9)	Sept-18	100,063	99,552	Floating	317 keys
Retail - Brooklyn, NY	Mar-17	5,910	5,885	Floating	5,500 sq. ft.
Hotel - U.S. Virgin Islands (1)(10)	Jan-18	42,000	41,700	Floating	180 keys
Office - Richmond, VA (1)(11)	Jan-18	54,000	53,652	Floating	262,000 sq. ft.
Retail redevelopment - Miami, FL (1)(12)	Jan-18	220,000	217,851	Floating	113,000 sq. ft.
Office - Boston, MA (6)(1)	Mar-18	28,512	28,272	Floating	114,000 sq. ft.
Mixed Use - New York, NY (13)(1)	Jun-18	44,750	44,294	Floating	91,584 sq. ft.
Condo Conversion - Brooklyn, NY (14)(1)	Jun-18	40,600	40,181	Floating	133,550 sq. ft.
Total/Weighted Average		\$1,294,508	\$1,278,034		

- At June 30, 2016, this loan was pledged to secure borrowings under the Company's master repurchase facilities
- (1) 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 six-month extension option subject to certain conditions and the payment of a fee.
 - (3) This loan includes two one-year extension options subject to certain conditions and the payment of a fee.
 - (4) This loan includes a six-month extension option subject to certain conditions and the payment of a fee. At June 30, 2016, the Company had \$9,100 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.
 - (6) This loan includes one six-month extension option subject to certain conditions and the payment of a fee. At June 30, 2016, the Company had \$2,488 of unfunded loan commitments related to this loan.
 - (7) This loan includes two six-month extension options subject to certain conditions and the payment of a fee for each extension.
 - (8) At June 30, 2016, the Company had \$6,730 of unfunded loan commitments related to this loan.
 - (9) This loan includes two one-year extension options subject to certain conditions and the payment of a fee. At June 30, 2016, the Company had \$38,343 of unfunded loan commitments related to this loan.
 - (10) This loan includes three one-year extension options subject to certain conditions and the payment of a fee for such extension. At June 30, 2016, the Company had \$1,500 of unfunded loan commitments related to this loan.
 - (11) This loan includes two one-year extension options subject to certain conditions and the payment of a fee. At June 30, 2016, the Company had \$1,000 of unfunded loan commitments related to this loan.
 - (12) This loan includes a one-year extension option subject to certain conditions and the payment of a fee.

- (13) This loan includes a six-month extension option subject to certain conditions and the payment of a fee. At June 30, 2016, the Company had \$5,250 of unfunded loan commitments related to this loan.
- (14) At June 30, 2016, the Company had \$4,900 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, 2015:

Description	Maturity Date	Current Principal Balance	Carrying Value	Fixed/Floating	Property Size
Condominium – New York, NY (1)	Sept-16	\$24,114	\$24,289	Floating	40,000 sq. ft.
Condominium- Bethesda, MD (2)	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)(3)	May-17	34,000	33,994	Floating	301 keys
Condo Construction - Bethesda, MD (4)	Dec-16	50,000	49,960	Floating	40 units
Multifamily - Brooklyn, NY (1)(5)	Aug-16	34,500	34,886	Floating	63 units
Mixed Use - Cincinnati, OH (1)(3)	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)(3)	Nov-17	49,691	49,665	Floating	366 units/homes
Vacation Home Portfolio - Various U.S. (1)(3)	Nov-19	50,000	49,595	Fixed	24 properties
Mixed Use - Brooklyn, NY (1)(6)	Mar-17	85,770	85,658	Floating	330,000 sq. ft.
Retail redevelopment - Miami, FL (1)(7)	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)(8)	Mar-17	1,653	1,636	Floating	10,500 sq. ft.
Hotel - New York, NY (1)(9)	Sept-18	98,373	97,381	Floating	317 keys
Retail - Brooklyn, NY (1)	Mar-17	5,910	5,858	Floating	5,500 sq. ft.
Hotel - U.S. Virgin Islands (10)	Jan-18	42,000	41,600	Floating	180 keys
Office - Richmond, VA (11)	Jan-18	54,000	53,475	Floating	262,000 sq. ft.
Total/Weighted Average		\$999,583	\$994,301		

- (1) At December 31, 2015, this loan was pledged to secure borrowings under the JPMorgan Facility or the Goldman Loan. See "Note 8 – Borrowings Under Repurchase Agreements" for a description of these facilities.
- (2) This loan includes a six-month extension option subject to certain conditions and the payment of a fee.
- (3) This loan includes two one-year extension options subject to certain conditions and the payment of a fee.
- (4) This loan includes a six-month extension option subject to certain conditions and the payment of a fee. At December 31, 2015, the Company had \$15,100 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.
- (6) At December 31, 2015, the Company had \$6,730 of unfunded loan commitments related to this loan.
- (7) This loan includes two six-month extension options subject to certain conditions and the payment of a fee.
- (8) At December 31, 2015, the Company had \$9,000 of unfunded loan commitments related to this loan.
- (9) This loan includes two one-year extension options subject to certain conditions and the payment of a fee for each extension. At December 31, 2015, the Company had \$40,034 of unfunded loan commitments related to this loan.
- (10) This loan includes three one-year extension options subject to certain conditions and the payment of a fee. At December 31, 2015, the Company had \$1,500 of unfunded loan commitments related to this loan.
- (11) This loan includes a two one-year extension options subject to certain conditions and the payment of a fee. At December 31, 2015, the Company had \$1,000 of unfunded loan commitments related to this loan.

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

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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 three and six months ended June 30, 2016, the Company recorded a loan loss provision of \$10,000 on a multifamily commercial mortgage loan in Williston, ND. As of June 30, 2016, the aggregate loan loss provision was \$10,000. The Company has ceased accruing payment in kind ("PIK") interest associated with the loan. As of December 31, 2015, there was no provision for loan loss.

Note 6 – Subordinate Loans

The Company's subordinate loan portfolio was comprised of the following at June 30, 2016:

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Description	Maturity Date	Current Principal Balance	Carrying Value	Fixed/Floating	Property Size
Subordinate to the Company's commercial mortgage loans					
Hotel - New York, NY (1)	Sept-18	\$5,726	\$5,606	Floating	317 keys
Multifamily - Williston, ND (2)	Nov-17	5,000	—	Floating	366 units
Total - Subordinate to the Company's commercial mortgage loans		\$10,726	\$5,606		
Subordinate to third party commercial mortgage loans					
Office - Michigan	Jun-20	8,721	8,721	Fixed	506,598 sq. ft.
Mixed Use – North Carolina	Aug-22	6,525	6,525	Fixed	170,897 sq. ft.
Office Complex - Missouri	Oct-22	9,491	9,491	Fixed	845,241 sq. ft.
Hotel Portfolio – Rochester, MN	Feb-18	24,025	24,025	Fixed	1,222 keys
Warehouse Portfolio - Various	May-23	32,000	32,000	Fixed	2,767,047 sq. ft.
Office Condo - New York, NY	Jul-22	14,000	13,651	Fixed	436,598 sq. ft.
Mixed Use - London, England	Sept-16	45,776	45,776	Fixed	210,000 sq. ft.
Healthcare Portfolio - Various (2)	Jun-17	39,223	39,223	Floating	18,403 beds
Ski Resort - Big Sky, MT	Sept-20	15,000	14,893	Fixed	632 keys
Mixed Use - New York, NY (2)	Dec-17	94,190	93,915	Floating	363 units
Senior Housing - United Kingdom (2)	Dec-17	71,661	71,661	Floating	2,128 beds
Hotel - Burbank, CA	Jan-20	20,000	20,000	Fixed	488 keys
Multifamily Portfolio - Florida (3)	May-17	22,000	21,926	Floating	621 units
Multifamily Portfolio - Florida (3)	May-17	15,500	15,448	Floating	621 units
Mixed Use - Various (3)	May-17	45,000	44,978	Floating	3,535,774 sq. ft.
Hotel - Phoenix, AZ	Jul-25	25,000	25,000	Fixed	744 keys
Hotel - Washington, DC (2)	Jul-17	20,000	19,958	Floating	581 keys
Condo Development - New York, NY (6)	Jul-19	44,908	44,440	Floating	60 units
Condo Conversion - New York, NY (2)	Aug-18	55,908	55,579	Floating	223 units
Mixed Use - New York, NY (7)	Oct-18	30,000	29,865	Floating	363 units
Destination Resort - Various (8)	May-18	75,000	72,127	Floating	5,243 keys
Multifamily - New York, NY (9)(10)	Nov-18	55,000	54,661	Floating	185,000 sq. ft.
Hotel - New York, NY (4)(10)	Mar-17	50,000	49,684	Floating	468 keys
Condo Pre-development - United Kingdom (4)	Sept-16	73,211	73,211	Floating	41 units
Condo Conversion - New York, NY (5)	Jul-19	31,558	30,795	Floating	139 units
Total - Subordinate to third party commercial mortgage loans		\$923,697	\$917,553		
Total/Weighted Average		\$934,423	\$923,159		

- (1) Includes two one-year extension options subject to certain conditions and the payment of an extension fee. At June 30, 2016, the Company had \$9,348 of unfunded loan commitments related to this loan.
- (2) Includes two one-year extension options subject to certain conditions and the payment of a fee for each extension.
- (3) Includes three one-year extension options subject to certain conditions and the payment of an extension fee.
- (4) Includes a three-month extension option subject to certain conditions and the payment of a fee.
- (5) Includes a one-year extension option subject to certain conditions and the payment of an extension fee. At June 30, 2016, the Company had \$45,442 of unfunded loan commitments related to this loan.
- (6) Includes a one-year extension option subject to certain conditions and the payment of a fee for each extension. At June 30, 2016, the Company had \$31,035 of unfunded loan commitments related to this loan.

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

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

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(9) Includes a six-month extension option subject to certain conditions and the payment of a fee.

(10) At June 30, 2016, this loan was pledged to secure borrowings under the JPMorgan Facility or the Goldman Loan.

(10) See "Note 8 - Borrowings Under Repurchase Agreements" for a description of these facilities.

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

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Description	Maturity Date	Current Principal Balance	Carrying Value	Fixed/Floating
Subordinate to the Company's commercial mortgage loans				
Condominium – 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)(2)	Sept-18	2,595	2,458	Floating
Multifamily - Williston, ND (1)(3)	Nov-17	5,000	5,000	Floating
Total - Subordinate to the Company's commercial mortgage loans		\$26,328	\$26,095	
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 (3)	Dec-16	19,500	19,377	Fixed
Mixed Use - London, England	Jan-16	50,676	50,676	Fixed
Healthcare Portfolio - Various (4)	Jun-16	39,223	39,223	Floating
Ski Resort - Big Sky, MT	Sept-20	15,000	14,878	Fixed
Mixed Use - New York, NY (5)	Dec-17	88,368	87,818	Floating
Senior Housing - United Kingdom (3)	Dec-17	79,735	79,735	Floating
Hotel - Burbank, CA	Jan-20	20,000	20,000	Fixed
Multifamily Portfolio - Florida (4)	May-17	22,000	21,895	Floating
Multifamily Portfolio - Florida (4)	May-17	15,500	15,426	Floating
Mixed Use - Various (4)	May-17	45,000	44,854	Floating
Hotel - Phoenix, AZ	Jul-25	25,000	25,000	Fixed
Hotel - Washington, DC (3)	Jul-17	20,000	19,934	Floating
Condo Development - New York, NY (6)	Jul-19	34,184	33,567	Floating
Condo Conversion - New York, NY (3)	Aug-18	52,418	51,941	Floating
Mixed Use - New York, NY (7)	Oct-18	30,000	29,785	Floating
Destination Resort - Various (8)	May-18	75,000	71,362	Floating
Multifamily - New York, NY (9)	Nov-18	55,000	54,558	Floating
Hotel - New York, NY (10)	Mar-17	50,000	49,522	Floating
Condo Pre-development - United Kingdom (10)	Sept-16	81,048	81,048	Floating
Total - Subordinate to third party commercial mortgage loans		\$912,678	\$905,256	
Total/Weighted Average		\$939,006	\$931,351	

(1) At December 31, 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.

(2) Includes two one-year extension options subject to certain conditions and the payment of an extension fee. As of December 31, 2015, the Company had \$12,478 of unfunded loan commitments related to this loan.

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

(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 an extension fee. As of December 31, 2015, the Company had \$785 of unfunded loan commitments related to this loan.

- (6) Includes a one-year extension option subject to certain conditions and the payment of an extension fee. As of December 31, 2015, the Company had \$41,160 of unfunded loan commitments related to this loan.

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- (7) Includes a one-year extension option subject to certain conditions and the payment of an extension fee.
- (8) Includes four one-year extension options subject to certain conditions and the payment of an extension fee.
- (9) Includes a six-month extension option subject to certain conditions and the payment of a fee.
- (10) Includes a three-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. See “Note 5 – Commercial Mortgage Loans” for a summary of the metrics reviewed. During the three and six months ended June 30, 2016, the Company recorded a loan loss provision of \$5,000 on a multifamily subordinate loan in Williston, ND. As of June 30, 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 was 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 June 30, 2016, the Company’s unfunded commitment to Champ LP was €2,802 (or \$3,113). Through its interest in Champ LP, as of June 30, 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 variable interest entity (“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 Under Repurchase Agreements

At June 30, 2016 and December 31, 2015, the Company’s borrowings had the following outstanding balances, maturities and weighted average interest rates:

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Lender	June 30, 2016				December 31, 2015			
	Maximum Amount of Borrowings	Borrowings Outstanding	Maturity (1)	Weighted Average Rate (2)	Maximum Facility Size	Borrowings Outstanding	Maturity (1)	Weighted Average Rate (2)
JPMorgan Facility (3)	\$943,000	\$774,522	January 2019	L+2.40%	\$600,000	\$445,942	January 2019	L+2.25%
Goldman Loan	N/A	43,333	April 2019	L+3.50%	N/A	45,928	April 2019	L+3.50%
Sub-total		817,855		L+2.46%		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	274,341	April 2018	3.66 %	N/A	300,005	April 2018	3.69 %
Sub-total		408,240		3.38 %		433,904		3.39 %
less: deferred financing costs		(8,160)				(7,353)		
Total / Weighted Average		\$1,217,935		3.10 %		\$918,421		2.92 %

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

(2) Assumes one-month LIBOR at June 30, 2016 and December 31, 2015 was 0.47% and 0.43%, respectively.

(3) As of June 30, 2016, the JP Morgan Facility provided for maximum total borrowings comprised of a \$143.0 million asset specific financing and the \$800.0 million JPMorgan Facility.

(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 June 30, 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	\$260,288	\$514,234	\$—	\$—	\$774,522
Goldman Loan	5,290	38,043	—	—	43,333
UBS Facility *	63,647	70,252	—	—	133,899
DB Facility	82,524	166,203	10,407	15,207	274,341
Total	\$411,749	\$788,732	\$10,407	\$15,207	\$1,226,095

*Assumes extension option is exercised.

At June 30, 2016, the Company's collateralized financings were comprised of borrowings outstanding under the JPMorgan Facility, the Goldman Loan, the UBS Facility and the DB Facility. The table below summarizes the outstanding balances at June 30, 2016, as well as the maximum and average month-end balances for the six months ended June 30, 2016 for the Company's borrowings under repurchase agreements.

		For the six months ended June 30, 2016	
	Balance at June 30, 2016	Maximum Month-End Balance	Month-End Balance
JPMorgan Facility borrowings	\$774,522	\$774,522	\$627,334
Goldman Loan	43,333	45,928	44,665

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UBS Facility borrowings	133,899	133,899	133,899
DB Facility borrowings	274,341	300,005	284,054
Total	\$1,226,095		

The Company was in compliance with the financial covenants under its borrowing agreements at June 30, 2016 and December 31, 2015.

Note 9 – Convertible Senior Notes

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On March 17, 2014, the Company issued \$143,750 aggregate principal amount of 5.50% Convertible Senior Notes due 2019 (the "March 2019 Notes"), for which the Company received net proceeds, after deducting the underwriting discount and estimated offering expense payable by the Company of approximately \$139,037. At June 30, 2016, the March 2019 Notes had a carrying value of \$141,070 and an unamortized discount of \$2,680.

On August 18, 2014, the Company issued an additional \$111,000 aggregate principal amount of 5.50% Convertible Senior Notes due 2019 (the "August 2019 Notes," and together with the March 2019 Notes, the "2019 Notes"), for which the Company received net proceeds, after deducting the underwriting discount and estimated offering expense payable by the Company of approximately \$109,615. At June 30, 2016, the August 2019 Notes had a carrying value of \$107,999 and an unamortized discount of \$3,001.

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%	56.36	3/15/2019	2.71 years
August 2019 Notes	\$111,000	5.50%	6.50%	56.36	3/15/2019	2.71 years

(1) Effective rate includes the effect of the adjustment for the conversion option (see footnote (2) below), the value of which reduced the initial liability and was recorded in additional paid-in-capital.

The Company has the option to settle any conversions in cash, shares of common stock or a combination thereof.

The conversion rate represents the number of shares of common stock issuable per \$1,000 principal amount of 2019 Notes converted, as adjusted in accordance with the applicable indenture as a result of cash dividend

(2) payments, and including deferred and carried-forward adjustments relating to cash dividend payments made by the Company to stockholders since January 15, 2016. The if-converted value of the 2019 Notes does not exceed their principal amount at June 28, 2016 since the closing market price of the Company's common stock does not exceed the implicit conversion prices of \$17.74 for the 2019 Notes.

GAAP requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. GAAP requires that the initial proceeds from the sale of the 2019 Notes be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt that could have been issued by the Company at such time. The Company measured the fair value of the debt components of the 2019 Notes as of their issuance date based on effective interest rates. As a result, the Company attributed approximately \$11,445 of the proceeds to the equity component of the 2019 Notes, which represents the excess proceeds received over the fair value of the liability component of the 2019 Notes at the date of issuance. The equity component of the 2019 Notes has been reflected within additional paid-in capital in the condensed consolidated balance sheet as of June 30, 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 \$3,503 and \$7,006 for the three and six months ended June 30, 2016, respectively. The aggregate contractual interest expense was approximately \$3,503 and \$7,006 for the three and six months ended June 30, 2015, respectively. With respect to the amortization of the discount on the liability component of the 2019 Notes as well as the amortization of deferred financing costs, the Company reported additional non-cash interest expense of approximately \$883 and \$1,759 for the three and six months ended June 30, 2016, respectively. 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 \$855 and \$1,699 for the three and six months ended June 30, 2015, respectively.

As of June 30, 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 of common stock because it is management's intent and the Company currently has the 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"). As a member of the FHLBI, ACREFI Insurance

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Services, LLC has access to a variety of products and services offered by the FHLBI, including secured advances. As of June 30, 2016, ACREFI Insurance Services, LLC had not requested any advances from the FHLBI.

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 is 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).

Upon termination of ACREFI Insurance Services, LLC's membership, FHLBI will be required 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 June 30, 2016, the Company had stock in the FHLBI totaling \$8, which is included in other assets on the condensed consolidated balance sheet at June 30, 2016.

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 condensed consolidated statements of operations.

During January 2015, the Company closed a £34,519 (or \$51,996) floating-rate mezzanine loan secured by a portfolio of 44 senior housing facilities located throughout the United Kingdom. During February 2015, closed an additional £20,000 (or \$30,672) and participated that balance to an investment fund affiliated with Apollo. At June 30, 2016, the participation had a face amount of £19,749 (or \$26,288), a carrying amount of £19,749 (or \$26,288) and a cash coupon of LIBOR plus 825 basis points.

During May 2014, the Company closed a \$155,000 floating-rate whole loan secured by the first mortgage and equity interests in an entity that owns a resort hotel in Aruba. During June 2014, the Company syndicated a \$90,000 senior participation in the loan and retained a \$65,000 junior participation in the loan. During August 2014, both the \$90,000 senior participation and the Company's \$65,000 junior participation were contributed to a CMBS securitization. In exchange for contributing its \$65,000 junior participation, the Company received a CMBS secured solely by the \$65,000 junior participation and classified it as CMBS (Held-to-Maturity) on its condensed consolidated financial statements. At June 30, 2016, the participation had a face amount of \$88,113, a carrying amount of \$88,099 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 October 2016. 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 June 30, 2016:

Type of Derivative June 30, 2016

Type of Derivative	Number of Contracts	Aggregate		Maturity
		Notional Amount	Notional Currency	
Fx Contracts - GBP	4	127,945	GBP	July 2016-October 2016

The following table summarizes our non-designated Fx forwards as of December 31, 2015:

Type of Derivative December 31, 2015

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

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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 condensed consolidated statements of operations related to the Company's derivative instruments for the three and six months ended June 30, 2016 and 2015.

		Three months ended June 30,		Six months ended June 30,	
Location of Loss Recognized in Income		2016	2015	2016	2015
Forward currency contract	Gain (loss) on derivative instruments - unrealized	\$13,426	\$(3,135)	\$12,116	\$(6,179)
Forward currency contract	Gain (loss) on derivative instruments - realized	(95)	—	5,989	
Interest rate caps	Loss on derivative instruments - unrealized	(18)	(62)	(90)	(62)
Total		\$13,313	\$(3,197)	\$18,015	\$(6,241)

The following table summarizes the gross asset amounts related to the Company's derivative instruments at June 30, 2016 and December 31, 2015.

	June 30, 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	\$9	\$	—\$ 9	\$106	\$	—\$ 106
Forward currency contract	15,333	—	15,333	3,221	—	3,221
Total derivative instruments	\$15,342	\$	—\$ 15,342	\$3,327	\$	—\$ 3,327

Note 13 – Related Party Transactions Management Agreement

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

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

The current term of the Management Agreement expires on September 29, 2016 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

2016, 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.

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For the three and six months ended June 30, 2016, respectively, the Company incurred approximately \$5,242 and \$10,471 in base management fees under the Management Agreement. For the three and six months ended June 30, 2015, respectively, the Company incurred approximately \$3,887 and \$7,228 in base management fees under the Management Agreement. In addition to the base management fee, the Company is also responsible for reimbursing the Manager for certain expenses paid by the Manager on behalf of the Company or for certain services provided by the Manager to the Company. For the three and six months ended June 30, 2016, respectively, the Company paid expenses totaling \$44 and \$842 related to reimbursements for certain expenses paid by the Manager on behalf of the Company under the Management Agreement. For the three and six months ended June 30, 2015, respectively, the Company recorded expenses totaling \$296 and \$932 related to reimbursements for certain expenses paid by the Manager on behalf of the Company under the Management Agreement. Expenses incurred by the Manager and reimbursed by the Company are reflected in the respective condensed consolidated statement of operations expense category or the condensed consolidated balance sheet based on the nature of the item.

Included in payable to related party on the condensed consolidated balance sheet at June 30, 2016 and December 31, 2015, respectively, are approximately \$5,242 and \$5,297 for base management fees incurred but not yet paid under the Management Agreement.

Unconsolidated Joint Venture

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

In January 2015, the Company funded an additional investment of €3,331 (or \$3,929) related to its investment in Champ LP. In February 2015, the Company sold approximately 48% of its ownership interest in Champ LP at cost to an account managed by Apollo for approximately €16,314 (or \$20,794). In June 2016, the Company transferred €427 of its unfunded commitment to Apollo, reducing its unfunded commitment to Champ LP to €2,802 (or \$3,113). Through its interest in Champ LP, as of June 30, 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.

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 \$1,938 and \$3,606 for the three and six months ended June 30, 2016, related to restricted stock and RSU vesting. The Company recognized stock-based compensation expense of \$821 and \$1,939 for the three and six months ended June 30, 2015, related to restricted stock and RSU vesting. The following table summarizes the activity related to restricted common stock and RSUs during the six months ended June 30, 2016: