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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2020

OR

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

For the transition period from _____ to _____

Commission File Number: 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)

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

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

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

Title of Each Class
Common Stock, \$0.01 par value

Trading Symbol(s)
ARI

Name of Each Exchange on Which Registered
New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☒

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

As of June 30, 2020, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,376,568,797, based on the closing sales price of our common stock on such date as reported on the New York Stock Exchange.

As of February 9, 2021, there were 139,848,875 shares, par value \$0.01, of the registrant's common stock issued and outstanding.

Documents Incorporated by Reference

Portions of the registrant's proxy statement for the 2021 annual meeting of stockholders are incorporated by reference into Part III of this annual report on Form 10-K.

Table of Contents

		Page
	<u>Part I</u>	
Item 1.	<u>Business.</u>	<u>4</u>
Item 1A.	<u>Risk Factors.</u>	<u>6</u>
Item 1B.	<u>Unresolved Staff Comments.</u>	<u>32</u>
Item 2.	<u>Properties.</u>	<u>32</u>
Item 3.	<u>Legal Proceedings.</u>	<u>32</u>
Item 4.	<u>Mine Safety Disclosures.</u>	<u>32</u>
	<u>Part II</u>	
Item 5.	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.</u>	<u>32</u>
Item 6.	<u>Selected Financial Data.</u>	<u>36</u>
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	<u>37</u>
Item 7A.	<u>Quantitative and Qualitative Disclosures about Market Risk.</u>	<u>56</u>
Item 8.	<u>Financial Statements and Supplementary Data.</u>	<u>57</u>
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.</u>	<u>97</u>
Item 9A.	<u>Controls and Procedures.</u>	<u>98</u>
Item 9B.	<u>Other Information.</u>	<u>98</u>
	<u>Part III</u>	
Item 10.	<u>Directors, Executive Officers and Corporate Governance.</u>	<u>98</u>
Item 11.	<u>Executive Compensation.</u>	<u>99</u>
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management Related Stockholder Matters.</u>	<u>99</u>
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence.</u>	<u>99</u>
Item 14.	<u>Principal Accountant Fees and Services.</u>	<u>99</u>
	<u>Part IV</u>	
Item 15.	<u>Exhibits, Financial Statement Schedules.</u>	<u>99</u>
Item 16.	<u>Form 10-K Summary.</u>	<u>102</u>
	<u>Signatures</u>	<u>102</u>

FORWARD-LOOKING INFORMATION

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

We make forward-looking statements herein and will make forward-looking statements in future filings with the Securities and Exchange Commission ("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, we claim 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 our control. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use 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: the macro- and micro-economic impact of the COVID-19 pandemic; the severity and duration of the COVID-19 pandemic; actions taken by governmental authorities to contain the COVID-19 pandemic or treat its impact; the impact of the COVID-19 pandemic on our financial condition, results of operations, liquidity and capital resources; market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy; the demand for commercial real estate loans; our business and investment strategy; our operating results; actions and initiatives of the U.S. government and governments outside of the United States, changes to government policies and the execution and impact of these actions, initiatives and policies; the state of the economy generally or in specific geographic regions; economic trends and economic recoveries; our ability to obtain and maintain financing arrangements, including secured debt arrangements and securitizations; the timing and amount of expected future fundings of unfunded commitments; the availability 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 we participate; changes in the value of our assets; the scope of our target assets; interest rate mismatches between our target assets and any borrowings used to fund such assets; changes in interest rates and the market value of our target assets; changes in prepayment rates on our target assets; effects of hedging instruments on our target assets; rates of default or decreased recovery rates on our target assets; the degree to which hedging strategies may or may not protect us from interest rate volatility; impact of and changes in governmental regulations, tax law and rates, accounting, legal or regulatory issues or guidance and similar matters; our continued maintenance of our qualification as a real estate investment trust ("REIT") for U.S. federal income tax purposes; our continued exclusion from registration under the Investment Company Act of 1940, as amended (the "1940 Act"); the availability of opportunities to acquire commercial mortgage-related, real estate-related and other securities; the availability of qualified personnel; estimates relating to our ability to make distributions to our stockholders in the future; our present and potential future competition; and unexpected costs or unexpected liabilities, including those related to litigation.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. 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 us. Some of these factors are described in Item 1A. "Risk Factors" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this annual report on Form 10-K. These and other risks, uncertainties and factors, including those described in the annual, quarterly, and current reports that we file with the SEC, could cause our actual results to differ materially from those included in any forward-looking statements we make. 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, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. See Item 1A. "Risk Factors" of this annual report on Form 10-K.

PART I

Item 1. Business.

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

GENERAL

Apollo Commercial Real Estate Finance, Inc. is a corporation that has elected to be taxed as a REIT for U.S. federal income tax purposes and primarily originates, acquires, invests in and manages performing commercial first mortgage loans, subordinate financings and other commercial real estate-related debt investments. These asset classes are referred to as our target assets.

We are externally managed and advised by the Manager, an indirect subsidiary of Apollo Global Management, Inc. (together with its subsidiaries, "Apollo"), a leading global alternative investment manager with a contrarian and value oriented investment approach in private equity, credit and real estate. Apollo had total assets under management of approximately \$455.5 billion as of December 31, 2020. The Manager is led by an experienced team of senior real estate professionals who have significant experience in underwriting and structuring commercial real estate financing transactions. We benefit from Apollo's global infrastructure and operating platform, through which we are able to source, evaluate and manage potential investments in our target assets.

Our principal business objective is to acquire our target assets in order to provide attractive risk adjusted returns to our stockholders over the long term, primarily through dividends and secondarily through capital appreciation. As of December 31, 2020, we held a diversified portfolio comprised of approximately \$5.5 billion of commercial mortgage loans and \$1.0 billion of subordinate loans and other lending assets. As of December 31, 2020, we had financed this portfolio with \$3.4 billion of secured debt arrangements, \$345.0 million aggregate principal amount of 4.75% Convertible Senior Notes due 2022 (the "2022 Notes"), \$230.0 million aggregate principal amount of 5.375% Convertible Senior Notes due 2023 (the "2023 Notes" and together with the 2022 Notes, the "Notes"), and a \$492.5 million senior secured term loan. On March 15, 2019, we redeemed the remainder of the 5.50% Senior Notes due 2019 (the "2019 Notes"). For more information regarding the redemption of the 2019 Notes, see "Note 9 - Convertible Senior Notes, Net" to the accompanying consolidated financial statements included under Item 8. "Financial Statements and Supplementary Data" of this annual report on Form 10-K.

We are a Maryland corporation that was organized in 2009 and have elected to be taxed as a REIT for U.S. federal income tax purposes, commencing with the taxable year ended December 31, 2009. We generally are not subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute our net taxable income to stockholders and maintain our intended qualification as a REIT. We also operate our business in a manner intended to allow us to remain excluded from registration as an investment company under the 1940 Act.

INVESTMENT STRATEGY

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

We target assets that are secured by institutional quality real estate throughout the United States and Europe. Our underwriting includes a focus on stressed in-place cash flows, debt yields, debt service coverage ratios, loan-to-values, property quality and market and sub-market dynamics. The Manager may also capitalize on opportunistic pricing dislocations created by distressed sellers or distressed capital structures where a lender or holder of a loan or security is in a compromised situation due to the relative size of its portfolio, the magnitude of nonperforming loans, or regulatory/rating agency issues driven by potential capital adequacy or concentration issues. In pursuing investments with attractive risk-reward profiles, we incorporate our views, generally or in specific geographic regions as applicable, of the current and future economic environment, our outlook for real estate in general and particular asset classes and our assessment of the risk-reward profile derived from our underwriting and cash flow analysis, including taking into account relative valuation, supply and demand fundamentals, the level of interest rates, the shape of the yield curve, prepayment rates, financing and liquidity, real estate prices, delinquencies, default rates, recovery of various sectors and vintage of collateral. In general, we pursue a value-driven approach to underwriting and diligence, consistent with the historical investment strategy of the Manager and its affiliates. Each prospective investment receives a rigorous, credit-oriented evaluation towards determining the risk/return profile of the opportunity and the appropriate pricing and structure for the prospective investment. On our behalf, the Manager has implemented underwriting standards founded on fundamental market and credit analyses with a focus on current and sustainable cash flows. These underwriting standards place

a particular emphasis on due diligence of the sponsor and borrower. Apollo has implemented comprehensive anti-money laundering policies and procedures, including know-your-customer and beneficial owner controls. In addition, we recognize the importance of environmental, social, and governance ("ESG") issues and incorporate ESG considerations into the investment analysis and decision-making process, including conducting and completing environmental risk assessment for all of the properties underlying our loans. We also utilize forward currency contracts to economically hedge interest and principal payments due under our loans denominated in currencies other than U.S. dollars ("USD").

All investment decisions are made with a view to maintaining our qualification as a REIT and our exclusion from registration under the 1940 Act.

FINANCING STRATEGY

We use borrowings as part of our financing strategy. We believe the amount of leverage we use is consistent with our intention of keeping total borrowings within a prudent range, as determined by the Manager, taking into account a variety of factors, which may include the anticipated liquidity and price volatility of target assets in our investment portfolio, the potential for losses and extension risk in our investment portfolio, the gap between the duration of assets and liabilities, including hedges, the availability and cost of financing the assets, the creditworthiness of our financing counterparties, the health of the global economy and commercial and residential mortgage markets, the outlook for the level, slope, and volatility of interest rate movement, the credit quality of our target assets and the type of collateral underlying such target assets. In utilizing leverage, we seek to enhance equity returns while limiting interest rate exposure. In addition to our current secured debt arrangements and senior secured term loan, we may access additional repurchase facilities and more traditional borrowings such as credit facilities. As of December 31, 2020, we had \$1.2 billion of borrowings outstanding under our secured debt arrangement with JPMorgan Chase Bank, National Association (the "JPMorgan Facility"), \$520.5 million of borrowings outstanding under our secured debt arrangement with Deutsche Bank AG, Cayman Islands Branch and Deutsche Bank AG, London Branch (the "DB Facility"), \$332.4 million of borrowings outstanding under our secured debt arrangement with Goldman Sachs Bank USA (the "Goldman Facility"), \$369.2 million of borrowings outstanding under our secured debt arrangement with Credit Suisse AG (the "CS Facility - USD"), \$163.8 million (€134.1 million assuming conversion into USD) of borrowings outstanding under our secured debt arrangement with HSBC Bank plc (the "HSBC Facility - EUR"), \$35.2 million of borrowings outstanding under our secured debt arrangement with Barclays Bank plc ("Barclays Facility - USD"), and \$857.7 million (£518.0 million and €122.5 million assuming conversion into USD) of borrowings outstanding under our private securitization with Barclays Bank, plc (the "Barclays Private Securitization"). In addition, we had \$492.5 million of borrowings outstanding under our senior secured term loan as of December 31, 2020. In the future, we may increase or decrease our borrowing levels and also seek to raise further equity or debt capital in order to fund future investments.

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

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

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

See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of our borrowings and hedging as of December 31, 2020.

CORPORATE GOVERNANCE

We strive to maintain an ethical workplace in which the highest standards of professional conduct are practiced.

- Our board of directors is composed of a majority of independent directors. The Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee of our board of directors are

composed exclusively of independent directors.

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

COMPETITION

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

EMPLOYEES; STAFFING; HUMAN CAPITAL

We have no employees and are managed by the Manager pursuant to the management agreement between the Manager and us, dated as of September 23, 2009 (the "Management Agreement"). All of our officers are employees of the Manager or its affiliates.

The Manager is led by an experienced team of senior real estate professionals who have significant experience in underwriting and structuring commercial real estate financing transactions. We benefit from Apollo's global infrastructure and operating platform, through which we are able to source, evaluate and manage potential investments in our target assets. Apollo has advised us that investing in and fostering a diverse and inclusive workforce is a key pillar in operating its business. You can learn more about Apollo's commitment to its employees on its website at www.apollo.com under "Responsibility." The information contained on, or accessible from, Apollo's website does not form a part of and is not incorporated by reference into this annual report on Form 10-K.

AVAILABLE INFORMATION

We maintain a website at www.apolloreit.com and make available, items including: (a) the annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (including any amendments thereto), proxy statements and other information filed with, or furnished to, the SEC, as soon as reasonably practicable after such documents are so filed or furnished, (b) Corporate Governance Guidelines, (c) Director Independence Standards, (d) Code of Business Conduct and Ethics, and (e) written charters of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee of the board of directors. The information on our website does not form a part of and is not incorporated by reference into this annual report on Form 10-K. Our documents filed with, or furnished to, the SEC are also available for review at the SEC's website at www.sec.gov. We provide copies of our Corporate Governance Guidelines and Code of Business Conduct and Ethics, free of charge, to stockholders who request it. Requests should be directed to Investor Relations at Apollo Commercial Real Estate Finance, Inc., c/o Apollo Global Management, Inc., 9 West 57th Street, 43rd Floor, New York, New York 10019.

Item 1A. Risk Factors

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

SUMMARY RISK FACTORS

Risks Related to Our Business and Structure

- We operate in a competitive market for investment opportunities and future competition may limit our ability to acquire desirable target assets or dispose of our target assets and could also affect the pricing of these securities.
- We cannot predict the unintended consequences and market distortions that may stem from far-ranging governmental intervention in the economic and financial system or from regulatory reform of the oversight of financial markets.
- Loss of our exclusion from registration under the 1940 Act would adversely affect us.
- Major public health issues, including the ongoing COVID-19 pandemic, and related disruptions in the U.S. and global economy and financial markets have and continue to adversely impact or disrupt our financial condition and results of operations.

Risks Related to Our Financing

- Our access to sources of financing may be limited and thus our ability to potentially enhance our returns may be adversely affected.
- We may increase the amount of leverage we use in our financing strategy, which would subject us to greater risk of loss.
- We may enter into hedging transactions that could expose us to contingent liabilities in the future and adversely impact our financial condition.

Risks Related to Our Assets

- We may not achieve our underwritten internal rate of return and weighted-average all-in yield on our assets, which may lead to future returns that may be significantly lower than anticipated.
- The lack of liquidity of our assets may adversely affect our business, including our ability to value and sell our assets.
- The commercial mortgage loans and other commercial real estate-related loans we acquire are subject to delinquency, foreclosure and loss, any or all of which could result in losses to us.

Risks Related to Our Relationship with the Manager

- There are various conflicts of interest in our relationship with Apollo which could result in decisions that are not in the best interests of our stockholders.
- We are dependent on the Manager and its key personnel for our success and upon their access to Apollo's investment professionals and partners. We may not find a suitable replacement for the Manager if the Management Agreement is terminated, or if key personnel leave the employment of the Manager or Apollo or otherwise become unavailable to us.
- The termination of the Management Agreement may be difficult and costly, which may adversely affect our inclination to end our relationship with the Manager.
- The Manager manages our portfolio pursuant to very broad investment guidelines and our board of directors does not approve each decision made by the Manager, which may result in us undertaking riskier transactions.

Risks Related to Our Taxation as a REIT

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

- Complying with REIT requirements may force us to liquidate or forego otherwise attractive investments, to incur debt, or could otherwise adversely affect our ability to execute our business plan.

RISKS RELATED TO OUR BUSINESS AND STRUCTURE

We operate in a competitive market for investment opportunities and future competition may limit our ability to acquire desirable target assets or dispose of our target assets and could also affect the pricing of these securities.

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

We depend on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect our operating results.

Our business depends on the communications and information systems of Apollo and other third-party service providers. Any failure or interruption of the systems of Apollo or any other counterparties that we rely on could cause delays or other problems and could have a material adverse effect on our operating results.

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

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusions, including by computer hackers, nation-state affiliated actors, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. The result of these incidents may include disrupted operations, misstated or unreliable financial data, disrupted market price of our common stock, misappropriation of assets, liability for stolen assets or information, increased cybersecurity protection and insurance costs, regulatory enforcement, litigation and damage to our investor relationships. These risks require continuous and likely increasing attention and other resources from us to, among other actions, identify and quantify these risks, upgrade and expand our technologies, systems and processes to adequately address them and provide periodic training for our employees to assist them in detecting phishing, malware and other schemes. Such attention diverts time and other resources from other activities and there is no assurance that our efforts will be effective. Potential sources for disruption, damage or failure of our information technology systems include, without limitation, computer viruses, security breaches, human error, cyber-attacks, natural disasters and defects in design. Additionally, due to the size and nature of our company, we rely on third-party service providers for many aspects of our business. We can provide no assurance that the networks and systems that our third-party vendors have established or use will be effective. As our reliance on technology has increased, so have the risks posed to our information systems, both internal and those provided by Apollo and third-party service providers. Apollo's processes, procedures and internal controls that are designed to mitigate cybersecurity risks and cyber intrusions do not guarantee that a cyber incident will not occur or that our financial results, operations or confidential information will not be negatively impacted by such an incident.

In the normal course of business, we and our service providers collect and retain certain personal information provided by borrowers, employees and vendors. We also rely extensively on computer systems to process transactions and manage our business. We can provide no assurance that the data security measures designed to protect confidential information on our systems established by us and our service providers will be able to prevent unauthorized access to this personal information. There can be no assurance that our efforts to maintain the security and integrity of the information we and our service providers collect and our and their computer systems will be effective or that attempted security breaches or disruptions would not be

successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we and our service providers may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us and our service providers to entirely mitigate this risk.

We are dependent on the effectiveness of our information and cyber security policies, procedures and capabilities to protect our computer and telecommunications systems and the data that resides on or is transmitted through them. An externally caused information security incident, such as a hacker attack, virus or worm, or an internally caused issue, such as failure to control access to sensitive systems, could materially interrupt business operations or cause disclosure or modification of sensitive or confidential information and could result in material financial loss, loss of competitive position, regulatory actions, breach of contracts, reputational harm or legal liability.

We cannot assure our stockholders of our ability to pay dividends in the future.

We are generally required to annually distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, for us to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). We currently intend to make quarterly distributions of all or substantially all of our REIT taxable income in each year. Dividends will be declared and paid at the discretion of our board of directors and will depend on our REIT taxable earnings, our financial condition, maintenance of our REIT qualification and such other factors as the board may deem relevant from time to time. Our ability to pay dividends may be negatively impacted by adverse changes in our operating results.

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

The laws and regulations governing our operations, as well as their interpretation, may change from time to time, and new laws and regulations may be enacted. Accordingly, any change in these laws or regulations, changes in their interpretation, or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes to certain of our business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us or otherwise adversely affect our business.

The U.S. government, the U.S. Federal Reserve (the "Federal Reserve"), the U.S. Treasury, the SEC and other governmental and regulatory bodies have taken or are taking various actions involving intervention in the economic and financial system and regulatory reform of the oversight of financial markets. In 2010, former President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which has changed the regulation of financial institutions and the financial services industry, including the mortgage industry. The current regulatory environment may be impacted by recent and potential future legislative developments, such as amendments to key provisions of the Dodd-Frank Act including provisions setting forth capital and risk retention requirements. During the past few years, the Trump Administration sought to deregulate the U.S. financial industry, including by altering provisions of the Dodd-Frank Act.

These efforts included former President Trump signing into law the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRRCPA") in 2018, which among other things, modified certain provisions of the Dodd-Frank Act related to mortgage lending, consumer protection, regulatory relief for large banks, regulatory relief for community banks and regulatory relief in securities markets. It is possible that Democratic majorities in the House and Senate, with the support of the Biden Administration, will roll back some of the changes made by the EGRRCPA to the Dodd-Frank Act, although it is not possible at this time to predict the nature or extent of any amendments.

The Biden Administration, along with the Democratic Congress, is likely to focus in the short-term on additional stimulus measures to address the economic impact of the COVID-19 pandemic, rather than comprehensive financial services and banking reform. However, in the long-term the Biden Administration and Congress are likely to take a more active approach to banking and financial regulation than the prior Trump Administration, particularly to promote policy goals involving climate change, racial equity, environmental, social, and corporate governance ("ESG") matters, consumer financial protection and infrastructure.

In addition, the substance of regulatory supervision may be influenced through the appointment of individuals to the Federal Reserve Board and other financial regulatory bodies. With the support of a Democratic majority in Congress, President Biden is more likely to be able to have his nominees to such bodies confirmed and, accordingly, carry out the Administration's regulatory agenda.

We cannot predict the ultimate content, timing, or effect of legislative and/or regulatory actions under a Biden

Administration and Democratic Congress, nor is it possible at this time to estimate the impact of any such actions which could have a dramatic impact on our business, results of operations and financial condition.

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

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

The United Kingdom's exit from the European Union could materially adversely affect our business, financial condition and results of operations.

The decision made in the British referendum of June 23, 2016 to leave the European Union, commonly referred to as "Brexit," has led to volatility in the financial markets of the United Kingdom and more broadly across Europe and may also lead to weakening in consumer, corporate and financial confidence in such markets. On January 31, 2020, the United Kingdom ceased to be a member state of the European Union. As of that date, the United Kingdom entered a transitional period with the European Union, which ended on December 31, 2020. On December 24, 2020, the European Union and the United Kingdom agreed on the Trade and Cooperation Agreement (the "Trade and Cooperation Agreement"), which sets out the principles of the relationship between the European Union and the United Kingdom following the end of the transitional period. The European Commission has proposed to apply the Trade and Cooperation Agreement on a provisional basis for a limited time until February 28, 2021, by which time the Trade and Cooperation Agreement must be approved by the European Parliament.

The long-term effects of Brexit will depend on the agreements or arrangements between the United Kingdom and the European Union, including the Trade and Cooperation Agreement, and the extent to which the United Kingdom retains access to E.U. markets after the transitional period. Given the recent agreement on the wording of the Trade and Cooperation Agreement and its provisional application, the longer term economic, legal, political and social framework to be put in place between the United Kingdom and the European Union is unclear at this stage and is likely to lead to ongoing political and economic uncertainty and periods of exacerbated volatility in both the United Kingdom and in wider European markets for some time. In particular, Brexit caused significant volatility in global stock markets and currency exchange fluctuations. Consequently, our assets and liabilities denominated in British pounds ("GBP") may be subject to increased risks related to these currency rate fluctuations and our net assets in U.S. dollar terms may decline. Currency volatility may mean that our assets and liabilities are adversely affected by market movements and may make it more difficult, or more expensive, for us to execute appropriate currency hedging policies. In addition, Brexit may also adversely affect commercial real estate fundamentals in the United Kingdom and European Union, including greater uncertainty for leasing prospects, which could negatively impact the ability of our U.K. and E.U.-based borrowers to satisfy their debt payment obligations to us, increasing default risk and/or making it more difficult for us to generate attractive risk-adjusted returns for our operations in the United Kingdom and Europe.

In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which E.U. laws to replace or replicate. Brexit could also have a destabilizing effect if other E.U. member states were to consider the option of leaving the European Union. For these reasons, the United Kingdom's exit from the European Union could have adverse consequences on our business, financial condition and results of operations. As of December 31, 2020, we had \$1.3 billion, or 19.3%, of our portfolio (by carrying value) invested in the United Kingdom.

Major public health issues, including the ongoing COVID-19 pandemic, and related disruptions in the U.S. and global economy and financial markets have and continue to adversely impact or disrupt our financial condition and results of

operations.

The ongoing COVID-19 pandemic in many countries continues to adversely impact global economic activity and has contributed to significant volatility in financial markets. On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic. On March 13, 2020, former President Trump declared the COVID-19 outbreak a national emergency. The global impact of the pandemic has been rapidly evolving, and as cases of the virus increased around the world, governments and organizations have implemented a variety of actions to mobilize efforts to mitigate the ongoing and expected impact. Many governments, including where real estate is located that secures or underlies a significant portion of our mortgage and other real estate-related loans, have reacted by instituting quarantines, restrictions on travel, school closures, closures of a variety of venues, bans and/or limitations on public events and on public gatherings, “shelter in place”, “stay at home” and “safer-at-home” rules, restrictions on types of business that may continue to operate, with exceptions, in certain cases, available for certain essential operations and businesses, and/or restrictions on types of construction projects that may continue. Businesses have also implemented protective measures, such as work-from-home arrangements, partial or full shutdowns of operations, furlough or termination of employees and cancellation of customer, employee or industry events. Further, such actions have created, and expect to continue to create disruption in real estate financing transactions and the commercial real estate market and adversely impact a number of industries. The pandemic could have a continued adverse impact on economic and market conditions and continue to cause regional, national and global economic slowdowns and potentially trigger recessions in any or all of these areas, the effects of which could last for some period after the pandemic is controlled and/or abated.

In the United States, there have been a number of federal, state and local government initiatives applicable to a significant number of mortgage loans, to manage the spread of the virus and its impact on the economy, financial markets and continuity of businesses of all sizes and industries. In March 2020, the U.S. Congress approved, and former President Trump signed into law, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The CARES Act provides approximately \$2 trillion in financial assistance to individuals and businesses resulting from the outbreak of COVID-19. The CARES Act, among other things, provided certain measures to support individuals and businesses in maintaining solvency through monetary relief, including in the form of financing and loan forgiveness and/or forbearance. The Federal Reserve implemented asset purchase and lending programs, including purchases of residential and commercial-mortgage backed securities and the establishment of lending facilities to support loans to small- and mid-size businesses. To further address the continued economic impact of the COVID-19 pandemic, the U.S. Congress passed, and former President Trump signed into law, a second COVID-19 relief bill in December 2020, which provided approximately \$900 billion in additional financial assistance to individuals and businesses, including funds for rental assistance to be distributed by state and local governments and a revival of the forgivable small business loan program originally provided for under the CARES Act. Although these actions by the federal government, together with other actions taken at the federal, regional and local levels are intended to support these economies, and while President Biden, with the support of a Democratic Congress, is likely to seek to implement additional relief measures in 2021, there is no guarantee that such measures will be approved or will provide sufficient relief to avoid continued adverse effects of the COVID-19 pandemic on the economy. Similar actions have been taken by governments around the globe but as is the case in the United States there is no assurance that such measures will prevent further economic disruptions, which may continue to be significant, around the world.

We believe that our and the Manager's ability to operate, our level of business activity and the profitability of our business, as well as the values of, and the cash flows from, the assets we own have been, and will continue to be impacted by the effects of COVID-19 and could in the future be impacted by another pandemic or other major public health issues. While we have implemented risk management and contingency plans and taken preventive measures and other precautions, no predictions of specific scenarios can be made with respect to the COVID-19 pandemic and such measures may not adequately predict the impact on our business from such events.

The effects of COVID-19 have adversely impacted the value of our assets, business, financial condition, results of operations and cash flows, and our ability to operate successfully. Some of the factors that impacted us to date and may continue to affect us include the following:

- difficulty accessing debt and equity capital on attractive terms, or at all, and a severe disruption and instability in the financial markets or deteriorations in credit and financing conditions may affect our ability and our borrowers' ability to make regular payments of principal and interest (whether due to an inability to make such payments, an unwillingness to make such payments, or a waiver of the requirement to make such payments on a timely basis or at all);
- fundamentally change the manner and frequency in which commercial real estate is used;
- the extent the value of commercial real estate declines, which would also likely negatively impact the value of the loans we own, which could lead to additional margin calls;

- our ability to continue to satisfy any additional margin calls from our lenders and to the extent we are unable to satisfy any such margin calls, any acceleration of our indebtedness, increase in the interest rate on advanced funds, termination of our ability to borrow funds from them, or foreclosure by our lenders on our assets;
- our ability to remain in compliance with the financial covenants in our financing agreements with our lenders in the event of impairments in the value of the loans we own;
- disruptions to the efficient function of our operations because of, among other factors, any inability to access short-term or long-term financing for the mortgage loans and other real estate-related loans we make;
- our need to sell assets, including at a loss;
- to the extent we elect or are forced to reduce our loan origination activities;
- inability of borrowers under our construction loans to continue or complete construction as planned for their operations, which may affect their ability to complete construction and collect rent and, consequently, their ability to pay principal or interest on our construction loans;
- inability by loan servicers to operate in affected areas or at all, including due to the bankruptcy of one or more servicers, or the inability of the Manager to effectively oversee servicers in certain of their activities or perform certain loan administration functions;
- inability of other third-party vendors we rely on to conduct our business to operate effectively and continue to support our business and operations, including vendors that provide IT services, legal and accounting services, or other operational support services;
- decreases in observable market activity or unavailability of information, resulting in restricted access to key inputs used to derive certain estimates and assumptions made in connection with financial reporting or otherwise, including valuing the loans we own, including estimated impairments, and estimates and changes in long term macro-economic assumptions relating to accounting for CECL Allowances;
- effects of legal and regulatory responses to concerns about the COVID-19 pandemic and related public health issues, which could result in additional regulation or restrictions affecting the conduct of our business; and
- our ability to ensure operational continuity in the event our business continuity plan is not effective or ineffectually implemented or deployed during a disruption.

The rapid development and fluidity of the circumstances resulting from this pandemic precludes any prediction as to the ultimate adverse impact of COVID-19. The extent of the impact of the COVID-19 pandemic on us will depend on many factors, including the duration and scope of the public health emergency, the actions taken by governmental authorities to contain its financial and economic impact, the continued or renewed implementation of travel advisories and restrictions, fluctuations in business openings and closures, the efficacy and availability of COVID-19 vaccines, the impact of the public health emergency on overall supply and demand, goods and services, consumer confidence and levels of economic activity and the extent of its disruption to global, regional, and local supply chains and economic markets, all of which are uncertain and difficult to assess. Nevertheless, COVID-19 and the current financial, economic and capital markets environment, and future developments in these and other areas present material uncertainty and risk with respect to our performance, financial condition, volume of business, results of operations and cash flows. Moreover, many risk factors set forth in this annual report on Form 10-K should be interpreted as heightened risks as a result of the impact of the COVID-19 pandemic.

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law ("MGCL") may have the effect of deterring a third party from making a proposal to acquire us or of impeding a change in control under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then-prevailing market price of our common stock including

- "business combination" provisions of the MGCL that, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of our then outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of our then outstanding voting stock) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder

and, thereafter, impose fair price and/or supermajority stockholder voting requirements on these combinations;

- "control share" provisions of the MGCL that provide that a holder of "control shares" of a Maryland corporation (defined as shares which, when aggregated with all other shares controlled by the stockholder (except solely by virtue of a revocable proxy), entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding "control shares") has no voting rights with respect to such shares except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes entitled to be cast by the acquirer of control shares, our officers and personnel who are also directors; and
- "unsolicited takeover" provisions of the MGCL that permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement takeover defenses, some of which (for example, a classified board) we do not yet have.

As permitted by the MGCL, our board of directors has by resolution exempted from the "business combination" provision of the MGC business combinations (1) between us and any other person, provided that such business combination is first approved by our board of directors (including a majority of our directors who are not affiliates or associates of such person) and (2) between us and Apollo and its affiliates and associates and persons acting in concert with any of the foregoing. Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. There can be no assurance that these exemptions will not be amended or eliminated at any time in the future.

Loss of our exclusion from registration under the 1940 Act would adversely affect us.

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

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

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

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

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

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

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

Any amendments to Rule 3a-7 could provide additional flexibility or could inhibit the ability of our subsidiaries to rely on this rule or to pursue certain strategies we have identified for such subsidiaries.

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

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

We have organized special purpose subsidiaries that rely on Section 3(c)(7) to avoid registration as investment companies under the 1940 Act to hold certain assets and, therefore, our interest in each of these Section 3(c)(7)-reliant subsidiaries constitutes an "investment security" for purposes of determining whether we pass the 40% test.

Qualification for particular exclusions or exemptions from registration under 1940 Act as described herein may limit our or our subsidiaries' ability to make certain investments.

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

If our subsidiaries fail to maintain an exclusion or exemption from registration pursuant to the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to

do so, or (c) register as an investment company, any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions which could have an adverse effect on our business and the market price for shares of our common stock.

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

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

Our authorized but unissued shares of common and preferred stock may prevent a change in control.

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

Certain provisions in the indentures governing the Notes could delay or prevent an otherwise beneficial takeover or takeover attempt of us.

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

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

Our charter limits the liability of our present and former directors and officers to us and our stockholders for money damages to the maximum extent permitted under Maryland law.

Our charter authorizes us, and our bylaws and indemnification agreements entered into with each of our directors and executive officers require us, to the maximum extent permitted by Maryland law, to indemnify and, without requiring a preliminary determination of their ultimate entitlement to indemnification, to pay or reimburse defense costs and other expenses of each of our directors and officers in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us.

Our charter contains provisions that make removal of our directors difficult, which could make it difficult for stockholders to effect changes to our management.

Our charter provides that, subject to the rights of any series of preferred stock, a director may be removed with or without cause upon the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. Vacancies may be filled only by a majority of the remaining directors in office, even if less than a quorum. These requirements make it more difficult to change our management by removing and replacing directors and may prevent a change in control of us that is in the best interests of stockholders.

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

In order for us to qualify as a REIT, no more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year, and at least 100 persons must beneficially own our stock during at least 335 days of a taxable year of 12 months, or during a proportionate portion of a shorter taxable year. "Individuals" for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. To preserve our REIT qualification, among other purposes, our charter generally prohibits any person from

directly or indirectly owning more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our capital stock or more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock. The Articles Supplementary for our preferred stock prohibits any stockholder from beneficially or constructively owning more than 9.8% in value or in number of shares, whichever is more restrictive, of our outstanding preferred stock. The indentures governing the Notes prohibits a holder of Notes from receiving shares of our stock upon conversion of the Notes if such receipt would violate the ownership limitations contained in our charter. These ownership limits in our charter could have the effect of discouraging a takeover or other transaction in which holders of our common stock might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests. Our board of directors have established exemptions from the ownership limits in our charter which permit Apollo and certain of our affiliates to collectively hold up to 25% of our common stock, a certain institutional investor to hold up to 20% of our common stock, a certain institutional investor to hold up to 19.9% of our common stock and certain institutional investors and certain of their specified affiliates to each collectively hold up to 15% of our common stock.

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

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

RISKS RELATED TO OUR FINANCING

Our access to sources of financing may be limited and thus our ability to potentially enhance our returns may be adversely affected.

Our access to sources of financing depends upon a number of factors over which it has little or no control, including:

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

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

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

We leverage certain of our target assets, which may adversely affect our return on our assets and may reduce cash available for distribution.

We leverage certain of our target assets through secured debt arrangements. Leverage can enhance our potential returns but can also exacerbate losses. The return on our assets and cash available for distribution to stockholders may be reduced if market conditions cause the cost of our financing to increase relative to the income that can be derived from the assets acquired, which could adversely affect the price of our common stock. In addition, our debt service payments will reduce cash flow available for distributions to stockholders. As a borrower, we are also subject to the risk that we may not be able to meet our debt service obligations. To the extent that we cannot meet our debt service obligations, we risk the loss of some or all of our assets to foreclosure or sale to satisfy our debt obligations.

We may increase the amount of leverage we use in our financing strategy, which would subject us to greater risk of loss.

Our charter and bylaws do not limit the amount of indebtedness we can incur; although we are limited by certain financial covenants under our secured debt arrangements.

We may increase the amount of leverage we utilize at any time without approval of our stockholders. Incurring substantial debt could subject us to many risks that, if realized, would materially and adversely affect us, including the risk that:

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

Credit facilities and secured debt arrangements that we may use to finance our assets may require us to provide additional collateral or pay down debt.

As of December 31, 2020, we had secured debt arrangements in place, with an aggregate borrowing capacity of approximately \$3.5 billion. We may utilize credit facilities and additional secured debt arrangements to finance our assets if they become available on acceptable terms. In the event we utilize such financing arrangements, they may involve the risk that the market value of our assets pledged or sold by us to the secured debt arrangements counterparty or provider of the credit facility may decline in value, in which case the lender may require us to provide additional collateral or to repay all or a portion of the funds advanced. We may not have the funds available to repay its debt at that time, which would likely result in defaults unless we are able to raise the funds from alternative sources, which we may not be able to achieve on favorable terms or at all. Posting additional collateral would reduce our liquidity and limit our ability to leverage our assets. If we cannot meet these requirements, the lender could accelerate our indebtedness, increase the interest rate on advanced funds and terminate our ability to borrow funds from them, which could materially and adversely affect our financial condition and ability to implement our business plan. In addition, in the event that the lender files for bankruptcy or becomes insolvent, our loans may become subject to bankruptcy or insolvency proceedings, thus depriving us, at least temporarily, of the benefit of these assets. Such an event could restrict our access to credit facilities and increase our cost of capital. The lenders may also require us to maintain a certain amount of cash or set aside assets sufficient to maintain a specified liquidity position that would allow us to satisfy our collateral obligations. In the event that we are unable to meet these collateral obligations, our financial condition and prospects could deteriorate rapidly.

Our existing secured debt arrangements impose restrictive covenants.

Our secured debt arrangements contain restrictive covenants which impose limitations on the manner in which we conduct our business. For example, we are subject to customary restrictive covenants with respect to continuing to operate in a manner that allows us to qualify as a REIT for U.S. federal income tax purposes, and financial covenants with respect to minimum consolidated tangible net worth, maximum total indebtedness to consolidated tangible net worth, and minimum liquidity. These covenants may restrict our ability to engage in transactions that we believe would otherwise be in the best interests of our stockholders. Failure to comply with any of the covenants in our secured debt arrangements could result in a default under those arrangements. This could cause our lenders to accelerate the timing of payments which could have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to stockholders and the trading price of our common stock.

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

We may seek to enhance the returns of all or a senior portion of our commercial mortgage loans through securitizations. To securitize our portfolio investments, we may create a wholly-owned subsidiary and contribute a pool of assets to the

subsidiary. This could include the sale of interests in the subsidiary on a non-recourse basis to purchasers whom we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools, and we would retain a portion of the equity in the securitized pool of portfolio investments. The successful securitization of our portfolio investments might expose us to losses as the commercial real estate investments in which we do not sell interests will tend to be those that are riskier and more likely to generate losses. Securitization financings could also restrict our ability to sell assets when it would otherwise be advantageous to do so.

An increase in our borrowing costs relative to the interest we receive on our leveraged assets may adversely affect our profitability and our cash available for distribution to our stockholders.

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

Interest rate fluctuations could reduce the income on our assets and could increase our financing costs, which may adversely affect our earnings and our cash available for distribution to our stockholders.

Changes in interest rates will affect our operating results as such changes will affect the interest we receive on any floating rate interest bearing assets and the financing cost of our floating rate debt, as well as our interest rate swap that we may utilize for hedging purposes. Changes in interest rates may also affect borrower default rates, which may result in losses for us. If a counterparty to our secured debt arrangements defaults on its obligation to resell the underlying security back to us at the end of the transaction term or if the value of the underlying security has declined as of the end of that term or if we default on our obligations under the secured debt arrangement, we will lose money on our secured debt arrangement.

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

Our rights under our secured debt arrangements may be subject to the effects of the bankruptcy laws in the event of the bankruptcy or insolvency of us or our lenders under the secured debt arrangements, which may allow our lenders to repudiate our secured debt arrangements.

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

We may enter into hedging transactions that could expose us to contingent liabilities in the future and adversely impact our financial condition.

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

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

In addition, subject to maintaining our qualification as a REIT, we pursue various hedging strategies to seek to reduce our exposure to adverse changes in currencies and interest rates. We may fail to recalculate, readjust and execute hedges in an efficient manner.

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

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

RISKS RELATED TO OUR ASSETS

We cannot assure stockholders that we will be successful in consummating additional opportunities we identify which would likely materially affect our business, financial condition, liquidity and results of operations.

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

We may not achieve our underwritten internal rate of return and weighted-average all-in yield on our assets, which may lead to future returns that may be significantly lower than anticipated.

The calculations of our underwritten internal rates of return and weighted-average all in yield, included in this annual report on Form 10-K or in our future periodic reports or press releases or other communications, with respect to our investments are based on, among other considerations, assumptions regarding the performance of our assets, the costs of financing, the availability of our secured debt arrangements, the exercise of extension options and the absence of dispositions, early prepayments or defaults, all of which are subject to significant uncertainty. In addition, events or conditions that have not been anticipated may occur and may have a significant effect on the actual rate of return received on our target assets. If these assumptions fail to materialize, future returns on our investments may be significantly lower than underwritten returns. For additional discussion of factors that may affect actual returns on our investments, see Item 7A. "Quantitative and Qualitative Disclosures about Market Risk" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations."

We may be subject to lender liability claims.

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

liability if a claim of this type did arise.

Any credit ratings assigned to our assets will be subject to ongoing evaluations and revisions and we cannot assure stockholders that those ratings will not be downgraded.

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

Acquisitions of preferred equity involve a greater risk of loss than traditional debt transactions.

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

The lack of liquidity of our assets may adversely affect our business, including our ability to value and sell our assets.

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

The expected discontinuance of the London interbank offered rate ("LIBOR") and transition to alternative reference rates may adversely impact our borrowings and assets.

In July 2017, the U.K. Financial Conduct Authority, which regulates the LIBOR administrator, ICE Benchmark Administration Limited ("IBA") announced that it would cease to compel banks to participate in setting LIBOR as a benchmark by the end of 2021. Such announcement indicates that market participants cannot rely on LIBOR being published after 2021. In November 2017, the FCA announced that its Working Group on Sterling Risk-Free Rates would work to implement a broad-based transition to the Sterling Overnight Index Average ("SONIA") across sterling bond, loan and derivative markets, so that SONIA would become established as the primary sterling interest rate benchmark by the end of 2021. On December 4, 2020, the IBA published a consultation on its intention to cease the publication of LIBOR. For the most commonly used tenors (overnight and one, three, six and 12 months) of U.S. dollar LIBOR, the IBA is proposing to cease publication immediately after June 30, 2023, anticipating continued rate submissions from panel banks for these tenors of U.S. dollar LIBOR. The IBA's consultation also proposes to cease publication of all other U.S. dollar LIBOR tenors, and of all non-U.S. dollar LIBOR rates, after December 31, 2021. The FCA and U.S. bank regulators have welcomed the IBA's proposal to continue publishing certain tenors for U.S. dollar LIBOR through June 30, 2023 because it would allow many legacy U.S. dollar LIBOR contracts that lack effective fallback provisions and are difficult to amend to mature before such LIBOR rates experience disruptions. U.S. bank regulators are, however, encouraging banks to cease entering into new financial contracts that use LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021. Given consumer protection, litigation, and reputation risks, U.S. bank regulators believe entering into new financial contracts that use LIBOR as a reference rate after December 31, 2021 would create safety and soundness risks. In addition, they expect new financial contracts to either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate after LIBOR's

discontinuation. Although the foregoing may provide some sense of timing, there is no assurance that LIBOR, of any particular currency and tenor, will continue to be published or be representative of the underlying market until any particular date, and it appears highly likely that LIBOR will be discontinued or modified after December 31, 2021 or June 30, 2023, depending on the currency and tenor.

The Alternative Reference Rates Committee, a group of private-market participants convened by the U.S. Federal Reserve Board and the New York Federal Reserve, has recommended the Secured Overnight Financing Rate ("SOFR") as a more robust reference rate alternative to U.S. dollar LIBOR. The use of SOFR as a substitute for U.S. dollar LIBOR is voluntary and may not be suitable for all market participants. SOFR is calculated based on overnight transactions under repurchase agreements, backed by Treasury securities. SOFR is observed and backward looking, which stands in contrast with LIBOR under the current methodology, which is an estimated forward-looking rate and relies, to some degree, on the expert judgment of submitting panel members. Given that SOFR is a secured rate backed by government securities, it will be a rate that does not take into account bank credit risk (as is the case with LIBOR). SOFR is therefore likely to be lower than U.S. Dollar LIBOR and is less likely to correlate with the funding costs of financial institutions. To approximate economic equivalence to LIBOR, SOFR can be compounded over a relevant term and a spread adjustment may be added. Market practices related to SOFR calculation conventions continue to develop and may vary, and inconsistent calculation conventions may develop among financial products.

Many of our secured debt arrangements and our senior secured term loan, as well as certain of our floating rate loan assets, are linked to U.S. Dollar LIBOR. We expect that a significant portion of these financing arrangements and loan assets will not have matured, been prepaid or otherwise terminated prior to the time at which the IBA ceases to publish LIBOR. It is not possible to predict all consequences of the IBA's proposals to cease publishing LIBOR, any related regulatory actions and the expected discontinuance of the use of LIBOR as a reference rate for financial contracts. Some of our debt and loan assets may not include robust fallback language that would facilitate replacing LIBOR with a clearly defined alternative reference rate after LIBOR's discontinuation, and we may need to amend these before the IBA ceases to publish LIBOR. If such debt or loan assets mature after LIBOR ceases to be published, our counterparties may disagree with us about how to calculate or replace LIBOR. Even when robust fallback language is included, there can be no assurance that the replacement rate plus any spread adjustment will be economically equivalent to LIBOR, which could result in a lower interest rate being paid to us on such assets. Modifications to any debt, loan assets, interest rate hedging transactions or other contracts to replace LIBOR with an alternative reference rate could result in adverse tax consequences. In addition, any resulting differences in interest rate standards among our assets and our financing arrangements may result in interest rate mismatches between our assets and the borrowings used to fund such assets. Furthermore, the transition away from LIBOR may adversely impact our ability to manage and hedge exposures to fluctuations in interest rates using derivative instruments. There is no guarantee that a transition from LIBOR to alternative reference rates will not result in financial market disruptions, significant increases in benchmark rates, or borrowing costs to borrowers, any of which could have an adverse effect on our business, results of operations, financial condition, and the market price of our common stock.

While we expect LIBOR to be available in substantially its current form until the end of 2021, if a significant number of panel banks decline to provide LIBOR submissions to the IBA, it is possible that LIBOR will become unrepresentative of the underlying market and subject to increased volatility prior to such date. Should that occur, the risks associated with the transition to alternative reference rates will be accelerated and magnified.

Provisions for loan losses are difficult to estimate.

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13 "Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments (Topic 326)" ("ASU 2016-13") and in April 2019, the FASB issued ASU 2019-04 "Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments" ("ASU 2019-04") (collectively, the "CECL Standard"). These updates change how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value. The CECL Standard replaces the "incurred loss" approach under existing guidance with an "expected loss" model for instruments measured at amortized cost. The CECL Standard requires entities to record allowances for held-to-maturity and available-for-sale debt securities that is deducted from the carrying amount of the assets to present the net carrying value at the amounts expected to be collected on the assets. All assets subject to the CECL Standard, with few exceptions, will be subject to these allowances rather than only those assets where a loss is deemed probable under the other-than-temporary impairment model. Accordingly, we expect that the adoption of the CECL Standard will materially affect how we determine our allowance for loan losses and could require us to significantly increase our allowance and recognize provisions for loan losses earlier in the lending cycle.

We will continue to record loan specific reserves consistent with our existing accounting policy ("Specific CECL Allowance"). The Specific CECL Allowance is evaluated on a quarterly basis. The determination of the Specific CECL Allowance requires us to make certain estimates and judgments, which may be difficult to determine. Our estimates and

judgments are based on a number of factors, including (1) whether cash from operations is sufficient to cover the debt service requirements currently and into the future, (2) the ability of the borrower to refinance the loan and (3) the property's liquidation value, all of which remain uncertain and are subjective.

In addition, we record a general reserve in accordance with the CECL Standard on the remainder of the loan portfolio ("General CECL Allowance"). The CECL Standard has been effective for fiscal years beginning after December 15, 2019 and has been adopted through a cumulative-effect adjustment to accumulated deficit as of the beginning of the first reporting period in which the guidance is effective; as such, we have adopted the CECL Standard as of January 1, 2020. The CECL Standard may create more volatility in the level of our allowance for loan losses. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

Our assets may be concentrated and are subject to risk of default.

We are not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by our board of directors. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Investment Guidelines." Therefore, our assets may at times be concentrated in certain property types that are subject to higher risk of foreclosure, or secured by properties concentrated in a limited number of geographic locations. To the extent that our portfolio is concentrated in any one region or type of asset, downturns relating generally to such region or type of asset may result in defaults on a number of our assets within a short time period, which may reduce our net income and the value of our common stock and accordingly reduce our ability to pay dividends to our stockholders. Difficult conditions in the markets for mortgages and mortgage-related assets as well as the broader financial markets may result in contraction in liquidity for mortgages and mortgage-related assets, which may adversely affect the value of the assets.

Our results of operations are materially affected by conditions in the markets for mortgages and mortgage-related assets as well as the broader financial markets and the economy generally. Beginning in mid-2007, global financial markets encountered a series of events from the collapse of the sub-prime mortgage market to the ensuing dramatic widening of credit spreads and corresponding broad-scale freezing of corporate lending. These events led to a significant dislocation in capital markets and created a severe shortage of debt capital for commercial real estate, a deleveraging of the entire global financial system and the forced sale of large quantities of mortgage-related and other financial assets. As a result of these conditions, many traditional commercial mortgage loan and securities investors suffered severe losses in their loan and securities portfolios and several major market participants failed or were impaired, resulting in a severe contraction in market liquidity and in a sharp reduction in the availability of credit for real estate-related assets. Further, certain lenders have been impacted by the European sovereign debt crisis. The resulting illiquidity negatively affected both the terms and availability of financing for all real estate-related assets, and generally resulted in real estate-related assets trading at significantly lower prices and higher yields compared to prior periods. Many lenders have continued to maintain tight lending standards and have reduced their lending capacity in response to the difficulties and changed economic conditions that have adversely affected the mortgage market. Further increased volatility and deterioration in the markets for mortgages and mortgage-related assets as well as the broader financial markets may adversely affect the performance and market value of our investments. Furthermore, if these conditions persist, institutions from which we may seek financing may become insolvent or tighten their lending standards, which could make it more difficult for us to obtain financing on favorable terms or at all. Our profitability may be adversely affected if it is unable to obtain cost-effective financing.

The commercial mortgage loans and other commercial real estate-related loans we acquire are subject to delinquency, foreclosure and loss, any or all of which could result in losses to us.

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

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

Foreclosure of a commercial mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan.

B Notes and mezzanine loans we acquire may be subject to losses. The B Notes we acquire may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to us.

As part of our whole loan origination platform, we may retain from whole loans we acquire or originate, subordinate interests referred to as B Notes. B Notes are commercial real estate loans secured by a first mortgage on a single large commercial property or group of related properties and subordinated to a senior interest, referred to as an A Note. As a result, if a borrower defaults, there may not be sufficient funds remaining for B Note owners after payment to the A Note owners. B Notes reflect similar credit risks to comparably rated commercial mortgage-backed securities ("CMBS"). However, since each transaction is privately negotiated, B Notes can vary in their structural characteristics and risks. For example, the rights of holders of B Notes to control the process following a borrower default may be limited in certain investments. We cannot predict the terms of each B Note investment. Similar to our B Note strategy, we may originate or acquire mezzanine loans, which are loans made to property owners that are secured by pledges of the borrower's ownership interests, in whole or in part, in entities that directly or indirectly own the real property. The loan to value and last dollar of exposure of the mezzanine loans generally do not differ greatly from the whole loans we originate or acquire, with the key distinction being that the most senior portion of the loan with the least credit risk is owned by a third party lender. In the event a borrower defaults on a loan and lacks sufficient assets to satisfy our loan, we may suffer a loss of principal or interest. In the event a borrower declares bankruptcy, we may not have full recourse to the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy the loan. In addition, mezzanine loans are by their nature structurally subordinated to more senior property level financings. If a borrower defaults on our mezzanine loan or on debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the property level debt and other senior debt is paid in full. Significant losses related to our B Notes or mezzanine loans would result in operating losses for us and may limit our ability to make distributions to our stockholders.

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

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

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

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

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

A prolonged economic slowdown, a lengthy or severe recession or declining real estate values could impair our assets and harm our operations.

We believe the risks associated with our business will be more severe during periods of economic slowdown or recession if these periods are accompanied by declining real estate values. In addition, our investment model may be adversely affected if there is an economic recession or if it continues longer or is deeper than we may anticipate. Declining real estate values will likely reduce the level of new mortgage and other real estate-related loan originations since borrowers often use appreciation in the value of their existing properties to support the purchase or investment in additional properties. Borrowers may also be less able to pay principal and interest on our loans if the value of real estate weakens. Further, declining real estate values significantly increase the likelihood that we will incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our cost on the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect our Manager's ability to invest in, sell and securitize loans, which would materially and adversely affect our results of operations, financial condition, liquidity and business and our ability to pay dividends to stockholders.

Our real estate assets are subject to risks particular to real property. These risks may result in a reduction or elimination of return from a loan secured by a particular property.

To the extent we foreclose on properties and own real estate directly upon a default of mortgage or other real estate-related loans, we are subject to risks particular to owning real property. Real estate is subject to various risks, including:

- acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks;
- pandemics or other calamities that may affect tenants' ability to pay their rent;
- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- costs of remediation and removal of hazardous substances and liabilities associated with environmental conditions, which liabilities may be imposed without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substance, and which may also adversely affect our ability to sell the property; and
- the potential for uninsured or under-insured property losses.

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

Our non-U.S. assets may subject to us to the uncertainty of foreign laws and markets and currency rate exposure.

Our investment guidelines permit investments in non-U.S. assets, subject to the same guidelines as U.S. assets. As of December 31, 2020, \$1.9 billion, or 29.1%, of our assets (by carrying value) were non-U.S. assets. Investments in countries outside of the United States may subject us to risks of multiple and conflicting tax laws and regulations, and other laws and regulations that may make foreclosure and the exercise of other remedies in the case of default more difficult or costly compared to U.S. assets as well as political and economic instability abroad, any of which factors could adversely affect our receipt of returns on and distributions from these assets. In addition, such assets may be denominated in currencies other than USD which would expose us to foreign currency risk.

We maintain cash balances in our bank accounts that exceed the Federal Deposit Insurance Corporation insurance limitation.

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

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

We may co-invest with third parties through partnerships, joint ventures or other entities, in which we would not be in a position to exercise sole decision-making authority regarding the investment, partnership, joint venture or other entity. Investments through partnerships, joint ventures, or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that co-investors might become bankrupt, fail to fund their share of

required capital contributions, make poor business decisions or block or delay necessary decisions. Co-investors may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor our co-investors would have full control over the partnership or joint venture. Disputes between us and our co-investors may result in litigation or arbitration that would increase our expenses and prevent us from focusing our time and effort on our business. Consequently, actions by, or disputes with, our co-investors might result in subjecting the facilities owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our co-investors.

RISKS RELATED TO OUR RELATIONSHIP WITH THE MANAGER

There are various conflicts of interest in our relationship with Apollo which could result in decisions that are not in the best interests of our stockholders.

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

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

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

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

The Management Agreement was negotiated between related parties and its terms, including fees payable to the Manager, may not be as favorable to us as if they had been negotiated with an unaffiliated third party. In addition, we may choose not to enforce, or to enforce less vigorously, our rights under the Management Agreement because of our desire to maintain an ongoing relationship with the Manager.

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

Pursuant to the Management Agreement, the Manager does not assume any responsibility other than to render the services called for thereunder and is not responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Under the terms of the Management Agreement, the Manager, its officers, members, managers, directors, personnel, any person controlling or controlled by the Manager and any person providing services to the Manager (including Apollo) are not liable to us, any of our subsidiaries, our stockholders or partners or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to the Management Agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the Management Agreement. In addition, we have agreed to indemnify the Manager, its officers, stockholders, members, managers, directors, personnel, any person controlling or controlled by the Manager and any person providing services to the Manager (including

Apollo) with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of the Manager not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties, performed in good faith in accordance with and pursuant to the Management Agreement. As a result, we could experience poor performance or losses for which the Manager would not be liable.

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

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

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

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

The current term of the Management Agreement will expire on September 29, 2021 and is automatically renewed for successive one-year terms on each anniversary thereafter; provided, however, that either we, under the certain limited circumstances described above that would require us to pay the fee described above, or the Manager may terminate the Management Agreement annually upon 180 days prior notice. If the Management Agreement is terminated and no suitable replacement is found to manage us, we may not be able to continue to execute our business plan.

We do not own the Apollo name, but may use the name pursuant to a license agreement with Apollo. Use of the name by other parties or the termination of our license agreement may harm our business.

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

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

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

The Manager manages our portfolio pursuant to very broad investment guidelines and our board of directors does not

approve each decision made by the Manager, which may result in us undertaking riskier transactions.

The Manager is authorized to follow very broad investment guidelines and to execute most transactions without prior approval of our board of directors. Furthermore, the Manager may use complex strategies and transactions entered into by the Manager that may be difficult or impossible to unwind by the time they are reviewed by our directors. The Manager has great latitude within the broad investment guidelines in determining the types of assets that are proper for us, and how such loans and investments are financed or hedged, which could result in returns that are substantially below expectations or that result in losses. In addition, subject to compliance with our investment guidelines, the Manager may change its investment strategy at any time, depending on prevailing market conditions, or for other reasons, in response to opportunities available in different interest rate, economic and credit environments. We have in the past made and in the future may make changes in the investment guidelines at any time with the approval of our independent directors but without the consent of our stockholders. Any future changes in our investment policies could adversely impact our profitability and risk profile.

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

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

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

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

The departure of any senior personnel of the Manager, or of a significant number of the investment professionals or partners of Apollo, could have a material adverse effect on our ability to achieve our investment objectives. In addition, we offer no assurance that the Manager will remain our investment manager, that we will continue to have access to the Manager's or Apollo's executive officers and other investment professionals, or that we will be able to find a suitable replacement for the Manager if the Management Agreement is terminated.

We do not have a policy that expressly prohibits our directors, officers, security holders or affiliates from engaging for their own account in business activities of the types conducted by us. The ability of the Manager and its officers and employees to engage in other business activities may reduce the time the Manager spends managing our business.

We do not have a policy that expressly prohibits our directors, officers, security holders or affiliates from engaging for their own account in business activities of the types conducted by us. However, our Code of Business Conduct and Ethics contains a conflicts of interest policy that prohibits our directors and executive officers, as well as personnel of the Manager or Apollo who provide services to us, from engaging in any transaction that involves an actual conflict of interest with us without the approval of a majority of our independent directors. In addition, the Management Agreement does not prevent the Manager and its affiliates from engaging in additional management or investment opportunities, some of which could compete with us. Further, certain of our officers and directors, and the officers and other personnel of the Manager, also serve or may serve as officers, directors or partners of other Apollo vehicles. Accordingly, the ability of the Manager and its officers and employees

to engage in other business activities may reduce the time the Manager spends managing our business. These demands on their time may reduce the time our officers and officers of the Manager may have available to spend managing our business and distract them or slow the rate of investment.

Our business may be adversely affected if our reputation, the reputation of the Manager or Apollo, or the reputation of counterparties with whom we associate is harmed.

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

RISKS RELATED TO OUR TAXATION AS A REIT

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

We believe that we have been organized and operated and intend to continue to be organized and to operate in a manner that will allow us to qualify as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2009, but we have not requested and do not intend to request a ruling from the Internal Revenue Service (the "IRS") that we so qualify. The U.S. federal income tax laws governing REITs are complex, and judicial and administrative interpretations of the U.S. federal income tax laws governing REIT qualification are limited.

To qualify as a REIT, we must meet, on an ongoing basis, various tests regarding the nature and diversification of our assets and our income, the ownership of our outstanding shares, and the amount of our distributions. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, new legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes. Thus, while we intend to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year.

If we fail to qualify as a REIT in any taxable year, and we do not qualify for certain statutory relief provisions, we would be required to pay U.S. federal income tax on our taxable income, and distributions to our stockholders would not be deductible by us in determining our taxable income. In such a case, we might need to borrow money or sell assets in order to pay our taxes. Our payment of income tax would decrease the amount of our income available for distribution to stockholders, and we no longer would be required to distribute substantially all of our taxable income to stockholders. Unless we were eligible for certain statutory relief provisions, we could not re-elect to qualify as a REIT for the subsequent four taxable years following the year in which we failed to qualify.

Complying with REIT requirements may force us to liquidate or forego otherwise attractive investments, to incur debt, or could otherwise adversely affect our ability to execute our business plan.

To qualify as a REIT, we must ensure that we meet the REIT gross income test annually and that, at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities, shares in REITs and other qualifying real estate assets, including certain mortgage loans and certain kinds of mortgage-backed securities. The remainder of our investments in securities (other than government securities and REIT qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and securities that are qualifying real estate assets) can consist of the securities of any one issuer, no more than 20% of the value of our total securities can be represented by securities of one or more taxable REIT subsidiaries ("TRSs") and not more than 25% of the value of our assets can consist of debt instruments issued by publicly offered REITs

that are not secured by real property. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences.

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

In order to meet these requirements, we may be required to liquidate from our portfolio, or contribute to a TRS, otherwise attractive investments, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source of income or asset diversification requirements for qualifying as a REIT. Furthermore, in order to meet the distribution requirements, we may be required to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt or (iv) make a taxable distribution of our shares as part of a distribution in which stockholders may elect to receive shares or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with the REIT distribution requirements. Thus, compliance with the REIT distribution requirements may hinder our ability to grow. All of these actions could adversely affect the value of our common stock or reduce our income and amounts available for distribution to our stockholders.

Even if we qualify as a REIT, we may face tax liabilities that reduce our cash flow.

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, franchise, property and transfer taxes, including mortgage recording taxes. In addition, we have jointly elected with each of ACREFI I TRS, Inc. ("ACREFI TRS"), a Delaware corporation that is indirectly wholly owned by us, ARM TRS, LLC ("ARM TRS"), a Delaware corporation that is indirectly wholly owned by us, ACREFI II TRS, Ltd. ("ACREFI II TRS"), a Cayman company that is indirectly wholly owned by us, ACREFI III TRS, Inc. ("ACREFI III TRS"), a Delaware corporation that is indirectly wholly owned by us, and ACRE Debt 2 PLC ("ACRE Debt TRS"), a UK public limited company that we own an interest in, to treat each of ACREFI TRS, ARM TRS, ACREFI II TRS, ACREFI III TRS, and ACRE Debt TRS as a TRS of ours. ACREFI TRS, ARM TRS, and ACREFI III TRS and any other domestic TRSs we own will be subject to U.S. federal, state and local corporate taxes, and ACRE Debt TRS and any other non-U.S. TRS could be subject to U.S. or non-U.S. taxes. In order to meet the REIT qualification requirements, or to avoid the imposition of a 100% tax that applies to certain gains derived by a REIT from sales of inventory or property held primarily for sale to customers in the ordinary course of business, we may hold some of our assets through taxable subsidiary corporations, including ACREFI TRS, ARM TRS, ACREFI II TRS, ACREFI III TRS, ACRE Debt TRS or any other TRSs we may form. Any taxes paid by such subsidiary corporations would decrease the cash available for distribution to our stockholders.

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

The failure of mortgage loans subject to a secured debt arrangement to qualify as a real estate asset would adversely affect our ability to qualify as a REIT.

When we enter into secured debt arrangements, we will nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. We believe that we will be treated for U.S. federal income tax purposes as the owner of the assets that are the subject of any such agreements notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the

IRS could assert that we did not own the assets during the term of the secured debt arrangement, in which case we could fail to qualify as a REIT.

The failure of a mezzanine loan to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.

We have and may continue to acquire and originate mezzanine loans, which are loans secured by equity interests in a partnership or limited liability company that directly or indirectly owns real property. In Revenue Procedure 2003-65, the IRS provided a safe harbor pursuant to which a mezzanine loan, if it meets each of the requirements contained in the Revenue Procedure, will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% gross income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. Our mezzanine loans do not always meet all of the requirements of this safe harbor. In the event we own a mezzanine loan that does not meet the safe harbor, the IRS could challenge such loan's treatment as a real estate asset for purposes of the REIT asset and income tests and, if such a challenge were sustained, we could fail to qualify as a REIT, unless we are able to qualify for a statutory REIT "savings" provision, which may require us to pay a significant penalty tax to maintain our REIT qualification.

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

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

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

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

In addition, we may be required to accrue interest and discount income on mortgage loans, CMBS, and other types of debt securities or interests in debt securities before we receive any payments of interest or principal on such assets. We may also be required under the terms of the indebtedness that we incur, whether to private lenders or pursuant to government programs, to use cash received from interest payments to make principal payment on that indebtedness. Furthermore, we will generally be required to take certain amounts into income no later than the time such amounts are reflected on our financial statements. As a result of the foregoing, we may generate less cash flow than taxable income in a particular year, which could impact our ability to satisfy the REIT distribution requirements.

The "taxable mortgage pool" rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.

Securitizations by us or our subsidiaries could result in the creation of taxable mortgage pools for U.S. federal income tax purposes. As a result, we could have "excess inclusion income." Certain categories of stockholders, such as non-U.S. stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from

us that is attributable to any such excess inclusion income. In addition, to the extent that our common stock is owned by tax-exempt "disqualified organizations," such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we may incur a corporate level tax on a portion of any excess inclusion income. Moreover, we could face limitations in selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

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

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

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

We are required to include in our income, on a current basis, certain earnings of ACREFI II TRS and ACRE DEBT TRS, if any. Those income inclusions were not technically included in any of the enumerated categories of income that qualify for the REIT 95% gross income test. However, under IRS guidance, certain such income inclusions generally will constitute qualifying income for purposes of the REIT 95% gross income test.

Complying with REIT requirements may limit our ability to hedge effectively.

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

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

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held as inventory or primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to sell or securitize loans in a manner that was treated as a sale of the loans as inventory for U.S. federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans, other than through a TRS, and we may be required to limit the structures we use for our securitization transactions, even though such sales or structures might otherwise be beneficial for us.

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

The U.S. federal income tax laws and regulations governing REITs and their stockholders, as well as the administrative interpretations of those laws and regulations, are constantly under review and may be changed at any time, possibly with retroactive effect. No assurance can be given as to whether, when, or in what form, the U.S. federal income tax laws applicable to us and our stockholders may be enacted. Changes to the U.S. federal income tax laws and interpretations of U.S. federal tax laws could adversely affect an investment in our common stock. The TCJA, which was signed into law on December 22, 2017, significantly changes U.S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders, and may lessen the relative competitive advantage of operating as a REIT rather than as a C corporation. For additional discussion, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—U.S. Federal Income Tax Legislation." Stockholders are urged to consult with their tax advisors regarding the effects of the TCJA or other legislative, regulatory or administrative developments on an investment in our common stock.

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties

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

Item 3. Legal Proceedings

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. See "Note 16-Commitments and Contingencies" for further detail regarding legal proceedings.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

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

Market Information

Our common stock is listed on the New York Stock Exchange, under the symbol "ARI." On February 9, 2021, the last sales price for our common stock on the New York Stock Exchange was \$12.17 per share.

Holders

As of February 9, 2021, we had 456 registered holders of our common stock. The 456 holders of record include Cede & Co., which holds shares as nominee for The Depository Trust Company, which itself holds shares on behalf of the beneficial

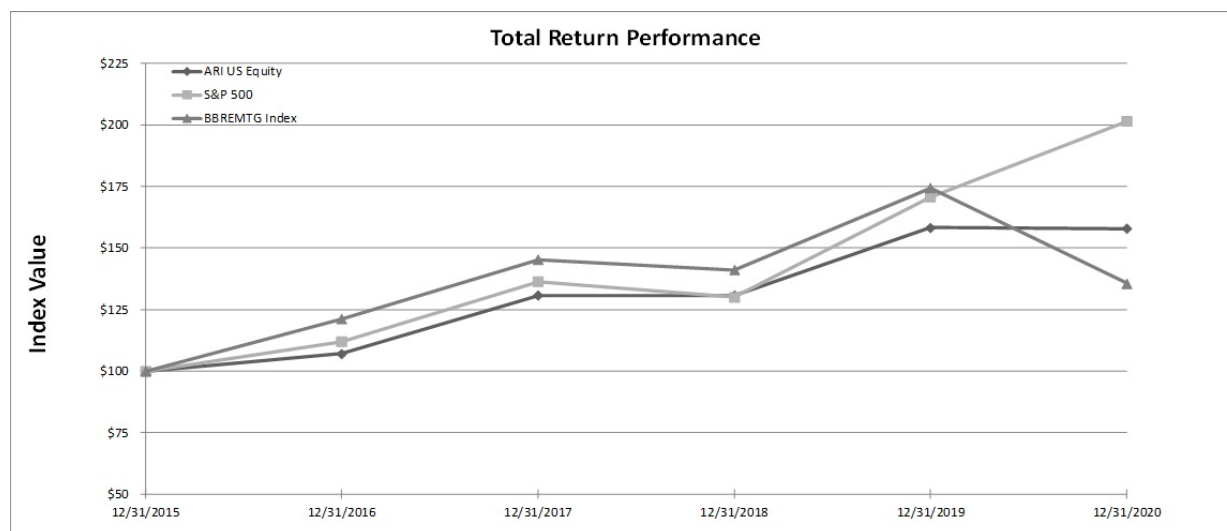
owners of our common stock. Such information was obtained through our registrar and transfer agent, based on the results of a broker search.

Dividends

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

Stockholder Return Performance

The following graph is a comparison of the cumulative total stockholder return on shares of our common stock, the Standard & Poor's 500 (the "S&P 500"), and the Bloomberg REIT Mortgage Index (the "BBREMTG Index"), a published industry index, from December 31, 2015 to December 31, 2020. The graph assumes that \$100 was invested on December 31, 2015 in our common stock, the S&P 500 and the BBREMTG Index and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of our shares will continue in line with the same or similar trends depicted in the graph below.



	Period Ending					
	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20
Apollo Commercial Real Estate Finance, Inc.	100.00	107.14	130.80	130.70	158.33	157.87
S&P 500	100.00	112.00	136.31	130.09	170.71	201.53
BBREMTG Index	100.00	121.19	145.31	141.08	174.42	135.69

Securities Authorized For Issuance Under Equity Compensation Plans

On September 23, 2009, our board of directors approved the Apollo Commercial Real Estate Finance, Inc. 2009 Equity Incentive Plan ("2009 LTIP") and on April 16, 2019, our board of directors approved the Amended and Restated Apollo Commercial Real Estate Finance, Inc. 2019 Equity Incentive Plan ("2019 LTIP," and together with the 2009 LTIP, the "LTIPs"), which amended and restated the 2009 LTIP. Following the approval of the 2019 LTIP by our stockholders at our 2019 annual meeting of stockholders on June 12, 2019, no additional awards have been or will be granted under the 2009 LTIP and all outstanding awards granted under the 2009 LTIP remain in effect in accordance with the terms in the 2009 LTIP.

The 2019 LTIP provides for grants of restricted common stock, restricted stock units ("RSUs") and other equity-based awards up to an aggregate of 7,000,000 shares of our common stock. The LTIPs are administered by the compensation committee of our board of directors (the "Compensation Committee") and all grants under the LTIPs must be approved by the Compensation Committee. For further discussion of the 2019 Plan, see "Note 14- Share-Based Payments" to the accompanying consolidated financial statements included under Item 8. "Financial Statements and Supplementary Data" of this annual report on Form 10-K.

The following table presents certain information about our equity compensation plans as of December 31, 2020:

<u>Plan Category</u>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table)
Equity compensation plans approved by stockholders	—	\$ —	4,484,643
Equity compensation plans not approved by stockholders	—	—	—
Total	—	\$ —	4,484,643

Recent Sales of Unregistered Securities

None.

Recent Purchases of Equity Securities

The following table sets forth the Company's repurchases of common stock during the three months ended December 31, 2020 (\$ in thousands, except per share data):

Period	Total Number of Shares Purchased ⁽¹⁾	Weighted Average Price Paid per Share	Total Number of Shares of Common Stock Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 - October 31, 2020	3,448,037	\$ 9.08	3,448,037	\$ 26,977
November 1 - November 30, 2020	550,000	8.74	550,000	22,170
December 1 - December 31, 2020	—	—	—	22,170
Total	3,998,037	\$ 9.03	3,998,037	\$ 22,170

- (1) On March 16, 2020, we announced that our board of directors approved a stock repurchase program to authorize the Company to repurchase up to an aggregate of \$150.0 million of our common stock. This repurchase program has no expiration date and may be suspended or terminated by us at any time without prior notice. This \$150.0 million program replaced the previous program authorized in November 2013, which was terminated. On February 9, 2021, our board of directors authorized the Company to repurchase up to an additional \$150.0 million of our common stock under this repurchase program.

Item 6. Selected Financial Data.

The selected financial data set forth below as of, and for the years ended, December 31, 2020, 2019, 2018, 2017 and 2016, has been derived from our audited consolidated financial statements.

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

	Year Ended December 31,				
	2020	2019	2018	2017	2016
Operating Data:					
Interest income	\$ 427,569	\$ 487,408	\$ 403,889	\$ 338,521	\$ 264,376
Interest expense	(148,891)	(152,926)	(114,597)	(78,057)	(63,759)
Net interest income	278,678	334,482	289,292	260,464	200,617
Operating expenses	(66,599)	(64,831)	(56,894)	(52,377)	(48,371)
Income (loss) from unconsolidated joint venture	—	—	—	(2,847)	(96)
Other income	1,604	2,113	1,438	940	1,094
Provision for loan losses and impairments, net of reversals	(125,600)	(20,000)	(20,000)	(5,000)	(15,000)
Realized gain (loss) on investments	(47,632)	(12,513)	—	(42,693)	3,834
Unrealized gain (loss) on securities	—	—	—	37,165	(26,099)
Foreign currency gain (loss)	26,916	19,818	(30,335)	18,506	(29,284)
Bargain purchase gain	—	—	—	—	40,021
Loss on early extinguishment of debt	—	—	(2,573)	(1,947)	—
Gain (loss) on foreign currency forwards	(9,743)	(14,425)	39,058	(19,180)	31,160
Unrealized loss on interest rate swap	(39,247)	(14,470)	—	—	—
Net income	\$18,377	\$230,174	\$219,986	\$193,031	\$157,876
Preferred dividends	(13,540)	(18,525)	(27,340)	(36,761)	(30,295)
Net income available to common stockholders	\$4,837	\$211,649	\$192,646	\$156,270	\$127,581
Net income per share of common stock:					
Basic	\$ 0.01	\$ 1.41	\$ 1.52	\$ 1.54	\$ 1.74
Diluted	\$ 0.01	\$ 1.40	\$ 1.48	\$ 1.54	\$ 1.74
Dividends declared per share of common stock	\$ 1.45	\$ 1.84	\$ 1.84	\$ 1.84	\$ 1.84
Balance Sheet Data (at period end):					
Total assets	\$6,940,020	\$6,888,363	\$5,095,819	\$4,088,605	\$3,482,977
Total liabilities	4,669,491	4,258,388	2,586,072	2,000,462	1,550,750
Total stockholders' equity	2,270,529	2,629,975	2,509,747	2,088,143	1,932,227

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

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

Overview

We are a Maryland corporation and have elected to be taxed as a REIT for U.S. federal income tax purposes. We primarily originate, acquire, invest in and manage performing commercial first mortgage loans, subordinate financings, and other commercial real estate-related debt investments. These asset classes are referred to as our target assets.

We are externally managed and advised by the Manager, an indirect subsidiary of 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 \$455.5 billion as of December 31, 2020.

The Manager is led by an experienced team of senior real estate professionals who have significant expertise in underwriting and structuring commercial real estate financing transactions. We benefit from Apollo's global infrastructure and operating platform, through which we are able to source, evaluate and manage potential investments in our target assets.

Results of Operations

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

Loan Portfolio Overview

The following table sets forth certain information regarding our commercial real estate debt portfolio as of December 31, 2020 (\$ in thousands):

Description	Amortized Cost	Weighted-Average Coupon ⁽¹⁾	Weighted Average All-in Yield ⁽¹⁾⁽²⁾	Secured Debt Arrangements ⁽³⁾	Cost of Funds	Equity at cost ⁽⁴⁾
Commercial mortgage loans, net	\$ 5,451,084	4.8 %	5.2 %	\$ 3,449,665	2.2 %	\$ 2,001,419
Subordinate loans and other lending assets, net	1,045,893	10.5 %	12.1 %	—	—	1,045,893
Total/Weighted-Average	\$ 6,496,977	5.7 %	6.3 %	\$ 3,449,665	2.2 %	\$ 3,047,312

- (1) Weighted-Average Coupon and Weighted-Average All-in Yield are based on the applicable benchmark rates as of December 31, 2020 on the floating rate loans.
- (2) Weighted-Average All-in Yield includes the amortization of deferred origination fees, loan origination costs and accrual of both extension and exit fees. Weighted-Average All-in Yield excludes the benefit of forward points on currency hedges relating to loans denominated in currencies other than USD.
- (3) Gross of deferred financing costs of \$13.0 million.
- (4) Represents loan portfolio at amortized cost less secured debt outstanding.

The following table provides details of our commercial mortgage loan portfolio and subordinate loan and other lending assets portfolio, on a loan-by-loan basis, as of December 31, 2020 (\$ in millions):

Commercial Mortgage Loan Portfolio

#	Property Type	Risk Rating	Origination Date	Amortized Cost	Unfunded Commitment	Construction Loan	Fully-extended Maturity	Location
1	Urban Retail	3	12/2019	\$338	\$—		12/2023	London, UK
2	Urban Retail	3	08/2019	317	—		09/2024	Manhattan, NY
3	Hotel	3	10/2019	275	50		08/2024	Various
4	Office	3	02/2020	229	—		02/2025	London, UK
5	Healthcare	3	10/2019	226	31		10/2024	Various
6	Office	3	06/2019	216	27		11/2026	Berlin, Germany
7	Industrial	3	01/2019	197	7		02/2024	Brooklyn, NY
8	Office	3	10/2018	197	3		01/2022	Manhattan, NY
9	Office	3	01/2020	191	97		02/2025	Long Island City, NY
10	Office	3	09/2019	189	—		09/2023	London, UK
11	Hotel	3	04/2018	152	—		04/2023	Honolulu, HI

12	Office	3	11/2017	148	—		01/2023	Chicago, IL
13	Hotel	3	08/2019	146	—		08/2024	Puglia, Italy
14	Hotel	3	09/2015	145	—		06/2024	Manhattan, NY
15	Hotel	3	05/2018	140	—		06/2023	Miami, FL
16	Office	3	10/2018	140	47	Y	10/2023	Manhattan, NY
17	Office	3	01/2018	139	53		01/2022	Renton, WA
18	Urban Predevelopment ⁽¹⁾	5	03/2017	131	—		12/2021	Brooklyn, NY
19	Urban Predevelopment ⁽¹⁾	5	01/2016	115	—		09/2021	Miami, FL
20	Office	3	04/2019	107	52	Y	09/2025	Culver City, CA
21	Retail center ⁽¹⁾	5	11/2014	105	—		09/2021	Cincinnati, OH
22	Hotel	3	03/2017	105	—		03/2022	Atlanta, GA
23	Office ⁽²⁾	3	12/2017	105	—		07/2022	London, UK
24	Residential-for-sale: inventory	3	12/2019	100	10		01/2023	Boston, MA
25	Hotel	3	11/2018	100	—		12/2023	Vail, CO
26	Office	3	03/2018	92	—		04/2023	Chicago, IL
27	Hotel	3	12/2017	82	—		12/2023	Manhattan, NY
28	Mixed Use	3	12/2019	79	1		12/2024	London, UK
29	Residential-for-sale: inventory	3	01/2018	72	8		01/2023	Manhattan, NY
30	Residential-for-sale: construction	3	12/2018	71	107	Y	12/2023	Manhattan, NY
31	Residential-for-sale: construction	3	10/2015	69	—	Y	08/2021	Manhattan, NY
32	Residential-for-sale: construction	3	12/2018	69	34	Y	01/2024	Hallandale Beach, FL
33	Hotel	3	08/2019	67	—		09/2022	Manhattan, NY
34	Multifamily	3	04/2014	66	—		07/2023	Various
35	Hotel	3	04/2018	64	—		05/2023	Scottsdale, AZ
36	Hotel	3	09/2019	61	—		10/2024	Miami, FL
37	Hotel	3	12/2019	60	—		01/2025	Tucson, AZ
38	Multifamily	3	11/2014	54	—		11/2021	Various
39	Urban Predevelopment	3	12/2016	52	—		06/2022	Los Angeles, CA
40	Hotel	3	05/2019	52	—		06/2024	Chicago, IL
41	Multifamily	3	02/2020	50	1		03/2024	Cleveland, OH
42	Hotel	3	12/2015	42	—		08/2024	St. Thomas, USVI
43	Office	3	12/2019	37	2		12/2022	Edinburgh, Scotland
44	Residential-for-sale: inventory	3	05/2018	24	—		05/2021	Manhattan, NY
45	Hotel	3	02/2018	21	6		11/2024	Pittsburgh, PA
46	Mixed Use	3	12/2019	18	828	Y	06/2025	London, UK
47	Residential-for-sale: inventory	3	06/2018	13	—		07/2021	Manhattan, NY
General CECL Allowance				(17)				
Sub total / Weighted-Average Commercial Mortgage Loans		3.1		\$5,451	\$1,364		2.8 Years	

Subordinate Loan and Other Lending Assets Portfolio

#	Property Type	Risk Rating	Origination Date	Amortized Cost	Unfunded Commitment	Construction Loan	Fully-extended Maturity	Location
1	Residential-for-sale: construction ⁽³⁾	3	06/2015	\$223	—	Y	06/2021	Manhattan, NY
2	Residential-for-sale: construction ⁽³⁾	3	11/2017	121	—	Y	06/2021	Manhattan, NY
3	Residential-for-sale: construction ⁽⁴⁾	3	12/2017	112	9	Y	06/2022	Manhattan, NY
4	Office	3	01/2019	100	—		12/2025	Manhattan, NY
5	Healthcare ⁽⁵⁾	3	01/2019	75	—		01/2024	Various
6	Residential-for-sale: construction	3	12/2017	75	7	Y	04/2023	Los Angeles, CA
7	Healthcare ⁽⁶⁾	3	07/2019	51	—		06/2024	Various
8	Mixed Use	3	01/2017	42	—		02/2027	Cleveland, OH
9	Mixed Use	3	02/2019	40	—	Y	12/2022	London, UK
10	Residential-for-sale: inventory	3	10/2016	36	—		01/2021	Manhattan, NY

11	Industrial	2	05/2013	32	—		05/2023	Various
12	Mixed Use	3	12/2018	31	20	Y	12/2023	Brooklyn, NY
13	Hotel	3	06/2015	24	—		07/2025	Phoenix, AZ
14	Hotel ⁽¹⁾	5	06/2015	22	—		12/2022	Washington, DC
15	Hotel	3	06/2018	20	—		06/2023	Las Vegas, NV
16	Multifamily	3	05/2018	19	—		05/2028	Cleveland, OH
17	Healthcare ⁽⁵⁾⁽⁶⁾	3	02/2019	17	—		01/2034	Various
18	Office	3	07/2013	14	—		07/2022	Manhattan, NY
19	Office	3	08/2017	7	—		09/2024	Troy, MI
20	Mixed Use	3	07/2012	6	—		08/2022	Chapel Hill, NC
General CECL Allowance				(21)				
Sub total / Weighted-Average Subordinate Loans and Other Lending Assets		3.0		\$1,046	\$36		2.4 Years	
Total / Weighted-Average Loan Portfolio		3.1		\$6,497	\$1,400		2.8 Years	

- (1) Amortized cost for these loans is net of the recorded provisions for loan losses.
(2) Includes \$9.2 million of a subordinate participation sold accounted for as secured borrowing.
(3) Both loans are secured by the same property.
(4) Includes \$25.8 million of a subordinate participation sold accounted for as secured borrowing.
(5) Loan and Single Asset, Single Borrower CMBS are secured by the same properties.
(6) Single Asset, Single Borrower CMBS.

Our average asset and debt balances for the year ended December 31, 2020 were (\$ in thousands):

Description	Average month-end balances for the year ended December 31, 2020			
	Assets		Related debt	
Commercial mortgage loans, net	\$	5,675,735	\$	3,415,598
Subordinate loans and other lending assets, net		1,018,097		—

Portfolio Management

Due to the impact of COVID-19, some of our borrowers have experienced consequences which are preventing the execution of their business plans and in some cases temporary closures. As a result, we have worked with borrowers to execute loan modifications which are typically coupled with additional equity contributions from borrowers. Loan modifications to date have included repurposing of reserves, temporary deferrals of interest or principal, and partial deferral of coupon interest as payment-in-kind interest.

Investment Activity

During the year ended December 31, 2020, we committed \$562.0 million of capital to loans (\$463.9 million of which was funded during the year ended December 31, 2020). In addition, during the year ended December 31, 2020, we received \$683.3 million in repayments and sales and funded \$412.7 million for loans closed prior to 2020.

Net Income Available to Common Stockholders

For the years ended December 31, 2020 and 2019, our net income available to common stockholders was \$4.8 million, or \$0.01 per diluted share of common stock, and \$211.6 million, or \$1.40 per diluted share of common stock, respectively.

Operating Results

The following table sets forth information regarding our consolidated results of operations and certain key operating metrics (\$ in thousands):

	Year Ended December 31,		2020 vs 2019
	2020	2019	
Net interest income:			
Interest income from commercial mortgage loans	\$ 309,134	\$ 322,475	\$ (13,341)
Interest income from subordinate loans and other lending assets	118,435	164,933	(46,498)
Interest expense	(148,891)	(152,926)	4,035
Net interest income	278,678	334,482	(55,804)
Operating expenses:			
General and administrative expenses	(26,849)	(24,097)	(2,752)
Management fees to related party	(39,750)	(40,734)	984
Total operating expenses	(66,599)	(64,831)	(1,768)
Other income	1,604	2,113	(509)
Realized loss on investments	(47,632)	(12,513)	(35,119)
Provision for loan losses - Specific CECL Allowance, net	(115,000)	(20,000)	(95,000)
Provision for loan losses - General CECL Allowance, net	(10,600)	—	(10,600)
Loss on foreign currency forward contracts	(9,743)	(14,425)	4,682
Foreign currency translation gain	26,916	19,818	7,098
Loss on interest rate hedging instruments	(39,247)	(14,470)	(24,777)
Net income	\$18,377	\$230,174	\$(211,797)

For a comparison and discussion of our results of operations and other operating and financial data for the fiscal years ended December 31, 2019 and December 31, 2018, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our annual report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on February 13, 2020.

Net Interest Income

Net interest income decreased by \$55.8 million during the year ended December 31, 2020 as compared to the same period in 2019. This decrease was primarily due to (i) a 1.71% decrease in average one-month LIBOR compared to the same period in 2019, (ii) the principal balance of \$545.7 million being on cost recovery or non-accrual status as of December 31, 2020 compared to \$192.4 million as of December 31, 2019, and (iii) a \$1.1 billion increase in the average month-end debt balance for the year ended December 31, 2020 as compared to the same period in 2019. This was partially offset by (i) a \$260.6 million increase in loan principal balance as of December 31, 2020 compared to the same date in 2019, (ii) in the money LIBOR floors on several of our loans, and (iii) a decrease in the average LIBOR, noted above, on our debt.

We recognized payment-in-kind ("PIK") interest of \$46.7 million and \$54.6 million for the years ended December 31, 2020 and 2019, respectively.

We recognized \$0.2 million and \$6.1 million in pre-payment penalties and accelerated fees for the years ended December 31, 2020 and 2019, respectively.

Operating Expenses

General and administrative expenses

General and administrative expenses increased by \$2.8 million for the year ended December 31, 2020 compared to the same period in 2019. The increase was primarily driven by a \$1.8 million increase in general operating expenses and a \$0.9 million increase in non-cash restricted stock and RSU amortization related to shares of stock awarded under the LTIPs.

Management fees to related party

Management fee expense decreased by \$1.0 million during the year ended December 31, 2020 as compared to the same period in 2019. The decrease is primarily attributable to a decrease in our stockholders' equity (as defined in the Management Agreement) as a result of our common stock repurchase of 14,832,632 shares in 2020 (as described in "Note 15 - Stockholders' Equity").

Realized loss on investments

Realized loss on investments increased by \$35.1 million during the year ended December 31, 2020 as compared to the same period in 2019. The loss for the year ended December 31, 2020 is attributable to a \$15.0 million realized loss in connection with a troubled debt restructuring ("TDR"), \$11.0 million realized loss related to a loan recapitalization, \$19.2 million realized loss as a result of loan sales or payoffs and \$2.4 million realized loss from a foreclosure. The loss for the year ended December 31, 2019 was attributable to a \$12.5 million realized loss recognized from the payoff of one of our impaired loans. Refer to "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net" for additional information related to realized loss on investments.

Provision for loan losses, net - General CECL Allowance

The General CECL Allowance increased by \$10.6 million from initial adoption on January 1, 2020, to December 31, 2020. The increase is primarily related to a change in our view of estimated future macroeconomic conditions in the backdrop of the global COVID-19 pandemic and an increase in our view of the remaining expected term of our loan portfolio as of December 31, 2020. Refer to "Note 2 - Summary of Significant Accounting Policies" and "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net" for additional information related to our General CECL Allowance.

Provision for loan losses and impairments, net - Specific CECL Allowance

During the year ended December 31, 2020, we recorded \$115.0 million of Specific CECL Allowances and Impairments net of \$13.0 million in reversals of previously recorded Specific CECL Allowances and Impairments. Additional Specific CECL Allowances and Impairments of \$128.0 million were recorded on four loans, one of which had \$47.0 million of previously recorded provisions for loan losses, related to adverse effects from COVID-19. Reversals represent \$10.0 million in Specific CECL Allowances and \$3.0 million in impairments to an equity position held in other assets in our consolidated balance sheet from the payoff of a loan. Refer to "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net" for additional information related to our Specific CECL Allowance.

Foreign currency gain and (loss) on derivative instruments

We use forward currency contracts to economically hedge interest and principal payments due under our loans denominated in currencies other than USD. When foreign currency gain and (loss) on derivative instruments are evaluated on a combined basis, the net impact for the years ended December 31, 2020 and 2019 was \$17.2 million and \$5.4 million, respectively.

Loss on interest rate hedges

In connection with the senior secured term loan, we had previously entered into an interest rate swap to fix LIBOR at 2.12% effectively fixing our all-in coupon on the senior secured term loan at 4.87%. During the second quarter of 2020, we terminated the interest rate swap and recognized a realized loss of \$53.9 million. Subsequent to the termination of the interest rate swap in the second quarter of 2020, we entered into a three-year interest rate cap to cap LIBOR at 0.75%. This effectively limits the maximum all-in coupon on our senior secured term loan to 3.50%. During the year ended December 31, 2020, the interest rate cap had an unrealized gain of \$0.1 million.

Dividends

The following table details our dividend activity:

Dividends declared per share of:	Years Ended	
	December 31, 2020	December 31, 2019
Common Stock ⁽¹⁾	\$1.45	\$1.84
Series B Preferred Stock	2.00	2.00
Series C Preferred Stock ⁽²⁾	N/A	0.7223

(1) As our aggregate 2020 distributions exceeded our earnings and profits, \$0.35 of the January 2021 distribution declared in the fourth quarter of 2020 are payable to common stockholders of record as of December 31, 2020 will be treated as a 2021 distribution for U.S. federal income tax purposes.

(2) The Series C Preferred Stock was redeemed in full in June 2019.

Subsequent Events

Refer to "Note 20 - Subsequent Events" to the accompanying consolidated financial statements for disclosure regarding significant transactions that occurred subsequent to December 31, 2020.

Factors Impacting Operating Results

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

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

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

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

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

Market conditions. During the first quarter of 2020, there was a global outbreak of COVID-19, which was declared by the World Health Organization as a pandemic. In response to COVID-19, the United States and numerous other countries declared national emergencies, which has led to large scale quarantines as well as restrictions to business deemed non-essential. These responses to COVID-19 have disrupted economic activities and could have a significant continued adverse effect on economic and market conditions, and could result in a recession. As we are still in the midst of the COVID-19 pandemic we are not in a position to estimate the ultimate impact this will have on our business and the economy as a whole. The effects of COVID-19 have adversely impacted the value of our assets, business, financial condition, results of operations and cash flows, and our ability to operate successfully. Some of the factors that impacted us to date and may continue to affect us are outlined in Item 1A. "Risk Factors" of this annual report on Form 10-K. Please see "Liquidity and Capital Resources" below for additional discussion surrounding the ongoing impact we expect COVID-19 will have on our liquidity and capital resources.

Critical Accounting Policies and Use of Estimates

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

Risk Ratings

Our loans are typically collateralized by commercial real estate. As a result, we regularly evaluate the extent and impact of any credit migration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations are sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan, and/or (iii) the property's liquidation value. We also evaluate the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, we consider the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such 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.

We assess the risk factors of each loan, and assign a risk rating based on a variety of factors, including, without limitation, loan-to-value ratio ("LTV"), debt yield, property type, geographic and local market dynamics, physical condition, cash flow volatility, leasing and tenant profile, loan structure and exit plan, and project sponsorship. This review is performed quarterly. Based on a 5-point scale, our loans are rated "1" through "5," from less risk to greater risk, which ratings are defined as follows:

1. Very low risk
2. Low risk
3. Moderate/average risk
4. High risk/potential for loss: a loan that has a risk of realizing a principal loss
5. Impaired/loss likely: a loan that has a high risk of realizing principal loss, has incurred principal loss or an impairment has been recorded

The following tables allocate the carrying value of our loan portfolio based on our internal risk ratings and date of origination at the dates indicated (\$ in thousands):

				December 31, 2020					
Risk Rating	Number of Loans	Total	% of Portfolio	Year Originated					
				2020	2019	2018	2017	2016	Prior
1	—	\$ —	— %	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
2	1	32,000	0.5 %	—	—	—	—	—	32,000
3	62	6,129,541	93.8 %	469,586	2,661,017	1,398,479	868,514	88,710	643,235
4	—	—	— %	—	—	—	—	—	—
5	4	373,538	5.7 %	—	—	—	131,050	115,419	127,069
Total	67	\$ 6,535,079	100.0 %	\$ 469,586	\$ 2,661,017	\$ 1,398,479	\$ 999,564	\$ 204,129	\$ 802,304
General CECL Allowance		(38,102)							
Total carrying value, net		\$ 6,496,977							
Weighted Average Risk Rating			3.1						

December 31, 2019

Risk Rating	Number of Loans	Total	% of Portfolio	Year Originated					
				2019	2018	2017	2016	2015	Prior
1	—	\$ —	— %	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
2	8	348,324	5.5 %	—	241,676	—	36,250	24,546	45,852
3	61	5,707,555	89.5 %	2,736,825	1,355,014	912,636	72,540	499,700	130,840
4	1	182,910	2.9 %	—	—	—	182,910	—	—
5	2	136,304	2.1 %	—	—	—	—	—	136,304
Total	72	\$ 6,375,093	100.0 %	\$ 2,736,825	\$ 1,596,690	\$ 912,636	\$ 291,700	\$ 524,246	\$ 312,996
Weighted Average Risk Rating			3.0						

Current Expected Credit Losses ("CECL")

In June 2016, the FASB issued ASU 2016-13, which we refer to as the "CECL Standard." This update has changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value. The CECL Standard replaced the "incurred loss" approach under existing guidance with an "expected loss" model for instruments measured at amortized cost. The CECL Standard requires entities to record allowances for held-to-maturity debt securities that are deducted from the carrying amount of the assets to present the net carrying value at the amounts expected to be collected on the assets. We continue to record loan-specific allowances as Specific CECL Allowance, as a practical expedient under the CECL Standard, which we apply to assets that are collateral dependent and where the borrower or sponsor is experiencing financial difficulty. In addition, we now record a General CECL Allowance in accordance with the CECL Standard on the remainder of the loan portfolio on a collective basis by assets with similar risk characteristics.

The CECL Standard requires us to record an allowance for credit losses that are deducted from the carrying amount of our loan portfolio to present the net carrying value at the amounts expected to be collected on the assets. We adopted the CECL Standard through a cumulative-effect adjustment to accumulated deficit on January 1, 2020. Subsequent changes to the CECL Allowance are recognized through net income on our consolidated statement of operations.

Specific CECL Allowance

We evaluate our loans on a quarterly basis. For loans where we have deemed the borrower/sponsor to be experiencing financial difficulty, we have elected to apply a practical expedient in accordance with the CECL Standard. In accordance with the practical expedient approach, we determine the loan loss provision to be the difference between the fair value of the underlying collateral and the carrying value of the loan (prior to the loan loss provision). When the repayment or satisfaction of a loan is dependent on a sale, rather than operations, of the collateral, the fair value is adjusted for the estimated cost to sell the collateral. The fair value of the underlying collateral is determined by using method(s) such as discounted cash flow, the market approach, or direct capitalization approach. The key unobservable inputs used to determine the fair value of the underlying collateral may vary depending on the information available to us and market conditions as of the valuation date. If we deem all or any portion of a loan balance uncollectible, that amount is written-off.

The following table summarizes the specific provision for loan losses that have been recorded on our portfolio as of December 31, 2020 (\$ in thousands):

Type	Property type	Location	Amortized cost ⁽¹⁾	Interest recognition status/ as of date
Mortgage				
	Urban Predevelopment ⁽²⁾	Brooklyn, NY	\$ 131,050	Cost Recovery/ 3/1/2020
	Urban Predevelopment ⁽²⁾⁽³⁾	Miami, FL	115,419	Cost Recovery/ 3/1/2020
	Retail Center ⁽⁴⁾⁽⁵⁾	Cincinnati, OH	105,344	Cost Recovery/ 10/1/2019
Mortgage total:			\$ 351,813	
Mezzanine				
	Hotel ⁽⁶⁾	Washington, DC	\$ 21,725	Cost Recovery/ 3/31/2020
Mezzanine total:			\$ 21,725	
Grand total:			\$ 373,538	

(1) Amortized cost is shown net of \$175.0 million of net Specific CECL Allowance. During the year ended December 31, 2020, there was \$118.0 million in net Specific CECL Allowances taken due to factors including COVID-19. See Note 2 for additional information regarding COVID-19.

- (2) The fair value of urban predevelopment collateral was determined by assuming rent per square foot ranging from 25 to \$225 and a capitalization rate ranging from 5.0% to 5.5%.
- (3) In October 2020, we entered into a joint venture which owns the underlying properties that secure our \$180.5 million first mortgage loan. The entity in which we own an interest, and which owns the underlying properties was deemed to be a Variable Interest Entity ("VIE") and we determined that we are not the primary beneficiary of that VIE.
- (4) The fair value of retail collateral was determined by applying a capitalization rate of 8.3%.
- (5) The entity in which we own an interest and which owns the underlying property was deemed to be a VIE and we determined that we are not the primary beneficiary of that VIE. As of December 31, 2019 we had recorded \$47.0 million provision for loan loss. During the years ended December 31, 2020 and 2019, \$1.6 million and \$1.4 million, respectively, of interest paid was applied towards reducing the carrying value of the loan.
- (6) The fair value of hotel collateral was determined by applying a discount rate of 8.5% and a capitalization rate of 7.0%. During the year ended December 31, 2020 and 2019, there was \$0.2 million and \$0 million of interest paid applied towards reducing the carrying value of the loan, respectively.

We evaluate modifications to our loan portfolio to determine if the modifications constitute a troubled debt restructuring ("TDR") and/or substantial modification, under ASC Topic 310 "Receivables." In 2015, we originated a \$157.8 million loan secured by a hotel in New York City. During the second quarter of 2020, this loan was restructured and was deemed to be a TDR. In connection with this restructuring, the borrower committed to contributed additional equity of \$15.0 million and concurrently we wrote down our principal on this loan by \$15.0 million, which had been previously recorded as a Specific CECL Allowance. As of December 31, 2020, the loan had a principal balance and amortized cost of \$142.8 million and \$144.7 million, respectively, has a risk rating of 3, and is on accrual status. During the three months ended June 30, 2020, the CECL Allowance of \$15.0 million was reversed through reversal of loan losses, while the write-down was recorded in realized loss on investments in our consolidated statement of operations.

In 2018, we originated a \$38.5 million commercial mortgage loan secured by a hotel in Pittsburgh, Pennsylvania. During the fourth quarter of 2020, the loan was recapitalized with the minority equity holder in the property. In connection with this recapitalization, we received approximately \$5.9 million of principal that paid down the existing loan and we wrote down our principal by \$11.0 million, (\$9.5 million of which had been previously recorded as a Specific CECL Allowance). In addition, the sponsor committed to contribute \$11.4 million in new equity. As of December 31, 2020, the recapitalized loan had a principal balance and amortized cost of \$21.6 million and \$21.5 million, respectively, with a risk rating of 3. During the fourth quarter of 2020, the Specific CECL Allowance of \$9.5 million was reversed through provision for loan losses and impairments, net, while the write-down was recorded in realized loss on investments in our consolidated statement of operations.

General CECL Allowance

The CECL Standard requires an entity to consider historical loss experience, current conditions, and a reasonable and supportable forecast of the macroeconomic environment. The FASB recognizes the weighted average remaining maturity ("WARM") method as an acceptable approach for computing current expected credit losses. We have adopted the WARM method to comply with the CECL Standard in determining a General CECL Allowance for a majority of our portfolio. In the future, we may use other acceptable methods, such as a probability-of-default/loss-given-default method. For loans where we have deemed the borrower/sponsor to be experiencing financial difficulty, we have elected to apply a practical expedient in which the fair value of the underlying collateral is compared to the amortized cost of the loan in determining a Specific CECL Allowance.

In accordance with the WARM method, an annual historical loss rate is applied to the amortized cost of an asset or pool of assets over the remaining expected life. The WARM method requires consideration of the timing of expected future fundings of existing commitments and repayments over each asset's remaining life. An annual loss factor, adjusted for macroeconomic estimates, is applied over each subsequent period and aggregated to arrive at the General CECL Allowance.

In determining the General CECL Allowance, we considered various factors including (i) historical loss experience in the commercial real estate lending market, (ii) timing of expected repayments and satisfactions, (iii) expected future funding, (iv) capital subordinate to us when we are the senior lender, (v) capital senior to us when we are the subordinate lender, and (vi) our current and future view of the macroeconomic environment. The standard requires the use of significant judgment to arrive at an estimated credit loss. There is significant uncertainty related to future macroeconomic conditions as the result of COVID-19.

We derived an annual historical loss rate based on a commercial mortgage backed securities ("CMBS") database with historical losses from 1998 through the fourth quarter of 2020 provided by a third party, Trepp LLC. We applied various filters to arrive at a CMBS dataset most analogous to our current portfolio from which to determine an appropriate historical loss rate. The annual historical loss rate was further adjusted to reflect our expectations of the macroeconomic environment for a reasonable and supportable forecast period which we have determined to be one year.

The General CECL Allowance on subordinate loans is calculated by incorporating both the loan balance of the position(s) of the structurally senior third-party lender(s) and the balance of our subordinate loan(s). The subordinate loans, by virtue of being the first loss position, are required to absorb losses prior to the senior position(s) being impacted, resulting in a higher

percentage allowance attributable to the subordinate loan. The General CECL Allowance on unfunded loan commitments is time-weighted based on our expected commitment to fund such obligations. The General CECL Allowance on unfunded commitments is recorded as a liability on our consolidated balance sheet within accounts payable, accrued expenses and other liabilities.

The following schedule sets out our General CECL Allowance as of December 31, 2020, and as of the date of adoption, January 1, 2020 (\$ in thousands):

	December 31, 2020	January 1, 2020 ⁽¹⁾
Commercial mortgage loans, net	\$ 17,012	\$ 12,149
Subordinate loans and other lending assets, net	21,090	15,630
Unfunded commitments ⁽²⁾	3,365	3,088
Total General CECL Allowance	<u>\$ 41,467</u>	<u>\$ 30,867</u>

(1) As of January 1, 2020, we adopted the CECL Standard through a cumulative-effect adjustment to accumulated deficit

(2) The General CECL Allowance on unfunded commitments is recorded as a liability on our consolidated balance sheet within accounts payable, accrued expenses and other liabilities

Refer to "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net" for further information regarding CECL.

Interest Income Recognition

Interest income on commercial mortgage loans, subordinate loans and other lending assets is accrued based on the actual coupon rate adjusted for accretion of any purchase discounts, the amortization of any purchase premiums and the accretion of any deferred fees, in accordance with GAAP. Loans that are significantly past due may be placed on non-accrual if we determine it is probable that we will not collect all payments which are contractually due. When a loan is placed on non-accrual, interest is only recorded as interest income when it is received. Under certain circumstances, we may utilize the cost recovery method under which interest collected on a loan is a reduction to its amortized cost. The cost recovery method will no longer apply if collection of all principal and interest is reasonably assured. A loan may be placed back on accrual status if we determine it is probable that we will collect all payments which are contractually due.

Hedging Instruments and Hedging Activities

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

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

In connection with our senior secured term loan, in May 2019, we entered into an interest rate swap to fix LIBOR at 2.12% or an all-in interest rate of 4.87%. We used our interest rate swap to manage exposure to variable cash flows on our borrowings under our senior secured term loan. However during the second quarter of 2020, we terminated our interest rate swap due to a significant decrease in LIBOR and recognized a realized loss on the accompanying consolidated statement of operations.

In June 2020, we entered into an interest rate cap, which we use to manage exposure to variable cash flows on our borrowings under our senior secured term loan by effectively limiting LIBOR from exceeding 0.75%. Unrealized gains or losses related to the interest rate swap and cap were recorded net under interest expense in our consolidated statement of operations.

We use forward currency contracts to economically hedge interest and principal payments due under our loans denominated in currencies other than USD.

Recent Accounting Pronouncements

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

U.S. Federal Income Tax Legislation

On December 22, 2017, Congress enacted TCJA. The TCJA made major changes to the Internal Revenue Code, including the reduction of the tax rates applicable to individuals and subchapter C corporations, a reduction or elimination of certain deductions (including new limitations on the deductibility of interest expense), permitting immediate expensing of capital expenditures and significant changes in the taxation of earnings from non-U.S. sources. The effect of the significant changes made by the TCJA remains uncertain, and additional administrative guidance is still required in order to fully evaluate the effect of many provisions. In addition, final regulations implementing certain of these new rules have not yet been issued and additional changes or corrections may still be forthcoming. While we do not currently expect this reform to have a significant impact to our consolidated financial statements, stockholders are urged to consult with their tax advisors regarding the effects of the TCJA or other legislative, regulatory or administrative developments on an investment in our common stock.

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make distributions to our stockholders and other general business needs. As of December 31, 2020, we had \$1.1 billion of corporate debt and \$3.4 billion of asset specific financings. We have no corporate debt maturities until August 2022. As of December 31, 2020, we had \$325 million of cash on hand and \$18.4 million of approved and undrawn capacity from our secured debt arrangements. In addition, we have a significant amount of unencumbered loan assets. In light of COVID-19 and its severe impact on the economy we have taken steps to increase our cash balances in order to maintain an adequate level of liquidity to meet future outflows. As the duration and severity of COVID-19 remain unknown, so does the impact it will have on our borrowers, lenders, and the economy as a whole. We will continue to closely monitor developments related to COVID-19 as it relates to our liquidity position and financial obligations. At this time we believe we have sufficient liquidity and access to additional liquidity to meet financial obligations for at least the next 12 months.

Debt-to-Equity Ratio

The following table presents our debt-to-equity ratio:

	December 31, 2020	December 31, 2019
Debt to Equity Ratio ⁽¹⁾	1.8	1.4

(1) Represents total debt less cash and loan proceeds held by servicer (recorded with Other Assets, see "Note 6 - Other Assets" for more information) to total stockholders' equity.

Our primary sources of liquidity are as follows:

Cash Generated from Operations

Cash from operations is generally comprised of interest income from our investments, net of any associated financing expense, principal repayments from our investments, net of associated financing repayments, proceeds from the sale of investments, and changes in working capital balances. See "Results of Operations – Loan Portfolio Overview" above for a summary of interest rates related to our investment portfolio as of December 31, 2020.

Borrowings Under Various Financing Arrangements

JPMorgan Facility

In November 2019, through three indirect wholly-owned subsidiaries, we entered into a Sixth Amended and Restated Master Repurchase Agreement with JPMorgan Chase Bank, National Association. The JPMorgan Facility allows for \$1.3 billion of maximum borrowings (with amounts borrowed in GBP and Euros ("EUR") converted to USD for purposes of calculating availability based on the greater of the spot rate as of the initial financing under the corresponding mortgage loan and the then-current spot rate) and matures in June 2022 and has two one-year extensions available at our option, which are subject to certain conditions. The JPMorgan Facility enables us to elect to receive advances in USD, GBP, or EUR. Margin calls may occur any time at specified aggregate margin deficit thresholds.

As of December 31, 2020, we had \$1.2 billion (including £83.1 million and €60.0 million assuming conversion into USD) of borrowings outstanding under the JPMorgan Facility secured by certain of our commercial mortgage loans.

DB Facility

In March 2020, through an indirect wholly-owned subsidiary, we entered into a Third Amended and Restated Master Repurchase Agreement with Deutsche Bank AG, Cayman Islands Branch, London Branch, which provides for advances of up to \$1.0 billion for the sale and repurchase of eligible first mortgage loans secured by commercial or multifamily properties located in the United States, United Kingdom and the European Union, and enables us to elect to receive advances in USD, GBP, or EUR. The DB Facility matures in March 2021, and has two one-year extensions available at our option, subject to certain conditions. Margin calls may occur any time at specified aggregate margin deficit thresholds.

As of December 31, 2020, we had \$520.5 million of borrowings outstanding under the DB Facility secured by certain of our commercial mortgage loans.

Goldman Facility

In November 2017, through an indirect wholly-owned subsidiary, we entered into a master repurchase and securities contract agreement with Goldman Sachs Bank USA, which provides advances up to \$500.0 million and matures in November 2021. In addition, the Goldman Facility contains a two-year amortization period subsequent to the November 2021 maturity, which allows for the refinancing or pay down of assets under the facility. Margin calls may occur any time at specified margin deficit thresholds.

As of December 31, 2020, we had \$332.4 million of borrowings outstanding under the Goldman Facility secured by certain of our commercial mortgage loans.

CS Facility - USD

In July 2018, through an indirect wholly-owned subsidiary, we entered into a Master Repurchase Agreement with Credit Suisse AG, acting through its Cayman Islands Branch and Alpine Securitization Ltd, which provides for advances for the sale and repurchase of eligible commercial mortgage loans secured by real estate. The CS Facility — USD has an "evergreen" feature such that the facility continues unless terminated at any time by Credit Suisse with six months' notice. Margin calls may occur any time at specified aggregate margin deficit thresholds.

As of December 31, 2020, we had \$369.2 million of borrowings outstanding under the CS Facility — USD secured by certain of our commercial mortgage loans.

CS Facility - GBP

In June 2018, through an indirect wholly-owned subsidiary, we entered into a Global Master Repurchase Agreement with Credit Suisse Securities (Europe) Limited (the "CS Facility — GBP"). During the third quarter of 2020, CS Facility — GBP the facility was repaid in full in connection with the sale of the underlying loan.

HSBC Facility - USD

In October 2019, through an indirect wholly-owned subsidiary, we entered into a secured debt arrangement with HSBC Bank plc, which provides for a single asset financing (the "HSBC Facility — USD"). During the fourth quarter of 2020, the HSBC Facility — USD was repaid in full and the asset was moved to another facility.

HSBC Facility - GBP

In September 2018, through an indirect wholly-owned subsidiary, we entered into a secured debt arrangement with HSBC Bank plc, which provided for a single asset financing (the "HSBC Facility — GBP"). The HSBC Facility — GBP matured and was repaid in full in June 2020 in connection with the repayment of the underlying loan.

HSBC Facility - EUR

In July 2019, through an indirect wholly-owned subsidiary, we entered into a secured debt arrangement with HSBC Bank plc, which provides for a single asset financing. The HSBC Facility — EUR matures in July 2021. Margin calls may occur any time at specified aggregate margin deficit thresholds.

As of December 31, 2020, we had \$163.8 million (€134.1 million assuming conversion into USD) of borrowings outstanding under the HSBC Facility — EUR secured by one commercial mortgage loan.

Barclays Facility - USD

In March 2020, through an indirect wholly-owned subsidiary, we entered into a secured debt arrangement pursuant to a Master Repurchase Agreement with Barclays Bank plc. The Barclays Facility — USD allows for \$200.0 million of maximum borrowings and initially matures in March 2023 with extensions available at our option, subject to certain conditions. Margin calls may occur any time at specified aggregate margin deficit thresholds.

As of December 31, 2020, we had \$35.2 million of borrowings outstanding under the Barclays Facility — USD secured by one commercial mortgage loan.

Barclays Facility - GBP/EUR

Beginning in October 2019, through an indirect wholly-owned subsidiary, we entered into five secured debt arrangements pursuant to a Global Master Repurchase Agreement with Barclays Bank plc (the "Barclays Facility — GBP/EUR"). In June 2020, all assets previously financed pursuant to the Barclays Facility — GBP/EUR were refinanced under the Barclays Private Securitization.

Barclays Private Securitization

In June 2020, through a newly formed entity, we entered into a private securitization with Barclays Bank plc, of which Barclays Bank plc retained \$782.0 million of senior notes. The Barclays Private Securitization finances the loans that were previously financed under the Barclays Facility — GBP/EUR. In addition, we pledged an additional commercial mortgage loan with an outstanding principal balance of £26.0 million and pledged additional collateral of a financed loan of €5.3 million as of June 30, 2020.

The Barclays Private Securitization eliminates daily margining provisions and grants us significant discretion to modify certain terms of the underlying collateral including waiving certain loan-level covenant breaches and deferring or waiving of debt service payments for up to 18 months. The securitization includes LTV based covenants with significant headroom to existing levels that are also subject to a six-month holiday through December 2020. These deleveraging requirements are based on significant declines in the value of the collateral as determined by an annual third-party (engaged by us) appraisal process tied to the provisions of the underlying loan agreements. We believe this provides us with both cushion and predictability to avoid sudden unexpected outcomes and material repayment requirements. In addition to the pledge of the additional collateral noted above, we paid down the previous financing by €16.5 million (totaling \$18.5 million in USD) and agreed to increase the financing spreads by 0.25%.

The table below provides the borrowings outstanding (on an as converted basis) and weighted-average fully-extended maturities by currency for the assets financed under the Barclays Private Securitization as of December 31, 2020 (\$ in thousands):

	Borrowings outstanding	Fully-Extended Maturity ⁽¹⁾
Total/Weighted-Average GBP	\$708,130	February 2024
Total/Weighted-Average EUR	149,598	November 2021 ⁽²⁾
Total/Weighted-Average Securitization	\$857,728	September 2023

(1) Assumes underlying loans extend to fully extended maturity and extensions at our option are exercised.

(2) The EUR portion of the Barclays Private Securitization has an "evergreen" feature such that the facility continues for one year and can be terminated by either party on certain dates with, depending on the date of notice, a minimum of nine to twelve months' notice.

As of December 31, 2020, we had \$857.7 million (£518.0 million and €122.5 million assuming conversion into USD) of borrowings outstanding under the Barclays Private Securitization secured by certain of our commercial mortgage loans.

Debt Covenants

The guarantees related to our secured debt arrangements contain the following financial covenants: (i) tangible net worth must be greater than \$1.25 billion plus 75% of the net cash proceeds of any equity issuance after March 31, 2017 (ii) our ratio of total indebtedness to tangible net worth cannot be greater than 3.75:1; and (iii) our liquidity cannot be less than an amount equal to the greater of 5% of total recourse indebtedness or \$30.0 million. Under these covenants, our General CECL Allowance is added back to our tangible net worth calculation.

We were in compliance with the covenants under each of our secured debt arrangements at December 31, 2020 and December 31, 2019.

Senior Secured Term Loan

In May 2019, we entered into the \$500.0 million senior secured term loan. During the year ended December 31, 2020, we repaid \$5.0 million of principal related to the senior secured term loan. The senior secured term loan bears interest at LIBOR plus 2.75% and was issued at a price of 99.5%. The outstanding principal balance as of December 31, 2020 and December 31, 2019 was \$492.5 million and \$497.5 million, respectively. The senior secured term loan matures in May 2026 and contains restrictions relating to liens, asset sales, indebtedness, and investments in non-wholly owned entities. The senior secured term loan includes the following financial covenants: (i) our ratio of total recourse debt to tangible net worth cannot be greater than 3:1; and (ii) our ratio of total unencumbered assets to total pari-passu indebtedness must be at least 1.25:1.

Convertible Senior Notes

In two separate offerings during 2017, we issued an aggregate principal amount of \$345.0 million of 4.75% Convertible Senior Notes due 2022, for which we received \$337.5 million, after deducting the underwriting discount and offering expenses. At December 31, 2020, the 2022 Notes had a carrying value of \$340.4 million and an unamortized discount of \$4.6 million.

During the fourth quarter of 2018, we issued \$230.0 million of 5.375% Convertible Senior Notes due 2023, for which we received \$223.7 million after deducting the underwriting discount and offering expenses. At December 31, 2020, the 2023 Notes had a carrying value of \$225.3 million and an unamortized discount of \$4.7 million.

Cash Generated from Equity Offerings

During the second quarter of 2019, we completed a follow-on public offering of 17,250,000 shares of our common stock, including shares issued pursuant to the underwriters' option to purchase additional shares, at a price of \$18.27 per share. The aggregate net proceeds from the offering were \$314.8 million after deducting offering expenses.

Other Potential Sources of Financing

Our primary sources of cash currently consist of cash available, which was \$325.5 million as of December 31, 2020, principal and interest payments we receive on our portfolio of assets, and available borrowings under our secured debt arrangements. We expect our other sources of cash to consist of cash generated from operations and prepayments of principal received on our portfolio of assets. Such prepayments are difficult to estimate in advance. Depending on market conditions, we may utilize additional borrowings as a source of cash, which may also include additional secured debt arrangements as well as other borrowings or conduct additional public and private debt and equity offerings. As of December 31, 2020 we also held \$1.1 billion of unencumbered assets, consisting of \$49.1 million of senior mortgages and \$1.1 billion of mezzanine loans.

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

We generally intend to hold our target assets as long-term investments, although we may sell certain of our investments in order to manage our interest rate risk and liquidity needs, meet other operating objectives and adapt to market conditions.

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

Leverage Policies

We use leverage for the sole purpose of financing our portfolio and not for the purpose of speculating on changes in interest rates. In addition to our secured debt arrangements and senior secured term loan, we access additional sources of borrowings. Our charter and bylaws do not limit the amount of indebtedness we can incur; however, we are subject to and carefully monitor the limits placed on us by our credit providers and those that assign ratings on our Company.

At December 31, 2020, our debt-to-equity ratio was 1.8 and our portfolio was comprised of \$5.5 billion of commercial mortgage loans and \$1.0 billion of subordinate loans and other lending assets. In order to achieve our return on equity, we generally finance our mortgage loans with 2.0 to 3.0 turns of leverage and generally do not finance our subordinate loan portfolio given built-in inherent structural leverage. Consequently, depending on our portfolio mix, our debt-to-equity ratio may exceed our previously disclosed thresholds.

Investment Guidelines

Our current investment guidelines, approved by our board of directors, are comprised of the following:

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

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

Contractual Obligations and Commitments

Our contractual obligations including expected interest payments as of December 31, 2020 are summarized as follows (\$ in thousands):

	Less than 1 year ⁽¹⁾	1 to 2 years ⁽¹⁾	2 to 3 years ⁽¹⁾	3 to 5 years ⁽¹⁾	More than 5 years ⁽¹⁾	Total
Secured debt arrangements ⁽¹⁾⁽²⁾	\$ 526,080	\$ 625,526	\$ 1,584,456	\$ 890,539	\$ —	\$ 3,626,601
Senior secured term loan ⁽²⁾	19,433	19,286	19,139	37,875	472,545	568,278
Convertible senior notes	28,750	368,075	240,302	—	—	637,127
Unfunded loan commitments ⁽³⁾	606,655	402,847	333,604	6,044	—	1,349,150
Total	\$ 1,180,918	\$ 1,415,734	\$ 2,177,501	\$ 934,458	\$ 472,545	\$ 6,181,156

(1) Assumes underlying assets are financed through the fully extended maturity date of the secured debt arrangement.

(2) Based on the applicable benchmark rates as of December 31, 2020 on the floating rate debt for interest payments due.

(3) Based on fully extended maturity and our expected funding schedule, which is based upon the Manager's estimates based upon the best information available to the Manager at the time. There is no assurance that the payments will occur in accordance with these estimates or at all, which could affect our operating results. Refer to "Note 16 – Commitments and Contingencies" for further detail regarding unfunded loan commitments.

Loan Commitments. As of December 31, 2020, we had \$1.4 billion of unfunded loan commitments, comprised of \$1.4 billion related to our commercial mortgage loan portfolio, and \$36.5 million related to our subordinate loan portfolio.

Management Agreement. On September 23, 2009, we 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 our 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. We do not reimburse the Manager or its affiliates for the salaries and other compensation of their personnel, except for the allocable share of the compensation of (1) our Chief Financial Officer based on the percentage of time spent on our 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 our affairs based on the percentage of time devoted by such personnel to our affairs. We are also required to reimburse the Manager for operating expenses related to us incurred by the 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. Our reimbursement obligation is not subject to any dollar limitation.

The current term of the Management Agreement will expire on September 29, 2021. Absent certain action by the independent directors of our board of directors, as described below, the Management Agreement will automatically renew on each anniversary for a one-year term. The Management Agreement may be terminated upon expiration of the one-year term only upon the affirmative vote of at least two-thirds of our independent directors, based upon

(1) unsatisfactory performance by the Manager that is materially detrimental to us 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 our 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 Management Agreement are not fixed and determinable. Following a meeting by our independent directors in February 2021, which included a discussion of the Manager's performance and the level of the management fees thereunder, we determined not to terminate the Management Agreement.

Forward Currency Contracts. We use forward currency contracts to economically hedge interest and principal payments due under our loans denominated in currencies other than USD. We have entered into a series of forward contracts to sell an amount of foreign currency (GBP and EUR) for an agreed upon amount of USD at various dates through December 2024. These forward contracts were executed to economically fix the USD amounts of foreign denominated cash flows expected to be received by us related to foreign denominated loan investments. Refer to "Note 10- Derivatives, Net" to the accompanying consolidated financial statements for details regarding our forward currency contracts.

Interest Rate Swap and Cap. In June 2020, we entered into an interest rate cap for approximately \$1.1 million. We use our interest rate cap to manage exposure to variable cash flows on our borrowings under our senior secured term loan by effectively limiting LIBOR from exceeding 0.75%. Refer to "Note 10- Derivatives, Net" to the accompanying consolidated financial statements for details regarding our interest rate cap.

Off-balance Sheet Arrangements

As of December 31, 2020, we have interests in two unconsolidated joint ventures, each of which owns underlying properties that secure one of our first mortgage loans, respectively. The unconsolidated joint ventures were deemed to be VIEs, of which we are not the primary beneficiary. Accordingly, the VIEs are not consolidated in our consolidated financial statements as of December 31, 2020. Our maximum exposure to loss from these commercial mortgage loans is limited to their carrying value, which as of December 31, 2020 was \$220.8 million.

Dividends

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

As of December 31, 2020, we had 6,770,393 shares of 8.00% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock ("Series B Preferred Stock") outstanding, which entitles holders to receive dividends that are payable quarterly in arrears. The Series B Preferred Stock pay cumulative cash dividends, which are payable quarterly in equal amounts in arrears on the 15th day of each January, April, July and October: (i) from, and including, the original date of issuance of the Series B Preferred Stock to, but excluding, September 20, 2020, at an initial rate of 8.00% per annum of the \$25.00 per share liquidation preference; and (ii) from, and including, September 20, 2020, at the rate per annum equal to the greater of (a) 8.00% and (b) a floating rate equal to the 3-month LIBOR rate as calculated on each applicable date of determination plus 6.46% of the \$25.00 liquidation preference. Except under certain limited circumstances, the Series B Preferred Stock is generally not convertible into or exchangeable for any other property or any other of our securities at the election of the holders. We may, at our option, redeem the shares at a redemption price of \$25.00, plus any accrued unpaid distribution through the date of the redemption.

In June 2019, we redeemed all 6,900,000 shares of 8.00% Series C Cumulative Redeemable Perpetual Preferred Stock ("Series C Preferred Stock"). Holders of the Series C Preferred Stock received the redemption price of \$25.00 plus accumulated but unpaid dividends to the redemption date of \$0.2223.

Non-GAAP Financial Measures

Distributable Earnings

Beginning in the fourth quarter of 2020 to more appropriately reflect the principal purpose of the measure, "Operating Earnings" was relabeled "Distributable Earnings", a non-GAAP financial measure. The definition continues to be net income available to common stockholders, computed in accordance with GAAP, adjusted for (i) equity-based compensation expense (a portion of which may become cash-based upon final vesting and settlement of awards should the holder elect net share settlement to satisfy income tax withholding), (ii) any unrealized gains or losses or other non-cash items included in net income available to common stockholders, (iii) unrealized income from unconsolidated joint ventures, (iv) foreign currency gains (losses), other than (a) realized gains/(losses) related to interest income, and (b) forward point gains/(losses) realized on our foreign currency hedges, (v) the non-cash amortization expense related to the reclassification of a portion of the Notes to stockholders' equity in accordance with GAAP, and (vi) provision for loan losses. Distributable Earnings may also be adjusted to exclude certain other non-cash items, as determined by the Manager and approved by a majority of our independent directors. For the years ended December 31, 2020 and 2019, our Distributable Earnings were \$125.6 million, or \$0.84 per share, and \$268.4 million, or \$1.80 per share, respectively.

The weighted-average diluted shares outstanding used for Distributable Earnings per weighted-average diluted share has been adjusted from weighted-average diluted shares under GAAP to exclude shares issued from a potential conversion of the Notes. Consistent with the treatment of other unrealized adjustments to Distributable Earnings, these potentially issuable shares are excluded until a conversion occurs, which we believe is a useful presentation for investors. We believe that excluding shares issued in connection with a potential conversion of the Notes from our computation of Distributable Earnings per weighted average diluted share is useful to investors for various reasons, including the following: (i) conversion of Notes to shares requires both the holder of a Note to elect to convert the Note and for us to elect to settle the conversion in the form of shares (ii) future conversion decisions by Note holders will be based on our stock price in the future, which is presently not determinable; (iii) the exclusion of shares issued in connection with a potential conversion of the Notes from the computation of Distributable Earnings per weighted-average diluted share is consistent with how we treat other unrealized items in our computation of Distributable Earnings per weighted-average diluted share; and (iv) we believe that when evaluating our operating performance, investors and potential investors consider our Distributable Earnings relative to our actual distributions, which are based on shares outstanding and not shares that might be issued in the future. For the year ended December 31, 2020, 28,533,271 weighted-average potentially issuable shares with respect to the Notes were excluded from weighted-average diluted shares outstanding because the effect was anti-dilutive (see "Note 18- Net Income per Share" for additional information).

The table below summarizes the reconciliation from weighted-average diluted shares under GAAP to the weighted-average diluted shares used for Distributable Earnings (\$ in thousands, except Price):

	Year ended December 31,	
	2020	2019
Weighted-Averages	Shares	Shares
Weighted-average diluted shares - GAAP	148,004,385	175,794,896
Weighted-average potential shares issued under conversion of the Notes	—	(28,913,665)
Unvested RSUs	2,030,467	1,836,210
Weighted-average diluted shares - Distributable Earnings	150,034,852	148,717,441

As a REIT, U.S. federal income tax law generally requires us to distribute annually at least 90% of our REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that we pay tax at regular corporate rates to the extent that we annually distribute less than 100% of our net taxable income. Given these requirements and our belief that dividends are generally one of the principal reasons stockholders invest in a REIT, we generally intend over time to pay dividends to our stockholders in an amount equal to our net taxable income, if and to the extent authorized by our board of directors. Distributable Earnings is a key factor considered by the board of directors in setting the dividend and as such we believe Distributable Earnings is useful to investors.

As discussed in "Note 10 - Derivatives" we terminated our interest rate swap, which we used to manage exposure to variable cash flows on our borrowings under our senior secured term loan, in the second quarter of 2020 and recorded a realized loss in our consolidated statement of operations. We have not had an interest rate swap on our consolidated balance sheet since this termination. In addition, as discussed in "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net," we recorded a net realized loss on the sale of seven of our commercial real estate loans, two restructurings, one payoff of a previously impaired loan, and one foreclosure.

We also believe it is useful to our investors to present Distributable Earnings prior to realized loss on investments and realized loss on interest rate swap to reflect our operating results because (i) our operating results are primarily comprised of earning interest income on our investments net of borrowing and administrative costs, which comprise our ongoing operations

and (ii) it has been a useful factor related to our dividend per share because it is one of the considerations when a dividend is determined. We believe that our investors use Distributable Earnings and Distributable Earnings prior to realized loss on investments and interest rate swap, or a comparable supplemental performance measure, to evaluate and compare the performance of our company and our peers.

A significant limitation associated with Distributable Earnings as a measure of our financial performance over any period is that it excludes unrealized gains (losses) from investments. In addition, our presentation of Distributable Earnings may not be comparable to similarly-titled measures of other companies, that use different calculations. As a result, Distributable Earnings should not be considered as a substitute for our GAAP net income as a measure of our financial performance or any measure of our liquidity under GAAP. Distributable Earnings are reduced for realized losses on loans which include losses that management believes are near certain to be realized.

The table below summarizes the reconciliation from net income available to common stockholders to Distributable Earnings and Distributable Earnings prior to realized loss on investments and interest rate swap (\$ in thousands):

	Year Ended December 31,	
	2020	2019 ⁽¹⁾
Net income available to common stockholders	\$ 4,837	\$ 211,649
Adjustments:		
Equity-based compensation expense	16,815	15,897
Unrealized (gain) loss on interest rate swap	(14,470)	14,470
Loss on foreign currency forwards	9,743	14,425
Foreign currency gain, net	(26,916)	(19,818)
Unrealized gain on interest rate cap	(134)	—
Realized gains relating to interest income on foreign currency hedges, net	1,945	1,904
Realized gains relating to forward points on foreign currency hedges, net	5,088	6,789
Amortization of the convertible senior notes related to equity reclassification	3,084	3,105
Provision for loan losses and impairments	125,600	20,000
Realized loss on investments	47,632	12,513
Realized loss on interest rate swap	53,851	—
Total adjustments:	222,238	69,285
Distributable Earnings prior to realized loss on investments and interest rate swap	\$ 227,075	\$ 280,934
Realized loss on investments	(47,632)	(12,513)
Realized loss on interest rate swap	(53,851)	—
Distributable Earnings	\$ 125,592	\$ 268,421
Diluted Distributable Earnings per share prior to realized loss on investments and interest rate swap	\$ 1.51	\$ 1.89
Diluted Distributable Earnings per share of common stock	\$ 0.84	\$ 1.80
Weighted-average diluted shares - Distributable Earnings	150,034,852	148,717,441

(1) The presentation for the comparative period has been reorganized to conform with the 2020 presentation of Distributable Earnings. This reorganization has no impact on Distributable Earnings.

Book Value Per Share

The table below calculates our book value per share (\$ in thousands, except per share data):

	December 31, 2020	December 31, 2019
Stockholders' Equity	\$ 2,270,529	\$ 2,629,975
Series B Preferred Stock (Liquidation Preference)	(169,260)	(169,260)
Common Stockholders' Equity	\$ 2,101,269	\$ 2,460,715
Common Stock	139,295,867	153,537,296
Book value per share	\$ 15.08	\$ 16.03

The table below shows the changes in our book value per share:

	Book value per share
Book value per share at December 31, 2019	\$ 16.03
Repurchase of common stock	0.62
Net unrealized gain on currency hedges	0.10
Decrease in fair value on interest rate swap	(0.27)
Vesting and delivery of RSUs	(0.07)
Realized loss on sales	(0.02)
Other	0.01
Book value per share at December 31, 2020 prior to CECL Allowances	\$ 16.40
Specific CECL Allowance	\$ (1.02)
Book value per share at December 31, 2020 prior to General CECL Allowance	\$ 15.38
General CECL Allowance	\$ (0.30)
Book value per share at December 31, 2020	\$ 15.08

We believe that presenting book value per share with sub-totals prior to the CECL Allowances is useful for investors for various reasons, including, among other things, analyzing our compliance with financial covenants related to tangible net worth and debt-to-equity under our secured debt arrangements and senior secured term loan, which permit us to add the General CECL Allowance to our GAAP stockholders' equity. Given that our lenders consider book value per share prior to the General CECL Allowance as an important metric related to our debt covenants, we believe disclosing book value per share prior to the General CECL Allowance is important to investors such that they have the same visibility.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We seek to manage our risks related to the credit quality of our 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 our capital stock. While risks are inherent in any business enterprise, we seek to quantify and justify risks in light of available returns and to maintain capital levels consistent with the risks we undertake.

Credit Risk

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

To the extent consistent with maintaining our REIT qualification, we seek to manage risk exposure to protect our portfolio of financial assets against the effects of major interest rate changes. We generally seek to manage this risk by:

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

The following table estimates the hypothetical impact on our net interest income for the twelve-month period following December 31, 2020, assuming an immediate increase or decrease of 50 basis points in the applicable interest rate benchmark by currency (\$ in thousands, except per share data):

Currency	Net floating rate assets subject to interest rate sensitivity	50 basis point increase		50 basis point decrease	
		Increase (Decrease) to net interest income ⁽¹⁾⁽²⁾	Decrease to net interest income (per share) ⁽¹⁾⁽²⁾	Increase (Decrease) to net interest income ⁽¹⁾⁽²⁾	Increase to net interest income (per share) ⁽¹⁾⁽²⁾
USD	\$ 1,583,898	\$ (7,703)	\$ (0.06)	\$ 2,190	\$ 0.02
GBP	448,069	(306)	—	34	—
EUR	325,501	—	—	—	—
Total:	\$ 2,357,468	\$ (8,009)	\$ (0.06)	\$ 2,224	\$ 0.02

(1) Any such hypothetical impact on interest rates on our variable rate borrowings does not consider the effect of any change in overall economic activity that could occur in a rising or falling interest rate environment. Further, in the event of a change in interest rates of that magnitude, we may take actions to further mitigate our 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 our financial structure.

(2) Certain of our floating rate loans are subject to a LIBOR floor.

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. In certain cases, we adapt to prepayment risk by stating prepayment penalties in loan agreements.

Market 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; retroactive changes to building or similar codes; pandemics; natural disasters and other acts of god. 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 us to suffer losses. Market volatility has been particularly heightened due to the COVID-19 global pandemic. COVID-19 has disrupted economic activities and could have a continued significant adverse effect on economic and market conditions including limited lending from financial institutions, depressed asset values, and limited market liquidity.

Inflation

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

Currency Risk

Some of our loans and secured debt arrangements are denominated in a foreign currency and subject to risks related to fluctuations in currency rates. We seek to mitigate this exposure through foreign currency forward contracts, which match the net principal and interest of our foreign currency loans and secured debt arrangements.

Item 8. Financial Statements and Supplementary Data.

Index to Consolidated Financial Statements and Schedule

<u>Report of Independent Registered Public Accounting Firm</u>	<u>58</u>
<u>Consolidated Balance Sheets as of December 31, 2020 and 2019</u>	<u>61</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2020, 2019 and 2018</u>	<u>62</u>
<u>Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2020, 2019 and 2018</u>	<u>63</u>
<u>Consolidated Statement of Cash Flows for the years ended December 31, 2020, 2019 and 2018</u>	<u>64</u>
<u>Notes to Consolidated Financial Statements</u>	<u>65</u>
Schedule	
<u>Schedule IV—Mortgage Loans on Real Estate</u>	<u>95</u>

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Apollo Commercial Real Estate Finance, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and the schedule listed in the Index at Item 8 (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for credit losses in the year ended December 31, 2020 due to the adoption of FASB ASU 2016-13 "*Financial Instruments – Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments*".

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Current Expected Credit Losses ("CECL") Allowance—Estimation of Economic Conditions—Refer to Notes 2 and 4 to the Financial Statements

Critical Audit Matter Description

The Company estimates its CECL allowance primarily using the Weighted Average Remaining Maturity ("WARM") method, which has been identified as an acceptable approach for computing current expected credit losses. In determining the CECL allowance, the Company considers various factors including (i) historical loss experience in the commercial real estate lending market, (ii) timing of expected repayments and satisfactions, (iii) expected future funding, (iv) capital subordinate to the Company when they are the senior lender, (v) capital senior to the Company when they are the subordinate lender, and (vi) the Company's current and future view of the macroeconomic environment. Management's estimation of the current and future economic conditions that may impact the performance of the commercial real estate assets securing the Company's assets include the unemployment rate, commercial real estate prices, and market liquidity. The Company uses projections, obtained from third-party service providers, of each factor to approximate the impact the macroeconomic outlook may have on the loss rate.

We identified the macroeconomic factors within the CECL allowance as a critical audit matter because of the subjectivity, complexity and estimation uncertainty in determining the impact of the factors on the Company's loss rate. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate whether the macroeconomic factors determined by management reasonably and appropriately quantify the current and future macroeconomic risks associated with the Company's portfolio.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures to assess the macroeconomic factors applied by management to the CECL allowance to account for current and future economic conditions included, among others:

- We tested the operating effectiveness of controls over management's review of the CECL allowance, including management's judgments involved in the determination of the macroeconomic factors applied to the loss rate.
- We evaluated the reasonableness of the methodology and significant assumptions used to develop the macroeconomic factors by considering relevant industry trends and economic conditions, including whether the methodology and significant assumptions were appropriate and consistent with what market participants would use.
- We tested the accuracy and completeness of quantitative data used by management to estimate the current and future view of macroeconomic conditions.

CECL Allowance—Estimation of Fair Value of Underlying Collateral of Loans Exhibiting Signs of Financial Difficulty — Refer to Notes 2 and 4 to the financial statements

Critical Audit Matter Description

The Company evaluates commercial mortgage loans, subordinate loans and other lending assets typically collateralized by commercial real estate on a quarterly basis. For loans where the Company deems the borrower or sponsor to be experiencing financial difficulty, the Company has elected to apply a practical expedient in accordance with the CECL standard. In accordance with the practical expedient approach, the loan loss provision is calculated as the difference between the fair value of the underlying collateral and the carrying value of the loan prior to the loan loss provision. Significant judgments are required in determining the loan loss provision, including assumptions regarding the value of the underlying collateral and other

estimates.

We identified the estimation of the fair value of the underlying collateral of loans as a critical audit matter because of the significant estimates and assumptions required by management to evaluate the Company's fair value analysis. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists, when performing audit procedures to evaluate the reasonableness of management's estimate of the provision for loan loss.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the determination of the fair value for those assets in which the borrower or sponsor exhibit signs of financial difficulty as part of estimation of the CECL allowance included the following, among others:

- We tested the operating effectiveness of controls over management's review of the fair value analysis including controls over management's review of the selection of the discount rate and the inputs used within the fair value analysis. These inputs include, but are not limited to, debt service coverage ratio, occupancy, capitalization rate, and microeconomic and macroeconomic conditions that could impact the property.
- We evaluated the Company's determination of fair value by performing the following:
 - With the assistance of our fair value specialists, we evaluated the reasonableness of the (1) valuation methodology; (2) significant assumptions made, including whether the significant inputs used in the model were appropriate and consistent with what market participants would use to value the collateral; and (3) mathematical accuracy of the overall valuation model
 - We tested the underlying data used to develop the fair value to determine that the information used in the analysis was accurate and complete
 - We performed a sensitivity analysis when deemed necessary based on results of other audit procedures performed for comparison to the Company's fair value analysis
 - We considered whether events or transactions that occurred after the balance sheet date but before the completion of the audit affect the conclusions reached on the fair value measures and disclosures

/s/ DELOITTE & TOUCHE LLP

New York, New York
February 10, 2021

We have served as the Company's auditor since 2009.

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries

Consolidated Balance Sheets
(in thousands—except share data)

	December 31, 2020	December 31, 2019
Assets:		
Cash and cash equivalents	\$ 325,498	\$ 452,282
Commercial mortgage loans, net ⁽¹⁾⁽²⁾	5,451,084	5,326,967
Subordinate loans and other lending assets, net ⁽²⁾	1,045,893	1,048,126
Other assets	74,640	60,988
Real estate owned, held for sale	42,905	—
Total Assets	\$ 6,940,020	\$ 6,888,363
Liabilities and Stockholders' Equity		
Liabilities:		
Secured debt arrangements, net (net of deferred financing costs of \$12,993 and \$17,190 in 2020 and 2019, respectively)	\$ 3,436,672	\$ 3,078,366
Convertible senior notes, net	565,654	561,573
Senior secured term loan, net (net of deferred financing costs of \$7,130 and \$7,277 in 2020 and 2019, respectively)	483,465	487,961
Accounts payable, accrued expenses and other liabilities ⁽³⁾	74,887	100,712
Participations sold	34,974	—
Debt related to real estate owned, held for sale	33,000	—
Derivative liabilities, net	31,241	19,346
Payable to related party	9,598	10,430
Total Liabilities	4,669,491	4,258,388
Commitments and Contingencies (see Note 16)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, Series B, 6,770,393 shares issued and outstanding (\$169,260 liquidation preference)	68	68
Common stock, \$0.01 par value, 450,000,000 shares authorized, 139,295,867 and 153,537,296 shares issued and outstanding in 2020 and 2019, respectively	1,393	1,535
Additional paid-in-capital	2,707,792	2,825,317
Accumulated deficit	(438,724)	(196,945)
Total Stockholders' Equity	2,270,529	2,629,975
Total Liabilities and Stockholders' Equity	\$ 6,940,020	\$ 6,888,363

(1) Includes \$5,418,999 and \$4,852,087 pledged as collateral under secured debt arrangements in 2020 and 2019, respectively

(2) Net of \$213,102 CECL Allowances in 2020, comprised of \$175,000 Specific CECL Allowance and \$38,102 General CECL Allowance. Net of \$56,981 provision for loan loss in 2019.

(3) Includes \$3,365 of General CECL Allowance related to unfunded commitments on commercial mortgage loans, subordinate loans and other lending assets, net in 2020.

See notes to consolidated financial statements.

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries

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

	Year Ended December 31,		
	2020	2019	2018
Net interest income:			
Interest income from commercial mortgage loans	\$ 309,134	\$ 322,475	\$ 263,709
Interest income from subordinate loans and other lending assets	118,435	164,933	140,180
Interest expense	(148,891)	(152,926)	(114,597)
Net interest income	278,678	334,482	289,292
Operating expenses:			
General and administrative expenses (includes equity-based compensation of \$16,815, \$15,897, and \$13,588 in 2020, 2019, and 2018, respectively)	(26,849)	(24,097)	(20,470)
Management fees to related party	(39,750)	(40,734)	(36,424)
Total operating expenses	(66,599)	(64,831)	(56,894)
Other income	1,604	2,113	1,438
Realized loss on investments	(47,632)	(12,513)	—
Provision for loan losses and impairments, net ⁽¹⁾	(125,600)	(20,000)	(20,000)
Foreign currency translation gain (loss)	26,916	19,818	(30,335)
Loss on early extinguishment of debt	—	—	(2,573)
Gain (loss) on foreign currency forward contracts (includes unrealized gains (losses) of \$(26,499), \$(28,576), and \$29,345 in 2020, 2019, and 2018, respectively)	(9,743)	(14,425)	39,058
Loss on interest rate hedging instruments (includes unrealized gains (losses) of \$14,604, \$(14,470), and \$0 in 2020, 2019, and 2018, respectively)	(39,247)	(14,470)	—
Net income	\$ 18,377	\$ 230,174	\$ 219,986
Preferred dividends	(13,540)	(18,525)	(27,340)
Net income available to common stockholders	\$ 4,837	\$ 211,649	\$ 192,646
Net income per share of common stock:			
Basic	\$ 0.01	\$ 1.41	\$ 1.52
Diluted	\$ 0.01	\$ 1.40	\$ 1.48
Basic weighted-average shares of common stock outstanding	148,004,385	146,881,231	124,147,073
Diluted weighted-average shares of common stock outstanding	148,004,385	175,794,896	153,821,515

(1) Comprised of \$118,019 of Specific CECL Allowance, \$10,600 of General CECL Allowance, and a \$3,019 reversal of a previously recorded impairment on an equity investment for the year ended December 31, 2020, respectively. For the years ended December 31, 2019 and 2018 the balance represents provision per loan losses as determined by the authoritative guidance at the time.

See notes to consolidated financial statements.

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries

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

	Preferred Stock		Common Stock		Additional Paid-In-Capital	Accumulated Deficit	Total
	Shares	Par	Shares	Par			
Balance at December 31, 2017	13,670,393	\$ 137	107,121,235	\$ 1,071	\$ 2,170,078	\$ (83,143)	\$ 2,088,143
Capital increase (decrease) related to Equity Incentive Plan	—	—	378,855	5	8,809	—	8,814
Issuance of common stock	—	—	15,525,000	155	275,724	—	275,879
Issuance of notes	—	—	—	—	4,406	—	4,406
Redemption of preferred stock	—	—	—	—	179,908	—	179,908
Conversions of convertible senior notes for common stock	—	—	10,828,475	108	—	—	108
Offering costs	—	—	—	—	(484)	—	(484)
Net income	—	—	—	—	—	219,986	219,986
Dividends declared on preferred stock - \$4.00 per share	—	—	—	—	—	(27,340)	(27,340)
Dividends declared on common stock - \$1.84 per share	—	—	—	—	—	(239,673)	(239,673)
Balance at December 31, 2018	13,670,393	\$ 137	133,853,565	\$ 1,339	\$ 2,638,441	\$ (130,170)	\$ 2,509,747
Capital increase related to Equity Incentive Plan	—	—	466,370	4	10,897	—	10,901
Conversions of convertible senior notes for common stock	—	—	1,967,361	20	33,758	—	33,778
Issuance of common stock	—	—	17,250,000	172	314,985	—	315,157
Redemption of preferred stock	(6,900,000)	(69)	—	—	(172,431)	—	(172,500)
Offering costs	—	—	—	—	(333)	—	(333)
Net income	—	—	—	—	—	230,174	230,174
Dividends declared on preferred stock - \$2.72 per share	—	—	—	—	—	(18,525)	(18,525)
Dividends declared on common stock - \$1.84 per share	—	—	—	—	—	(278,424)	(278,424)
Balance at December 31, 2019	6,770,393	\$ 68	153,537,296	\$ 1,535	\$ 2,825,317	\$ (196,945)	\$ 2,629,975
Adoption of ASU 2016-13, see Note 2	—	—	—	—	—	(30,867)	(30,867)
Capital increase related to Equity Incentive Plan	—	—	591,203	6	10,321	—	10,327
Repurchase of common stock	—	—	(14,832,632)	(148)	(127,846)	—	(127,994)
Net income	—	—	—	—	—	18,377	18,377
Dividends declared on preferred stock - \$2.00 per share	—	—	—	—	—	(13,540)	(13,540)
Dividends declared on common stock - \$1.45 per share	—	—	—	—	—	(215,749)	(215,749)
Balance at December 31, 2020	6,770,393	\$ 68	139,295,867	\$ 1,393	\$ 2,707,792	\$ (438,724)	\$ 2,270,529

See notes to consolidated financial statements.

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

	For the year ended December 31,		
	2020	2019	2018
Cash flows provided by operating activities:			
Net income	\$ 18,377	\$ 230,174	\$ 219,986
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of discount/premium and PIK	(61,745)	(81,611)	(64,269)
Amortization of deferred financing costs	12,862	11,969	11,186
Equity-based compensation	16,815	15,897	8,809
Provision for loan losses and impairments, net	125,600	20,000	20,000
Foreign currency (gain) loss	(182)	3,768	29,617
Unrealized (gain) loss on derivative instruments	11,895	43,046	(29,345)
Loss on early extinguishment of debt	—	—	2,573
Realized loss on investments	47,632	12,513	—
Changes in operating assets and liabilities:			
Proceeds received from PIK	—	16,469	75,652
Other assets	(4,667)	(4,472)	(10,198)
Accounts payable, accrued expenses and other liabilities	(1,703)	5,056	317
Payable to related party	(832)	626	1,636
Net cash provided by operating activities	164,052	273,435	265,964
Cash flows used in investing activities:			
New funding of commercial mortgage loans	(463,940)	(2,526,384)	(1,849,100)
Add-on funding of commercial mortgage loans	(321,271)	(385,508)	(131,718)
New funding of subordinate loans and other lending assets	—	(493,017)	(220,809)
Add-on funding of subordinate loans and other lending assets	(91,447)	(30,549)	(149,238)
Proceeds received from the repayment and sale of commercial mortgage loans	662,688	1,428,535	675,140
Proceeds received from the repayment of subordinate loans and other lending assets	5,563	560,089	610,051
Origination and exit fees received on commercial mortgage loans, and subordinate loans and other lending assets, net	6,847	45,882	41,822
Increase (decrease) in collateral held related to derivative contracts, net	(14,160)	(34,160)	24,930
Net cash used in investing activities	(215,720)	(1,435,112)	(998,922)
Cash flows from financing activities:			
Proceeds from issuance of common stock	—	315,158	275,879
Redemption of preferred stock	—	(172,500)	—
Repurchase of common stock	(127,994)	—	—
Payment of offering costs	—	(333)	(484)
Proceeds from secured debt arrangements	1,535,130	3,451,172	2,153,846
Repayments of secured debt arrangements	(1,242,317)	(2,273,750)	(1,580,343)
Repayments of senior secured term loan principal	(5,000)	(2,500)	—
Proceeds from issuance of senior secured term loan	—	497,500	—
Proceeds from participations sold	33,965	—	—
Proceeds from issuance of Notes	—	—	226,550
Exchanges of convertible senior notes	—	(704)	(40,461)
Payment of deferred financing costs	(11,115)	(13,688)	(15,337)
Other financing activities	(6,494)	(4,996)	—
Dividends on common stock	(237,751)	(269,232)	(227,217)
Dividends on preferred stock	(13,540)	(21,974)	(27,340)
Net cash (used in) provided by financing activities	(75,116)	1,504,153	765,093
Net increase in cash and cash equivalents	(126,784)	342,476	32,135
Cash and cash equivalents, beginning of period	452,282	109,806	77,671
Cash and cash equivalents, end of period	\$ 325,498	\$ 452,282	\$ 109,806
Supplemental disclosure of cash flow information:			
Interest paid	\$ 129,812	\$ 133,469	\$ 97,880
Supplemental disclosure of non-cash financing activities:			
Exchange of convertible senior notes for common stock	\$ —	\$ 33,778	\$ 180,016
Dividend declared, not yet paid	\$ 52,768	\$ 74,771	\$ 69,033
Loan proceeds held by servicer	\$ 5,649	\$ 7,775	\$ 1,000
Deferred financing costs, not yet paid	\$ 2,596	\$ 5,193	\$ —
Transfer of proceeds borrowed under secured credit facilities to Barclays Private Securitization	\$ 782,006	\$ —	\$ —
Restructuring of subordinate loan to commercial mortgage loan	\$ 68,500	\$ —	\$ —
Assumption of real estate owned, held for sale net of related debt from the foreclosure of a subordinate loan	\$ 9,905	\$ —	\$ —

See notes to consolidated financial statements.

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1 – Organization

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

We were formed in Maryland on June 29, 2009, commenced operations on September 29, 2009 and are externally managed and advised by ACREFI Management, LLC (the "Manager"), an indirect subsidiary of Apollo Global Management, Inc. (together with its subsidiaries, "Apollo").

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

We currently operate in one reporting segment.

Risks and Uncertainties

During the first quarter of 2020, there was a global outbreak of a novel coronavirus ("COVID-19"), which was declared by the World Health Organization as a pandemic. In response to COVID-19, the United States and numerous other countries have declared national emergencies, which has led to large scale quarantines as well as restrictions to business deemed non-essential. These responses to COVID-19 have disrupted economic activities and could have a continued significant adverse effect on economic and market conditions. As we are still in the midst of the COVID-19 pandemic we are not in a position to estimate the ultimate impact this will have on our business and the economy as a whole. We believe the estimates used in preparing our financial statements and related footnotes are reasonable and supportable based on the best information available to us as of December 31, 2020. The uncertainty surrounding COVID-19 may materially impact the accuracy of the estimates and assumptions used in the financial statements and related footnotes and, as a result, actual results may vary significantly from estimates.

Classification of Investments and Valuations of Financial Instruments

Our investments consist primarily of commercial mortgage loans, subordinate loans, and other lending assets that are classified as held-to-maturity.

Classification of Loans

Loans held-to-maturity are stated at the principal amount outstanding, adjusted for deferred fees and allowance for loan losses, if any, in accordance with GAAP.

Current Expected Credit Losses ("CECL")

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13 "Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which we refer to as the "CECL Standard." This update has changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value. The CECL Standard replaced the "incurred loss" approach under existing guidance with an "expected loss" model for instruments measured at amortized cost. The CECL Standard requires entities to

record allowances for held-to-maturity debt securities that are deducted from the carrying amount of the assets to present the net carrying value at the amounts expected to be collected on the assets. We continue to record loan specific allowances as a practical expedient under the CECL Standard ("Specific CECL Allowance"), which we apply to assets that are collateral dependent and where the borrower or sponsor is experiencing financial difficulty. In addition, we now record a general allowance in accordance with the CECL Standard on the remainder of the loan portfolio ("General CECL Allowance", and together with the Specific CECL Allowance, "CECL Allowances") on a collective basis by assets with similar risk characteristics. We adopted the CECL Standard through a cumulative-effect adjustment to accumulated deficit on January 1, 2020. Subsequent changes to the CECL Allowance are recognized through net income on our consolidated statement of operations.

The CECL Standard requires an entity to consider historical loss experience, current conditions, and a reasonable and supportable forecast of the macroeconomic environment. The FASB recognizes the weighted average remaining maturity ("WARM") method as an acceptable approach for computing current expected credit losses. We have adopted the WARM method to comply with the CECL Standard in determining a General CECL Allowance for a majority of our portfolio. In the future, we may use other acceptable methods, such as a probability-of-default/loss-given-default method. For loans where we have deemed the borrower/sponsor to be experiencing financial difficulty, we have elected to apply a practical expedient in which the fair value of the underlying collateral is compared to the amortized cost of the loan in determining a Specific CECL Allowance.

Specific CECL Allowance

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

For loans where we have deemed the borrower/sponsor to be experiencing financial difficulty, we have elected to apply a practical expedient in accordance with the CECL Standard. In accordance with the practical expedient approach, we determine the loan loss provision to be the difference between the fair value of the underlying collateral and the carrying value of the loan (prior to the loan loss allowance). When the repayment or satisfaction of a loan is dependent on a sale, rather than operations, of the collateral, the fair value is adjusted for the estimated cost to sell the collateral. The fair value of the underlying collateral is determined by using method(s) such as discounted cash flow, the market approach, or direct capitalization approach. The key unobservable inputs used to determine the fair value of the underlying collateral may vary depending on the information available to us and market conditions as of the valuation date. If we deem all or any portion of a loan balance uncollectible, that amount is written-off.

General CECL Allowance

In accordance with the WARM method, an annual historical loss rate is applied to the amortized cost of an asset or pool of assets over the remaining expected life. The WARM method requires consideration of the timing of expected future fundings of existing commitments and repayments over each asset's remaining life. An annual loss factor, adjusted for macroeconomic estimates, is applied over each subsequent period and aggregated to arrive at the General CECL Allowance.

In determining the General CECL Allowance, we considered various factors including (i) historical loss experience in the commercial real estate lending market, (ii) timing of expected repayments and satisfactions, (iii) expected future funding, (iv) capital subordinate to us when we are the senior lender, (v) capital senior to us when we are the subordinate lender, and (vi) our current and future view of the macroeconomic environment. The standard requires the use of significant judgment to arrive at an estimated credit loss. There is significant uncertainty related to future macroeconomic conditions as the result of COVID-19.

We derived an annual historical loss rate based on a commercial mortgage backed securities ("CMBS") database with historical losses from 1998 through the fourth quarter of 2020 provided by a third party, Trepp LLC. We applied various filters to arrive at a CMBS dataset most analogous to our current portfolio from which to determine an appropriate historical loss rate. The annual historical loss rate was further adjusted to reflect our expectations of the macroeconomic environment for a reasonable and supportable forecast period which we have determined to be one year.

The General CECL Allowance on subordinate loans is calculated by incorporating both the loan balance of the position(s) of the structurally senior third-party lender(s) and the balance of our subordinate loan(s). The subordinate loans, by virtue of being the first loss position, are required to absorb losses prior to the senior position(s) being impacted, resulting in a higher percentage allowance attributable to the subordinate loan. The General CECL Allowance on unfunded loan commitments is time-weighted based on our expected commitment to fund such obligations. The General CECL Allowance on unfunded commitments is recorded as a liability on our consolidated balance sheet within accounts payable, accrued expenses and other liabilities. At adoption, the General CECL Allowance was \$30.9 million and was recorded in our consolidated statement of changes in stockholders' equity.

Refer to "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net" for further information regarding CECL.

Securities, held-to-maturity

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

Investments in unconsolidated joint venture

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

Real Estate Owned, Held for sale (and related debt)

In order to maximize recovery against a defaulted loan, we may assume legal title or physical possession of the underlying collateral through foreclosure or the execution of a deed in lieu of foreclosure. Foreclosed properties are generally recognized at fair value when we assume either legal title or physical possession and the assets and liabilities related to the real estate owned are presented separately on the consolidated balance sheet. If the fair value of the real estate is lower than the carrying value of the loan, the difference, along with any previously recorded Specific CECL Allowances, are recorded as a realized loss on investments in the consolidated statement of operations. We evaluate real estate owned, held for sale for subsequent decrease in fair value, which is recorded as an impairment. Real estate owned is classified as held for sale in the period in which the six criteria under Accounting Standards Codification ("ASC") Topic 360, "Property, Plant, and Equipment" are met.

Interest Income Recognition

Interest income on our lending assets is accrued based on the actual coupon rate adjusted for accretion of any purchase discounts, the amortization of any purchase premiums and the accretion of any deferred fees, in accordance with GAAP. Loans that are significantly past due may be placed on non-accrual if we determine it is probable that we will not collect all payments which are contractually due. When a loan is placed on non-accrual, interest is only recorded as interest income when it's received. Under certain circumstances, we may apply cost recovery under which interest collected on a loan is a reduction to its amortized cost. The cost recovery method will no longer apply if collection of all principal and interest is reasonably assured. A loan may be placed back on accrual status if we determine it is probable that we will collect all payments which are contractually due.

Deferred Financing Costs

Costs incurred in connection with financings are capitalized and amortized over the respective financing terms and are reflected on the accompanying consolidated statement of operations as a component of interest expense. At December 31, 2020 and 2019, we had \$20.1 million and \$24.5 million of capitalized financing costs, respectively, net of amortization, included as a direct deduction from the carrying amount of our debt.

Earnings per Share

GAAP requires the 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.

Prior to September 30, 2018, we asserted our intent and ability to settle the principal amount of the Notes in cash and, as a result, the Notes did not have any impact on our diluted earnings per share. Since September 30, 2018, we no longer assert our intent to fully settle the principal amount of the Notes in cash upon conversion. Accordingly, the dilutive effect to earnings per share for the years ended December 31, 2020 and 2019 is determined using the "if converted" method whereby, if the conversion of the convertible notes would be dilutive, interest expense on the outstanding Notes is added back to the diluted earnings numerator and all of the potentially dilutive shares are included in the diluted common shares outstanding denominator for the computation of diluted earnings per share.

Foreign Currency

We enter into transactions not denominated in USD. Foreign exchange gains and losses arising on such transactions are recorded as a gain or loss in our consolidated statement of operations. Non-U.S. dollar denominated assets and liabilities are translated to USD at the exchange rate prevailing at the reporting date and income, expenses, gains, and losses are translated at the prevailing exchange rate on the dates that they were recorded.

Hedging Instruments and Hedging Activities

Consistent with maintaining our qualification as a REIT, in the normal course of business, we use a variety of derivative financial instruments to manage, or hedge, interest rate and foreign currency risk. Derivatives are used for hedging purposes rather than speculation. There is a gain or loss associated with forward points on our foreign currency hedges, which reflect the interest rate differentials, at the time of entering into the hedge, between the applicable local base rate of our foreign currency investments and the comparable rate in the U.S. We determine their fair value using quotations from a third-party expert to facilitate the process, which are determined by comparing the contracted forward exchange rate to the current market exchange rate, as well as by using a discounted cash flow analysis on the expected cash flows of each derivative. If our hedging activities do not achieve the desired results, reported earnings may be adversely affected.

GAAP requires an entity to recognize all derivatives as either assets or liabilities on the balance sheets and to measure those instruments at fair value. To the extent the instrument qualifies for hedge accounting, the fair value adjustments will be recorded as a component of other comprehensive income in stockholders' equity until the hedged item is recognized in earnings. We have not designated any of our derivative instruments as hedges under GAAP and therefore, changes in the fair value of our derivatives are recorded directly in earnings.

Secured Debt Arrangements

Secured debt arrangements are accounted for as financing transactions, unless they meet the criteria for sale accounting. Loans financed through a secured debt arrangement remain on our consolidated balance sheet as an asset and cash received from the purchaser is recorded on our consolidated balance sheet as a liability. Interest incurred in accordance with secured debt arrangements is recorded as interest expense.

During the second quarter of 2020, we entered into a private securitization with Barclays Bank plc. We have determined that the issuer of this securitization, ACRE Debt 2 PLC, is a Variable Interest Entity ("VIE") of which we were deemed to be the primary beneficiary and therefore, we consolidated the operations of this entity in accordance with GAAP. The collateral assets of the securitization are included in commercial mortgage loans, net on our consolidated balance sheet. The liabilities of the securitization to the senior noteholders, excluding the notes held by us, are included in secured debt arrangements, net on our consolidated balance sheet.

Senior Secured Term Loan

We include our senior secured term loan in our consolidated balance sheet as a liability, net of deferred financing costs. Discount or transaction expenses are deferred and amortized through the maturity. Interest paid in accordance with our senior secured term loan is recorded in interest expense. Interest is net of our interest rate swap, which was terminated in May 2020 and our interest rate cap, which was entered into in June 2020.

Share-based Payments

We account for share-based compensation to our independent directors, Manager and to employees of the Manager and its affiliates using the fair value-based methodology prescribed by GAAP. Compensation cost related to restricted common stock issued is measured at its fair value at the grant date, and amortized into expense over the vesting period on a straight-line basis.

Income Taxes

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

We have elected to treat certain consolidated subsidiaries, and may in the future elect to treat newly formed subsidiaries, as taxable REIT subsidiaries. Taxable REIT subsidiaries may participate in non-real estate related activities and/or perform noncustomary services for tenants and are subject to U.S. federal and state income tax at regular corporate tax rates. Our major tax jurisdictions are U.S. federal, New York State and New York City and the statute of limitations is open for all jurisdictions for the years 2017 through 2020. We do not have any unrecognized tax benefits and do not expect a change in our position for unrecognized tax benefits in the next 12 months.

Principles of Consolidation

We consolidate all entities that we control through either majority ownership and voting rights. In addition, we consolidate all VIEs of which we are considered the primary beneficiary. VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary and is generally the entity with (i) the power to direct the activities that most significantly affect the VIE's economic performance, and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE. See further discussion in "Note 4 – Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net" and "Note 7 - Secured Debt Arrangements, Net."

Securitization/Sale and Financing Arrangements

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

When a transfer does not meet the criteria of a sale under ASC 860, we account for such transfer as a secured borrowing on our consolidated balance sheet as both an asset and a non-recourse liability. The non-recourse liability is recorded under "Participations Sold" and the income earned is recorded as interest income and an identical amount is recorded as interest expense on our consolidated statements of operations.

Recent Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06 "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity" ("ASU 2020-06"). The intention of ASU 2020-06 is to address the complexities in accounting for certain financial instruments with a debt and equity component. Under ASU 2020-06, the number of accounting models for convertible notes will be reduced and entities that issue convertible debt will be required to use the if-converted method for the computation of diluted "Earnings per share" under ASC 260. ASC 2020-06 is effective for fiscal years beginning after December 15, 2021 and may be adopted through either a modified retrospective method of

transition or a fully retrospective method of transition. We are currently assessing the impact this guidance will have on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04 “Reference Rate Reform (Topic 848) – Facilitation of the Effects of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”). ASU 2020-04 provides optional expedients and exceptions for applying GAAP to debt instruments, derivatives, and other contracts that reference LIBOR or other reference rates expected to be discontinued as a result of reference rate reform. This guidance is optional and may be elected through December 31, 2022 using a prospective application on all eligible contract modifications. We have loan agreements, debt agreements, and an interest rate cap that incorporate LIBOR as a referenced interest rate. It is difficult to predict what effect, if any, the phase-out of LIBOR and the use of alternative benchmarks may have on our business or on the overall financial markets. We have not adopted any of the optional expedients or exceptions through December 31, 2020, but will continue to evaluate the possible adoption of any such expedients or exceptions.

Reclassification

To conform to the 2020 presentation of the consolidated balance sheet, we reclassified \$8.3 million of loan proceeds held by servicer, from 2019, into other assets. To conform to the 2020 presentation of the consolidated statement of cash flow, we reclassified \$0.5 million of loan proceeds held by servicer, from 2019, into other assets. These reclassifications had no impact on our consolidated financial statements.

Note 3 – Fair Value Disclosure

GAAP establishes a hierarchy of valuation techniques based on the observability of the inputs utilized in measuring financial instruments at fair value. Market-based or observable inputs are the preferred source of values, followed by valuation models using management's assumptions in the absence of market-based or observable inputs. The three levels of the hierarchy as noted in ASC 820 "Fair Value Measurements and Disclosures" 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 we anticipate that our valuation methods will be appropriate and consistent with valuation methods used by 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. We 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 values of our derivative instruments are determined using a discounted cash flow analysis on the expected cash flows of each instrument. Our derivative instruments are classified as Level II in the fair value hierarchy.

The fair values of foreign exchange forwards are determined by comparing the contracted forward exchange rate to the current market exchange rate. The current market exchange rates are determined by using market spot rates, forward rates and interest rate curves for the underlying countries.

The fair values of interest rate swaps are determined by comparing the present value of remaining fixed payments to the present value of expected floating rate payments based on the forward one-month LIBOR curve. As of December 31, 2020, we had no interest rate swaps on our consolidated balance sheet.

The fair value of our interest rate cap is determined by 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 interest rate cap. The variable interest rates used in the calculation of projected receipts on the interest rate cap are based on a third party expert's expectation of future interest rates derived from observable market interest rate curves and volatilities.

The fair value of our real estate owned, held for sale and the related debt is determined by using the market approach, less costs to sell. The market approach utilizes the fair value of similar assets and liabilities in the marketplace as well as internal analysis as to selling price of specific assets and liabilities, which we deem to be significant unobservable inputs. As such the fair value of real estate owned, held for sale and the related debt falls within level 3 of the fair value hierarchy.

The following table summarizes the levels in the fair value hierarchy into which our assets and liabilities recorded at fair value were categorized as of December 31, 2020 and December 31, 2019 (\$ in thousands):

	Fair Value as of December 31, 2020				Fair Value as of December 31, 2019			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Recurring fair value measurements:								
Foreign currency forward, net	\$ —	\$ (31,375)	\$ —	\$ (31,375)	\$ —	\$ (4,876)	\$ —	\$ (4,876)
Interest rate swap liability	—	—	—	—	—	(14,470)	—	(14,470)
Interest rate cap asset	—	134	—	134	—	—	—	—
Total financial instruments	\$ —	\$ (31,241)	\$ —	\$ (31,241)	\$ —	\$ (19,346)	\$ —	\$ (19,346)
Non-Recurring fair value measurements:								
Real estate owned asset, held for sale	\$ —	\$ —	\$ 42,905	\$ 42,905	\$ —	\$ —	\$ —	\$ —
Debt related to real estate owned, held for sale	\$ —	\$ —	\$ (33,000)	\$ (33,000)	—	—	—	—
Net real estate owned, and related debt, held for sale	\$ —	\$ —	\$ 9,905	\$ 9,905	\$ —	\$ —	\$ —	\$ —

Note 4 – Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net

Our loan portfolio was comprised of the following at December 31, 2020 and 2019 (\$ in thousands):

Loan Type	December 31, 2020	December 31, 2019
Commercial mortgage loans, net ⁽¹⁾	\$ 5,451,084	\$ 5,326,967
Subordinate loans and other lending assets, net	1,045,893	1,048,126
Carrying value, net	\$ 6,496,977	\$ 6,375,093

(1) Includes \$136.1 million and \$126.7 million in 2020 and 2019, respectively, of contiguous financing structured as subordinate loans.

Our loan portfolio consisted of 95% floating rate loans, based on amortized cost, as of December 31, 2020 and 2019.

Activity relating to our loan portfolio, for the year ended December 31, 2020, was as follows (\$ in thousands):

	Principal Balance	Deferred Fees/Other Items ⁽¹⁾	Specific CECL Allowance	Carrying Value, Net
December 31, 2019	\$ 6,467,842	\$ (35,768)	\$ (56,981)	\$ 6,375,093
New loan fundings	463,940	—	—	463,940
Add-on loan fundings ⁽²⁾	412,718	—	—	412,718
Loan repayments and sales	(683,254)	—	—	(683,254)
Gain (loss) on foreign currency translation	80,832	(214)	—	80,618
Specific CECL Allowance	—	—	(118,019)	(118,019)
Realized loss on investment	(44,885)	2,420	—	(42,465)
Transfer to Real estate owned, held for sale	(12,255)	—	—	(12,255)
Deferred fees	—	(6,455)	—	(6,455)
PIK interest and amortization of fees	43,486	21,672	—	65,158
December 31, 2020	\$ 6,728,424	\$ (18,345)	\$ (175,000)	\$ 6,535,079
General CECL Allowance ⁽³⁾				(38,102)
Carrying value, net				\$ 6,496,977

- (1) Other items primarily consist of purchase discounts or premiums, cost recovery interest, exit fees and deferred origination expenses.
- (2) Represents fundings for loans closed prior to 2020.
- (3) \$3.4 million of the General CECL Allowance is excluded from this table because it relates to unfunded commitments and has been recorded as a liability under accounts payable, accrued expenses and other liabilities in our consolidated balance sheet.

The following table details overall statistics for our loan portfolio at the dates indicated (\$ in thousands):

	December 31, 2020	December 31, 2019
Number of loans	67	72
Principal balance	\$ 6,728,424	\$ 6,467,842
Carrying value, net	\$ 6,496,977	\$ 6,375,093
Unfunded loan commitments ⁽¹⁾	\$ 1,399,989	\$ 1,952,887
Weighted-average cash coupon ⁽²⁾	5.7 %	6.5 %
Weighted-average remaining fully-extended term ⁽³⁾	2.8 years	3.3 years
Weighted-average expected term ⁽⁴⁾	2.1 years	1.8 years

- (1) Unfunded loan commitments are funded to finance construction costs, tenant improvements, leasing commissions, or carrying costs. These future commitments are funded over the term of each loan, subject in certain cases to an expiration date.
- (2) For floating rate loans, based on applicable benchmark rates as of the specified dates. For loans placed on non-accrual or cost recovery the interest rate used in calculating weighted-average cash coupon is 0%.
- (3) Assumes all extension options are exercised.
- (4) Expected term represents our estimated timing of repayments as of December 31, 2020 and December 31, 2019, respectively.

Property Type

The table below details the property type of the properties securing the loans in our portfolio at the dates indicated (\$ in thousands):

	December 31, 2020		December 31, 2019	
Property Type	Carrying Value	% of Portfolio ⁽¹⁾	Carrying Value	% of Portfolio
Office	\$ 1,911,145	29.2 %	\$ 1,401,400	22.0 %
Hotel	1,576,369	24.1	1,660,162	26.0
Residential-for-sale: construction	738,035	11.3	692,816	10.9
Residential-for-sale: inventory	244,803	3.7	321,673	5.1
Urban Retail	655,456	10.0	643,706	10.1
Healthcare	369,676	5.7	371,423	5.8
Urban Predevelopment	298,909	4.6	409,864	6.4
Industrial	228,918	3.5	227,940	3.6
Other	511,768	7.9	646,109	10.1
Total	\$ 6,535,079	100.0 %	\$ 6,375,093	100.0 %
General CECL Allowance ⁽²⁾	(38,102)			
Carrying value, net	<u>\$ 6,496,977</u>			

- (1) Percentage of portfolio calculations are made prior to consideration of General CECL Allowance.
- (2) \$3.4 million of the General CECL Allowance is excluded from this table because it relates to unfunded commitments and has been recorded as a liability under accounts payable, accrued expenses and other liabilities in our consolidated balance sheet.

Geography

The table below details the geographic distribution of the properties securing the loans in our portfolio at the dates indicated (\$ in thousands):

	December 31, 2020		December 31, 2019	
Geographic Location	Carrying Value	% of Portfolio ⁽¹⁾	Carrying Value	% of Portfolio

New York City	\$	2,370,337	36.3 %	\$	2,167,487	34.0 %
Northeast		103,567	1.6		110,771	1.7
United Kingdom		1,263,264	19.3		1,274,390	20.0
West		749,985	11.5		728,182	11.4
Southeast		581,301	8.9		564,166	8.9
Midwest		552,537	8.5		614,337	9.6
Other		914,088	13.9		915,760	14.4
Total	\$	6,535,079	100.0 %	\$	6,375,093	100.0 %
General CECL Allowance ⁽²⁾		(38,102)				
Carrying value, net	\$	6,496,977				

(1) Percentage of portfolio calculations are made prior to consideration of General CECL Allowance.

(2) \$3.4 million of the General CECL Allowance is excluded from this table because it relates to unfunded commitments and has been recorded as a liability under accounts payable, accrued expenses and other liabilities in our consolidated balance sheet.

Risk Rating

We assess the risk factors of each loan and assign a risk rating based on a variety of factors, including, without limitation, LTV ratio, debt yield, property type, geographic and local market dynamics, physical condition, cash flow volatility, leasing and tenant profile, loan structure and exit plan, and project sponsorship. This review is performed quarterly. Based on a 5-point scale, our loans are rated "1" through "5," from less risk to greater risk, which ratings are defined as follows:

1. Very low risk
2. Low risk
3. Moderate/average risk
4. High risk/potential for loss: a loan that has a risk of realizing a principal loss
5. Impaired/loss likely: a loan that has a high risk of realizing principal loss, has incurred principal loss or an impairment has been recorded

The following tables allocate the carrying value of our loan portfolio based on our internal risk ratings and date of origination at the dates indicated (\$ in thousands):

				December 31, 2020					
Risk Rating	Number of Loans	Total	% of Portfolio	Year Originated					
				2020	2019	2018	2017	2016	Prior
1	—	\$ —	— %	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
2	1	32,000	0.5 %	—	—	—	—	—	32,000
3	62	6,129,541	93.8 %	469,586	2,661,017	1,398,479	868,514	88,710	643,235
4	—	—	— %	—	—	—	—	—	—
5	4	373,538	5.7 %	—	—	—	131,050	115,419	127,069
Total	67	\$ 6,535,079	100.0 %	\$ 469,586	\$ 2,661,017	\$ 1,398,479	\$ 999,564	\$ 204,129	\$ 802,304
General CECL Allowance		(38,102)							
Total carrying value, net		\$ 6,496,977							
Weighted Average Risk Rating			3.1						

				December 31, 2019					
Risk Rating	Number of Loans	Total	% of Portfolio	Year Originated					
				2019	2018	2017	2016	2015	Prior
1	—	\$ —	— %	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
2	8	348,324	5.5 %	—	241,676	—	36,250	24,546	45,852
3	61	5,707,555	89.5 %	2,736,825	1,355,014	912,636	72,540	499,700	130,840
4	1	182,910	2.9 %	—	—	—	182,910	—	—
5	2	136,304	2.1 %	—	—	—	—	—	136,304
Total	72	\$ 6,375,093	100.0 %	\$ 2,736,825	\$ 1,596,690	\$ 912,636	\$ 291,700	\$ 524,246	\$ 312,996
Weighted Average Risk Rating			3.0						

Current Expected Credit Losses

Refer to the following schedule of the General CECL Allowance as of December 31, 2020, and as of the date of adoption, January 1, 2020 (\$ in thousands):

	December 31, 2020	January 1, 2020 ⁽¹⁾
Commercial mortgage loans, net	\$ 17,012	\$ 12,149
Subordinate loans and other lending assets, net	21,090	15,630
Unfunded commitments ⁽²⁾	3,365	3,088
Total General CECL Allowance	\$ 41,467	\$ 30,867

(1) As of January 1, 2020, we adopted the CECL Standard through a cumulative-effect adjustment to accumulated deficit

(2) The General CECL Allowance on unfunded commitments is recorded as a liability on our consolidated balance sheet within accounts payable, accrued expenses and other liabilities

In assessing the General CECL Allowance, we consider macroeconomic factors, including unemployment rate, commercial real estate prices, and market liquidity. We compared the historical data for each metric to historical commercial real estate losses in order to determine the correlation of the data. We used projections, obtained from third-party service providers, of each factor to approximate the impact the macroeconomic outlook may have on our loss rate.

The General CECL Allowance increased by \$10.6 million from initial adoption on January 1, 2020, to December 31, 2020. The increase is primarily related to a change in our view of estimated future macroeconomic conditions in the backdrop of the global COVID-19 pandemic and an increase in our view of the remaining expected term of our loan portfolio as of December 31, 2020.

The General CECL Allowance decreased by \$1.4 million during the three months ended December 31, 2020. The decrease is primarily related to an improved view of estimated future macroeconomic conditions since the prior quarter end.

Although our secured debt obligations and senior secured term loan financing have a minimum tangible net worth maintenance covenant, the General CECL Allowance has no impact on these covenants as we are permitted to add back the General CECL Allowance for the computation of tangible net worth as defined in the respective agreements.

We have made an accounting policy election to exclude \$40.6 million accrued interest receivable, included in Other Assets on our consolidated balance sheet, from the amortized cost basis of the related commercial mortgage loans and subordinate loans and other lending assets in determining the General CECL Allowance as any uncollectible accrued interest receivable is written off in a timely manner. We discontinue accruing interest on loans if we deem the interest to be uncollectible with any previously accrued uncollected interest on the loan charged to interest income in the same period. Under certain circumstances, we may apply the cost recovery method under which interest collected on a loan reduces the loan's amortized cost. The amortized cost basis for loans on cost recovery was \$373.5 million and \$136.3 million as of December 31, 2020 and 2019, respectively. For the years ended December 31, 2020 and 2019, we received \$1.8 million and \$1.4 million, respectively, in interest that reduced amortized cost under the cost recovery method.

In November 2020, the borrower under a £309.2 million commercial mortgage loan (\$422.7 million assuming conversion into USD), of which we own £247.5 million (\$338.4 million assuming conversion into USD), secured by an urban retail

property located in London, UK, entered into administration triggering an event of default. In accordance with the loan agreement, we are entitled to collect default interest in addition to the contractual interest we had been earning. As of December 31, 2020, the loan was in default and is past due with respect to scheduled payments. As of December 31, 2020, we evaluated the loan for collectability and determined that no Specific CECL Allowance was warranted and have continued to accrue all interest owed to us, including default interest.

As of December 31, 2020, the amortized cost basis for loans with interest between 30 and 59 days past due was \$19.0 million. Accrued interest is past due for 90 or more days for loans with an amortized cost basis of \$711.9 million and \$136.3 million as of December 31, 2020 and 2019, respectively.

The following schedule illustrates the quarterly changes in the CECL Allowance since we adopted the CECL Standard on January 1, 2020 (\$ in thousands):

	Specific CECL Allowance ⁽¹⁾	General CECL Allowance			Total CECL Allowance	CECL Allowance as % of Amortized Cost	
		Funded	Unfunded	Total		General	Total
December 31, 2019	\$ 56,981	\$ —	\$ —	\$ —	\$ 56,981	— %	— %
Changes:							
January 1, 2020 - Adoption of CECL Standard	—	27,779	3,088	30,867	30,867		
Q1 Allowances	150,000	30,494	2,971	33,465	183,465		
March 31, 2020	\$ 206,981	\$ 58,273	\$ 6,059	\$ 64,332	\$ 271,313	1.08 %	4.05 %
Changes:							
Q2 Allowances (Reversals)	5,500	(13,729)	(1,940)	(15,669)	(10,169)		
Write-offs	(15,000)	—	—	—	(15,000)		
June 30, 2020	\$ 197,481	\$ 44,544	\$ 4,119	\$ 48,663	\$ 246,144	0.81 %	3.71 %
Changes:							
Q3 Reversals, net of Allowances	(550)	(5,268)	(524)	(5,792)	(6,342)		
September 30, 2020	\$ 196,931	\$ 39,276	\$ 3,595	\$ 42,871	\$ 239,802	0.71 %	3.59 %
Changes:							
Q4 Reversals	—	(1,174)	(230)	(1,404)	(1,404)		
Write-offs	(21,931)	—	—	—	(21,931)		
December 31, 2020	\$ 175,000	\$ 38,102	\$ 3,365	\$ 41,467	\$ 216,467	0.67 %	3.23 %

(1) As of December 31, 2019, amount represents specific loan loss provisions recorded on assets before the adoption of the CECL Standard. After the adoption of the CECL Standard on January 1, 2020, amounts represent Specific CECL Allowances.

Specific CECL Allowance

We regularly evaluate the extent and impact of any credit migration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations is 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 liquidation value of the underlying collateral. We also evaluate the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, we consider the overall economic environment, real estate sector and geographic sub-market in which the borrower operates. Such impairment analysis is 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.

We evaluate our loans on a quarterly basis. For loans where we have deemed the borrower/sponsor to be experiencing financial difficulty, we have elected to apply a practical expedient in accordance with the CECL Standard. In accordance with the practical expedient approach, we determine the loan loss provision to be the difference between the fair value of the underlying collateral and the carrying value of the loan (prior to the Specific CECL Allowance). When the repayment or

satisfaction of a loan is dependent on a sale, rather than operations, of the collateral, the fair value is adjusted for the estimated cost to sell the collateral. The fair value of the underlying collateral is determined by using method(s) such as discounted cash flow, the market approach, or direct capitalization approach. The key unobservable inputs used to determine the fair value of the underlying collateral may vary depending on the information available to us and market conditions as of the valuation date.

We evaluate modifications to our loan portfolio to determine if the modifications constitute a TDR and/or substantial modification, under ASC Topic 310 "Receivables". In 2015, we originated a \$157.8 million loan secured by a hotel in New York City. During the second quarter of 2020 the loan was restructured and was deemed to be a TDR. In connection with this restructuring, the borrower committed to contribute additional equity of \$15.0 million and concurrently we wrote down our principal on this loan by \$15.0 million, which had been previously recorded as a Specific CECL Allowance. As of December 31, 2020, the loan had a principal balance and amortized cost of \$142.8 million and \$144.7 million, respectively, has a risk rating of 3, and is on accrual status. During the three months ended June 30, 2020, the Specific CECL Allowance of \$15.0 million was reversed through reversal of loan losses, while the write-down was recorded in realized loss on investments in our consolidated statement of operations.

In 2018, we originated a \$38.5 million commercial mortgage loan secured by a hotel in Pittsburgh, Pennsylvania. During the fourth quarter of 2020, the loan was recapitalized with the minority equity holder in the property. In connection with this recapitalization, we received approximately \$5.9 million of principal that paid down the existing loan and we wrote down our principal by \$11.0 million, (\$9.5 million of which had been previously recorded as a Specific CECL Allowance). In addition, the sponsor committed to contribute \$11.4 million in new equity. As of December 31, 2020, the recapitalized loan had a principal balance and amortized cost of \$21.6 million and \$21.5 million, respectively, with a risk rating of 3. During the fourth quarter of 2020, the Specific CECL Allowance of \$9.5 million was reversed through provision for loan losses and impairments, net, while the write-down was recorded in realized loss on investments in our consolidated statement of operations.

The following table summarizes the specific provision for loan losses that have been recorded on our portfolio as of December 31, 2020 (\$ in thousands):

Type	Property type	Location	Amortized cost ⁽¹⁾	Interest recognition status/ as of date
Mortgage				
	Urban Predevelopment ⁽²⁾	Brooklyn, NY	\$ 131,050	Cost Recovery/ 3/1/2020
	Urban Predevelopment ⁽²⁾⁽³⁾	Miami, FL	115,419	Cost Recovery/ 3/1/2020
	Retail Center ⁽⁴⁾⁽⁵⁾	Cincinnati, OH	105,344	Cost Recovery/ 10/1/2019
Mortgage total:			<u>\$ 351,813</u>	
Mezzanine				
	Hotel ⁽⁶⁾	Washington, DC	\$ 21,725	Cost Recovery/ 3/31/2020
Mezzanine total:			<u>\$ 21,725</u>	
Grand total:			<u><u>\$ 373,538</u></u>	

(1) Amortized cost is shown net of \$175.0 million of net Specific CECL Allowance. During the year ended December 31, 2020, there was \$118.0 million in net Specific CECL Allowances taken due to factors including COVID-19. See Note 2 for additional information regarding COVID-19.

(2) The fair value of urban predevelopment collateral was determined by assuming rent per square foot ranging from \$25 to \$225 and a capitalization rate ranging from 5.0% to 5.5%.

(3) In October 2020, we entered into a joint venture which owns the underlying properties that secure our \$180.5 million first mortgage loan. The entity in which we own an interest, and which owns the underlying properties was deemed to be a VIE and we determined that we are not the primary beneficiary of that VIE.

(4) The fair value of retail collateral was determined by applying a capitalization rate of 8.3%.

(5) The entity in which we own an interest and which owns the underlying property was deemed to be a VIE and we determined that we are not the primary beneficiary of that VIE. As of December 31, 2019 we had recorded \$47.0 million of Specific CECL Allowance. During the years ended December 31, 2020 and 2019, \$1.6 million and \$1.4 million, respectively, of interest paid was applied towards reducing the carrying value of the loan.

(6) The fair value of hotel collateral was determined by applying a discount rate of 8.5% and a capitalization rate of 7.0%. During the year ended December 31, 2020 and 2019, there was \$0.2 million and \$0 million of interest paid applied towards reducing the carrying value of the loan, respectively.

Other Loan and Lending Assets Activity

We recognized PIK interest of \$46.7 million, \$54.6 million, and \$43.5 million for the years ended December 31, 2020, 2019, and 2018 respectively.

We recognized \$0.2 million, \$6.1 million, and \$2.3 million in pre-payment penalties and accelerated fees for the years

ended December 31, 2020, 2019, and 2018 respectively.

Our portfolio includes two other lending assets, which are subordinate risk retention interests in securitization vehicles. The underlying mortgages related to our subordinate risk retention interests are secured by a portfolio of properties located throughout the United States. Our maximum exposure to loss from the subordinate risk retention interests is limited to the book value of such interests of \$68.1 million as of December 31, 2020. These interests have a weighted average maturity of 5.8 years. We are not obligated to provide, and do not intend to provide financial support to these subordinate risk retention interests. Both interests are accounted for as held-to-maturity and recorded at carrying value on our consolidated balance sheet.

Loan Sales

The following loan sales occurred in 2018:

We sold a \$75.0 million (\$17.7 million funded) subordinate position of our \$265.0 million loans for the construction of an office campus in Renton, WA. As of December 31, 2020, our exposure to the property was limited to a \$190.0 million (\$137.5 million funded) mortgage loan. This transaction was evaluated under ASC 860 - "Transfers and Servicing" and we determined that it qualified as a sale and was accounted for as such.

The following loan sales occurred in 2019:

We sold a \$30.3 million and a \$122.3 million (both fully funded at close) subordinate position of our \$470.8 million loans for an urban retail property in New York, NY. As of December 31, 2020, our exposure to the property was limited to a \$318.1 million mortgage loan. This transaction was evaluated under ASC 860 - "Transfers and Servicing" and we determined that it qualified as a sale and was accounted for as such.

The following loan sales occurred in 2020:

In the first quarter of 2020, we sold £62.2 million (\$81.3 million assuming conversion into USD) in a mezzanine loan and £50.0 million (\$65.3 million assuming conversion into USD) unfunded commitment of a senior mortgage secured by a mixed-use property in London, United Kingdom to a fund managed by an affiliate of the Manager, that was originated by us in December 2019. This transaction was evaluated under ASC 860 - "Transfers and Servicing," and we determined that it qualifies as a sale and accounted for it as such. We recorded no gain or loss related to this sale.

In the second quarter of 2020, we sold interests in three construction loans, with aggregate commitments of \$376.9 million (of which approximately \$127.0 million was funded at the time of sale). The sales were to entities managed by affiliates of the Manager. We recorded a loss of approximately \$1.4 million in connection with these sales. These transactions were evaluated under ASC 860 - "Transfers and Servicing," and we determined that they qualify as sales and accounted for them as such.

In the third quarter of 2020, we sold our interest in a foreign residential-for-sale inventory loan, with outstanding principal of £97.5 million (\$124.2 million assuming conversion into USD). We recorded a loss of approximately \$1.0 million in connection with this sale. This transaction was evaluated under ASC 860 - "Transfers and Servicing", and we determined that it qualifies as a sale and accounted for it as such.

In the fourth quarter of 2020, we sold our interest in a residential-for-sale inventory loan secured by property in New York, NY, with outstanding principal of \$73.4 million. We recorded a loss of approximately \$2.7 million in connection with this sale. This transaction was evaluated under ASC 860 - "Transfers and Servicing," and we determined that it qualifies as a sale and accounted for it as such.

Other

In October 2020, an \$80.0 million loan originated in 2015 was fully resolved. The loan was secured by for-sale residential condominium units located in Bethesda, MD. In conjunction with the sale of the last remaining condominiums, we recorded an aggregate realized loss of \$14.1 million. The realized loss on investment consisted of a \$11.1 million realized loss on the loan and a \$3.0 million realized loss on the write-off the equity position previously held in other assets on our consolidated balance sheet. As of December 31, 2019 we had recorded \$13.0 million of Specific CECL Allowance and impairments. Additionally during 2020, we recorded a net Specific CECL Allowance of \$1.1 million. In connection with the loan payoff we reversed \$11.1 million of Specific CECL Allowance related to the loan and \$3.0 million of previously recorded impairments related to the equity position.

Note 5 – Real Estate Owned and Related Debt, Held for Sale

In 2017, we originated a subordinate loan, secured by a hotel in Anaheim, California subject to a \$33.0 million first

mortgage held by a third party. In December 2020, due to non-performance on the \$12.3 million subordinate loan, we assumed legal title through the execution of a deed in lieu. We intend to sell the hotel and, as such, as of the date of the foreclosure, we recorded the hotel on our consolidated balance sheet, gross of the first mortgage, at fair market value. We assumed the obligation of the \$33.0 million first mortgage loan secured by the hotel, which is held by a third-party, and is classified as debt related to real estate owned, held for sale in our consolidated balance sheet.

The fair value of the real estate asset, less related debt, was \$1.0 million less than our cost basis on the mezzanine loan prior to the foreclosure which, along with the previously recorded Specific CECL Allowance on the subordinate loan of \$1.4 million, was recorded as a realized loss on our consolidated income statement.

The table below details real estate owned and related debt, held for sale, on our consolidated balance sheet (\$ in thousands):

	December 31, 2020	December 31, 2019
Real estate owned, held for sale	\$ 42,905	\$ —
Debt related to real estate owned, held for sale	(33,000)	—
Real estate owned, net	<u>\$ 9,905</u>	<u>\$ —</u>

Note 6 – Other Assets

The following table details the components of our other assets at the dates indicated (\$ in thousands):

	December 31, 2020	December 31, 2019
Interest receivable	\$ 40,559	\$ 35,581
Collateral deposited under derivative agreements	28,320	17,090
Loan Proceeds held by Servicer ⁽¹⁾	5,649	8,272
Other	112	45
Total	<u>\$ 74,640</u>	<u>\$ 60,988</u>

(1) Represents principal payments held by third-party loan servicer as of balance sheet date, which were remitted to us subsequent to the balance sheet date. Balances in prior years were shown as Loan proceeds held by servicer on our consolidated balance sheet. Prior year balances have been reclassified to other assets as of December 31, 2020 to conform to current year presentation.

Note 7 – Secured Debt Arrangements, Net

At December 31, 2020 and 2019, our borrowings included the following secured debt arrangements, maturities and weighted-average interest rates (\$ in thousands):

	December 31, 2020			December 31, 2019		
	Maximum Amount of Borrowings ⁽¹⁾	Borrowings Outstanding ⁽¹⁾	Maturity ⁽²⁾	Maximum Amount of Borrowings ⁽¹⁾	Borrowings Outstanding ⁽¹⁾	Maturity ⁽²⁾
JPMorgan (USD)	\$ 1,113,156	\$ 984,125	June 2024	\$ 1,154,109	\$ 1,090,160	June 2024
JPMorgan (GBP)	113,548	113,548	June 2024	51,702	50,410	June 2024
JPMorgan (EUR)	73,296	73,296	June 2024	94,189	94,189	June 2024
DB (USD)	1,000,000	520,457	March 2023	1,250,000	513,876	March 2021
Goldman (USD)	500,000	332,352	November 2023 ⁽³⁾	500,000	322,170	November 2021
CS Facility - USD	374,251	369,182	March 2023 ⁽⁴⁾⁽⁶⁾	226,068	218,644	June 2020
CS Facility - GBP	—	—	N/A ⁽⁵⁾	93,915	93,915	June 2020
HSBC Facility - USD	—	—	N/A ⁽⁵⁾	50,625	50,625	October 2020
HSBC Facility - GBP	—	—	N/A ⁽⁵⁾	34,634	34,634	June 2020

HSBC Facility - EUR	163,785	163,785	July 2021	154,037	154,037	January 2021
Barclays (USD)	200,000	35,192	March 2024	N/A	N/A	N/A
Barclays (GBP)	—	—	N/A ⁽⁵⁾	538,916	290,347	February 2024 ⁽⁵⁾
Barclays (EUR)	—	—	N/A ⁽⁵⁾	182,549	182,549	November 2020
Total Secured Credit Facilities	3,538,036	2,591,937		4,330,744	3,095,556	
Barclays Private Securitization	857,728	857,728	September 2023 ⁽⁶⁾	N/A	N/A	N/A
Total Secured Debt Arrangements	4,395,764	3,449,665		4,330,744	3,095,556	
less: deferred financing costs	N/A	(12,993)		N/A	(17,190)	
Total Secured Debt Arrangements, net ⁽⁷⁾⁽⁸⁾⁽⁹⁾	\$ 4,395,764	\$ 3,436,672		\$ 4,330,744	\$ 3,078,366	

- (1) As of December 31, 2020, GBP and EUR borrowings were converted to USD at a rate of 1.37 and 1.22, respectively. As of December 31, 2019, GBP and EUR borrowings were converted at a rate of 1.33 and 1.12, respectively.
- (2) Maturity date assumes extensions at our option are exercised with consent of financing providers, where applicable.
- (3) Assumes facility enters the amortization period described below.
- (4) Assumes financings are extended in line with the underlying loans.
- (5) As of December 31, 2020, there are no loans pledged to this facility.
- (6) Represents weighted average maturity across various financings with the counterparty. See below for additional details.
- (7) Weighted-average borrowing costs as of December 31, 2020 and 2019 were USD L + 2.16% / GBP L + 1.83% / EUR L + 1.46% and USD L + 2.07% / GBP L + 1.75% / EUR L + 1.36%, respectively.
- (8) Weighted average advance rates based on cost as of December 31, 2020 and 2019 were 63.7% (62.5% (USD)) / 68.7% (GBP) / 60.8% (EUR) and 63.8% (66.7% (USD)) / 47.1% (GBP) / 76.1% (EUR)).
- (9) As of December 31, 2020 and 2019, approximately 55% and 54% of the outstanding balance under these secured borrowings were recourse to us.

Each of our existing secured debt arrangements include "credit based and other mark-to-market" features. "Credit mark-to-market" provisions in repurchase facilities are designed to keep the lenders' credit exposure generally constant as a percentage of the underlying collateral value of the assets pledged as security to them. If the credit of the underlying collateral value decreases, the amount of leverage available to us will be reduced as our assets are marked-to-market, which would reduce our liquidity. Generally, the lender under the applicable secured debt arrangement calls for and/or sets the valuation and any revaluation of the collateral assets in its sole, good faith discretion. If it is determined (subject to certain conditions) that the market value of the underlying collateral has decreased by more than a defined minimum amount, the lender may require us to provide additional collateral or may make margin calls, which may require us to repay all or a portion of the funds advanced. We closely monitor our liquidity and intend to maintain sufficient liquidity on our consolidated balance sheet in order to meet any margin calls in the event of any significant decreases in asset values. As of December 31, 2020 and 2019, the weighted average haircut under our secured debt arrangements was approximately 36.3% and 36.2%, respectively. In addition, our existing secured debt arrangements are not entirely term-matched financings and may mature before our commercial real estate debt investments that represent underlying collateral to those financings. We are in frequent dialogue with the lenders under our secured debt arrangements regarding our management of their collateral assets and as we negotiate renewals and extensions of these liabilities, we may experience lower advance rates and higher pricing under the renewed or extended agreements.

JPMorgan Facility

In November 2019, through three indirect wholly-owned subsidiaries, we entered into a Sixth Amended and Restated Master Repurchase Agreement with JPMorgan Chase Bank, National Association (the "JPMorgan Facility"). The JPMorgan Facility allows for \$1.3 billion of maximum borrowings (with amounts borrowed in GBP and EUR converted to USD for purposes of calculating availability based on the greater of the spot rate as of the initial financing under the corresponding mortgage loan and the then-current spot rate) and matures in June 2022 and has two one-year extensions available at our option, which are subject to certain conditions. The JPMorgan Facility enables us to elect to receive advances in USD, GBP, or EUR. Margin calls may occur any time at specified aggregate margin deficit thresholds.

As of December 31, 2020, we had \$1.2 billion (including £83.1 million and €60.0 million assuming conversion into USD) of borrowings outstanding under the JPMorgan Facility secured by certain of our commercial mortgage loans.

DB Facility

In March 2020, through an indirect wholly-owned subsidiary, we entered into a Third Amended and Restated Master Repurchase Agreement with Deutsche Bank AG, Cayman Islands Branch, London Branch (the "DB Facility"), which provides for advances of up to \$1.0 billion for the sale and repurchase of eligible first mortgage loans secured by commercial or multifamily properties located in the United States, United Kingdom and the European Union, and enables us to elect to receive advances in USD, GBP, or EUR. The DB Facility matures in March 2021, and has two one-year extensions available at our option, subject to certain conditions. Margin calls may occur any time at specified aggregate margin deficit thresholds.

As of December 31, 2020, we had \$520.5 million of borrowings outstanding under the DB Facility secured by certain of our commercial mortgage loans.

Goldman Facility

In November 2017, through an indirect wholly-owned subsidiary, we entered into a master repurchase and securities contract agreement with Goldman Sachs Bank USA (the "Goldman Facility"), which provides advances up to \$500.0 million and matures in November 2021. In addition, the Goldman Facility contains a two-year amortization period subsequent to the November 2021 maturity, which allows for the refinancing or pay down of assets under the facility. Margin calls may occur any time at specified margin deficit thresholds.

As of December 31, 2020, we had \$332.4 million of borrowings outstanding under the Goldman Facility secured by certain of our commercial mortgage loans.

CS Facility - USD

In July 2018, through an indirect wholly-owned subsidiary, we entered into a Master Repurchase Agreement with Credit Suisse AG, acting through its Cayman Islands Branch and Alpine Securitization Ltd (the "CS Facility — USD"), which provides for advances for the sale and repurchase of eligible commercial mortgage loans secured by real estate. The "CS Facility — USD" has an "evergreen" feature such that the facility continues unless terminated at any time by Credit Suisse with six months' notice. Margin calls may occur any time at specified aggregate margin deficit thresholds.

As of December 31, 2020, we had \$369.2 million of borrowings outstanding under the CS Facility — USD secured by certain of our commercial mortgage loans.

CS Facility - GBP

In June 2018, through an indirect wholly-owned subsidiary, we entered into a Global Master Repurchase Agreement with Credit Suisse Securities (Europe) Limited. During the third quarter of 2020, the facility was repaid in full in connection with the sale of the underlying loan.

HSBC Facility - USD

In October 2019, through an indirect wholly-owned subsidiary, we entered into a secured debt arrangement with HSBC Bank plc (the "HSBC Facility — USD"), which provides for a single asset financing. During the fourth quarter of 2020, the HSBC Facility — USD was repaid in full and the asset was moved to another facility.

HSBC Facility - GBP

In September 2018, through an indirect wholly-owned subsidiary, we entered into a secured debt arrangement with HSBC Bank plc, which provided for a single asset financing (the "HSBC Facility — GBP"). The HSBC Facility — GBP matured and was repaid in full in June 2020 in connection with the repayment of the underlying loan.

HSBC Facility - EUR

In July 2019, through an indirect wholly-owned subsidiary, we entered into a secured debt arrangement with HSBC Bank plc, which provides for a single asset financing (the "HSBC Facility — EUR"). The HSBC Facility — EUR matures in July 2021. Margin calls may occur any time at specified aggregate margin deficit thresholds.

As of December 31, 2020, we had \$163.8 million (€134.1 million assuming conversion into USD) of borrowings outstanding under the HSBC Facility - EUR secured by one commercial mortgage loan.

Barclays Facility - USD

In March 2020, through an indirect wholly-owned subsidiary, we entered into a secured debt arrangement pursuant to a Master Repurchase Agreement with Barclays Bank plc (the "Barclays Facility — USD"). The Barclays Facility — USD allows for \$200.0 million of maximum borrowings and initially matures in March 2023 with extensions available at our option, subject to certain conditions. Margin calls may occur any time at specified aggregate margin deficit thresholds.

As of December 31, 2020, we had \$35.2 million of borrowings outstanding under the Barclays Facility - USD secured by one commercial mortgage loan.

Barclays Facility - GBP/EUR

Beginning in October 2019, through an indirect wholly-owned subsidiary, we entered into five secured debt arrangements pursuant to a Global Master Repurchase Agreement with Barclays Bank plc (the "Barclays Facility – GBP/EUR"). In June 2020, all assets previously financed pursuant to the Barclays Facility – GBP/EUR were refinanced under the Barclays Private Securitization.

Barclays Private Securitization

In June 2020, through a newly formed entity, we entered into a private securitization with Barclays Bank plc, of which Barclays Bank plc retained \$782.0 million of senior notes (the "Barclays Private Securitization"). The Barclays Private Securitization finances the loans that were previously financed under the Barclays Facility - GBP/EUR. In addition, we pledged an additional commercial mortgage loan with an outstanding principal balance of £26.0 million and pledged additional collateral of a financed loan of €5.3 million as of June 30, 2020.

The Barclays Private Securitization eliminates daily margining provisions and grants us significant discretion to modify certain terms of the underlying collateral including waiving certain loan-level covenant breaches and deferring or waiving of debt service payments for up to 18 months. The securitization includes LTV based covenants with significant headroom to existing levels that are also subject to a six-month holiday through December 2020. These deleveraging requirements are based on significant declines in the value of the collateral as determined by an annual third-party (engaged by us) appraisal process tied to the provisions of the underlying loan agreements. We believe this provides us with both cushion and predictability to avoid sudden unexpected outcomes and material repayment requirements. In addition to the pledge of the additional collateral noted above, we paid down the previous financing by €16.5 million (totaling \$18.5 million in USD) and agreed to increase the financing spreads by 0.25%.

The table below provides the borrowings outstanding (on an as converted basis) and weighted-average fully-extended maturities by currency for the assets financed under the Barclays Private Securitization as of December 31, 2020 (\$ in thousands):

	Borrowings outstanding	Fully-Extended Maturity ⁽¹⁾
Total/Weighted-Average GBP	\$708,130	February 2024
Total/Weighted-Average EUR	149,598	November 2021 ⁽²⁾
Total/Weighted-Average Securitization	\$857,728	September 2023

(1) Assumes underlying loans extend to fully extended maturity and extensions at our option are exercised.

(2) The EUR portion of the Barclays Private Securitization has an "evergreen" feature such that the facility continues for one year and can be terminated by either party on certain dates with, depending on the date of notice, a minimum of nine to twelve months' notice.

The table below provides the assets and liabilities of the Barclays Private Securitization VIE included in our consolidated balance sheet (\$ in thousands):

	December 31, 2020
Assets:	
Cash	\$ 2,020
Commercial mortgage loans, net ⁽¹⁾	1,290,393
Other Assets	15,831
Total Assets	\$ 1,308,244
Liabilities:	
Secured debt arrangements, net (net of deferred financing costs of \$0.7 million)	\$ 857,043
Accounts payable, accrued expenses and other liabilities ⁽²⁾	1,307
Total Liabilities	\$ 858,350

(1) Net of the General CECL Allowance of \$4.4 million.

(2) Represents General CECL Allowance related to unfunded commitments on commercial mortgage loans, net of \$0.3 million.

	Year Ended December 31, 2020
Net Interest Income:	
Interest income from commercial mortgage loans	\$ 29,511
Interest expense	(8,312)
Net interest income	\$ 21,199
General and administrative expense	(178)
Provision for loan losses and impairments	(916)
Foreign currency gain	39,731
Net Income	\$ 59,836

As of December 31, 2020, we had \$857.7 million (£518.0 million and €122.5 million assuming conversion into USD) of borrowings outstanding under the Barclays Private Securitization secured by certain of our commercial mortgage loans.

At December 31, 2020, our borrowings had the following remaining maturities (\$ in thousands):

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
JPMorgan Facility	\$ 84,497	\$ 543,292	\$ 543,180	\$ —	\$ 1,170,969
DB Facility	11,375	509,082	—	—	520,457
Goldman Facility	—	332,352	—	—	332,352
CS Facility - USD	44,200	187,494	137,488	—	369,182
HSBC Facility - EUR	163,785	—	—	—	163,785
Barclays Facility - USD	—	—	35,192	—	35,192
Barclays Private Securitization	149,598	544,905	163,225	—	857,728
Total	\$ 453,455	\$ 2,117,125	\$ 879,085	\$ —	\$ 3,449,665

The table above reflects the fully extended maturity date of the facility and assumes facilities with an "evergreen" feature continue to extend through the fully-extended maturity of the underlying asset and assumes underlying loans are extended with consent of financing providers.

The table below summarizes the outstanding balances at December 31, 2020, as well as the maximum and average month-end balances for the year ended December 31, 2020 for our borrowings under secured debt arrangements (\$ in thousands).

	As of December 31, 2020		For the year ended December 31, 2020	
	Balance	Amortized Cost of Collateral	Maximum Month-End Balance	Average Month-End Balance
JPMorgan Facility	\$ 1,170,969	\$ 2,009,249	\$ 1,192,288	\$ 1,119,997
DB Facility	520,457	814,715	526,743	506,831
Goldman Facility	332,352	510,371	362,139	343,621
CS Facility - USD	369,182	524,139	378,781	348,464
CS Facility - GBP	—	—	90,111	43,094
HSBC Facility - USD	—	—	50,625	44,000
HSBC Facility - GBP	—	—	34,500	20,563
HSBC Facility - EUR	163,785	215,509	163,788	154,725
Barclays Facility - USD	35,192	49,993	35,193	29,327
Barclays Facility - GBP	—	—	666,810	260,692
Barclays Facility - EUR	—	—	180,595	70,521
Barclays Private Securitization	857,728	1,295,023	857,728	823,915
Total	\$ 3,449,665	\$ 5,418,999		

The table below summarizes the outstanding balances at December 31, 2019, as well as the maximum and average month-end balances for the year ended December 31, 2019 for our borrowings under secured debt arrangements (\$ in thousands).

	As of December 31, 2019		For the year ended December 31, 2019	
	Balance	Amortized Cost of Collateral	Maximum Month-End Balance	Average Month-End Balance
JPMorgan Facility	\$ 1,234,759	\$ 1,845,400	\$ 1,234,759	\$ 947,400
DB Facility	513,876	766,676	757,117	604,067
Goldman Facility	322,170	513,559	324,821	246,318
CS Facility - USD	218,644	308,884	218,644	182,646
CS Facility - GBP	93,915	129,723	150,811	134,694
HSBC Facility - USD	50,625	66,960	50,625	50,625
HSBC Facility - GBP	34,634	49,976	50,784	42,296
HSBC Facility - EUR	154,037	190,780	154,037	151,889
Barclays Facility - GBP	290,347	738,455	290,347	139,004
Barclays Facility - EUR	182,549	241,674	182,549	181,159
Total	<u>\$ 3,095,556</u>	<u>\$ 4,852,087</u>		

We were in compliance with the covenants under each of our secured debt arrangements at December 31, 2020 and 2019.

Note 8 – Senior Secured Term Loan, Net

In May 2019, we entered into a \$500.0 million senior secured term loan. The senior secured term loan bears interest at LIBOR plus 2.75% and was issued at a price of 99.5%. The senior secured term loan matures in May 2026 and contains restrictions relating to liens, asset sales, indebtedness, and investments in non-wholly owned entities.

During the years ended December 31, 2020 and 2019, we repaid \$5.0 million and \$2.5 million of principal related to the senior secured term loan, respectively. The outstanding principal balance as of December 31, 2020 and December 31, 2019 was \$492.5 million and \$497.5 million, respectively. As of December 31, 2020, the senior secured term loan had a carrying value of \$483.5 million net of deferred financing costs of \$7.1 million and an unamortized discount of \$1.9 million. As of December 31, 2019, the senior secured term loan had a carrying value of \$488.0 million net of deferred financing costs of \$7.3 million and an unamortized discount of \$2.3 million.

Covenants

The senior secured term loan includes the following financial covenants: (i) our ratio of total recourse debt to tangible net worth cannot be greater than 3:1; and (ii) our ratio of total unencumbered assets to total pari-passu indebtedness must be at least 1.25:1.

We were in compliance with the covenants under the senior secured term loan at December 31, 2020 and December 31, 2019.

Interest Rate Swap

In connection with the senior secured term loan, we previously entered into an interest rate swap to fix LIBOR at 2.12% effectively fixing our all-in coupon on the senior secured term loan at 4.87%. During the second quarter of 2020 we terminated the interest rate swap and recognized a realized loss of \$53.9 million.

Interest Rate Cap

During the second quarter of 2020, we entered into a three-year interest rate cap to cap LIBOR at 0.75%. This effectively limits the maximum all-in coupon on our senior secured term loan to 3.50%. In connection with the interest rate cap, we incurred up-front fees of \$1.1 million, which we recorded as a deferred financing cost on our consolidated balance sheet and interest expense will be recognized over the duration of the interest rate cap in our consolidated statement of operations.

Note 9 – Convertible Senior Notes, Net

In two separate offerings during 2014, we issued an aggregate principal amount of \$254.8 million of 5.50% Convertible Senior Notes due 2019 (the "2019 Notes"), for which we received \$248.6 million, after deducting the underwriting discount and offering expenses. The 2019 Notes were exchanged or converted for shares of our common stock and cash as follows:

(i) On August 2, 2018, we entered into privately negotiated exchange agreements with a limited number of holders of the 2019 Notes pursuant to which we exchanged \$206.2 million of the 2019 Notes for an aggregate of (a) 10,020,328 newly issued shares of our common stock, and (b) \$39.3 million in cash. We recorded \$166.0 million of additional paid-in-capital in our consolidated statement of changes in stockholders' equity in connection with these transactions,

(ii) Certain holders elected to convert \$47.9 million of the 2019 Notes, which were settled for an aggregate of (a) 2,775,509 newly issued shares of our common stock, and (b) \$0.2 million in cash. We recorded \$13.9 million of additional paid-in-capital in our consolidated statement of changes in stockholders' equity in connection with these transactions. These conversions occurred from August 2018 through maturity.

The remaining \$0.7 million in principal amount of the 2019 Notes was repaid at maturity on March 15, 2019.

During the year ended December 31, 2018, we recorded a loss on early extinguishment of debt of \$2.6 million, in connection with the exchange and conversions of the 2019 Notes. This includes fees and accelerated amortization of capitalized costs. There was no such loss related to the 2019 Notes during the year ended December 31, 2019.

In two separate offerings during 2017, we issued an aggregate principal amount of \$345.0 million of 4.75% Convertible Senior Notes due 2022 (the "2022 Notes"), for which we received \$337.5 million, after deducting the underwriting discount and offering expenses. At December 31, 2020, the 2022 Notes had a carrying value of \$340.4 million and an unamortized discount of \$4.6 million.

During the fourth quarter of 2018, we issued \$230.0 million of 5.375% Convertible Senior Notes due 2023 (the "2023 Notes" and, together with the 2022 Notes, the "Notes"), for which we received \$223.7 million after deducting the underwriting discount and offering expenses. At December 31, 2020, the 2023 Notes had a carrying value of \$225.3 million and an unamortized discount of \$4.7 million.

The following table summarizes the terms of the Notes as of December 31, 2020 (\$ in thousands):

	Principal Amount	Coupon Rate	Effective Rate ⁽¹⁾	Conversion Rate ⁽²⁾	Maturity Date	Remaining Period of Amortization
2022 Notes	\$ 345,000	4.75 %	5.60 %	50.2260	8/23/2022	1.65
2023 Notes	230,000	5.38 %	6.16 %	48.7187	10/15/2023	2.79
Total	<u>\$ 575,000</u>					

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

(2) We have the option to settle any conversions in cash, shares of common stock or a combination thereof. The conversion rate represents the number of shares of common stock issuable per one thousand principal amount of the Notes converted, and includes adjustments relating to cash dividend payments made by us to stockholders that have been deferred and carried-forward in accordance with, and are not yet required to be made pursuant to, the terms of the applicable supplemental indenture.

We may not redeem the Notes prior to maturity except in limited circumstances. The closing price of our common stock on December 31, 2020 of \$11.17 was less than the per share conversion price of the Notes.

In accordance with ASC 470 "Debt," the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. GAAP requires that the initial proceeds from the sale of the Notes be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt that could have been issued by us at such time. We measured the fair value of the debt components of the Notes as of their issuance date based on effective interest rates. As a result, we attributed approximately \$15.4 million of the proceeds to the equity component of the Notes (\$11.0 million to the 2022 Notes and \$4.4 million to the 2023 Notes), which represents the excess proceeds received over the fair value of the liability component of the Notes at the date of issuance. The equity component of the Notes has been reflected within additional paid-in capital in our consolidated balance sheet as of December 31, 2020. The resulting debt discount is being amortized over the period during which the Notes are expected to be

outstanding (the maturity date) as additional non-cash interest expense. The additional non-cash interest expense attributable to each of the Notes will increase in subsequent reporting periods through the maturity date as the Notes accrete to their par value over the same period.

The aggregate contractual interest expense was approximately \$28.8 million, \$29.1 million, and \$28.2 million for the years ended December 31, 2020, 2019, and 2018, respectively. With respect to the amortization of the discount on the liability component of the Notes as well as the amortization of deferred financing costs, we reported additional non-cash interest expense of approximately \$6.0 million, \$6.0 million, and \$7.1 million December 31, 2020, 2019, and 2018, respectively.

Note 10 – Derivatives

We use forward currency contracts to economically hedge interest and principal payments due under our loans denominated in currencies other than USD.

We have entered into a series of forward contracts to sell an amount of foreign currency (GBP and EUR) for an agreed upon amount of USD at various dates through December 2024. These forward contracts were executed to economically fix the USD amounts of foreign denominated cash flows expected to be received by us related to foreign denominated loan investments.

The following table summarizes our non-designated foreign exchange ("Fx") forwards and our interest rate cap as of December 31, 2020:

Type of Derivatives	December 31, 2020				
	Number of Contracts	Aggregate Notional Amount (in thousands)	Notional Currency	Maturity	Weighted-Average Years to Maturity
Fx contracts - GBP	93	428,493	GBP	January 2021 - December 2024	2.04
Fx contracts - EUR	69	239,466	EUR	February 2021 - August 2024	2.61
Interest rate cap	1	500,000	USD	June 2023	2.49

The following table summarizes our non-designated Fx forwards and our interest rate swap as of December 31, 2019:

Type of Derivatives	December 31, 2019				
	Number of Contracts	Aggregate Notional Amount (in thousands)	Notional Currency	Maturity	Weighted-Average Years to Maturity
Fx contracts - GBP	156	735,349	GBP	January 2020 - December 2024	1.49
Fx contracts - EUR	44	168,879	EUR	February 2020 - August 2024	3.22
Interest rate swap	1	500,000	USD	May 2026	6.37

We have not designated any of our derivative instruments as hedges as defined in ASC 815 - "Derivatives and Hedging" and, therefore, changes in the fair value of our derivative instruments are recorded directly in earnings. The following table summarizes the amounts recognized on our consolidated statements of operations related to our derivatives for the years ended December 31, 2020, 2019, and 2018 (\$ in thousands):

	Location of Gain (Loss) Recognized in Income	Amount of gain (loss) recognized in income		
		Year ended December 31,		
		2020	2019	2018
Forward currency contracts	Unrealized gain (loss) on derivative instruments	\$ (26,499)	\$ (28,576)	\$ 29,345
Forward currency contracts	Realized gain on derivative instruments	16,756	14,151	9,713
Total		\$ (9,743)	\$ (14,425)	\$ 39,058

In connection with our senior secured term loan, in May 2019, we entered into an interest rate swap to fix LIBOR at 2.12% or an all-in interest rate of 4.87%. We used our interest rate swap to manage exposure to variable cash flows on our borrowings under our senior secured term loan. Our interest rate swap allowed us to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure. However during the second quarter of 2020, we

terminated our interest rate swap due to a significant decrease in LIBOR and recognized a realized loss on the accompanying consolidated statement of operations.

In June 2020, we entered into an interest rate cap for approximately \$1.1 million. We use our interest rate cap to manage exposure to variable cash flows on our borrowings under our senior secured term loan by effectively limiting LIBOR from exceeding 0.75%. This effectively limits the maximum all-in coupon on our senior secured term loan to 3.50%. Unrealized gains or losses related to the interest rate swap and cap were recorded net under interest expense in our consolidated statement of operations.

	Location of Loss Recognized in Income	Amount of loss recognized in income		
		Year ended December 31,		
		2020	2019	2018
Interest rate cap ⁽¹⁾	Unrealized gain on interest rate cap	\$ 134	\$ —	\$ —
Interest rate swap ⁽²⁾	Unrealized gain (loss) on interest rate swap	14,470	(14,470)	—
Interest rate swap ⁽²⁾	Realized loss on interest rate swap	(53,851)	—	—
Total		<u>\$ (39,247)</u>	<u>\$ (14,470)</u>	<u>\$ —</u>

(1) With a notional amount of \$500.0 million, \$0, and \$34.9 million at December 31, 2020, 2019, and 2018, respectively.

(2) With a notional amount of \$0, \$500.0 million, and \$0 at December 31, 2020, 2019, and 2018, respectively.

The following tables summarize the gross asset and liability amounts related to our derivatives at December 31, 2020 and 2019 (\$ in thousands):

	December 31, 2020			December 31, 2019		
	Gross Amount of Recognized Liability	Gross Amounts Offset in our Consolidated Balance Sheet	Net Amounts of Liability Presented in our Consolidated Balance Sheet	Gross Amount of Recognized Liabilities	Gross Amounts Offset in our Consolidated Balance Sheet	Net Amounts of Liabilities Presented in our Consolidated Balance Sheet
Forward currency contracts	\$ 32,172	\$ (797)	\$ 31,375	\$ 12,687	\$ (7,811)	\$ 4,876
Interest rate cap	—	(134)	(134)	—	—	—
Interest rate swap	—	—	—	14,470	—	14,470
Total derivative liabilities	<u>\$ 32,172</u>	<u>\$ (931)</u>	<u>\$ 31,241</u>	<u>\$ 27,157</u>	<u>\$ (7,811)</u>	<u>\$ 19,346</u>

Note 11 – Participations Sold

Participations sold represents the subordinate interests in loans we originated and subsequently partially sold. We account for participations sold as secured borrowings on our consolidated balance sheet with both assets and non-recourse liabilities because the participations do not qualify as a sale under ASC 860 - "Transfers and Servicing." The income earned on the participations sold is recorded as interest income and an identical amount is recorded as interest expense on our consolidated statements of operations.

In October 2020, we sold a \$25.0 million interest, at par, in a mezzanine loan collateralized by a ground-up condominium development in New York City that we originated in December 2017. The participation interest sold is subordinate to our remaining \$85.7 million mezzanine loan and is accounted for as a secured borrowing on our consolidated balance sheet. The participation sold accrues payment-in-kind interest.

In December 2020, we sold a £6.7 million (\$8.9 million assuming conversion into USD) interest, at par, in a first mortgage loan collateralized by an office building located in London, UK that was originated by us in December 2017. In connection with this sale, we transferred our remaining unfunded commitment of £19.1 million (\$25.3 million assuming conversion into USD). The participation interest sold is subordinate to our remaining £70.3 million (\$96.1 million assuming conversion into USD) first mortgage loan and is accounted for as a secured borrowing on our consolidated balance sheet.

The table below details participations sold included in our consolidated balance sheet (\$ in thousands):

	December 31, 2020	December 31, 2019
Participation sold on Commercial mortgage loans	\$ 9,217	\$ —
Participation sold on Subordinate loans and other lending assets ⁽¹⁾	25,757	—
Total Participations sold	<u>\$ 34,974</u>	<u>\$ —</u>

(1) Includes \$0.8 million of PIK interest in 2020.

Note 12 – Accounts Payable, Accrued Expenses and Other Liabilities

The following table details the components of our accounts payable, accrued expense and other liabilities (\$ in thousands):

	December 31, 2020	December 31, 2019
Accrued dividends payable	\$ 52,768	\$ 74,771
Accrued interest payable	13,979	16,089
Accounts payable and other liabilities	4,775	6,922
General CECL Allowance on unfunded commitments ⁽¹⁾	3,365	—
Collateral deposited under derivative agreements	—	2,930
Total	<u>\$ 74,887</u>	<u>\$ 100,712</u>

(1) Refer to Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net for additional disclosure related to the General CECL Allowance on unfunded commitments for the year ended December 31, 2020.

Note 13 – Related Party Transactions

Management Agreement

In connection with our initial public offering in September 2009, we entered into a management agreement (the "Management Agreement") with the Manager, which describes the services to be provided by the Manager and its compensation for those services. The Manager is responsible for managing our day-to-day operations, subject to the direction and oversight of our 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 our stockholders' equity (as defined in the Management Agreement), calculated and payable (in cash) quarterly in arrears.

The current term of the Management Agreement will expire on September 29, 2021, and is automatically renewed for successive one-year terms on each anniversary thereafter. The Management Agreement may be terminated upon expiration of the one-year extension term only upon the affirmative vote of at least two-thirds of our independent directors, based upon (1) unsatisfactory performance by the Manager that is materially detrimental to ARI 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 our 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 our independent directors in February 2021, which included a discussion of the Manager's performance and the level of the management fees thereunder, we determined not to seek termination of the Management Agreement.

We incurred approximately \$39.8 million, \$40.7 million, and \$36.4 million in base management fees under the Management Agreement for the years ended December 31, 2020, 2019, and 2018, respectively.

In addition to the base management fee, we are also responsible for reimbursing the Manager for certain expenses paid by the Manager on our behalf or for certain services provided by the Manager to us. For the years ended December 31, 2020, 2019, and 2018, we paid expenses totaling \$4.5 million, \$3.6 million, and \$3.1 million, respectively, related to reimbursements for

certain expenses paid by the Manager on our behalf under the Management Agreement. Expenses incurred by the Manager and reimbursed by us are reflected in the respective consolidated statement of operations expense category or our consolidated balance sheet based on the nature of the item.

Included in payable to related party on our consolidated balance sheet at December 31, 2020 and December 31, 2019 are approximately \$9.6 million and \$10.4 million, respectively, for base management fees incurred but not yet paid under the Management Agreement.

Loans receivable

In June 2018, we increased our outstanding loan commitment through the acquisition of £4.8 million (\$6.4 million assuming conversion into USD) pari-passu interest in an existing subordinate loan from a fund managed by an affiliate of the Manager. The subordinate loan is secured by a healthcare portfolio located in the United Kingdom.

In December 2019, we sold \$30.3 million and \$122.3 million in mezzanine loans secured by an urban retail property to two funds managed by an affiliate of the Manager, that were originated by us in August 2019. This transaction was evaluated under ASC 860 - "Transfers and Servicing," and we determined that it qualifies as a sale and accounted for as such (see "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net"). We recorded no gain or loss related to this sale.

In January 2020, we sold £62.2 million (\$81.3 million assuming conversion into USD) in a mezzanine loan and £50.0 million (\$65.3 million assuming conversion into USD) unfunded commitment of a senior mortgage secured by a mixed-use property in London, UK to a fund managed by an affiliate of the Manager, that was originated by us in December 2019. This transaction was evaluated under ASC 860 - "Transfers and Servicing," and we determined that it qualifies as a sale and accounted for as such (see "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net").

In the second quarter of 2020, we sold our interests in three construction loans to entities managed by affiliates of the Manager. Refer to "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net" for additional information related to these sales.

Term Loan

In May 2019, Apollo Global Funding, LLC, an affiliate of the Manager, served as one of the five arrangers for the issuance of our senior secured term loan and received \$0.6 million of arrangement fees.

Note 14 – Share-Based Payments

On September 23, 2009, our board of directors approved the Apollo Commercial Real Estate Finance, Inc. 2009 Equity Incentive Plan ("2009 LTIP") and on April 16, 2019, our board of directors approved the Amended and Restated Apollo Commercial Real Estate Finance, Inc. 2019 Equity Incentive Plan ("2019 LTIP," and together with the 2009 LTIP, the "LTIPs"), which amended and restated the 2009 LTIP. Following the approval of the 2019 LTIP by our stockholders at our 2019 annual meeting of stockholders on June 12, 2019, no additional awards have been or will be granted under the 2009 LTIP and all outstanding awards granted under the 2009 LTIP remain in effect in accordance with the terms in the 2009 LTIP.

The 2019 LTIP provides for grants of restricted common stock, restricted stock units ("RSUs") and other equity-based awards up to an aggregate of 7,000,000 shares of our common stock. The LTIPs are administered by the compensation committee of our board of directors (the "Compensation Committee") and all grants under the LTIPs must be approved by the Compensation Committee.

We recognized stock-based compensation expense of \$16.8 million, \$15.9 million and \$13.6 million during the years ended December 31, 2020, 2019, and 2018, respectively, related to restricted stock and RSU vesting.

The following table summarizes the grants, vesting and forfeitures of restricted common stock and RSUs during the year ended December 31, 2020:

Type	Restricted Stock	RSUs	Grant Date Fair Value (\$ in millions)
Outstanding December 31, 2017	105,561	1,632,746	
Granted	28,070	1,006,800	\$ 19.1
Vested	(67,934)	(739,388)	N/A
Forfeiture	—	(47,201)	N/A

Outstanding December 31, 2018	65,697	1,852,957	
Granted	27,245	1,069,202	\$ 20.5
Vested	(67,586)	(877,261)	N/A
Forfeiture	—	(37,543)	N/A
Outstanding at December 31, 2019	25,356	2,007,355	
Granted	82,235	1,446,155	\$ 16.4
Vested	(25,356)	(962,518)	N/A
Forfeiture	—	(35,139)	N/A
Outstanding at December 31, 2020	82,235	2,455,853	

Below is a summary of restricted stock and RSU vesting dates as of December 31, 2020:

Vesting Year	Restricted Stock	RSU	Total Awards
2021	82,235	1,155,947	1,238,182
2022	—	836,135	836,135
2023	—	463,771	463,771
Total	82,235	2,455,853	2,538,088

At December 31, 2020, we had unrecognized compensation expense of approximately \$0.1 million and \$34.5 million, respectively, related to the vesting of restricted stock awards and RSUs noted in the table above.

RSU Deliveries

During the years ended December 31, 2020, 2019, and 2018, we delivered 508,968, 433,585, and 378,855 shares of common stock for 877,262, 730,980 and 741,210 vested RSUs, respectively. We allow RSU participants to settle their tax liabilities with a reduction of their share delivery from the originally granted and vested RSUs. The amount, when agreed to by the participant, results in a cash payment to the Manager related to this tax liability and a corresponding adjustment to additional paid in capital on our consolidated statement of changes in stockholders' equity. The adjustment was \$6.5 million, \$5.0 million, and \$4.8 million for the years ended December 31, 2020, 2019, and 2018, respectively. The adjustment is a reduction of capital related to our equity incentive plan and is presented net of increases of capital related to our equity incentive plan in our consolidated statement of changes in stockholders' equity.

Note 15 – Stockholders' Equity

Our authorized capital stock consists of 450,000,000 shares of common stock, \$0.01 par value per share and 50,000,000 shares of preferred stock, \$0.01 par value per share. As of December 31, 2020, 139,295,867 shares of common stock were issued and outstanding, and 6,770,393 shares of Series B Preferred Stock were issued and outstanding.

On June 10, 2019, we redeemed all 6,900,000 of Series C Preferred Stock outstanding. Holders of the Series C Preferred Stock received the redemption price of \$25.00 plus accumulated but unpaid dividends to the redemption date of \$0.2223 per share.

Dividends. The following table details our dividend activity:

Dividends declared per share of:	Year ended December 31,		
	2020	2019	2018
Common Stock ⁽¹⁾	\$1.45	\$1.84	\$1.84
Series B Preferred Stock	2.00	2.00	2.00
Series C Preferred Stock ⁽²⁾	N/A	0.7223	2.00

(1) As our aggregate 2020 distributions exceeded our earnings and profits, \$0.35 of the January 2021 distribution declared in the fourth quarter of 2020 are payable to common stockholders of record as of December 31, 2020 will be treated as a 2021 distribution for U.S. federal income tax purposes.

(2) The Series C Preferred Stock was redeemed in full in June 2019.

Common Stock Offerings. During the first quarter of 2018, we completed a follow-on public offering of 15,525,000 shares of our common stock, including shares issued pursuant to the underwriters' option to purchase additional shares at a price of \$17.77 per share. The aggregate net proceeds from the offering were \$275.9 million after deducting offering expenses.

During 2018, we issued 10,828,475 shares of our common stock related to exchanges and conversions of the 2019 Notes. Refer to "Note 9 - Convertible Senior Notes, Net" for a further discussion on the exchanges and conversions of the 2019 Notes.

During the first quarter of 2019, we issued 1,967,361 shares of our common stock, at a per share conversion price of \$17.17, related to conversions of the 2019 Notes, the remainder of which matured on March 15, 2019. We recorded a \$33.8 million increase in additional paid in capital in our consolidated statement of changes in stockholders' equity. Refer to "Note 9 - Convertible Senior Notes, Net" for a further discussion on the conversions of the 2019 Notes.

During the second quarter of 2019, we completed a follow-on public offering of 17,250,000 shares of our common stock, including shares issued pursuant to the underwriters' option to purchase additional shares, at a price of \$18.27 per share. The aggregate net proceeds from the offering were \$314.8 million after deducting offering expenses.

Common Stock Repurchases. The following table details our common stock repurchase activity during the year ended December 31, 2020:

	Three months ended				Total
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	
Shares Repurchased	300,000	5,495,976	5,038,619	3,998,037	14,832,632
Weighted Average Price	\$8.11	\$7.96	\$9.01	\$9.03	\$8.61

Note 16 – Commitments and Contingencies

Legal Proceedings. From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. On June 28, 2018, AmBase Corporation, 111 West 57th Street Manager Funding LLC and 111 West 57th Investment LLC commenced an action captioned AmBase Corporation et al v. ACREFI Mortgage Lending, LLC et al (No 653251/2018) in New York Supreme Court. The complaint names as defendants (i) ACREFI Mortgage Lending, LLC, a subsidiary of the Company, (ii) the Company, and (iii) certain funds managed by Apollo, which are co-lenders on a mezzanine loan against the development of a residential condominium building in Manhattan, New York. The plaintiffs allege that the defendants tortiously interfered with the contractual equity put right in the plaintiffs' joint venture agreement with the developers of the project, and that the defendants aided and abetted breaches of fiduciary duty by the developers of the project. The plaintiffs allege the loss of a \$70.0 million investment as part of total damages of \$700.0 million, which includes punitive damages. The defendants' motion to dismiss was granted on October 23, 2019 and the Court entered judgment dismissing the complaint in its entirety on November 8, 2019. Plaintiffs filed a timely notice of appeal on December 6, 2019 and, as of September 28, 2020, the parties have now fully briefed the appeal. We are awaiting scheduling of oral argument. We continue to believe plaintiffs' claims are without merit and do not believe this will have a material adverse effect on our consolidated financial statements.

Loan Commitments. As described in "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net" at December 31, 2020, we had \$1.4 billion of unfunded commitments related to our commercial mortgage and subordinate loans. The timings and amounts of fundings are uncertain as these commitments relate to loans for construction costs, capital expenditures, leasing costs, interest and carry costs, among others. As such, the timings and amounts of future fundings depend on the progress and performance of the underlying assets of our loans. Certain of our lenders are contractually obligated to fund their ratable portion of these loan commitments over time, while other lenders have some degree of discretion over future loan funding obligations. The total unfunded commitment is expected to be funded over the remaining 4.0 years weighted average tenor of these loans.

COVID-19. The COVID-19 global pandemic has brought forth uncertainty and disruption to the global economy. The magnitude and duration of the COVID-19 pandemic and its impact on our borrowers and their tenants, cash flows and future results of operations could be significant and will largely depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic, the success of actions taken to contain or treat the pandemic, and reactions by consumers, companies, governmental entities and capital markets. The prolonged duration and impact of the COVID-19 pandemic could materially disrupt our business operations and impact our financial performance.

As of December 31, 2020, we have not recorded any contingencies on our consolidated balance sheet related to COVID-19. To the extent COVID-19 continues to cause dislocations in the global economy, our financial condition, results of

operations, and cash flows may continue to be adversely impacted. Refer to "Note 2 - Summary of Significant Accounting Policies" for further discussion regarding COVID-19.

Note 17 – Fair Value of Financial Instruments

The following table presents the carrying value and estimated fair value of our financial instruments not carried at fair value on our consolidated balance sheet at December 31, 2020 and December 31, 2019 (\$ in thousands):

	December 31, 2020		December 31, 2019	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and cash equivalents	\$ 325,498	\$ 325,498	\$ 452,282	\$ 452,282
Commercial mortgage loans, net	5,451,084	5,361,948	5,326,967	5,380,693
Subordinate loans and other lending assets, net ⁽¹⁾	1,045,893	1,027,582	1,048,126	1,050,961
Secured debt arrangements, net	(3,436,672)	(3,436,672)	(3,078,366)	(3,078,366)
Senior secured term loan, net	(483,465)	(475,263)	(487,961)	(499,988)
2022 Notes	(340,361)	(327,381)	(337,755)	(348,060)
2023 Notes	(225,293)	(214,875)	(223,818)	(234,600)
Participations sold	(34,974)	(34,919)	—	—
Debt related to real estate owned, held for sale	(33,000)	(33,000)	—	—

(1) Includes subordinate risk retention interests in securitization vehicles with an estimated fair value that approximates their carrying value.

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 we 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. Estimates of fair value for cash and cash equivalents, convertible senior notes, net, secured debt arrangements net and senior secured term loan, net are measured using observable Level I inputs as defined in "Note 3 - Fair Value Disclosure." Estimates of fair value for all other financial instruments in the table above are measured using significant estimates, or unobservable Level III inputs as defined in "Note 3 - Fair Value Disclosure."

Note 18 – Net Income per Share

ASC 260 "Earnings per share" requires the use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating security as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for dividends declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for dividends declared on participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity.

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

The table below presents the computation of basic and diluted net income per share of common stock for the years ended December 31, 2020, 2019, and 2018 (\$ in thousands except per share data):

	For the year ended December 31,		
	2020	2019	2018
Basic Earnings			
Net income	\$ 18,377	\$ 230,174	\$ 219,986
Less: Preferred dividends	(13,540)	(18,525)	(27,340)

Net income available to common stockholders	\$ 4,837	\$ 211,649	\$ 192,646
Less: Dividends on participating securities	(3,431)	(3,867)	(3,405)
Basic Earnings	\$ 1,406	\$ 207,782	\$ 189,241

Diluted Earnings

Net income available to common stockholders	\$ 4,837	\$ 211,649	\$ 192,646
Less: Dividends on participating securities	(3,431)	—	—
Add: Interest expense on Notes	—	35,173	34,779
Diluted Earnings	\$ 1,406	\$ 246,822	\$ 227,425

Number of Shares:

Basic weighted-average shares of common stock outstanding	148,004,385	146,881,231	124,147,073
Diluted weighted-average shares of common stock outstanding	148,004,385	175,794,896	153,821,515

Earnings Per Share Attributable to Common Stockholders

Basic	\$ 0.01	\$ 1.41	\$ 1.52
Diluted	\$ 0.01	\$ 1.40	\$ 1.48

The dilutive effect to earnings per share is determined using the "if-converted" method whereby interest expense on the outstanding Notes is added back to the diluted earnings per share numerator and all of the potentially dilutive shares are included in the diluted earnings per share denominator. For the year ended December 31, 2020, 28,533,271 weighted-average potentially issuable shares with respect to the Notes were excluded from the calculation of diluted net income per share because the effect was anti-dilutive. For the years ended December 31, 2019 and 2018, 28,913,665 and 29,674,442 weighted-average potentially issuable shares with respect to the Notes, respectively, were included in the dilutive earnings per share denominator. Refer to "Note 9 - Convertible Senior Notes, Net" for further discussion.

For the years ended December 31, 2020, 2019, and 2018, 2,030,467, 1,836,210, and 1,612,676 weighted-average unvested RSUs, respectively, were excluded from the calculation of diluted net income per share because the effect was anti-dilutive.

Note 19 – Summarized Quarterly Results (Unaudited)

(\$ in thousands except per share data)

	March 31,		June 30,		September 30,		December 31,	
	2020	2019	2020	2019	2020	2019	2020	2019
Net interest income:								
Interest income from commercial mortgage loans	\$81,855	\$78,286	\$75,641	\$77,458	\$74,522	\$81,136	\$77,116	\$85,595
Interest income from subordinate loans and other lending assets	34,018	40,839	32,616	41,043	28,857	43,421	22,944	39,630
Interest expense	(41,205)	(36,295)	(37,498)	(33,511)	(34,824)	(39,341)	(35,364)	(43,779)
Net interest income	74,668	82,830	70,759	84,990	68,555	85,216	64,696	81,446
Operating expenses:								
General and administrative expenses	(6,531)	(6,151)	(6,425)	(6,574)	(6,624)	(5,839)	(7,269)	(5,533)
Management fees to related party	(10,268)	(9,613)	(9,957)	(10,259)	(9,927)	(10,434)	(9,598)	(10,428)
Total operating expenses	(16,799)	(15,764)	(16,382)	(16,833)	(16,551)	(16,273)	(16,867)	(15,961)
Other income	760	518	591	484	128	429	125	682
Realized loss on investments	—	—	(16,405)	(12,513)	(1,037)	—	(30,190)	—
Reversal of (provision for) loan losses and impairments, net	(183,465)	—	25,169	15,000	6,342	(35,000)	26,354	—
Foreign currency translation gain (loss)	(37,949)	6,894	2,559	(7,777)	27,002	(19,129)	35,304	39,830
Gain (loss) on foreign currency forward contracts	70,491	(6,720)	(2,995)	11,186	(34,537)	24,153	(42,702)	(43,044)
Loss on interest rate hedging instruments	(35,548)	—	(3,095)	(13,113)	(564)	(10,307)	(40)	8,950
Net income (loss)	\$(127,842)	\$67,758	\$60,201	\$61,424	\$49,338	\$29,089	\$36,680	\$71,903
Preferred dividends	(3,385)	(6,835)	(3,385)	(4,919)	(3,385)	(3,385)	(3,385)	(3,386)
Net income (loss) available to common stockholders	\$(131,227)	\$60,923	\$56,816	\$56,505	\$45,953	\$25,704	\$33,295	\$68,517
Net income (loss) per share of common stock:								
Basic	\$(0.86)	\$0.45	\$0.37	\$0.38	\$0.31	\$0.16	\$0.23	\$0.44
Diluted	\$(0.86)	\$0.43	\$0.36	\$0.37	\$0.31	\$0.16	\$0.23	\$0.42
Basic weighted-average shares of common stock outstanding	153,948,191	134,607,107	151,523,513	145,567,963	146,612,313	153,531,678	140,036,383	153,537,074
Diluted weighted-average shares of common stock outstanding	153,948,191	164,683,086	182,083,702	174,101,234	146,612,313	153,531,678	140,036,383	182,070,345
Dividend declared per share of common stock	\$0.40	\$0.46	\$0.35	\$0.46	\$0.35	\$0.46	\$0.35	\$0.46

Note 20 – Subsequent Events

Subsequent to the quarter ended December 31, 2020, the following events took place:

Investment activity: We committed £165.0 million (\$226.2 million assuming conversion into USD) of a £1.8 billion (\$2.5 billion assuming conversion into USD) floating-rate commercial mortgage loan to finance the acquisition of a leading provider of short-stay affordable caravan and holiday home ownership in the U.K. In addition, we funded approximately \$43.2 million for previously closed loans.

Loan Repayments. We received approximately \$6.7 million from loan repayments.

Share Repurchase Plan: Our board of directors approved a \$150.0 million increase to our share repurchase plan, bringing total authorization and current capacity to \$300.0 million and \$172.3 million, respectively.

Apollo Commercial Real Estate Finance, Inc.
Schedule IV — Mortgage Loans on Real Estate
As of December 31, 2020
(\$ in thousands)

Description	Number of Loans	Property Type/location	Contractual Interest Rate ⁽¹⁾	Maturity Date ⁽²⁾	Periodic Payment	Principal Balance	Carrying Value	Principal Amount of Mortgages Subject to Delinquent Principal or Interest
Commercial mortgage loans individually >3%								
Loan A		Urban Retail/United Kingdom	6.65%	Dec 2023	Principal and Interest	\$ 340,896	\$ 338,368	\$ 340,896
Loan B		Urban Retail/Manhattan, NY	4.75%	Sep 2024	Interest Only	318,106	317,088	—
Loan C		Hotel/Spain	3.00%	Aug 2024	Interest Only	275,887	274,780	—
Loan D		Office/United Kingdom	3.30%	Feb 2025	Interest Only	230,340	228,740	—
Loan E		Healthcare/United Kingdom	3.79%	Oct 2024	Principal and Interest	227,950	226,343	—
Loan F		Office/Germany	2.80%	Nov 2026	Interest Only	216,407	215,509	—
Loan G		Office/Manhattan, NY	5.68%	Jan 2022	Interest Only	197,360	197,360	—
Loan H		Industrial/Brooklyn/Queens, NY	5.95%	Feb 2024	Interest Only	197,000	196,918	—
Commercial mortgage loans individually <3%								
First Mortgage ⁽³⁾	39	Hotel, Office, Urban Predevelopment, Residential-for-sale: inventory, Residential-for-sale: construction, Retail Center, Multifamily, Mixed Use/Various	0.0%-9.2%	2021-2025	Principal and Interest/ Interest Only	\$ 3,648,538	\$ 3,472,992	\$ 513,852
Total Commercial mortgage loans						<u>\$ 5,652,484</u>	<u>\$ 5,468,098</u>	<u>\$ 854,748</u>
Subordinate loans and other lending assets individually >3%								
Loan I		Residential-for-sale: construction/ Manhattan, NY	11.34%	Jun 2021	Interest Only	\$ 222,395	\$ 222,579	\$ —
Subordinate loans and other lending assets individually <3%								
Subordinate Mortgage and other lending assets ⁽⁴⁾	19	Residential-for-sale: construction, Hotel, Multifamily, Healthcare, Mixed Use, Residential-for-sale: inventory, Industrial, Office/ Various	0.0%-13.5%	2021-2034	Principal and Interest/ Interest Only	\$ 853,545	\$ 844,402	\$ 50,900
Total Subordinate loans and other lending assets ⁽⁵⁾						<u>\$ 1,075,940</u>	<u>\$ 1,066,981</u>	<u>\$ 50,900</u>
Total loans ⁽⁶⁾						<u>\$ 6,728,424</u>	<u>\$ 6,535,079</u>	<u>\$ 905,648</u>
General CECL Allowance ⁽⁷⁾							(38,102)	
Carrying value, net							<u>\$ 6,496,977</u>	

- (1) Assumes applicable benchmark rate as of December 31, 2020 for all floating rate loans
- (2) Assumes all extension options are exercised.
- (3) Includes \$9.2 million in a subordinate participation in a first mortgage loan sold during the period
- (4) Includes \$25.8 million in a subordinate participation in a subordinate loan sold during the period
- (5) Subject to prior liens of approximately \$4.3 billion.
- (6) The aggregate cost for U.S. federal income tax purposes is \$6.6 billion.
- (7) Excludes \$3.4 million of General CECL Allowance related to unfunded commitments on commercial mortgage loans, subordinate loans and other lending assets, net in 2020.

The following table summarizes the changes in the carrying amounts of our loan investment portfolio during 2020 and 2019 (\$ in thousands):

Reconciliation of Carrying Amount of Loans	December 31, 2020	December 31, 2019
Balance at beginning of year	\$ 6,375,093	\$ 4,927,593
January 1, 2020 - Adoption of CECL Standard	(27,779)	—
Loan fundings	876,658	3,435,457
Loan repayments ⁽¹⁾	(683,254)	(2,037,322)
Gain on foreign currency translation	80,618	43,649
Realized loss on investment, net of provision for loan loss reversal ⁽²⁾	(42,465)	2,487
Transfer to real estate owned, held for sale	(12,255)	—
Specific CECL Allowance ⁽³⁾	(118,019)	(35,000)
General CECL Allowance ⁽⁴⁾	(10,323)	—
Deferred Fees	(6,455)	(46,275)
PIK interest, amortization of fees and other items ⁽⁵⁾	65,158	84,504
Balance at the close of year	<u>\$ 6,496,977</u>	<u>\$ 6,375,093</u>

- 1) During the year ended December 31, 2020, we sold \$208.5 million in commercial mortgage loans secured by various property types to funds managed by affiliates of the Manager. During the year ended December 31, 2019, we sold \$152.6 million in mezzanine loans secured by an urban retail property to two funds managed by an affiliate of the Manager.
- 2) During the year ended December 31, 2020, realized loss on investment included a \$11.1 million realized loss (\$11.1 million previously recorded Specific CECL Allowance was reversed) related to the selling of the underlying collateral on a commercial mortgage loan secured by a residential-for-sale property located in Bethesda, MD; a realized loss of \$26.0 million related to two restructurings (\$24.5 million in previously recorded Specific CECL Allowances were reversed); and \$5.2 million realized loss related to loans sold during the period. During the year ended December 31, 2019, the underlying collateral on a commercial mortgage loan and a contiguous subordinate loan secured by a multifamily property located in Williston, ND was sold resulting in a realized loss of \$12.5 million. Consequently, the previously recorded \$15.0 million loan loss provision was reversed.
- 3) During the year ended December 31, 2020, we recorded \$118.0 million in Specific CECL Allowances, net of \$10.0 million in reversals, due to factors including COVID-19. During the year ended December 31, 2019, we recorded \$35.0 million for provision for loan losses and impairments, comprised of a (i) \$32.0 million loan loss provision recorded against a commercial mortgage loan secured by a retail center located in Cincinnati, OH, and (ii) \$3.0 million loan loss provision recorded against a commercial mortgage loan secured by a fully-built, for-sale residential condominium units located in Bethesda, MD.
- 4) \$3.4 million of the General CECL Allowance is excluded from this table because it relates to unfunded commitments and has been recorded as a liability on our consolidated balance sheet.
- 5) Other items primarily consist of purchase discounts or premiums, exit fees and deferred origination expenses, as well as \$1.8 million and \$1.4 million in cost recovery proceeds in 2020 and 2019, respectively

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Control Over Financial Reporting

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

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

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. In making this assessment, our management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013).

Based on its assessment, our management believes that, as of December 31, 2020, our internal control over financial reporting was effective based on those criteria. There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the effectiveness of our internal control over financial reporting. This report appear on pages 58 through 60 of this annual report on Form 10-K.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information regarding our directors, executive officers and certain other matters required by Item 401 of Regulation S-K is incorporated herein by reference to our definitive proxy statement relating to our 2021 annual meeting of stockholders (the "Proxy Statement"), to be filed with the SEC within 120 days after December 31, 2020.

The information regarding compliance with Section 16(a) of the Exchange Act required by Item 405 of Regulation S-K is

incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2020.

The information regarding our Code of Business Conduct and Ethics required by Item 406 of Regulation S-K is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2020.

The information regarding certain matters pertaining to our corporate governance required by Item 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2020.

Item 11. Executive Compensation.

The information regarding executive compensation and other compensation related matters required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2020.

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

The tables on equity compensation plan information and beneficial ownership of our securities required by Items 201(d) and 403 of Regulation S-K are incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2020.

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

The information regarding transactions with related persons, promoters and certain control persons and director independence required by Items 404 and 407(a) of Regulation S-K is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2020.

Item 14. Principal Accountant Fees and Services.

The information concerning principal accounting fees and services and the Audit Committee's pre-approval policies and procedures required by Item 9(e) of Schedule 14A is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2020.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

(1) Financial Statements:

Our consolidated financial statements and the related schedule, together with the independent registered public accounting firm's report thereon, are set forth on pages 58 through 97 of this annual report on Form 10-K and are incorporated herein by reference. See Item 8. "Financial Statements and Supplementary Data" filed herein, for a list of financial statements.

(2) Financial Statement Schedule:

Schedule IV — Mortgage Loans on Real Estate as of December 31, 2020.

(3) Exhibits Files:

- 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 8.00% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock, liquidation preference \\$25.00 per share, par value \\$0.01 per share, incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on September 23, 2015 \(File No.: 001-34452\).](#)
- 3.3 [By-laws of Apollo Commercial Real Estate Finance, Inc., incorporated by reference to Exhibit 3.2 of the Registrant's Form S-4 \(Registration No. 333-210632\).](#)
- 4.1 [Specimen Stock Certificate of Apollo Commercial Real Estate Finance, Inc., incorporated by reference to Exhibit 4.1 of the Registrant's Form S-11, as amended \(Registration No. 333-160533\).](#)

- 4.2 [Specimen Stock Certificate of Apollo Commercial Real Estate Finance, Inc.'s 8.00% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock, liquidation preference \\$25.00 per share, par value \\$0.01 per share, incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on September 23, 2015 \(File No.: 001-34452\).](#)
- 4.3 [Indenture, dated as of March 17, 2014, between the Registrant and Wells Fargo Bank, National Association, as Trustee, incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on March 21, 2014 \(File No.: 001-34452\).](#)
- 4.4 [Second Supplemental Indenture, dated as of August 21, 2017, between the Registrant and Wells Fargo Bank, National Association, as Trustee \(including the form of 4.75% Convertible Senior Note due 2022\), incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on August 21, 2017 \(File No.: 001-34452\).](#)
- 4.5 [Third Supplemental Indenture, dated as of October 5, 2018 between the Registrant and Wells Fargo Bank, National Association, as Trustee \(including the form of 5.375% Convertible Senior Note due 2023\), incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on October 5, 2018 \(File No.: 001-34452\).](#)
- 4.6 [Description of Securities Registered Under Section 12 of the Securities Exchange Act of 1934, incorporated by reference to Exhibit 4.6 of the Registrant's Form 10-K filed on February 13, 2020 \(File No.: 001-34452\).](#)
- 10.1 [Registration Rights Agreement, dated as of September 29, 2009, between Apollo Commercial Real Estate Finance, Inc. and the parties named therein, incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q filed on November 16, 2009 \(File No.: 001-34452\).](#)
- 10.2 [Management Agreement, dated as of September 23, 2009, between Apollo Commercial Real Estate Finance, Inc. and ACREFI Management, LLC., incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q filed on November 16, 2009 \(File No.: 001-34452\).](#)
- 10.3 [License Agreement dated as of September 23, 2009, between Apollo Commercial Real Estate Finance, Inc. and Apollo Global Management, LLC, incorporated by reference to Exhibit 10.3 of the Registrant's Form 10-Q filed on November 16, 2009 \(File No.: 001-34452\).](#)
- 10.4 [Apollo Commercial Real Estate Finance, Inc. 2009 Equity Incentive Plan, as amended and restated, incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on March 3, 2017 \(File No. 001-34452\).](#)
- 10.5 [Form of Restricted Stock Award Agreement, incorporated by reference to Exhibit 10.3 of the Registrant's Form S-11, as amended \(Registration No. 333-160533\).](#)
- 10.6 [Form of Restricted Stock Unit Award Agreement, incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on January 5, 2015 \(File No. 001-34452\).](#)
- 10.7 [Form of Indemnification Agreement entered into by Apollo Commercial Real Estate Finance, Inc.'s directors and officers, incorporated by reference to Exhibit 10.6 of the Registrant's Form S-11, as amended \(Registration No. 333-160533\).](#)
- 10.8 [Registration Rights Agreement, dated as of September 18, 2015, between Apollo Commercial Real Estate Finance, Inc. and QH RE Asset Company LLC, incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on September 23, 2015 \(File No. 001-34452\).](#)
- 10.9 [Registration Rights Agreement, dated as of September 18, 2015, between Apollo Commercial Real Estate Finance, Inc. and QH RE Asset Company LLC, incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed on September 23, 2015 \(File No. 001-34452\).](#)
- 10.10 [Apollo Commercial Real Estate Finance, Inc. 2019 Equity Incentive Plan, as amended and restated, incorporated by reference to Exhibit 4.3 of the Registrant's Form S-8 filed on July 15, 2019 \(File No. 333-232660\).](#)
- 10.11 [Form of Restricted Stock Unit Award Agreement, incorporated by reference to Exhibit 4.4 of the Registrant's Form S-8 filed on July 15, 2019 \(File No. 333-232660\).](#)
- 10.12 [Form of Restricted Stock Award Agreement, incorporated by reference to Exhibit 4.5 of the Registrant's Form S-8 filed on July 15, 2019 \(File No. 333-232660\).](#)

10.13	<u>Trust Deed, dated June 30, 2020, by and between ACRE Debt 2 PLC, as issuer, and U.S. Bank Trustees Limited, as trustee, incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on July 7, 2020 (File No.: 001-34452).</u>
10.14	<u>Incorporated Terms Memorandum, dated June 30, 2020, by and among ACRE Debt 2 PLC, ACREFI B, LLC, ACREFI BN, LLC, U.S. Bank Trustees Limited, Barclays Bank plc, and the other parties identified therein (portions of this exhibit have been omitted pursuant to Rule 601(b)(10) of Regulation S-K), incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed on July 7, 2020 (File No.: 001-34452).</u>
21.1*	<u>Subsidiaries of Registrant.</u>
23.1*	<u>Consent of Deloitte & Touche LLP.</u>
24.1*	<u>Power of Attorney (included on signature page).</u>
31.1*	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>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.</u>
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase
104*	Cover Page Interactive Data File (embedded with the Inline XBRL document)

* **Filed herewith.**

Item 16. Form 10-K Summary.

Not Applicable.

SIGNATURES

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

Apollo Commercial Real Estate Finance, Inc.

February 10, 2021

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

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Stuart A. Rothstein, Jai Agarwal and Jessica L. Lomm and each of them, with full power to act without the other, as such person's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign this Form 10-K, and any and all amendments thereto, and to file the same, with exhibits and schedules thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

February 10, 2021	By:	<u>/s/ Stuart A. Rothstein</u> Stuart A. Rothstein President, Chief Executive Officer and Director (Principal Executive Officer)
February 10, 2021	By:	<u>/s/ Jai Agarwal</u> Jai Agarwal Chief Financial Officer, Treasurer, Secretary (Principal Financial Officer and Principal Accounting Officer)
February 10, 2021	By:	<u>/s/ Mark C. Biderman</u> Mark C. Biderman Director
February 10, 2021	By:	<u>/s/ Robert A. Kasdin</u> Robert A. Kasdin Director
February 10, 2021	By:	<u>/s/ Brenna Haysom</u> Brenna Haysom Director
February 10, 2021	By:	<u>/s/ Katherine Newman</u> Katherine Newman Director
February 10, 2021	By:	<u>/s/ Eric L. Press</u> Eric L. Press Director
February 10, 2021	By:	<u>/s/ Scott S. Prince</u> Scott S. Prince Director
February 10, 2021	By:	<u>/s/ Michael E. Salvati</u> Michael E. Salvati Director

Subsidiaries of the Registrant

Subsidiary	Jurisdiction of Formation
ACREFI Operating, LLC	Delaware
ACREFI Holdings DB Member, LLC	Delaware
ACREFI Holdings DB, LLC	Delaware
ACREFI Holdings DB-Series I	Delaware
ACREFI Holdings DB-Series II	Delaware
ACREFI Holdings DB-Series III	Delaware
ACREFI Holdings DB-Series IV	Delaware
ACREFI Holdings DB-Series V	Delaware
ACREFI Holdings DB-Series VI	Delaware
ACREFI Holdings DB-Series VII	Delaware
ACREFI Holdings DB-Series VIII	Delaware
ACREFI Holdings DB-Series IX	Delaware
ACREFI Holdings DB-Series X	Delaware
ACREFI Holdings DB-Series XI	Delaware
ACREFI Holdings DB-Series XII	Delaware
ACREFI Holdings DB-Series XIII	Delaware
ACREFI Holdings DB-Series XIV	Delaware
ACREFI Holdings DB-Series XV	Delaware
ACREFI Holdings DB-Series XVI	Delaware
ACREFI Holdings DB-Series XVII	Delaware
ACREFI Holdings DB-Series XVIII	Delaware
ACREFI Holdings DB-Series XIX	Delaware
ACREFI Holdings DB-Series XX	Delaware
ACREFI Currency, LLC	Delaware
ACREFI Lender, LLC	Delaware
ACREFI I TRS, Inc.	Delaware
ACREFI II TRS, Ltd.	Cayman Islands
ACREFI III TRS, Inc.	Delaware
400 Anaheim, LLC	Delaware
ACREFI Mezzanine, LLC	Delaware
ACREFI Holdings J-II, LLC	Delaware
ACREFI Mortgage Lending, LLC	Delaware
ACREFI Insurance Services, LLC	Michigan
PEM Kent Holdings, LLC	Delaware
ACREFI Holdings U-1, LLC	Delaware
ACREFI Holdings J-1, LLC	Delaware
Holdings J-1 JV, LLC	Delaware

Operating J-1 JV, LLC	Delaware
ACREFI Holdings J-I JV Member, LLC	Delaware
ACREFI Holdings J-I JV Managing Member, LLC	Delaware
ACREFI M JV, LLC	Delaware
ACREFI W-1, LLC	Delaware
ACREFI W-2, LLC	Delaware
ACREFI Cash Management, LLC	Delaware
ARM Operating, LLC	Delaware
ARM TRS, LLC	Delaware
ARWL 2013-1 Trust	Delaware
ARWL 2013-1 REO Trust	Delaware
ARWL 2014-1 Trust	Delaware
Apollo Residential Mortgage Loans, LLC	Delaware
Apollo Residential Mortgage Securities, LLC	Delaware
ACREFI GS Member, LLC	Delaware
ACREFI GS, LLC	Delaware
ACREFI CS Member, LLC	Delaware
ACREFI CS, LLC	Delaware
ACREFI CS U Member, LLC	Delaware
ACREFI CS U, LLC	Delaware
ACREFI HS Member, LLC	Delaware
ACREFI HS, LLC	Delaware
ACREFI Europe Lending, LLC	Delaware
ACREFI B, LLC	Delaware
ACRE Debt 2 PLC	United Kingdom
ACREFI B-II, LLC	Delaware
ACREFI BN, LLC	Delaware
ACREFI GS UK Member, LLC	Delaware
ACREFI GS UK, LLC	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our report dated February 10, 2021, relating to the consolidated financial statements and financial statement schedule of Apollo Commercial Real Estate Finance, Inc., and the effectiveness of Apollo Commercial Real Estate Finance, Inc.'s internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended December 31, 2020.

1. Registration Statement No. 333-224695 on Form S-3 pertaining to the offering from time to time of Common Stock, Preferred Stock, Depositary Shares, Debt Securities, Warrants and Rights
2. Registration Statement No. 333-234545 on Form S-3 pertaining to the offering and resale from time to time of 10,493,529 shares of Common Stock and 6,770,393 shares of 8.00% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock.
3. Registration Statement No. 333-177556 on Form S-3 pertaining to the offering and resale from time to time of 3,495,000 shares of Common Stock
4. Registration Statement No. 333-232660 on Form S-8 pertaining to the Amended and Restated Apollo Commercial Real Estate Finance, Inc. 2019 Equity Incentive Plan
5. Registration Statement No. 333-249885 on Form S-3 pertaining to Apollo Commercial Real Estate Finance Inc.'s Direct Stock Purchase and Dividend Reinvestment Plan

/s/ DELOITTE & TOUCHE LLP

New York, New York
February 10, 2021

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Stuart A. Rothstein, certify that:

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

Date: February 10, 2021

By: /s/ Stuart A. Rothstein
Name: Stuart A. Rothstein
Title: President and Chief Executive Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Jai Agarwal, certify that:

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

Date: February 10, 2021

By: /s/ Jai Agarwal

Name: Jai Agarwal

Title: Chief Financial Officer, Treasurer and Secretary

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

The undersigned, the President and Chief Executive Officer of Apollo Commercial Real Estate Finance, Inc. (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K for the period ended December 31, 2020 (the "Form 10-K"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 10, 2021

By: /s/ Stuart A. Rothstein
Name: Stuart A. Rothstein
Title: President and Chief Executive Officer

The undersigned, the Chief Financial Officer, Treasurer and Secretary of Apollo Commercial Real Estate Finance, Inc. (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K for the period ended December 31, 2020 (the "Form 10-K"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 10, 2021

By: /s/ Jai Agarwal
Name: Jai Agarwal
Title: Chief Financial Officer, Treasurer and Secretary

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

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