

Edgar Filing: Apollo Commercial Real Estate Finance, Inc. - Form 10-Q

Apollo Commercial Real Estate Finance, Inc.
Form 10-Q
November 06, 2013

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2013

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

For the transition period from _____ to _____

Commission File Number: 001-34452

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

Maryland

(State or other jurisdiction of
incorporation or organization)

Apollo Commercial Real Estate Finance, Inc.

c/o Apollo Global Management, LLC

9 West 57th Street, 43rd Floor,

New York, New York 10019

(Address of registrant's principal executive offices)

(212) 515-3200

(Registrant's telephone number, including area code)

27-0467113

(I.R.S. Employer

Identification Number)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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.

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As of November 4, 2013, there were 36,883,467 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 Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

(in thousands—except share and per share data)

	September 30, 2013	December 31, 2012
Assets:		
Cash	\$86,824	\$108,619
Restricted cash	15,794	—
Securities available-for-sale, at estimated fair value	37,559	67,079
Securities, at estimated fair value	250,660	211,809
Commercial mortgage loans, held for investment	160,893	142,921
Subordinate loans, held for investment	394,554	246,246
Repurchase agreements, held for investment	—	6,598
Interest receivable	5,673	4,277
Deferred financing costs, net	794	678
Other assets	—	203
Total Assets	\$952,751	\$788,430
Liabilities and Stockholders' Equity		
Liabilities:		
Borrowings under repurchase agreements	\$227,167	\$225,158
Investments purchased, not yet settled	21,299	—
Derivative instruments, net	—	155
Accounts payable and accrued expenses	1,719	1,265
Payable to related party	2,656	2,037
Dividends payable	17,023	12,891
Total Liabilities	269,864	241,506
Commitments and Contingencies (see Note 13)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized and 3,450,000 shares issued and outstanding in 2013 and 2012	35	35
Common stock, \$0.01 par value, 450,000,000 shares authorized, 36,883,467 and 28,044,106 shares issued and outstanding in 2013 and 2012, respectively	369	280
Additional paid-in-capital	696,337	546,065
Retained earnings (accumulated deficit)	(13,235	) 574
Accumulated other comprehensive loss	(619	) (30
Total Stockholders' Equity	682,887	546,924
Total Liabilities and Stockholders' Equity	\$952,751	\$788,430

See notes to unaudited condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net interest income:				
Interest income from securities	\$2,533	\$3,674	\$8,634	\$12,227
Interest income from commercial mortgage loans	4,954	2,825	12,222	7,851
Interest income from subordinate loans	12,184	6,144	35,137	17,316
Interest income from repurchase agreements	—	2,361	2	5,920
Interest expense	(885	) (1,768	) (2,909	) (6,939
Net interest income	18,786	13,236	53,086	36,375
Operating expenses:				
General and administrative expenses (includes \$784 and \$2,095 of equity based compensation in 2013 and \$1,276 and \$3,244 in 2012, respectively)	(1,793	) (2,430	) (5,126	) (7,229
Management fees to related party	(2,625	) (1,518	) (7,384	) (4,099
Total operating expenses	(4,418	) (3,948	) (12,510	) (11,328
Interest income from cash balances	3	—	19	1
Realized gain on sale of securities	—	—	—	262
Unrealized gain (loss) on securities	(1,472	) 3,010	(3,973	) 6,473
Loss on derivative instruments (includes \$25 and \$155 of unrealized gains in 2013 and \$40 and \$228 of unrealized gains in 2012, respectively)	1	(87	) (1	) (569
Net income	12,900	12,211	36,621	31,214
Preferred dividends	(1,859	) (1,219	) (5,580	) (1,219
Net income available to common stockholders	\$11,041	\$10,992	\$31,041	\$29,995
Basic and diluted net income per share of common stock	\$0.29	\$0.52	\$0.88	\$1.43
Basic weighted average shares of common stock outstanding	36,883,002	20,571,478	34,647,941	20,567,772
Diluted weighted average shares of common stock outstanding	37,379,469	20,992,312	35,103,285	20,983,429
Dividend declared per share of common stock	\$0.40	\$0.40	\$1.20	\$1.20

See notes to unaudited condensed consolidated financial statements.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income available to common stockholders	\$11,041	\$10,992	\$31,041	\$29,995
Change in net unrealized gain (loss) on securities available-for-sale	43	(876	) (589	) (464
Comprehensive income	\$11,084	\$10,116	\$30,452	\$29,531

See notes to unaudited condensed consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total
	Shares	Par	Shares	Par				
Balance at January 1, 2013	3,450,000	\$35	28,044,106	\$280	\$546,065	\$574	\$ (30)	\$546,924
Capital increase related to Equity Incentive Plan	—	—	—	—	2,065	—	—	2,065
Issuance of restricted common stock	—	—	34,361	*	—	—	—	—
Issuance of common stock	—	—	8,805,000	89	148,715	—	—	148,804
Offering costs	—	—	—	—	(508)	—	—	(508)
Net income	—	—	—	—	—	36,621	—	36,621
Change in net unrealized gain on securities available-for-sale	—	—	—	—	—	—	(589)	(589)
Dividends on common stock	—	—	—	—	—	(44,850)	—	(44,850)
Dividends on preferred stock	—	—	—	—	—	(5,580)	—	(5,580)
Balance at September 30, 2013	3,450,000	\$35	36,883,467	\$369	\$696,337	\$ (13,235)	\$ (619)	\$682,887

*Rounds to zero.

See notes to unaudited condensed consolidated financial statements.

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

	Nine months ended September 30, 2013	Nine months ended September 30, 2012	
Cash flows provided by operating activities:			
Net income	\$36,621	\$31,214	
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization and (discount accretion), net	(4,181	) 569	
Amortization of deferred financing costs	639	1,551	
Equity-based compensation	2,095	3,244	
Unrealized (gain) loss on securities	3,973	(6,473)
Unrealized gain on derivative instruments	(155	) (228)
Realized gain on sale of security	—	(262)
Changes in operating assets and liabilities:			
Accrued interest receivable, less purchased interest	(6,441	) 2,608	
Other assets	203	(190)
Accounts payable and accrued expenses	509	405	
Payable to related party	588	222	
Net cash provided by operating activities	33,851	32,660	
Cash flows used in investing activities:			
Proceeds from sale of securities available-for-sale	—	121,338	
Proceeds from sale of securities at estimated fair value	—	16,918	
Fees received from commercial mortgage loans	280	—	
Funding of securities at estimated fair value	(70,490	) (70,676)
Funding of commercial mortgage loans	(32,643	) (17,883)
Funding of subordinate loans	(213,515	) (46,180)
Principal payments received on securities available-for-sale	28,485	99,191	
Principal payments received on securities at estimated fair value	49,164	92,009	
Principal payments received on commercial mortgage loans	17,898	24,541	
Principal payments received on subordinate loans	71,173	26	
Principal payments received on repurchase agreements	6,598	36,464	
Net cash provided by (used in) investing activities	(143,050	) 255,748	
Cash flows from financing activities:			
Proceeds from issuance of preferred stock	—	86,250	
Proceeds from issuance of common stock	148,804	—	
Payment of offering costs	(814	) (3,083)
Repayments of TALF borrowings	—	(251,327)
Proceeds from repurchase agreement borrowings	70,195	313,860	
Repayments of repurchase agreement borrowings	(68,187	) (361,590)
Increase in restricted cash related to financing activities	(15,794) —	
Deferred financing costs	(504	) (1,097)
Dividends on common stock	(40,717	) (24,995)
Dividends on preferred stock	(5,579) —	
Net cash provided by (used in) financing activities	87,404	(241,982)
Net increase (decrease) in cash and cash equivalents	(21,795) 46,426	
Cash and cash equivalents, beginning of period	108,619	21,568	

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Cash and cash equivalents, end of period	\$86,824	\$67,994
Supplemental disclosure of cash flow information:		
Interest paid	\$2,335	\$5,872
Supplemental disclosure of non-cash financing activities:		
Dividend declared, not yet paid	\$17,023	\$10,114
Deferred financing costs, not yet paid	\$250	\$—
Offering costs payable	\$—	\$338

See notes to unaudited condensed consolidated financial statements.

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

Note 1 – Organization

Apollo Commercial Real Estate Finance, Inc. (together with its consolidated subsidiaries, is referred to throughout this report as the “Company,” “ARI,” “we,” “us” and “our”) is a real estate investment trust (“REIT”) that primarily originates, acquires, invests in and manages performing commercial first mortgage loans, commercial mortgage-backed securities (“CMBS”), subordinate financings and other commercial real estate-related debt investments in the United States. 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 significant 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, 2012, as filed with the Securities and Exchange Commission (the “SEC”). In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company’s financial position, results of operations and cash flows have been included.

The Company currently operates in one business segment.

Recent Accounting Pronouncements

In January 2013, the Financial Accounting Standards Board (the “FASB”) issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities (Topic 210), Balance Sheet. The update addresses implementation issues about ASU 2011-11 and applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with ASC 210-20-45 or ASC 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The guidance is effective January 1, 2013 and is to be applied retrospectively. This guidance does not amend when the Company currently offsets its derivative positions. As a result, the update did not have a material impact on the Company’s consolidated financial statements.

In February 2013, the FASB issued an update which includes amendments that require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income (“OCI”) on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other required disclosures that provide additional detail about those amounts. The new requirement presents information on amounts reclassified out of accumulated OCI and their corresponding effect on net income in one place or in some cases, provides for cross-references to related footnote disclosures. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. During the three and nine months ended September 30, 2013, the Company had no amounts reclassified into or out of OCI.

In June 2013, the FASB issued guidance to change the assessment of whether an entity is an investment company by developing a new two-tiered approach that requires an entity to possess certain fundamental characteristics while allowing judgment in assessing certain typical characteristics. The fundamental characteristics that an investment company is required to have include the following: (1) it obtains funds from one or more investors and provides the

investor(s) with investment management services; (2) it commits to its investor(s) that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income or both; and (3) it does not obtain returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests. The typical characteristics of an investment company that an entity should consider before concluding whether it is an investment company include the following: (1) it has

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more than one investment; (2) it has more than one investor; (3) it has investors that are not related parties of the parent or the investment manager; (4) it has ownership interests in the form of equity or partnership interests; and (5) it manages substantially all of its investments on a fair value basis. The new approach requires an entity to assess all of the characteristics of an investment company and consider its purpose and design to determine whether it is an investment company. The guidance includes disclosure requirements about an entity's status as an investment company and financial support provided or contractually required to be provided by an investment company to its investees. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2013. Earlier application is prohibited. The ASU prohibits REITs from qualifying for investment company accounting under ASC 946, as such, we have determined that we will not meet the definition of an investment company under this ASU 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. Broker quotes are only indicative of fair value and may not necessarily represent what the Company would receive in an actual trade for the applicable instrument. Management performs additional analysis on prices received based on broker quotes to validate the prices and adjustments are made as deemed necessary by management to capture current market information. The estimated fair values of the Company's securities are based on observable market parameters and are classified as Level II in the fair value hierarchy.

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

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

	Fair Value as of September 30, 2013			
	Level I	Level II	Level III	Total
CMBS (Available-for-Sale)	\$—	\$37,559	\$—	\$37,559
CMBS (Fair Value Option)	—	179,978	—	179,978

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CMBS – Hilton (Fair Value Option) *	—	70,682	—	70,682
Total	\$—	\$288,219	\$—	\$288,219

*The obligors are certain special purpose entities formed in 2010 to hold substantially all of the assets of Hilton Worldwide, Inc. (the “Hilton CMBS”).

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The following table summarizes the levels in the fair value hierarchy into which the Company's financial instruments were categorized as of December 31, 2012:

	Fair Value as of December 31, 2012			Total
	Level I	Level II	Level III	
CMBS (Available-for-Sale)	\$—	\$67,079	\$—	\$67,079
CMBS (Fair Value Option)	—	138,248	—	138,248
CMBS – Hilton (Fair Value Option)	—	73,561	—	73,561
Interest rate swaps	—	(156	) —	(156)
Interest rate caps	—	1	—	1
Total	\$—	\$278,733	\$—	\$278,733

Note 4 – Debt Securities

At September 30, 2013, all of the Company's CMBS were pledged to secure borrowings under the Company's master repurchase agreements with Wells Fargo Bank, N.A. ("Wells Fargo") (the "Wells Facility") and UBS AG, London Branch ("UBS") (the "UBS Facility"). (See Note 8 for a description of these facilities).

During 2013, the Company purchased CMBS with an aggregate face amount of \$92,279 and an aggregate purchase price of \$91,391. The CMBS were financed under the UBS Facility and the Company elected the Fair Value Option for these securities.

The amortized cost and estimated fair value of the Company's debt securities at September 30, 2013 are summarized as follows:

Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
CMBS (Available-for-Sale)	\$36,925	\$38,178	\$—	\$(619)	\$37,559
CMBS (Fair Value Option)	180,365	179,841	372	(235)	179,978
CMBS – Hilton (Fair Value Option)	70,682	69,587	1,095	—	70,682
Total	\$287,972	\$287,606	\$1,467	\$(854)	\$288,219

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

The amortized cost and estimated fair value of the Company's debt securities at December 31, 2012 are summarized as follows:

Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
CMBS (Available-for-Sale)	\$65,410	\$67,109	\$249	\$(279)	\$67,079
CMBS (Fair Value Option)	134,694	136,354	2,061	(167)	138,248
CMBS – Hilton (Fair Value Option)	73,239	70,250	3,311	—	73,561
Total	\$273,343	\$273,713	\$5,621	\$(446)	\$278,888

The Hilton CMBS has a current interest rate of one-month London InterBank Offered Rate ("LIBOR")+2.30%, which increases to LIBOR+3.30% on November 12, 2013 and LIBOR+3.80% on November 12, 2014. The Hilton CMBS receives principal repayments according to a schedule that is approximately equivalent to a 16-year amortization schedule and has a yield of 5.6%.

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The overall statistics for the Company's CMBS investments (excluding the Hilton CMBS) calculated on a weighted average basis assuming no early prepayments or defaults as of September 30, 2013 and December 31, 2012 are as follows:

	September 30, 2013	December 31, 2012
Credit Ratings *	AAA-CCC	AAA
Coupon	5.8 %	5.6 %
Yield	5.3 %	4.1 %
Weighted Average Life	2.2 years	1.8 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 investments (excluding the Hilton CMBS) calculated on a weighted average basis as of September 30, 2013 and December 31, 2012 are as follows:

Vintage	September 30, 2013	December 31, 2012
2006	— %	1 %
2007	100	99
Total	100 %	100 %

Property Type	September 30, 2013	December 31, 2012
Office	40.0 %	40.5 %
Retail	22.1	23.2
Hotel	13.0	10.5
Multifamily	12.3	12.9
Other *	12.6	12.9
Total	100 %	100 %

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

Location	September 30, 2013	December 31, 2012
Middle Atlantic	22.9 %	21.4 %
Pacific	21.7	23.8
South Atlantic	21.1	21.8
Other *	34.3	33.0
Total	100 %	100 %

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

Note 5 – Commercial Mortgage Loans

The Company's commercial mortgage loan portfolio was comprised of the following at September 30, 2013:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon	Property Size
Hotel - NY, NY	Jan-10	Feb-15	\$32,000	\$31,385	\$31,385	Fixed	151 rooms
Office Condo (Headquarters) - NY, NY	Feb-10	Feb-15	28,000	27,235	27,235	Fixed	73,419 sq. ft.
Hotel - Silver Spring, MD	Mar-10	Apr-15	26,000	25,033	24,840	Fixed	263 rooms
Condo Conversion – NY, NY (1)	Dec-12	Jan-15	45,000	45,000	44,732	Floating	119,000 sq. ft.
	Aug-13	Sept-15	33,000	33,000	32,701	Floating	40,000 sq. ft.

Condo Conversion – NY, NY

(2)

Total/Weighted Average	\$164,000	\$161,653	\$160,893	8.83	%
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- (1) This loan includes two one-year extension options subject to certain conditions and the payment of a fee for each extension.
- (2) This loan includes a one-year extension option subject to certain conditions and the payment of a fee.

During March 2013, the Company consented to the transfer of the controlling ownership of the borrower under the Silver Spring, Maryland loan. In conjunction with its consent, the Company received a \$280 fee, which will be recognized over the remaining life of the loan.

During September 2013, two senior sub-participation interests in a first mortgage loan which was secured by over 20 acres of land in South Boston, Massachusetts were repaid at par. The senior sub-participation interests were purchased at 78% of par (including a 3% brokerage fee). Upon the repayment, the Company realized an internal rate of return ("IRR") of 25% on its investment. For a description of how the IRR is calculated, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Conditions and Results of Operations—Investments". The Company's commercial mortgage loan portfolio was comprised of the following at December 31, 2012:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon	Property Size
Hotel - NY, NY	Jan-10	Feb-15	\$32,000	\$31,571	\$31,571	Fixed	151 rooms
Office Condo (Headquarters) - NY, NY	Feb-10	Feb-15	28,000	27,419	27,419	Fixed	73,419 sq. ft.
Hotel - Silver Spring, MD	Mar-10	Apr-15	26,000	25,273	25,273	Fixed	263 rooms
Mixed Use – South Boston, MA (1)	Apr-12	Dec-13	23,844	17,287	14,105	Floating	20 acres
Condo Conversion – NY, NY (2)	Dec-12	Jan-15	45,000	45,000	44,553	Fixed	119,000 sq. ft.
Total/Weighted Average			\$154,844	\$146,550	\$142,921	7.82 %	

- (1) This loan is a senior sub-participation interest in a \$120,000 first mortgage. In December 2012, the borrower exercised a one-year extension option which was subject to repayment of \$33,000 of the entire first mortgage loan (of which the Company received its pro rata portion) and the payment of a fee on the outstanding balance of the entire first mortgage loan.

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

The Company evaluates its loans for possible impairment on a quarterly basis. The Company regularly evaluates the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations are sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan and/or (iii) the property's liquidation value. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, the Company considers the overall economic environment, real estate sector and geographic sub-market in which the borrower operates. Such loan loss analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including (i) periodic financial data such as debt service coverage ratio, property occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, and capitalization and discount rates, (ii) site inspections and (iii) current credit spreads and discussions with market participants. An allowance for loan loss is established when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. The Company has determined that an allowance for loan losses was not necessary at September 30, 2013 and December 31, 2012.

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Note 6 – Subordinate Loans

The Company's subordinate loan portfolio was comprised of the following at September 30, 2013:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon
Office - Michigan	May-10	Jun-20	\$9,000	\$8,879	\$8,879	Fixed
Ski Resort - California	Apr-11	May-17	40,000	40,000	39,812	Fixed
Hotel Portfolio – New York (1)	Aug-11	July-14	25,000	25,000	25,000	Floating
Retail Center – Virginia (2)	Oct-11	Oct-14	25,000	22,216	22,216	Fixed
Hotel– New York (3)	Jan-12	Feb-14	15,000	15,000	15,156	Fixed
Mixed Use – North Carolina	Jul-12	Jul-22	6,525	6,525	6,525	Fixed
Office Complex - Missouri	Sept-12	Oct-22	10,000	9,883	9,883	Fixed
Hotel Portfolio – Various (3)	Nov-12	Nov-15	50,000	48,697	48,616	Floating
Condo Conversion – NY, NY (4)	Dec-12	Jan-15	350	350	—	Floating
Condo Construction – NY, NY (3)	Jan-13	Jul-17	60,000	64,612	64,094	Fixed
Multifamily Conversion – NY, NY (3)	Jan-13	Dec-14	18,000	18,000	17,889	Floating
Hotel Portfolio – Rochester, MN	Jan-13	Feb-18	25,000	24,840	24,840	Fixed
Warehouse Portfolio - Various	May-13	May-23	32,000	32,000	32,000	Fixed
Multifamily Conversion – NY, NY (5)	May-13	Jun-14	44,000	44,000	43,781	Floating
Office Condo - NY, NY	Jul-13	Jul-22	14,000	14,000	13,557	Fixed
Condo Conversion – NY, NY (6)	Aug-13	Sept-15	294	294	—	Floating
Mixed Use - Pittsburgh, PA (7)	Aug-13	Aug-16	22,500	22,500	22,306	Floating
Total/Weighted Average			\$396,669	\$396,796	\$394,554	12.04 %

(1) Includes two one-year extension options subject to certain conditions and the payment of a fee for the fourth and fifth year extensions.

(2) Includes two one-year extension options subject to certain conditions.

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

(4) Includes two one-year extension options subject to certain conditions and the payment of a fee for each extension. As of September 30, 2013, the Company had \$34,650 of unfunded loan commitments related to this loan.

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

(6) Includes a one-year extension option subject to certain conditions and the payment of an extension fee. As of September 30, 2013, the Company had \$29,106 of unfunded loan commitments related to this loan.

(7) Includes two one-year extension options subject to certain conditions and the payment of a fee for each extension. In February 2013, the Company received principal repayment on two mezzanine loans totaling \$50,000 secured by a portfolio of retail shopping centers located throughout the United States. In connection with the repayment, the Company received a yield maintenance payment totaling \$2,500. With the yield maintenance payment, the Company realized a 15% IRR on its mezzanine loan investment. For a description of how the IRR is calculated, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition and Results of Operations – Investments”.

In June 2013, the Company received the repayment of a \$15,000 mezzanine loan secured by a hotel in New York City. In connection with the repayment, the Company received a yield maintenance payment totaling \$1,233. With the yield maintenance payment, the Company realized a 19% IRR on its mezzanine loan investment. For a description of how the IRR is calculated, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition and Results of Operations – Investments”.

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The Company's subordinate loan portfolio was comprised of the following at December 31, 2012:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon
Senior Mezz - Retail - Various	Dec-09	Dec-19	\$30,000	\$30,000	\$30,000	Fixed
Junior Mezz - Retail - Various	Dec-09	Dec-19	20,000	20,000	20,000	Fixed
Office - Michigan	May-10	Jun-20	9,000	8,912	8,912	Fixed
Ski Resort - California	Apr-11	May-17	40,000	40,000	39,831	Fixed
Hotel Portfolio – New York (1)	Aug-11	July-13	25,000	25,000	25,000	Floating
Retail Center – Virginia (2)	Oct-11	Oct-14	25,000	26,243	26,243	Fixed
Hotel– New York (3)	Jan-12	Feb-14	15,000	15,000	15,013	Fixed
Hotel– New York (4)	Mar-12	Mar-14	15,000	15,000	15,000	Floating
Mixed Use – North Carolina	Jul-12	Jul-22	6,525	6,525	6,525	Fixed
Office Complex - Missouri	Sept-12	Oct-22	10,000	9,979	9,979	Fixed
Hotel Portfolio - Various (5)	Nov-12	Nov-15	50,000	49,950	49,743	Floating
Condo Conversion – NY, NY (6)	Dec-12	Jan-15	350	350	—	Floating
Total/Weighted Average			\$245,875	\$246,959	\$246,246	12.46 %

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

(2) Includes two one-year extension options subject to certain conditions.

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

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

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

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

(6) As of December 31, 2012, the Company had \$34,650 of unfunded loan commitments related to this loan.

The Company evaluates its loans for possible impairment on a quarterly basis. See “Note 5 – Commercial Mortgage Loans” for a summary of the metrics reviewed. The Company has determined that an allowance for loan loss was not necessary at September 30, 2013 and December 31, 2012.

Note 7 – Repurchase Agreement

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

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

In January 2013, the repurchase agreement was repaid in full. Upon the repayment, the Company realized a 17% IRR on its investment. For a description of how the IRR is calculated, see “Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Conditions and Results of Operations—Investments”.

Note 8 – Borrowings

At September 30, 2013 and December 31, 2012, the Company had borrowings outstanding under the Company's master repurchase agreement with JPMorgan Chase Bank, N.A. (“JPMorgan”) (the “JPMorgan Facility”), the Wells Facility and the UBS Facility.

At September 30, 2013 and December 31, 2012, the Company's borrowings had the following debt balances, weighted average maturities and interest rates:

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	September 30, 2013			December 31, 2012		
	Debt Balance	Weighted Average Remaining Maturity	Weighted Average Rate	Debt Balance	Weighted Average Remaining Maturity	Weighted Average Rate
Wells Facility borrowings	\$156,969	0.9 years	1.4 %	\$225,155	1.1 years	* 1.8 % **
UBS Facility borrowings	70,195	5.0 years	* 2.9 %	n/a	n/a	n/a Fixed
JPMorgan Facility borrowings	3	1.3 years	* 2.7 %	3	0.0 years	2.7 % L+250
Total borrowings	\$227,167	2.2 years	1.9 %	\$225,158	1.1 years	1.8 %

* Assumes extension options are exercised.

** At December 31, 2012, borrowings outstanding under the Wells Facility bore interest at LIBOR plus 125 basis points, 150 basis points or 235 basis points depending on the collateral pledged. At September 30, 2013, borrowings outstanding under the Wells Facility bore interest at LIBOR plus 105 basis points or 175 basis points depending on the collateral pledged.

At September 30, 2013, 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
Wells Facility borrowings	\$156,969	\$—	\$—	\$—	\$156,969
UBS Facility borrowings *	—	—	70,195	—	70,195
JPMorgan Facility borrowings *	—	3	—	—	3
Total	\$156,969	\$3	\$70,195	\$—	\$227,167

* Assumes extension options are exercised.

At September 30, 2013, the Company's collateralized financings were comprised of borrowings outstanding under the JPMorgan Facility, the UBS Facility and the Wells Facility. The table below summarizes the outstanding balances at September 30, 2013, as well as the maximum and average balances for the nine months ended September 30, 2013.

	Balance at September 30, 2013	For the nine months ended September 30, 2013	
		Maximum Month-End Balance	Average Month-End Balance
Wells Facility borrowings	\$156,969	\$225,156	\$197,146
UBS Facility borrowings	70,195	70,195	7,020
JPMorgan Facility borrowings	3	3	3
Total	\$227,167		

During September 2013, the Company through an indirect wholly-owned subsidiary entered into the UBS Facility with UBS pursuant to which the Company may borrow up to \$133,333 in order to finance the acquisition of CMBS. The UBS Facility has a term of four years, with a one-year extension available at our option, subject to certain restrictions. Advances under the UBS Facility accrue interest at a per annum pricing rate equal to a spread of 1.55% per annum over the rate implied by the fixed rate bid under a fixed for floating interest rate swap for the receipt of payments indexed to six-month US Dollar LIBOR. The Company borrows 100% of the estimated fair value of the collateral pledged and posts margin equal to 22.5% of that borrowing amount in cash. The margin posted is classified as restricted cash on the Company's condensed consolidated balance sheets. Additionally, beginning on the 121st day following the closing date and depending on the utilization rate of the facility, a portion of the undrawn amount may be subject to non-use fees. The UBS Facility contains customary terms and conditions for repurchase facilities of this

type and financial covenants to be met by the Company, including a minimum net asset value covenant (which shall not be less than an amount equal to \$500,000 and a maximum total debt to consolidated tangible net worth covenant (3:1)). The Company has agreed to provide a full guarantee of the obligations of its indirect wholly-owned subsidiary under the UBS Facility.

In February 2013, the Company, through two of the Company's subsidiaries, entered into a Second Amended and Restated Master Repurchase Agreement with JPMorgan (the "Amended JPMorgan Master Repurchase Agreement"). The Amended JPMorgan Master Repurchase Agreement extended the maturity date of the JPMorgan Facility to January 31, 2014, with an option to further extend the maturity date for 364 days, subject to the Company's satisfaction of certain customary

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conditions. The interest rate on the JPMorgan Facility is LIBOR+2.5%. The Company paid JPMorgan an upfront structuring fee of 0.50% of the facility amount for the first year of the term and, if the 364-day extension option is exercised, it will be required to pay an extension fee of 0.25% of the facility amount. The Company has agreed to provide a full guarantee of the obligations of its borrower subsidiaries under the Amended JPMorgan Master Repurchase Agreement.

In February 2013, the Company amended the Wells Facility to reduce the interest rate as follows: (i) with respect to the outstanding borrowings used to provide financing for the AAA-rated CMBS, the interest rate was reduced to LIBOR+1.05% from LIBOR+1.25%-1.50% (depending on the collateral pledged); and (ii) with respect to the outstanding borrowings used to provide financing for the Hilton CMBS, the interest rate was reduced to LIBOR+1.75% from LIBOR+2.35%. In addition, the maturity date of the Wells Facility with respect to the outstanding borrowings used to provide financing for the AAA-rated CMBS was extended to March 2014 and the Maximum Amount (as defined in the Wells Facility) was reduced to the outstanding balance of \$212,343. The portion available to finance the Hilton CMBS matures in November 2014 and may be extended for an additional year upon the payment of an extension fee equal to 0.50% on the then aggregate outstanding repurchase price for all such assets. The Company was in compliance with the financial covenants under its repurchase agreements at September 30, 2013 and December 31, 2012.

Note 9 – Derivative Instruments

From time to time, the Company uses interest rate swaps and caps to manage exposure to variable cash flows on portions of its borrowings under repurchase agreements. Some of the Company's repurchase agreements bear interest at a LIBOR-based variable rate and increases in LIBOR could negatively impact earnings. Interest rate swap and cap agreements allow the Company to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure.

The Company entered into interest rate swaps and forward-starting caps in an effort to economically hedge a portion of its floating-rate interest payments due under the Wells Facility as well as potential extensions of the collateral securing the Wells Facility borrowings. All of the Company's derivative instruments matured during the third quarter of 2013. The Company's derivative instruments consist of the following at December 31, 2012:

	Balance Sheet Location	December 31, 2012	
		Notional Value	Estimated Fair Value
Interest rate swaps	Derivative instruments	\$80,881	\$(156)
Interest rate caps	Derivative instruments	203,248	* 1
Total derivative instruments			\$(155)

*Represents the notional values at December 31, 2012, but does not include forward-starting notionals.

The Company has an agreement with its derivative counterparty that contains a provision where if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

The following table summarizes the amounts recognized on the consolidated statements of operations related to the Company's derivatives for the three and nine months ended September 30, 2013 and 2012.

	Location of Loss Recognized in Income	Three months ended		Nine months ended	
		September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Interest rate swaps	Loss on derivative instruments – realized *	\$(24)	\$(127)	\$(156)	\$(796)
Interest rate swaps	Gain on derivative instruments – unrealized	25	50	155	414
Interest rate caps		—	(10)	—	(187)

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Loss on derivative instruments -
unrealized

Total	\$1	\$(87)	\$(1)	\$(569)
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*Realized losses represent net amounts accrued for the Company's derivative instruments during the period.

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The following table summarizes the gross asset and liability amounts related to the Company's derivatives at December 31, 2012.

	December 31, 2012		
	Gross Amount of Assets Recognized as Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position
Interest rate swaps	\$—	\$(156	) \$(156)
Interest rate caps	1	—	1
Total derivative instruments	\$1	\$(156	) \$(155)

Note 10 – 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, 2014 and shall be 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 on March 12, 2013 with respect to the Management Agreement, which included a discussion of the Manager's performance and the level of the management fees thereunder, the Company determined not to seek termination of the Management Agreement.

For the three and nine months ended September 30, 2013, respectively, the Company incurred approximately \$2,625 and \$7,384 in base management fees. For the three and nine months ended September 30, 2012, respectively, the Company incurred approximately \$1,518 and \$4,099 in base management fees. In addition to the base management fee, the Company is also responsible for reimbursing the Manager for certain expenses paid by the Manager on behalf of the Company or for certain services provided by the Manager to the Company. For the three and nine months ended September 30, 2013, respectively, the Company recorded expenses totaling \$208 and \$542 related to reimbursements for certain expenses paid by the Manager on behalf of the Company. For the three and nine months ended September 30, 2012, respectively, the Company recorded expenses totaling \$203 and \$721 related to reimbursements for certain expenses paid by the Manager on behalf of the Company. Expenses incurred by the Manager and reimbursed by the Company are reflected in the respective consolidated statement of operations expense category or the consolidated balance sheet based on the nature of the item.

Included in payable to related party on the consolidated balance sheet at September 30, 2013 is approximately \$2,625 for base management fees incurred but not yet paid and \$31 related to a payment due to the Manager in connection with a restricted stock unit ("RSU") delivery during 2013. Included in payable to related party on the consolidated balance sheet at December 31, 2012 is approximately \$2,037 for base management fees incurred but not yet paid.

KBC Bank Deutschland AG

In September 2013, the Company announced that it has entered into an agreement to invest up to approximately €38,000 (\$50,000) in a limited partnership (the "KBCD Partnership"), a wholly-owned subsidiary of which has agreed to acquire, alongside certain third party purchasers, in aggregate all of the shares of KBC Bank Deutschland AG ("KBCD"), the German

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subsidiary of Belgian KBC Group NV. The general partner and the other limited partners in the KBCD Partnership are indirect subsidiaries of or are indirectly managed by Apollo Global Management, LLC (“Apollo”), the indirect parent company of the Company's external manager, ACREFI Management, LLC. The acquisition is subject to antitrust and regulatory approval, which is expected to take approximately nine months. Consequently, there is no assurance that the acquisition will close.

As of December 31, 2012, KBCD had total assets of approximately €2,607,000. KBCD specializes in corporate banking and financial services for medium-sized German companies. KBCD also is active in real estate financing, acquisition finance, institutional cash, interest and currency management and private wealth management for German high net worth individuals. KBCD's existing real estate loan portfolio is focused on development and investment financing, primarily in Germany, across a number of property sectors.

The Company's limited partnership interest in the KBCD Partnership is expected to represent approximately 21% of the indirect ownership of KBCD. Upon closing of the KBCD acquisition it is expected that the KBCD Partnership will incur a structuring fee payable to an indirect subsidiary of Apollo equal to approximately 1.62% of the equity commitments to the KBCD Partnership. In addition, a subsidiary of the KBCD Partnership will be entitled to acquire additional shares in KBCD representing up to 10% of KBCD in connection with certain exit events, based on the achievement of certain rates of return on the investments by the KBCD Partnership and the other direct and indirect acquirers of KBCD; the Company's indirect interest in KBCD will be diluted in connection with any such acquisition.

Note 11 – 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, 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 \$784 and \$2,095 for the three and nine months ended September 30, 2013, respectively, related to restricted stock and RSU vesting. The Company recognized stock-based compensation expense of \$1,276 and \$3,244 for the three and nine months ended September 30, 2012, respectively, related to restricted stock and RSU vesting. The following table summarizes the grants of restricted common stock and RSUs during the nine months ended September 30, 2013:

Type	Date	Restricted Stock	RSUs	Estimate Fair Value on Grant Date	Initial Vesting	Final Vesting
Grant	February 2013	20,000	—	\$ 352	December 2013	December 2015
Grant	February 2013	—	180,000	3,166	December 2013	December 2015
Grant	April 2013	11,304	—	200	July 2013	April 2016
Grant	May 2013	—	15,000	261	December 2013	December 2015
Forfeiture *	June 2013	—	(5,000)	n/a	n/a	n/a
Grant	September 2013	—	10,000	153	September 2013	September 2013
Total		31,304	200,000			

* Represents RSUs forfeited by a former employee of the Manager in connection with such employee's resignation from the Manager.

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Below is a summary of expected restricted common stock and RSU vesting dates as of September 30, 2013.

Vesting Date	Shares Vesting	RSU Vesting	Total Awards
October 2013	2,925	416	3,341
December 2013	6,664	63,327	69,991
January 2014	2,504	93,335	95,839
March 2014	—	6,667	6,667
April 2014	2,508	417	2,925
July 2014	1,740	—	1,740
July 2014	500	—	500
October 2014	1,736	—	1,736
December 2014	6,668	63,332	70,000
January 2015	1,744	—	1,744
March 2015	—	6,667	6,667
April 2015	1,744	—	1,744
July 2015	944	—	944
July 2015	500	—	500
October 2015	944	—	944
December 2015	6,668	63,341	70,009
January 2016	944	—	944
April 2016	944	—	944
	39,677	297,502	337,179

Note 12 – Stockholders' Equity

Dividends. For 2013, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Amount
February 27, 2013	March 28, 2013	April 12, 2013	\$0.40
May 1, 2013	June 28, 2013	July 12, 2013	\$0.40
July 31, 2013	September 30, 2013	October 11, 2013	\$0.40

For 2013, the Company declared the following dividends on its 8.625% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock"):

Declaration Date	Record Date	Payment Date	Amount
March 15, 2013	March 28, 2013	April 15, 2013	\$0.5391
June 12, 2013	June 28, 2013	July 15, 2013	\$0.5391
September 16, 2013	September 30, 2013	October 15, 2013	\$0.5391

Common Offering. During March 2013, the Company completed a follow-on public offering of 8,805,000 shares of its common stock, including the partial exercise of the underwriters' option to purchase additional shares, at a price of \$16.90 per share. The aggregate net proceeds from the offering, including proceeds from the sale of the additional shares, were approximately \$148,333 after deducting estimated offering expenses payable by the Company.

ATM Program. In May 2013, the Company entered into an ATM Equity Offering Sales Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated and JMP Securities LLC (the "Agents"), relating to shares of the Company's common stock. In accordance with the terms of the agreement, the Company may offer and sell shares of common stock having an aggregate offering price of up to \$100,000 from time to time through the Agents. Sales of the shares, if any, will be made by means of ordinary brokers' transactions or otherwise at market prices prevailing at the time of sale, at prices related to

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prevailing market prices or at negotiated prices, or as otherwise agreed with the applicable Agent. To date, the Company has not directed the Agents to sell any shares.

Stock Repurchase Program. In July 2013, the Company's board of directors approved a stock repurchase program to authorize the Company to repurchase up to an aggregate of \$50,000 of its shares of common stock. To date, the Company has not repurchased any shares pursuant to the stock repurchase program.

Note 13 – Commitments and Contingencies

KBC Bank Deutschland AG. In September 2013, the Company, together with other affiliates of Apollo, reached an agreement to make an investment in an entity that has agreed to acquire a minority participation in KBCD. The Company committed to invest up to approximately \$50,000 (€38,000), representing approximately 21% of the ownership in KBCD. The acquisition is subject to antitrust and regulatory approval, which is expected to take approximately nine months. Consequently, there is no assurance that the acquisition will close.

Loan Commitments. As described in Note 6, at September 30, 2013 and December 31, 2012, the Company had \$34,650 of unfunded loan commitments related to the condominium conversion loan that closed in December 2012. At September 30, 2013, the Company had \$29,106 of unfunded loan commitments related to the condominium conversion loan that closed in August 2013.

Note 14 – Fair Value of Financial Instruments

The following table presents the carrying value and estimated fair value of the Company's financial instruments not carried at fair value on the consolidated balance sheet at September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and cash equivalents	\$86,824	\$86,824	\$108,619	\$108,619
Restricted cash	15,794	15,794	—	—
Commercial first mortgage loans	160,893	165,063	142,921	150,144
Subordinate loans	394,554	400,099	246,246	250,520
Repurchase agreements	—	—	6,598	6,598
Borrowings under repurchase agreements	(227,167)	(227,175)	(225,158)	(225,158)

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

Note 15 – Net Income per Share

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

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

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The table below presents basic and diluted net (loss) income per share of common stock using the two-class method for the three and nine months ended September 30, 2013 and 2012:

	For the three months ended September 30, 2013		For the nine months ended September 30, 2012	
Numerator:				
Net income	\$ 12,900	\$ 12,211	\$ 36,621	\$ 31,214
Preferred dividends	(1,859)	(1,219)	(5,580)	(1,219)
Net income available to common stockholders	11,041	10,992	31,041	29,995
Dividends declared on common stock	(14,753)	(8,228)	(44,253)	(16,453)
Dividends on participating securities	(202)	(168)	(596)	(337)
Net income (loss) attributable to common stockholders	\$(3,914)	\$ 2,596	\$(13,808)	\$ 13,205
Denominator:				
Basic weighted average shares of common stock outstanding	36,883,002	20,571,478	34,647,941	20,567,772
Diluted weighted average shares of common stock outstanding	37,379,469	20,992,312	35,103,285	20,983,429
Basic and diluted net income (loss) per weighted average share of common stock				
Distributable Earnings	\$ 0.40	\$ 0.40	\$ 1.28	\$ 0.80
Undistributed income (loss)	\$(0.11)	\$ 0.12	\$(0.40)	\$ 0.63
Basic and diluted net income per share of common stock	\$ 0.29	\$ 0.52	\$ 0.88	\$ 1.43

Note 16 – Subsequent Events

Dividends. On November 4, 2013, the Company declared a dividend of \$0.40 per share of common stock, which is payable on January 13, 2014 to common stockholders of record on December 31, 2013.

Investment Activity. During October 2013, the Company purchased \$47,000 of mezzanine participations secured by a pledge of the equity interests in a borrower that owns a healthcare portfolio consisting of 193 skilled nursing facilities, long-term acute care hospitals and senior housing facilities. The mezzanine participations, which the Company purchased at par, have a remaining nine-month term and are part of a \$92,000 floating-rate senior mezzanine loan. The Company's loan basis, inclusive of cash held for collateral, represents an underwritten loan-to-value ("LTV") of 58%. The mezzanine participations were underwritten to generate an IRR of approximately 12%. For a description of how the IRR is calculated, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Conditions and Results of Operations—Investments".

During fourth quarter of 2013, the Company fully funded the \$34,650 remaining commitment related to the condominium conversion loan that closed in December 2012.

During the fourth quarter of 2013, the Company deployed \$4,049 of equity to acquire additional legacy CMBS originally rated AAA, with an aggregate purchase price of \$17,994 and a weighted average life of approximately 3.6 years. To finance the purchase of the CMBS, the Company used \$17,994 of borrowings under the UBS Facility and pledged \$4,049 of cash.

Loan Repayment. During October 2013, the Company received a full principal repayment from a \$25,000 mezzanine loan secured by a portfolio of hotels in New York City. The Company realized a 12% IRR on its investment.

Election of Director - On November 4, 2013, the Board of Directors elected Scott Prince as an independent director of the Board. Mr. Prince also was elected as a member of the Audit Committee of the Board.

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

FORWARD-LOOKING INFORMATION

The Company makes forward-looking statements herein and will make forward-looking statements in future filings with the SEC, press releases or other written or oral communications within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). For these statements, the Company claims the protections of the safe harbor for forward-looking statements contained in such sections. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the Company’s control. These forward-looking statements include information about possible or assumed future results of the Company’s business, financial condition, liquidity, results of operations, plans and objectives. When the Company uses the words “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “may” or similar expressions, it intends to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking: market trends in the Company’s industry, interest rates, real estate values, the debt securities markets or the general economy or the demand for commercial real estate loans; the Company’s business and investment strategy; operating results and potential asset performance; actions and initiatives of the U.S. government and changes to U.S. government policies and the execution and impact of these actions, initiatives and policies; the state of the U.S. economy generally or in specific geographic regions; economic trends and economic recoveries; the Company’s ability to obtain and maintain financing arrangements, including securitizations; the anticipated shortfall of debt financing from traditional lenders; the volume of short-term loan extensions; the demand for new capital to replace maturing loans; expected leverage; general volatility of the securities markets in which the Company participates; changes in the value of the Company’s assets; the scope of the Company’s target assets; interest rate mismatches between the Company’s target assets and any borrowings used to fund such assets; changes in interest rates and the market value of the Company’s target assets; changes in prepayment rates on the Company’s target assets; effects of hedging instruments on the Company’s target assets; rates of default or decreased recovery rates on the Company’s target assets; the degree to which hedging strategies may or may not protect the Company from interest rate volatility; impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters; the Company’s ability to maintain its qualification as a REIT for U.S. federal income tax purposes; the Company’s ability to maintain its exemption from registration under the Investment Company Act of 1940, as amended; the availability of opportunities to acquire commercial mortgage-related, real estate-related and other securities; the availability of qualified personnel; estimates relating to the Company’s ability to make distributions to its stockholders in the future; and the Company’s understanding of its competition.

The forward-looking statements are based on the Company’s beliefs, assumptions and expectations of its future performance, taking into account all information currently available to it. Forward-looking statements are not predictions of future events. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to the Company. See “Item 1A - Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. These and other risks, uncertainties and factors, including those described in the annual, quarterly and current reports that the Company files with the SEC, could cause its actual results to differ materially from those included in any forward-looking statements the Company makes. All forward-looking statements speak only as of the date they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, the Company is not obligated to, and does not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

The Company is a REIT that primarily originates, acquires, invests in and manages performing commercial first mortgage loans, CMBS, subordinate financings and other commercial real estate-related debt investments in the United States. These asset classes are referred to as the Company’s target assets.

The Company is externally managed and advised by the Manager, an indirect subsidiary of Apollo Global Management, LLC, (together with its subsidiaries, “Apollo”), a leading global alternative investment manager with a contrarian and value oriented investment approach in private equity, credit and real estate with assets under

management of approximately \$113 billion as of June 30, 2013.

The Manager is led by an experienced team of senior real estate professionals who have significant experience in commercial property investing, financing and ownership. The Manager benefits from the investment, finance and managerial expertise of Apollo's private equity, credit and real estate investment professionals. The Company believes its relationship with Apollo provides the Company with significant advantages in sourcing, evaluating, underwriting and managing investments in the Company's target assets.

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Market Overview

The commercial real estate lending market continues to recover from the downturn experienced as part of the correction in the global financial markets which began in mid-2007. However, as Property values have recovered to peak levels according to certain metrics, the lending market has yet to fully return to levels seen during the period leading up to 2007. Based on the current market dynamics, including over \$1 trillion of commercial real estate debt scheduled to mature through 2017, there remains a compelling opportunity for the Company to invest capital in its target assets at attractive risk adjusted returns.

During and immediately following the financial crisis, due to the prevalence of lenders granting extensions across the commercial mortgage loan industry, the demand for new capital to refinance maturing commercial mortgage debt was somewhat tempered. This trend has abated to a certain extent in more recent periods as many borrowers have begun to refinance legacy loans and pursue new acquisitions. While the frequency of extensions and modifications had a meaningful impact on the timing of loan maturities, the Company believes the next phase will involve rising volumes of commercial mortgage lending activity which should allow lenders to capitalize on the impending maturity wall. At the end of the second quarter of 2013, many market participants expected the Federal Reserve to begin tapering its asset purchases towards the end of the year. However, economic indicators and recent events have delayed the expectation of any tapering, resulting in a projected low-interest rate environment through the end of 2013 and at least into the beginning of 2014. It is expected that the low interest rate environment will remain attractive to borrowers and will continue to drive significant refinancing activity across all property types during the remainder of 2013 and into 2014.

There has also been a continued growth and recovery in the CMBS market. In 2012, approximately \$48 billion of CMBS were issued in the United States, an increase of approximately 48% over 2011. In the first three quarters of 2013, approximately \$60.5 billion of CMBS were issued in the United States, approximately 2.0 times the volume issued during the first three quarters of 2012. We believe the continued growth and recovery of the CMBS market is evidence that the lending market for commercial real estate has largely stabilized since the financial crisis.

However, current volumes of CMBS issuance are still moderate relative to the peak of the market, which saw more than \$229 billion in CMBS issuance in 2007. We perceive that lenders still appear to be focused on stabilized cash flowing assets with loan-to-value ratios lower than peak. As a result, we expect to continue to see opportunities to originate mezzanine and first mortgage financings with respect to those parts of the financing capital structure which are unsuitable to be sold as part of a CMBS offering.

Critical Accounting Policies

A summary of the Company's accounting policies is set forth in its Annual Report on Form 10-K for the year ended December 31, 2012 under "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical accounting policies and use of estimates."

Financial Condition and Results of Operations

(in thousands—except share and per share data)

Investment Activity

Investment activity. In January 2013, the Company provided a \$60,000 mezzanine loan commitment (\$56,099 of which has been funded to date) secured by a pledge of preferred equity interests in the owner of a to-be-developed 352,624 net saleable square foot, 57-story, 146-unit condominium tower located in the TriBeCa neighborhood of New York City. The Company has funded \$56,099 of financing to date and expects to provide an additional \$3,901 within six months following the initial loan closing. When fully funded and based upon current presales of units, the Company's loan basis is expected to represent an underwritten loan-to-net sellout of approximately 48%. The mezzanine loan has a term of 54 months with one extension option of 12-months and has been underwritten to generate an IRR of approximately 16%. See "—Investments" below for a discussion of IRR.

In February 2013, the Company provided an \$18,000 mezzanine loan secured by a pledge of the equity interests in the owner of two buildings in midtown Manhattan. The buildings contain a total of 181,637 rentable square feet that is being converted into 215 multifamily rental units. The mezzanine loan is part of a \$90,000, three-year (two-year initial term with one one-year extension option) interest-only, floating rate financing comprised of the mezzanine loan and a \$72,000 first mortgage loan. When the first mortgage loan is fully funded, the Company expects that the mezzanine

loan will have a loan-to-value (“LTV”) of approximately 60% and the mezzanine loan has been underwritten to generate an IRR of approximately 13%. See “—Investments” below for a discussion of IRR.

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In February 2013, the Company provided a \$25,000 mezzanine loan secured by a pledge of the equity interests in the owner of a portfolio of four hotels totaling 1,231 rooms located in Rochester, Minnesota. The hotels are within walking distance of the Mayo Clinic, an internationally renowned health care facility that treats over one million patients annually from around the world. The mezzanine loan is part of a \$145,000 five-year, fixed rate loan, comprised of a \$120,000 first mortgage loan and the mezzanine loan, which was provided in connection with the acquisition of the portfolio. The mezzanine loan has an appraised LTV of approximately 69% and has been underwritten to generate an IRR of approximately 12%. See “—Investments” below for a discussion of IRR.

In May 2013, the Company provided a \$32,000 mezzanine loan secured by a pledge of the equity interests in a borrower that owns a portfolio of 15 warehouse facilities, totaling 2.8 million square feet, spanning nine states. The mezzanine loan is part of a \$322,000, 10-year fixed rate loan comprised of a \$220,000 first mortgage loan (with a 25-year amortization schedule), a \$70,000 senior mezzanine loan and the Company's \$32,000 junior mezzanine loan. The mezzanine loan has an appraised LTV of 75% and has been underwritten to generate an IRR of approximately 12%. See “—Investments” below for a discussion of IRR.

In May 2013, the Company provided a \$44,000 mezzanine loan secured by the pledge of the equity interests in a borrower that acquired five adjacent commercial buildings totaling approximately 411,000 gross square feet that are expected to be converted into multifamily rental apartments in the Gramercy Park neighborhood of New York City. The mezzanine loan is part of a \$128,000, fifteen-month (one-year initial term with one three-month extension option) floating rate loan comprised of a \$84,000 first mortgage and the Company's \$44,000 mezzanine loan. The mezzanine loan has an appraised LTV of 78% and has been underwritten to generate an IRR of approximately 14%. See “—Investments” below for a discussion of IRR.

In July 2013, the Company provided a \$14,000 mezzanine loan (purchased for \$13,551 or approximately 97% of face value) secured by a pledge of the equity interest in a borrower that owns the office component of a 432,717 square foot building located in downtown New York City. The mezzanine loan is part of a \$105,000, 10-year fixed rate loan (with 9 years remaining) comprised of a \$91,000 first mortgage loan and the Company's \$14,000 mezzanine loan. The mezzanine loan has an underwritten LTV of 70% and has been underwritten to generate an IRR of approximately 13%. See “—Investments” above for a discussion of IRR.

In August 2013, the Company provided a \$22,500 mezzanine loan secured by a pledge of the equity interest in a borrower that owns a mixed use property located in the central business district of Pittsburgh, PA and consists of (i) a 27-story multi-tenant office building, (ii) an adjoining 616-key convention center hotel and (iii) a 479-space underground parking garage. The mezzanine loan is part of a \$105,000, five-year (three-year initial term with two one-year extension options) floating rate loan comprised of an \$82,500 first mortgage loan and the Company's \$22,500 mezzanine loan. The mezzanine loan has an appraised LTV of 69% and has been underwritten to generate an IRR of approximately 12%. See “—Investments” above for a discussion of IRR.

In August 2013, the Company provided a \$62,400 whole loan, which is split into a \$33,000 first mortgage and a \$29,400 mezzanine loan secured by a pledge of the equity interests in a borrower that owns an eight-story commercial building in the Greenwich Village section of New York City. The whole loan will fund the conversion of the existing building into a 12-story luxury residential condominium consisting of approximately 37,000 square feet comprising eight residential units and approximately 3,600 square feet of ground-floor retail space. The whole loan has a two year term, including one 12-month extension option, at the borrower's option, subject to certain conditions. On a fully funded basis, the whole loan represents an appraised loan-to-net-sellout of 55%. The whole loan has been underwritten to generate an IRR of approximately 14%. See “—Investments” above for a discussion of IRR.

In September 2013, the Company deployed \$20,563 of equity to acquire legacy CMBS originally rated AAA with an aggregate face amount of \$92,279 and a weighted average life of approximately 3.8 years. The Company financed the balance utilizing \$91,391 of borrowings under the UBS Facility and additionally pledged \$20,563 of cash. See "Liquidity and Capital Resources" below for a description of the UBS Facility. The CMBS investments have been underwritten to generate a weighted average IRR of approximately 15%. See “—Investments” above for a discussion of IRR.

Investments

The following table sets forth certain information regarding the Company's investments at September 30, 2013:

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Description	Face Amount	Amortized Cost	Remaining		Cost of Funds	Remaining		Current Weighted Average IRR (3)	Levered Weighted Average IRR (4)	
			Weighted Average Yield	Weighted Average Life (years)		Debt Term (years) (1)	Equity at cost (2)			
First mortgages	\$ 161,653	\$ 160,893	9.4 %	2.2	\$ 3	2.7 %	1.3	\$ 160,890	10.7 %	14.5 %
Subordinate loans	396,796	394,554	12.7	4.1	—	—	—	394,554	13.4	13.4
CMBS	217,290	218,019	5.3	2.2	180,626	1.9	2.2	36,760	15.4	15.4
CMBS - Hilton	70,682	69,587	12.3	0.1	46,538	1.9	2.1	23,049	16.6	16.6
Total	\$ 846,421	\$ 843,053	10.2 %	3.0	\$ 227,167	1.9 %	2.2	\$ 615,253	12.9 %	13.9 %

Assumes extension options on the Wells Facility, the UBS Facility and JPMorgan Facility are exercised. See

(1) “—Liquidity and Capital Resources - Borrowings Under Various Financing Arrangements” below for a discussion of the Company’s repurchase agreements.

(2) Includes \$15,794 of restricted cash related to the UBS Facility and \$16,427 of future borrowings related to unsettled trades at September 30, 2013.

The internal rates of return (“IRR”) for the investments shown in the above table reflect the returns underwritten by the Manager, calculated on a weighted average basis assuming no dispositions, early prepayments or defaults but assuming that extension options are exercised and that the cost of borrowings and derivative instruments under the Wells Facility remains constant over the remaining terms and extension terms under this facility. With respect to certain loans, the IRR calculation assumes certain estimates with respect to the timing and magnitude of future fundings for the remaining commitments and associated loan repayments, and assumes no defaults. IRR is the annualized effective compounded return rate that accounts for the time-value of money and represents the rate of return on an investment over a holding period expressed as a percentage of the investment. It is the discount rate that makes the net present value of all cash outflows (the costs of investment) equal to the net present value of cash

(3) inflows (returns on investment). It is derived from the negative and positive cash flows resulting from or produced by each transaction (or for a transaction involving more than one investment, cash flows resulting from or produced by each of the investments), whether positive, such as investment returns, or negative, such as transaction expenses or other costs of investment, taking into account the dates on which such cash flows occurred or are expected to occur, and compounding interest accordingly. There can be no assurance that the actual IRRs will equal the underwritten IRRs shown in the table. See “Item 1A—Risk Factors—The Company may not achieve its underwritten internal rate of return on its investments which may lead to future returns that may be significantly lower than anticipated” included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 for a discussion of some of the factors that could adversely impact the returns received by the Company from the investments shown in the table or elsewhere in this quarterly report over time.

(4) Substantially all of the Company’s borrowings under the JPMorgan Facility were repaid upon the closing of the Company’s Series A Preferred Stock offering in August 2012. The Company’s ability to achieve its underwritten leveraged weighted average IRR with regard to its portfolio of first mortgage loans is additionally dependent upon the Company reborrowing approximately \$53,000 under the JPMorgan Facility or any replacement facility.

Without such reborrowing, the leveraged weighted average IRRs will be as indicated in the current weighted average IRR column above.

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Net Income Available to Common Stockholders

For the three and nine months ended September 30, 2013, respectively, the Company's net income available to common stockholders was \$11,041, or \$0.29 per share, and \$31,041, or \$0.88 per share. For the three and nine months ended September 30, 2012, respectively, the Company's net income available to common stockholders was \$10,992, or \$0.52 per share, and \$29,995, or \$1.43 per share.

Net Interest Income

The following table sets forth certain information regarding the Company's net investment income for the three and nine months ended September 30, 2013 and 2012:

	Three months ended September 30,				Nine months ended September 30,				
	2013	2012	Change (amount)	Change (%)	2013	2012	Change (amount)	Change (%)	
Interest income from:									
Securities	\$2,533	\$3,674	\$(1,141)	(31.1)%	\$8,634	\$12,227	\$(3,593)	(29.4)%	
Commercial mortgage loans	4,954	2,825	2,129	75.4%	12,222	7,851	4,371	55.7%	
Subordinate loans	12,184	6,144	6,040	98.3%	35,137	17,316	17,821	102.9%	
Repurchase agreements	—	2,361	(2,361)	(100.0)%	2	5,920	(5,918)	(100.0)%	
Interest expense	(885)	(1,768)	883	(49.9)%	(2,909)	(6,939)	4,030	(58.1)%	
Net interest income	\$18,786	\$13,236	\$5,550	41.9%	\$53,086	\$36,375	\$16,711	45.9%	

Net interest income for the three and nine months ended September 30, 2013 increased \$5,550, or 41.9%, and \$16,711, or 45.9%, from the same periods in 2012. The increase is primarily the result of additional interest income from commercial mortgage loans and subordinate loans offset by a decline in interest income from repurchase agreements and securities.

The decline in interest income related to securities for the three and nine months ended September 30, 2013 of \$1,141, or 31.1%, and \$3,593, or 29.4%, from the same periods in 2012 is attributable to the repayment of some of these securities as they near maturity and, to a lesser extent, the sale of a portion of the Company's securities during March 2012.

The increase in interest income related to commercial mortgage loans for the three and nine months ended September 30, 2013 of \$2,129, or 75.4%, and \$4,371, or 55.7%, from the same periods in 2012 is primarily attributable to the funding of \$62,490 of commercial mortgage loans net of repayments of \$31,300 during 2012 and the funding of \$32,643 of commercial mortgage loans net of repayments of \$17,898 during 2013.

The increase in interest income related to subordinate loans for the three and nine months ended September 30, 2013 of \$6,040, or 98.3%, and \$17,821, or 102.9%, from the same periods in 2012 is primarily attributable to the funding of \$213,515 and \$96,023 of subordinate loans during 2013 and 2012, respectively, net of repayments of \$71,173 during 2013. The increase is also attributable to a \$3,733 of prepayment penalties received during 2013 as well as the repayment of a subordinate loan during September 2013 that was held at a discount and was originally schedule to repay in December 2013.

The decrease in interest related to repurchase agreements for the three and nine months ended September 30, 2013 of \$2,361, or 100.0%, and \$5,918, or 100.0%, from the same periods in 2012 is attributable to the final repayment of the repurchase facility in January 2013.

Interest expense for the three and nine months ended September 30, 2013 decreased \$883, or 49.9%, and \$4,030, or 58.1%, from the same periods in 2012. The decrease is primarily the result of the decline in the average balance of the Company's borrowings from \$372,893 for the nine months ended September 30, 2012 to \$204,169 for the nine months ended September 30, 2013. In addition to the repayment of debt outstanding under the Wells Facility as the related CMBS have been repaid or sold, the Company repaid substantially all of the borrowings outstanding under the JPMorgan Facility upon the close of the Company's Series A Preferred Stock offering in August 2012. The Company also amended the JPMorgan Facility and the Wells Facility during 2012 and 2013 to reduce the cost of borrowings. See "– Liquidity and Capital Resources – Borrowings Under Various Financing Arrangements" for a discussion of those amendments.

Operating Expenses

The following table sets forth the Company's operating expenses for the three and nine months ended September 30, 2013 and 2012:

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	Three months ended September 30,				Nine months ended September 30,			
	2013	2012	Change (amount)	Change (%)	2013	2012	Change (amount)	Change (%)
General and administrative expense	\$ 1,009	\$ 1,154	\$(145)	(12.6)%	\$ 3,031	\$ 3,985	\$(954)	(23.9)%
Stock-based compensation expense	784	1,276	(492)	(38.6)%	2,095	3,244	(1,149)	(35.4)%
Management fee expense	2,625	1,518	1,107	72.9 %	7,384	4,099	3,285	80.1 %
Total operating expense	\$ 4,418	\$ 3,948	\$ 470	11.9 %	\$ 12,510	\$ 11,328	\$ 1,182	10.4 %

General and administrative expense for the three and nine months ended September 30, 2013 decreased \$145, or 12.6%, and \$954, or 23.9%, from the same periods in 2012. The decrease for the nine months ended September 30, 2013 is primarily attributable to a \$760 one-time expense in April 2012 related to the closing of the senior sub-participation interest in a first mortgage loan. Stock-based compensation expense for the three and nine months ended September 30, 2013 decreased \$492, or 38.6%, and \$1,149, or 35.4%, from the same periods in 2012. The decrease is primarily attributable to the fluctuation in the price of the Company's stock during 2013. Share-based payments are discussed further in the accompanying consolidated financial statements, "Note 11—Share-Based Payments."

Management fee expense for the three and nine months ended September 30, 2013 increased \$1,107, or 72.9%, and \$3,285, or 80.1%, from the same periods in 2012. The increase is primarily attributable to increases in the Company's stockholders' equity (as defined in the Management Agreement) as a result of the Company's follow-on common equity offering completed in 2012, the Series A Preferred Stock offering completed in 2012 and the follow-on common equity offering completed in March 2013. Management fees and the relationship between the Company and the Manager are discussed further in the accompanying consolidated financial statements, "Note 10—Related Party Transactions."

Realized and unrealized gain/loss

The following amounts related to realized and unrealized gains (losses) on the Company's CMBS and derivative instruments are included in the Company's consolidated statement of operations for the three and nine months ended September 30, 2013 and 2012:

	Location of Gain (Loss) Recognized in Income	Three months ended September 30,		Nine months ended September 30,	
		2013	2012	2013	2012
Securities	Realized gain on sale of securities	\$—	\$—	\$—	\$ 262
Securities	Unrealized gain (loss) on securities	(1,472)	3,010	(3,973)	6,473
Interest rate swaps	Loss on derivative instruments – realized *	(24)	(127)	(156)	(796)
Interest rate swaps	Gain on derivative instruments – unrealized	25	50	155	414
Interest rate caps	Loss on derivative instruments - unrealized	—	(10)	—	(187)
Total		\$(1,471)	\$ 2,923	\$(3,974)	\$ 6,166

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

In order to mitigate interest rate risk resulting from the Company's floating-rate borrowings, the Company entered into interest rate swaps and caps which to economically hedge a portion of its floating-rate borrowings.

All of the Company's derivative instruments matured during the third quarter of 2013. The Company elected not to pursue hedge accounting for these derivative instruments and recorded the change in estimated fair value related to these interest rate agreements in earnings. The Company also elected to record the change in estimated fair value related to certain CMBS securing the Wells Facility in earnings by electing the fair value option. These elections

allow the Company to align the change in the estimated fair value of the Wells Facility collateral and related interest rate derivatives without having to apply complex hedge accounting provisions.

During March 2012, the Company sold CMBS with an amortized cost of \$137,423, resulting in net realized gains of \$262. The sale generated proceeds of \$14,621 after the repayment of \$123,064 of debt under the Wells Facility.

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For the three and nine months ended September 30, 2013, respectively, the Company recognized an unrealized gain (loss) on securities of \$(1,472) and \$(3,973). For the three and nine months ended September 30, 2012, respectively, the Company recognized an unrealized gain (loss) on securities of \$3,010 and \$6,473. These gains (losses) resulted from mark-to-market adjustments related to those securities for which the fair value option has been elected.

Dividends

Dividends. For 2013, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Amount
February 27, 2013	March 28, 2013	April 12, 2013	\$ 0.40
May 1, 2013	June 28, 2013	July 12, 2013	\$ 0.40
July 31, 2013	September 30, 2013	October 11, 2013	\$ 0.40

For 2013, the Company declared the following dividends on its Series A Preferred Stock:

Declaration Date	Record Date	Payment Date	Amount
March 15, 2013	March 28, 2013	April 15, 2013	\$ 0.5391
June 12, 2013	June 28, 2013	July 15, 2013	\$ 0.5391
September 16, 2013	September 30, 2013	October 15, 2013	\$ 0.5391

Subsequent Events

Dividends. On November 4, 2013, the Company declared a dividend of \$0.40 per share of common stock, which is payable on January 13, 2014 to common stockholders of record on December 31, 2013.

Investment Activity. During October 2013, the Company purchased \$47,000 of mezzanine participations secured by a pledge of the equity interests in a borrower that owns a healthcare portfolio consisting of 193 skilled nursing facilities, long-term acute care hospitals and senior housing facilities. The mezzanine participations, which the Company purchased at par, have a remaining nine-month term and are part of a \$92,000 floating-rate senior mezzanine loan. The Company's loan basis, inclusive of cash held for collateral, represents an underwritten LTV of 58%. The mezzanine participations were underwritten to generate an IRR of approximately 12%. For a description of how the IRR is calculated, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Conditions and Results of Operations—Investments".

During fourth quarter of 2013, the Company fully funded the \$34,650 remaining commitment related to the condominium conversion loan that closed in December 2012.

During the fourth quarter of 2013, the Company deployed \$4,049 of equity to acquire additional legacy CMBS originally rated AAA, with an aggregate purchase price of \$17,994 and a weighted average life of approximately 3.6 years. To finance the purchase of the CMBS, the Company used \$17,994 of borrowings under the UBS Facility and pledged \$4,049 of cash.

Loan Repayment. During October 2013, the Company received a full principal repayment from a \$25,000 mezzanine loan secured by a portfolio of hotels in New York City. The Company realized a 12% IRR on its investment. For a description of how the IRR is calculated, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Conditions and Results of Operations—Investments".

Election of Director - On November 4, 2013, the Board of Directors elected Scott Prince as an independent director of the Board. Mr. Prince also was elected as a member of the Audit Committee of the Board.

Liquidity and Capital Resources

Liquidity is a measure of the Company's ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain its assets and operations, make distributions to its stockholders and other general business needs. The Company's cash is used to purchase or originate target assets, repay principal and interest on borrowings, make distributions to stockholders and fund operations. The Company's liquidity position is closely monitored and the Company believes it has sufficient current liquidity and access to additional liquidity to meet financial obligations for at least the next twelve months. The Company's primary sources of short-term and long-term liquidity are as follows:

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Cash Generated from Operations

Cash from operations is generally comprised of interest income from the Company's investments, net of any associated financing expense, principal repayments from the Company's investments, net of associated financing repayments, proceeds from the sale of investments and changes in working capital balances. See "—Financial Condition and Results of Operations—Investments" above for a summary of interest rates and weighted average lives related to the Company's investment portfolio at September 30, 2013. While there are no contractual paydowns related to the Company's CMBS, periodic paydowns do occur. Repayments on the debt secured by the Company's CMBS occur in conjunction with the paydowns on the collateral pledged.

Borrowings Under Various Financing Arrangements

JPMorgan Facility

In January 2010, the Company entered into the JPMorgan Facility, pursuant to which the Company may borrow up to \$100,000 in order to finance the origination and acquisition of commercial first mortgage loans and AAA-rated CMBS. Per the terms of the original agreement, amounts borrowed under the JPMorgan Facility bore interest at a spread of 3.00% over one-month LIBOR with no floor. During April 2012, the Company amended the JPMorgan Facility to reduce the interest rate spread by 50 basis points to LIBOR+2.50%. Advance rates under the JPMorgan Facility typically range from 65%-90% on the estimated fair value of the pledged collateral depending on its loan-to-value. Margin calls will occur any time the outstanding loan balance exceeds the lender's required advance in accordance with agreed upon advance rates by more than \$250. In February 2013, the Company, through two of the Company's subsidiaries, entered into the Amended Master Repurchase Agreement with JPMorgan. The Amended Master Repurchase Agreement extended the maturity date of the JPMorgan Facility to January 31, 2014, with an option to further extend the maturity date for 364 days, subject to the Company's satisfaction of certain customary conditions. Pricing on the JPMorgan Facility will remain at LIBOR+2.5%. The Company has paid JPMorgan an upfront structuring fee of 0.50% of the facility amount for the first year of the term and, if the 364-day extension option is exercised, it will be required to pay an extension fee of 0.25% of the facility amount. The Company has agreed to provide a full guarantee of the obligations of its borrower subsidiaries under the Amended Master Repurchase Agreement. The JPMorgan Facility contains, among others, the following restrictive covenants:

(1) negative covenants relating to restrictions on the Company's operations that would cease to allow the Company to qualify as a REIT and (2) financial covenants to be met by the Company when the repurchase facility is being utilized, including a minimum consolidated tangible net worth covenant (\$125,000), maximum total debt to consolidated tangible net worth covenant (3:1), a minimum liquidity covenant (the greater of 10% of total consolidated recourse indebtedness and \$12,500) and a minimum net income covenant (\$1 during any four consecutive fiscal quarters).

Additionally, beginning on the 91st day following the closing date and depending on the utilization rate of the facility, a portion of the undrawn amount may be subject to non-use fees. Subsequent to September 30, 2010, the non-use fee has been waived by the lender. At September 30, 2013, the Company had \$3 of borrowings outstanding under the JPMorgan Facility. The Company anticipates reborrowing under the JPMorgan Facility as additional capital is deployed. The Company's ability to achieve its underwritten levered weighted average IRRs discussed above under "—Financial Condition and Results of Operations-Investments," depends upon the Company reborrowing approximately \$53,000 under the JPMorgan Facility or any replacement facility.

Wells Facility

During August 2010, the Company, through an indirect wholly-owned subsidiary, entered into the Wells Facility, pursuant to which the Company may borrow up to \$250,000 in order to finance the acquisition of AAA-rated CMBS. The Wells Facility had a term of one year, with two one-year extensions available at the Company's option, subject to certain restrictions, and upon the payment of an extension fee equal to 25 basis points on the then outstanding balance of the facility for each one-year extension. Advances under the Wells Facility accrue interest at a per annum pricing rate equal to the sum of (i) 30 day LIBOR and (ii) a pricing margin of 1.25%. The purchase price of the CMBS is determined on a per asset basis by applying an advance rate schedule agreed upon by the Company and Wells Fargo. Advance rates under the Wells Facility typically range from 85%-90% on the face amount of the underlying collateral depending on the weighted average life of the collateral pledged. Margin calls will occur any time the outstanding loan balance exceeds the lender's required advance in accordance with agreed upon advance rates by more than \$250.

The Wells Facility contains, among others, the following restrictive covenants: (1) negative covenants intended to restrict the Company from failing to qualify as a REIT and (2) financial covenants to be met by the Company, including a minimum net asset value covenant (which shall not be less than an amount equal to (i) \$100,000, (ii) 75% of the greatest net asset value during the prior calendar quarter and (iii) 65% of the greatest net asset value during the prior calendar year), a maximum total debt to consolidated tangible net worth covenant (8:1), a minimum liquidity covenant (\$2,500) and a minimum EBITDA to interest expense covenant (1.5:1). The Company has agreed to provide a limited guarantee of up to 15%, or a maximum of \$37,500, of the obligations of its indirect wholly-owned subsidiary under the Wells Facility.

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

The Wells Facility was further amended during the second quarter of 2012 to provide an additional \$100,000 of financing capacity for the purchase of Hilton CMBS at a rate of LIBOR plus 235 basis points with respect to borrowings secured by the Hilton CMBS. The additional \$100,000 of capacity to finance the Hilton CMBS matures in November 2014 and may be extended for an additional year upon the payment of an extension fee equal to 0.50% on the then aggregate outstanding repurchase price for all such assets. Additionally, during August 2012, the Company exercised the final one-year extension of the term of the Wells Facility and extended the maturity date to August 2013 (except with respect to \$100,000 of capacity under the facility to finance the Hilton CMBS described below).

In February 2013, the Company further amended the Wells Facility to reduce the interest rate as follows: (i) with respect to the outstanding borrowings used to provide financing for the AAA CMBS, the interest rate was reduced to LIBOR+1.05% from LIBOR+1.25%-1.50% (depending on the collateral pledged); and (ii) with respect to the outstanding borrowings used to provide financing for the Hilton CMBS, the interest rate was reduced to LIBOR+1.75% from LIBOR+2.35%. In addition, the maturity date of the Wells Facility with respect to the outstanding borrowings used to provide financing for the AAA CMBS was extended to March 2014.

At September 30, 2013, the Company had \$156,969 of borrowings outstanding under the Wells Facility secured by CMBS held by the Company.

UBS Facility

During September 2013, the Company through an indirect wholly-owned subsidiary entered into the UBS Facility with UBS pursuant to which the Company may borrow up to \$133,333 in order to finance the acquisition of CMBS. The UBS Facility has a term of four years, with a one-year extension available at our option, subject to certain restrictions. Advances under the UBS Facility accrue interest at a per annum pricing rate equal to a spread of 1.55% per annum over the rate implied by the fixed rate bid under a fixed-for-floating interest rate swap for the receipt of payments indexed to six-month US Dollar LIBOR. The Company borrows 100% of the estimated fair value of the collateral pledged and posts margin equal to 22.5% of that borrowing amount in cash. The margin posted is classified as restricted cash on the Company's condensed consolidated balance sheets. Additionally, beginning on the 121st day following the closing date and depending on the utilization rate of the facility, a portion of the undrawn amount may be subject to non-use fees. The UBS Facility contains customary terms and conditions for repurchase facilities of this type and financial covenants to be met by the Company, including a minimum net asset value covenant (which shall not be less than an amount equal to \$500,000 and a maximum total debt to consolidated tangible net worth covenant (3:1). The Company has agreed to provide a full guarantee of the obligations of its indirect wholly-owned subsidiary under the UBS Facility.

Cash Generated from Offerings

During March 2013, the Company completed a follow-on public offering of 8,805,000 shares of its common stock, including the partial exercise of the underwriters' option to purchase additional shares, at a price of \$16.90 per share. The aggregate net proceeds from the offering, including proceeds from the sale of the additional shares, were approximately \$148,333, after deducting estimated offering expenses payable by the Company.

During May 2013, the Company entered into an ATM Equity Offering Sales Agreement with the Agents, relating to shares of the Company's common stock. In accordance with the terms of the agreement, the Company may offer and sell shares of common stock having an aggregate offering price of up to \$100,000 from time to time through the Agents. Sales of the shares, if any, will be made by means of ordinary brokers' transactions or otherwise at market prices prevailing at the time

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of sale, at prices related to prevailing market prices or at negotiated prices, or as otherwise agreed with the applicable Agent. To date, the Company has not directed the Agents to sell any shares.

Other Potential Sources of Financing

The Company's primary sources of cash currently consist of the \$86,824 of cash available at September 30, 2013, principal and interest the Company receives on its portfolio of assets, as well as available borrowings under the JPMorgan Facility and the UBS Facility. The Company expects its other sources of cash to consist of cash generated from operations and the possible prepayments of principal received on the Company's portfolio of assets. Such prepayments are difficult to estimate in advance. At September 30, 2013, substantially all of the \$100,000 of borrowing capacity under the JPMorgan Facility was available; however, the Company would need to acquire additional commercial first mortgage loans or AAA-rated CMBS in order to utilize all of that capacity. Depending on market conditions, the Company may utilize additional borrowings as a source of cash, which may also include additional repurchase agreements as well as other borrowings such as credit facilities.

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

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

To maintain its status as a REIT under the Internal Revenue Code of 1986, as amended, the Company must distribute annually at least 90% of its taxable income. These distribution requirements limit the Company's ability to retain earnings and thereby replenish or increase capital for operations.

Leverage policies

The Company uses leverage for the sole purpose of financing its portfolio and not for the purpose of speculating on changes in interest rates. In addition to the Wells Facility, the UBS Facility and the JPMorgan Facility, in the future the Company may access additional sources of borrowings. The Company's charter and bylaws do not limit the amount of indebtedness the Company can incur; however, the Company is limited by certain financial covenants under its repurchase agreements. Consistent with the Company's strategy of keeping leverage within a conservative range, the Company expects that its total borrowings on its target assets will be in an amount that is approximately 35% of the value of its total loan portfolio.

Contractual obligations and commitments

The Company's contractual obligations including expected interest payments as of September 30, 2013 are summarized as follows:

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Wells Facility borrowings	\$ 157,614	\$—	\$—	\$—	\$ 157,614
UBS Facility borrowings *	2,543	4,068	71,327	—	77,938
JPMorgan Facility borrowings**	—	3	—	—	3
Total	\$ 160,157	\$ 4,071	\$ 71,327	\$—	\$ 235,555

* Assumes extension options are exercised. See "—Liquidity and Capital Resources - Borrowings Under Various Financing Arrangements" above for further discussion.

Assumes extension options are exercised and current LIBOR of 0.19% for interest payments due under the

**JPMorgan Facility. See "—Liquidity and Capital Resources - Borrowings Under Various Financing Arrangements" above for further discussion.

KBC Bank Deutschland AG. In September 2013, the Company, together with other affiliates of Apollo, reached an agreement to make an investment in an entity that has agreed to acquire a minority participation in KBCD. The Company committed to invest up to approximately \$50,000 (€38,000), representing approximately 21% of the ownership in KBCD. The acquisition is subject to antitrust and regulatory approval, which is expected to take

approximately nine months. Consequently, there is no assurance that the acquisition will close.

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Loan Commitments. As of September 30, 2013, the Company had \$34,650 of unfunded loan commitments related to the condominium conversion loan that closed in December 2012. The Company expects that the remaining commitments will be funded as requested on or before January 1, 2014. At September 30, 2013, the Company had \$29,106 of unfunded loan commitments related to the condominium conversion loan that closed in August 2013. On September 23, 2009, the Company entered into the Management Agreement with the Manager pursuant to which the Manager is entitled to receive a management fee and the reimbursement of certain expenses. The table above does not include amounts due under the Management Agreement as those obligations, discussed below, do not have fixed and determinable payments.

Management Agreement. On September 23, 2009, the Company entered into the Management Agreement with the Manager pursuant to which the Manager is entitled to receive a management fee and the reimbursement of certain expenses. The table above does not include amounts due under the Management Agreement as those obligations do not have fixed and determinable payments. Pursuant to the Management Agreement, the Manager is entitled to a base management fee calculated and payable quarterly in arrears in an amount equal to 1.5% of the Company's stockholders' equity (as defined in the Management Agreement), per annum. The Manager will use the proceeds from its management fee in part to pay compensation to its officers and personnel. The Company does not reimburse its Manager or its affiliates for the salaries and other compensation of their personnel, except for the allocable share of the compensation of (1) the Company's Chief Financial Officer based on the percentage of his time spent on the Company's affairs and (2) other corporate finance, tax, accounting, internal audit, legal, risk management, operations, compliance and other non-investment professional personnel of the Manager or its affiliates who spend all or a portion of their time managing the Company's affairs based on the percentage of time devoted by such personnel to the Company's affairs. The Company is also required to reimburse its Manager for operating expenses related to the Company incurred by its Manager, including expenses relating to legal, accounting, due diligence and other services. Expense reimbursements to the Manager are made in cash on a monthly basis following the end of each month. The Company's reimbursement obligation is not subject to any dollar limitation.

The current term of the Management Agreement expires on September 29, 2014 and shall be automatically renewed for successive one-year terms on each anniversary thereafter. The Management Agreement may be terminated upon expiration of the one-year terms only upon the affirmative vote of at least two-thirds of the Company's independent directors, based upon (1) unsatisfactory performance by the Manager that is materially detrimental to the Company or (2) a determination that the management fee payable to the Manager is not fair, subject to the Manager's right to prevent such a termination based on unfair fees by accepting a mutually acceptable reduction of management fees agreed to by at least two-thirds of the Company's independent directors. The Manager must be provided with written notice of any such termination at least 180 days prior to the expiration of the then existing term and will be paid a termination fee equal to three times the sum of the average annual base management fee during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination. Amounts payable under the Company's Management Agreement are not fixed and determinable. Following a meeting by the Company's independent directors on March 12, 2013 with respect to the Management Agreement, which included a discussion of the Manager's performance and the level of the management fees thereunder, the Company determined not to terminate the Management Agreement.

Off-balance sheet arrangements

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

Dividends

The Company intends to continue to make regular quarterly distributions to holders of its common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. The Company generally intends over

time to pay dividends to its stockholders in an amount equal to its net taxable income, if and to the extent authorized by its board of directors. Any distributions the Company makes will be at the discretion of its board of directors and will depend upon, among other things, its actual results of operations. These results and the Company's ability to pay distributions will be affected by various factors, including the net interest and other income from its portfolio, its operating expenses and any other expenditures. If the Company's cash available for distribution is less than its net taxable income, the Company could be required to sell assets or borrow funds to make cash distributions or the Company may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities.

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The Company has 3,450,000 shares of Series A Preferred Stock outstanding, which entitles holders to receive dividends at an annual rate of 8.625% of the liquidation preference of \$25.00 per share, or \$2.00 per share per annum. The dividends on the Series A Preferred Stock are cumulative and payable quarterly in arrears. Except under certain limited circumstances, the Series A Preferred Stock is generally not convertible into or exchangeable for any other property or any other securities of the Company at the election of the holders. After August 1, 2017, the Company may, at its option, redeem the shares at a redemption price of \$25.00, plus any accrued unpaid distribution through the date of the redemption.

Non-GAAP Financial Measures

Operating Earnings

For the three and nine months ended September 30, 2013, respectively, the Company's Operating Earnings were \$13,272, or \$0.35 per share, and \$36,954, or \$1.05 per share. For the three and nine months ended September 30, 2012, respectively, the Company's Operating Earnings were \$9,218, or \$0.44 per share, and \$26,538, or \$1.27 per share. Operating Earnings is a non-GAAP financial measure that is used by the Company to approximate cash available for distribution and is defined as net income available to common stockholders, computed in accordance with GAAP, adjusted for (i) equity-based compensation expense (a portion of which may become cash-based upon final vesting and settlement of awards should the holder elect net share settlement to satisfy income tax withholding) and (ii) any unrealized gains or losses or other non-cash items included in net income.

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

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

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

	For the three months ended September 30, 2013		For the nine months ended September 30, 2012	
Net income available to common stockholders	\$ 11,041	\$ 10,992	\$ 31,041	\$ 29,995
Adjustments:				
Unrealized (gain) loss on securities	1,472	(3,010)	3,973	(6,473)
Unrealized (gain) loss on derivative instruments	(25)	(40)	(155)	(228)
Equity-based compensation expense	784	1,276	2,095	3,244
Total adjustments:	2,231	(1,774)	5,913	(3,457)
Operating Earnings	\$ 13,272	\$ 9,218	\$ 36,954	\$ 26,538
Basic and diluted Operating Earnings per Share of Common Stock	\$ 0.35	\$ 0.44	\$ 1.05	\$ 1.27
Basic weighted average shares of common stock outstanding	36,883,002	20,571,478	34,647,941	20,567,772
Diluted weighted average shares of common stock outstanding	37,379,469	20,992,312	35,103,285	20,983,429

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ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

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

Credit risk

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

Interest rate risk

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

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

At September 30, 2013, all of the Company's borrowings outstanding under the Wells Facility and the JPM Facility are floating-rate borrowings. The Company also has floating rate loans with a face amount of \$122,491, resulting in net variable rate exposure of \$34,481. A 50 basis point increase in LIBOR would decrease the net interest income related to the \$34,481 in variable rate exposure by \$43. Any such hypothetical impact on interest rates on the Company's variable rate borrowings does not consider the effect of any change in overall economic activity that could occur in a rising interest rate environment. Further, in the event of a change in interest rates of that magnitude, the Company may take actions to further mitigate the Company's exposure to such a change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, this analysis assumes no changes in the Company's financial structure.

Prepayment risk

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

Market risk

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

fair value of these securities would be expected to increase. As market volatility increases or liquidity decreases, the fair value of the Company's assets may be adversely impacted.

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

Inflation

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

ITEM 4. Controls and Procedures

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

During the period ended September 30, 2013, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

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PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, the Company may be involved in various claims and legal actions arising in the ordinary course of business. As of September 30, 2013, the Company was not involved in any material legal proceedings.

ITEM 1A. Risk Factors

See the Company's Annual Report on Form 10-K for the year ended December 31, 2012. There have been no material changes to the Company's risk factors during the nine months ended September 30, 2013.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Disclosure Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 ("ITRA") added a new subsection (r) to section 13 of the Exchange Act, requiring an issuer to disclose in its annual and quarterly reports whether it or any of its affiliates have knowingly engaged in specified activities or transactions relating to Iran. The Company has been advised that, as of October 24, 2013, certain investment funds managed by affiliates of Apollo beneficially owned approximately 22% of the limited liability company interests of CEVA Holdings, LLC ("CEVA"). Under the limited liability company agreement governing CEVA, certain investment funds managed by affiliates of Apollo hold a majority of the voting power of CEVA and have the right to elect a majority of the board of CEVA. Because of the relationship with the Manager, which is an indirect subsidiary and is considered to be an affiliate of Apollo, the Company may be considered to be an affiliate of CEVA since the Company and CEVA may be deemed to be under the common control of Apollo. However, this disclosure is not meant to be an admission that such common control exists. As a result, it appears that the Company is required to provide the disclosures set forth below pursuant to Section 219 of ITRA and Section 13(r) of the Exchange Act.

Apollo has informed us that CEVA has provided it with the information below relevant to Section 13(r) of the Exchange Act. The disclosure below does not relate to any activities conducted by the Company and does not involve the Company, the Company's management or the Manager. The disclosure relates solely to activities conducted by CEVA and its consolidated subsidiaries. The Company has not independently verified or participated in the preparation of the disclosure below.

"Through an internal review of its global operations, CEVA has identified the following transactions in an Initial Notice of Voluntary Self-Disclosure that CEVA filed with the U.S. Treasury Department Office of Foreign Assets Control ("OFAC") on October 28, 2013. CEVA's review is ongoing. CEVA will file a further report with OFAC after completing its review.

The internal review indicates that, in December 2012, CEVA Freight Italy Srl ("CEVA Italy") provided customs brokerage and freight forwarding services for the export to Iran of two measurement instruments to the Iranian Offshore Engineering Construction Company, a joint venture between two entities that are identified on OFAC's list of Specially Designated Nationals ("SDN"). The revenues and net profits for these services were approximately \$1,260.64 USD and \$151.30 USD, respectively. In February 2013, CEVA Freight Holdings (Malaysia) SDN BHD ("CEVA Malaysia") provided customs brokerage for export and local haulage services for a shipment of polyethylene resin to Iran shipped on a vessel owned and/or operated by HDS Lines, also an SDN. The revenues and net profits for these services were approximately \$779.54 USD and \$311.13 USD, respectively. In September 2013, CEVA Malaysia provided customs brokerage services for the import into Malaysia of fruit juice from Alifard Co. in Iran via HDS Lines. The revenues and net profits for these services were approximately \$227.41 USD and \$89.29 USD, respectively.

These transactions violate the terms of internal CEVA compliance policies, which prohibit transactions involving Iran. Upon discovering these transactions, CEVA promptly launched an internal investigation, and is taking action to block

and prevent such transactions in the future. CEVA intends to cooperate with OFAC in its review of this matter.”

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ITEM 6. Exhibits

Exhibit No.	Description
3.1	Articles of Amendment and Restatement of Apollo Commercial Real Estate Finance, Inc., incorporated by reference to Exhibit 3.1 of the Registrant's Form S-11, as amended (Registration No. 333-160533).
3.2	Articles Supplementary designating Apollo Commercial Real Estate Finance, Inc.'s 8.625% Series A Cumulative Redeemable Perpetual Preferred Stock, liquidation preference \$25.00 per share, par value \$0.01 per share, incorporated by reference to Exhibit 3.3 of the Registrant's Form 8-A filed on July 30, 2012 (File No.: 001-34452).
3.3	By-laws of Apollo Commercial Real Estate Finance, Inc., incorporated by reference to Exhibit 3.2 of the Registrant's Form S-11, as amended (Registration No. 333-160533).
4.1	Specimen Stock Certificate of Apollo Commercial Real Estate Finance, Inc., incorporated by reference to Exhibit 4.1 of the Registrant's Form S-11, as amended (Registration No. 333-160533).
4.2	Form of stock certificate evidencing the 8.625% Series A Cumulative Redeemable Perpetual Preferred Stock, liquidation reference \$25.00 per share, par value \$0.01 per share, incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-A filed on July 30, 2012 (File No.: 001-34452).
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of 18 U.S.C. Section 1350 as adopted pursuant to the Sarbanes-Oxley Act of 2002.
101.INS **	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

*Filed herewith.

These interactive data files are furnished and not deemed filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, and are not deemed filed for purposes of Section 18 of the Exchange Act, and otherwise are not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APOLLO COMMERCIAL REAL ESTATE FINANCE, INC.

November 6, 2013

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

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

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EXHIBIT INDEX

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