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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2019
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: 1-34452

APOLLO COMMERCIAL REAL ESTATE FINANCE, INC.
(Exact name of registrant as specified in its charter)

Maryland	**27-0467113**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification 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	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	ARI	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	☒	Accelerated filer	☐
Non-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 is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of June 28, 2019, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $2,768,982,061, based on the closing sales price of our common stock on such date as reported on the New York Stock Exchange.

On February 12, 2020, the registrant had a total of 154,040,547 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2020 annual meeting of stockholders scheduled to be held on or about June 2, 2020 are incorporated by reference into Part III of this annual report on Form 10-K.

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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: 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 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 $331.1 billion as of December 31, 2019. 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, 2019, we held a diversified portfolio comprised of approximately $5.3 billion of commercial mortgage loans, and $1.0 billion of subordinate loans and other lending assets. As of December 31, 2019, we had financed this portfolio with $3.1 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 a $497.5 million senior secured term loan. On March 15, 2019, we redeemed the remainder of the 5.50% Senior Notes due 2019 (the "2019 Notes" and together with the 2022 and 2023 Notes, the "Notes"). For more information regarding the redemption of the 2019 Notes, see "Note 9 - Convertible Senior Notes, Net" to the accompanying consolidated financial statements including 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 take advantage of 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. 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.

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, 2019, we had $1.2 billion of borrowings outstanding under our secured debt arrangement with JPMorgan Chase Bank, National Association (the "JPMorgan Facility"), $513.9 million of borrowings outstanding under our secured debt arrangement with Deutsche Bank AG, Cayman Islands Branch and Deutsche Bank AG, London Branch (the "DB Repurchase Facility"), $322.2 million of borrowings outstanding under our secured debt arrangement with Goldman Sachs Bank USA (the "Goldman Facility"), $218.6 million of borrowings outstanding under our secured debt arrangement with Credit Suisse AG (the "CS Facility - USD"), $93.9 million (£70.8 million assuming conversion into U.S. dollars) of borrowings outstanding under our secured debt arrangement with Credit Suisse AG (the "CS Facility - GBP"), $50.6 million of borrowings outstanding under our secured debt arrangement with HSBC Bank plc (the "HSBC Facility - USD"), $34.6 million (£26.1 million assuming conversion into U.S. dollars) of borrowings outstanding under our secured debt arrangement with HSBC Bank plc (the "HSBC Facility - GBP"), $154.0 million (€137.4 million assuming conversion into U.S. dollars) of borrowings outstanding under our secured debt arrangement with HSBC Bank plc (the "HSBC Facility - EUR"), and $472.9 million (£219.0 million and €162.8 million assuming conversion into U.S. dollars) of borrowings outstanding under our secured debt arrangement with Barclays Bank plc (the "Barclays Facility"). In addition, we had $497.5 million of borrowings outstanding under our senior secured term loan as of December 31, 2019. 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, 2019.

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

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.

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.

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

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.

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. 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 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.

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. Further, the officers and other personnel of the Manager may be called upon to provide managerial assistance to other Apollo vehicles. 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.

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 Manager's failure to make investments on favorable terms that satisfy our investment strategy and otherwise generate attractive risk-adjusted returns would materially and adversely affect us.

Our ability to achieve our investment objectives depends on our ability to grow, which depends, in turn, on the management team of the Manager and its ability to identify and to make investments on favorable terms that meet our investment criteria as well as on our access to financing on acceptable terms. Our ability to grow is also dependent upon the Manager's ability to successfully hire, train, supervise and manage new personnel. We may not be able to manage growth effectively or to achieve growth at all. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

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.

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 ability of the Manager and its officers and employees to engage in other business activities may reduce the time the Manager spends managing 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.

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, 2020 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, which could result in returns that are substantially below expectations or that result in losses, which would materially and adversely affect our business operations and results. In addition, our Manager is not subject to any limits or proportions with respect to the mix of target investments that we originate or acquire other than as necessary to maintain our qualification as a REIT and our exemption from registration under the 1940 Act. Decisions made and transactions entered into by the Manager may not fully reflect stockholders' best interests.

The Manager may change its investment process, or elect not to follow it, without stockholder consent at any time which may adversely affect our investments.

The Manager may change its investment process without stockholder consent at any time. In addition, there can be no assurance that the Manager will follow the investment process in relation to the identification and underwriting of prospective transactions. Changes in the Manager's investment process may result in inferior due diligence and underwriting standards, which may affect our results of operations.

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 or that we will continue to have access to the Manager’s or Apollo’s executive officers and other investment professionals. The current term of the Management Agreement with the Manager expires on September 29, 2020, with automatic one-year renewals thereafter absent termination by us or the Manager pursuant to the Management Agreement. If the Management Agreement is terminated and no suitable replacement is found to manage it, we may not be able to continue to execute our business plan.

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.

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.

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 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.

Our ability to generate returns for our stockholders through our investment, finance and operating strategies is subject to then existing market conditions, and we may make significant changes to these strategies in response to changing market conditions, which could adversely impact our profitability and risk profile.

Our principal business objective is to invest in 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. We intend to achieve this objective by originating, investing in, acquiring, financing and managing a diversified portfolio of our target assets. In the future, we may, depending on prevailing market conditions, change our investment guidelines 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 such changes at any time with the approval of our board of directors but without the consent of our stockholders. Any future changes in our investment policies could adversely impact our profitability and risk profile.

We depend on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends.

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 in our securities trading activities and operations, which could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to stockholders.

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 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. While the outcome is uncertain, the current administration has sought to deregulate the U.S. financial industry, including by altering provisions of the Dodd-Frank Act.

In February 2017, President Trump signed an executive order for a broad review of federal regulation of the U.S. financial system by the Secretary of the Treasury, in consultation with the heads of the member agencies of the Financial Stability Oversight Council, a panel comprising top U.S. financial regulators. In May 2018, Congress passed, and President Trump signed, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRRCPA"), which among other things, modifies 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. The EGRRCPA will relax or eliminate so-called "enhanced regulation" of banks falling into certain ranges of asset value and will impact the application of the Volcker Rule and the Basel III guidelines as to certain banks. Specifically, the EGRRCPA relaxes (or eliminates) certain risk-based capital and leverage requirements for community banks with less than $10 billion in assets that maintain a certain "community bank leverage ratio" that bank regulators are directed to develop, but the impact and effect of the foregoing on market liquidity is uncertain.

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. Measures focused on deregulation of the U.S. financial services industry may, among other things, decrease the restrictions on banks and other financial institutions and allow them to compete with us for investment opportunities that were previously not available to them. Measures focused on deregulation of the U.S. financial services industry may have the effect of increasing competition for our business. Increased competition from banks and other financial institutions in the credit markets could have the effect of reducing credit spreads, which may adversely affect our revenues. We cannot predict the ultimate content, timing, or effect of changes that may result from such review, nor is it possible at this time to estimate the impact of any potential resulting legislation 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.

Uncertainty related to the stability of U.S. fiscal and budgetary policy and financial volatility and geopolitical instability outside of the United States may materially adversely affect our business, liquidity, financial condition and results of operations.

Financial markets have been and continue to be affected by concerns over uncertainty related to the stability of U.S. fiscal and budgetary policy. This uncertainty, as well as issues from time to time relating to sovereign debt conditions in Europe and lower economic growth forecasts in emerging markets, continue to contribute to the possibility of additional economic slowdowns and/or credit rating downgrades. The impact of U.S. fiscal uncertainty, or any further downgrades to the U.S. government's sovereign credit rating, or its perceived creditworthiness, or the impact of the crisis in Europe with respect to the ability of certain countries to continue to service their sovereign debt obligations or the impact of reduced growth forecasts for emerging markets, is inherently unpredictable and could adversely affect U.S. and global financial markets and economic conditions. In addition, any further acceleration of these conditions may have an adverse impact on fixed income markets, which in turn could cause our net income to decline or have a material adverse effect on our financial condition.

If the European economic situation were to worsen, or expand to other countries within Europe, we may be subject to enhanced risk of counterparty failure as well as related problems arising from a lack of liquidity in our markets. There can be no assurance that governmental or other measures to aid economic recovery will be effective.

These developments and the government's credit concerns in general could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. Continued adverse economic conditions may negatively impact the value of the assets in our portfolio, our net income, liquidity and our ability to finance our assets on favorable terms.

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 is expected to continue through December 31, 2020. During this transitional period, the United Kingdom retains access to the E.U. single market and customs union and the United Kingdom and European Union are expected to attempt to negotiate various aspects of their future relationship following the transitional period, including a free trade deal.

The long-term effects of Brexit will depend on the agreements or arrangements between the United Kingdom and the European Union, and the extent to which the United Kingdom retains access to E.U. markets both during and after the transitional period. 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 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, 2019, we had $1.3 billion, or 20.0%, of our portfolio (by carrying value) invested in the United Kingdom.

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. We are subject to the "business combination" provisions of the MGCL that, subject to limitations, prohibit certain business combinations (including a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities) 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. After the five-year prohibition, any business combination between us and an interested stockholder generally must be recommended by our board of directors and approved by the affirmative vote of at least (1) 80% of the votes entitled to be cast by holders of outstanding shares of our voting stock and (2) two-thirds of the votes entitled to be cast by holders of our voting stock other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder. These super-majority vote requirements do not apply if our common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by a board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has by resolution exempted 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. As a result, any person described above may be able to enter into business combinations with us that may not be in the best interests of our stockholders, without compliance by us with the supermajority vote requirements and other provisions of the statute. There can be no assurance that our board of directors will not amend or revoke this exemption in the future.

The "control share" provisions of the MGCL 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. 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 this provision will not be amended or eliminated at any time in the future.

The "unsolicited takeover" provisions of the MGCL 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. Our charter contains a provision whereby we have elected to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our board of directors. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide the holders of shares of common stock with the opportunity to realize a premium over the then current market price.

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. Under Maryland law, our present and former directors and officers do not have any liability to us and our stockholders for money damages other than liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer that was established by a final judgment and was material to the cause of action adjudicated.

Our charter authorizes us to indemnify our directors and officers for actions taken by them in those and other capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each present and former director or officer, to the maximum extent permitted by Maryland law, 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. We have entered into indemnification agreements with each of our directors and officers pursuant to which we may be obligated to pay or reimburse the defense costs incurred by our present and former directors and officers without requiring a preliminary determination of their ultimate entitlement to indemnification.

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

Our access to private 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 private lenders and could cause one or more private 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 private 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, 2019, we had secured debt arrangements in place, with an aggregate borrowing capacity of approximately $4.3 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.

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.

Accounting rules for certain of our transactions are highly complex and involve significant judgment and assumptions. Changes in accounting interpretations or assumptions could impact our consolidated financial statements.

Accounting rules for transfers of financial assets, securitization transactions, consolidation of variable interest entities and other aspects of our operations are highly complex and involve significant judgment and assumptions. These complexities could lead to a delay in preparation of financial information and the delivery of this information to our stockholders. Changes in accounting interpretations or assumptions could impact our consolidated financial statements and our ability to timely prepare our consolidated financial statements. Our inability to timely prepare our consolidated financial statements in the future would likely adversely affect our stock price significantly.

Hedging against currency and interest rate exposure may adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.

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. Our hedging activity varies in scope based on the level and volatility of currency and interest rates, the type of assets held and other changing market conditions. In addition, we may fail to recalculate, readjust and execute hedges in an efficient manner.

Any hedging activity in which we engage may materially and adversely affect our results of operations and cash flows. Therefore, 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.

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.

Liability relating to environmental matters may impact the value of properties that we may acquire or the properties underlying our investments.

Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances.

The presence of hazardous substances may adversely affect an owner's ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of a property underlying one of our debt investments becomes liable for removal costs, the ability of the owner to make payments to us may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by us and on our ability to make distributions to our stockholders.

If we own any properties, mortgage or other real estate-related loans upon a default of the presence of hazardous substances on a property may adversely affect our ability to sell the property and we may incur substantial remediation costs, thus harming our financial condition. The discovery of material environmental liabilities attached to such properties could have a material adverse effect on our results of operations and financial condition and our ability to make distributions to our stockholders.

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.

Uncertainty regarding the London interbank offered rate ("LIBOR") may adversely impact our borrowings and assets.

In July 2017, the U.K. Financial Conduct Authority announced that it would cease to compel banks to participate in setting LIBOR as a benchmark by the end of 2021 (the "LIBOR Transition Date"). It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. The Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions convened by the U.S. Federal Reserve, has recommended the Secured Overnight Financing Rate (“SOFR”) as a more robust reference rate alternative to U.S. dollar LIBOR. 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 LIBOR and is less likely to correlate with the funding costs of financial institutions. Whether or not SOFR attains market traction as a LIBOR replacement tool remains in question. As such, the future of LIBOR at this time is uncertain. While we expect LIBOR to be available in substantially its current form until the end of 2021, if sufficient banks decline to make submissions to the LIBOR administrator, it is possible that LIBOR will become unavailable prior to that point. Should that occur, the risks associated with the transition to an alternative reference rate will be accelerated and magnified. 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 LIBOR. Before the LIBOR Transition Date, we may need to amend the debt and loan agreements that utilize LIBOR as a factor in determining the interest rate based on a new standard that is established, if any. However, these efforts may not be successful in mitigating the legal and financial risk from changing the reference rate in our legacy agreements. 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 an alternative 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.

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 ("Loan Specific Reserve"). Our provision for Loan Specific Reserves are evaluated on a quarterly basis. The determination of our provision for Loan Specific Reserves 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 will now record a general reserve in accordance with the CECL Standard on the remainder of the loan portfolio ("General CECL Reserve"). The CECL Standard is effective for fiscal years beginning after December 15, 2019 and is to be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective; as such, we will adopt CECL 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 (for example, recent changes related to tax deductions applicable to condominiums), acts of God, terrorism, social unrest and civil disturbances.

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.

We may own real estate directly in the future upon a default of mortgage or other real estate-related loans. 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;
- 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 liabilities associated with environmental conditions such as indoor mold; 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, 2019, $1.9 billion, or 30%, 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 U.S. dollars 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.

Limitations on deductibility of property taxes and mortgage interest paid related to residential properties may adversely affect the value of collateral securing certain loans in our portfolio.

Effective January 1, 2018, pursuant to H.R. 1, also known as the Tax Cuts and Jobs Act of 2017 ("TCJA"), the deductibility of property taxes and mortgage interest has become limited. This change may make home ownership less appealing for individuals, which may impact the velocity, value and our borrower's ability to sell residential properties that secure our loan portfolio. As of December 31, 2019, $1.0 billion or 16.0% of our portfolio was secured by residential-for-sale properties, comprised of $321.7 million and $692.8 million of inventory and construction, respectively.

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. We have not requested and do not intend to request a ruling from the Internal Revenue Service (the "IRS") that we qualify as a REIT. 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. Furthermore, if we fail to maintain our qualification as a REIT, we no longer would be required to distribute substantially all of our taxable income to stockholders. In addition, 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 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. As a result, 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. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

REIT distribution requirements could adversely affect our ability to execute our business plan and may require us to incur debt or sell assets to make such distributions.

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 addition, our taxable income may substantially exceed our net income as determined by GAAP or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, 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 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, with the effect that we will recognize income but will not have a corresponding amount of cash available for distribution to our stockholders.

As a result of the foregoing, we may generate less cash flow than taxable income in a particular year and find it difficult or impossible to meet the REIT distribution requirements in certain circumstances. In such circumstances, 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, which could adversely affect the value of our common stock.

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, and ACREFI II TRS, Ltd. ("ACREFI II TRS"), a Cayman company that is indirectly wholly owned by us, to treat each of ACREFI TRS, ARM TRS and ACREFI II TRS as a TRS of ours. ACREFI TRS, ARM TRS and any other domestic TRSs we own will be subject to U.S. federal, state and local corporate 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, 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. ACREFI II TRS intends 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 ACREFI II 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 will successfully operate in this manner. If ACREFI II 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.

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 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 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. 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, 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. 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, who 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 but have not yet filed their appellate brief. We believe the claims are without merit and plan to vigorously defend the case on appeal. We do not believe this will have a material adverse effect on our consolidated financial statements.

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 12, 2020, the last sales price for our common stock on the New York Stock Exchange was $18.47 per share.

Holders

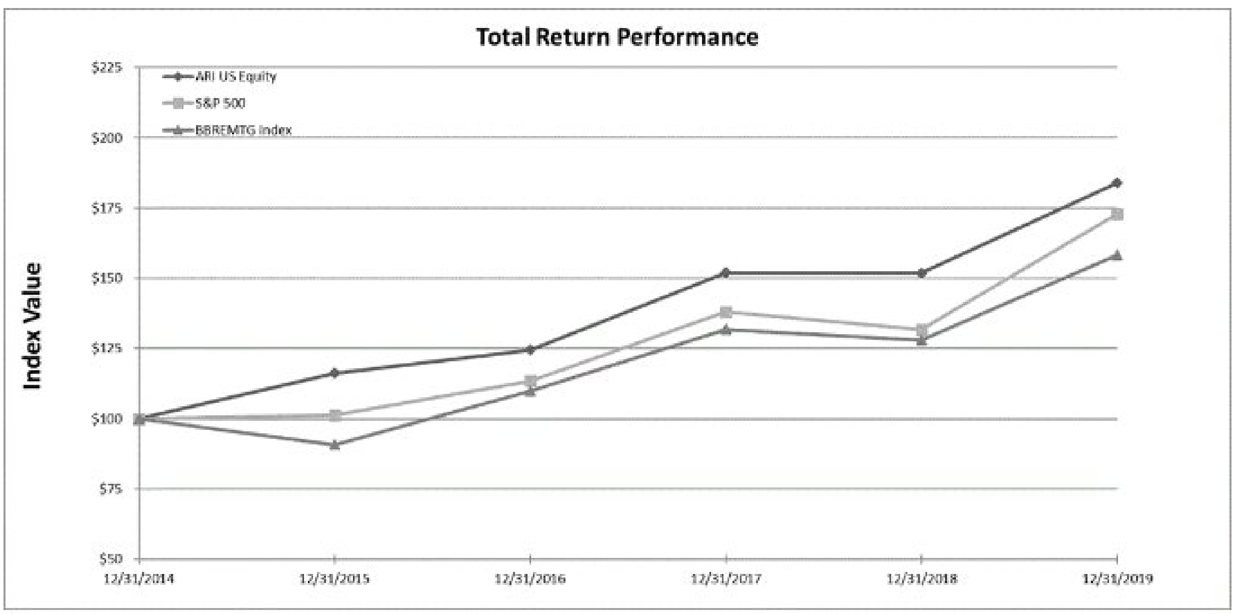
As of February 12, 2020, we had 484 registered holders of our common stock. The 484 holders of record include Cede & Co., which holds shares as nominee for The Depository Trust Company, which itself holds shares on behalf of the beneficial owners of our common stock. Such information was obtained through 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, 2014 to December 31, 2019. The graph assumes that $100 was invested on December 31, 2014 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					
	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
Apollo Commercial Real Estate Finance, Inc.	100.00	116.20	124.49	151.98	151.87	183.97
S&P 500	100.00	101.25	113.40	138.01	131.72	172.85
BBREMTG Index	100.00	90.74	109.97	131.86	128.03	158.27

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 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. As of December 31, 2019, 84.7%, or 5,930,798 shares, remained available for future issuance under the 2019 LTIP. (For further discussion of the 2019 Plan, see "Note 13- 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, 2019:

Plan Category	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	—	$ —	5,930,798
Equity compensation plans not approved by stockholders	—	—	—
Total	—	$ —	5,930,798

Recent Sales of Unregistered Securities

None.

Recent Purchases of Equity Securities

We did not repurchase any of our equity securities from January 1, 2019 to December 31, 2019.

Item 6. Selected Financial Data.

The selected financial data set forth below as of, and for the years ended, December 31, 2019, 2018, 2017, 2016 and 2015, 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."

	For the Year Ended December 31,				
	2019	2018	2017	2016	2015
Operating Data:					
Interest income	$ 487,408	$ 403,889	$ 338,521	$ 264,376	$ 192,164
Interest expense	(152,926)	(114,597)	(78,057)	(63,759)	(48,861)
Net interest income	334,482	289,292	260,464	200,617	143,303
Operating expenses	(64,831)	(56,894)	(52,377)	(48,371)	(26,111)
Income (loss) from unconsolidated joint venture	—	—	(2,847)	(96)	3,464
Other income	2,113	1,438	940	1,094	1,239
Provision for loan losses and impairments, net of reversals	(20,000)	(20,000)	(5,000)	(15,000)	—
Realized gain (loss) on investments	(12,513)	—	(42,693)	3,834	(443)
Unrealized gain (loss) on securities	—	—	37,165	(26,099)	(17,408)
Foreign currency gain (loss)	19,818	(30,335)	18,506	(29,284)	(4,894)
Bargain purchase gain	—	—	—	40,021	—
Loss on early extinguishment of debt	—	(2,573)	(1,947)	—	—
Gain (loss) on foreign currency forwards	(14,425)	39,058	(19,180)	31,160	4,106
Unrealized loss on interest rate swap	(14,470)	—	—	—	—
Net income	230,174	219,986	193,031	157,876	103,256
Preferred dividends	(18,525)	(27,340)	(36,761)	(30,295)	(11,884)
Net income available to common stockholders	211,649	192,646	156,270	127,581	91,372
Net income per share of common stock:					
Basic	$ 1.41	$ 1.52	$ 1.54	$ 1.74	$ 1.54
Diluted	$ 1.40	$ 1.48	$ 1.54	$ 1.74	$ 1.54
Dividends declared per share of common stock	$ 1.84	$ 1.84	$ 1.84	$ 1.84	$ 1.78
Balance Sheet Data (at period end):					
Total assets	$ 6,888,363	$ 5,095,819	$ 4,088,605	$ 3,482,977	$ 2,712,590
Total liabilities	4,258,388	2,586,072	2,000,462	1,550,750	1,337,166
Total stockholders' equity	2,629,975	2,509,747	2,088,143	1,932,227	1,375,424

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 $331.1 billion as of December 31, 2019.

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-U.S. dollar denominated assets and liabilities are translated to U.S. dollars at the exchange rate prevailing at the reporting date and income, expenses, gains, and losses are translated at the prevailing exchange rate on the dates that they were recorded.

Loan Portfolio Overview

The following table sets forth certain information regarding our commercial real estate debt portfolio as of December 31, 2019 ($ in thousands):

Description	Amortized Cost	Weighted- Average Coupon (1)	Weighted- Average All-in Yield (1)(2)	Secured Debt (3)	Cost of Funds	Equity at cost(4)
Commercial mortgage loans, net	$ 5,326,967	5.3%	6.0%	$ 3,095,556	3.3%	$ 2,231,411
Subordinate loans and other lending assets, net	1,048,126	12.8%	14.1%	—	—	1,048,126
Total/Weighted-Average	$ 6,375,093	6.5%	7.4%	$ 3,095,556	3.3%	$ 3,279,537

(1) Weighted-Average Coupon and Weighted-Average All-in Yield are based on the applicable benchmark rates as of December 31, 2019 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. Yield excludes the benefit of forward points on currency hedges related to loans denominated in currencies other than USD.
(3) Gross of deferred financing costs of $17.2 million.
(4) Represents loan portfolio at amortized cost less secured debt outstanding.

The following table provides details of our commercial mortgage portfolio and subordinate loan and other lending assets portfolio, on a loan-by-loan basis, as of December 31, 2019 ($ in millions):

Commercial Mortgage Loan Portfolio

Property Type	Risk Rating	Origination Date	Amortized Cost	Unfunded Commitment	Construction Loan (4)	Fully-extended Maturity	Location
Urban Retail	3	12/2019	$328	$—		12/2023	London, UK
Urban Retail	3	08/2019	316	—		09/2024	Manhattan, NY
Hotel	3	10/2019	242	54		08/2024	Various
Healthcare	3	10/2019	227	30		10/2024	Various
Industrial	3	01/2019	196	7		02/2024	Brooklyn, NY
Office	3	06/2019	191	31		11/2026	Berlin, Germany
Office	3	10/2018	189	11		10/2021	Manhattan, NY
Office	3	09/2019	183	—		09/2023	London, UK

Urban Predevelopment	4	01/2016	183	—		09/2021	Miami, FL
Office	3	11/2017	161	—		01/2023	Chicago, IL
Urban Predevelopment	3	03/2017	154	11		12/2020	Brooklyn, NY
Hotel	3	04/2018	151	2		04/2023	Honolulu, HI
Hotel [1]	3	09/2015	140	—		06/2023	Manhattan, NY
Hotel	3	05/2018	139	—		06/2023	Miami, FL
Hotel	3	08/2019	133	—		08/2024	Puglia, Italy
Residential-for-sale: inventory	2	03/2018	130	—		03/2021	London, UK
Office	3	01/2018	127	62		01/2022	Renton, WA
Retail center [3]	5	11/2014	125	—		09/2020	Cincinnati, OH
Office	3	10/2018	112	74	Y	10/2023	Manhattan, NY
Residential-for-sale: construction	3	12/2019	107	42	Y	01/2023	Boston, MA
Hotel	3	03/2017	105	—		03/2022	Atlanta, GA
Hotel	3	11/2018	99	—		12/2023	Vail, CO
Hotel	3	12/2017	89	—		12/2022	Manhattan, NY
Hotel	3	07/2018	87	—		08/2021	Detroit, MI
Office	3	03/2018	84	7		04/2023	Chicago, IL
Residential-for-sale: inventory	3	12/2019	82	—		07/2021	Manhattan, NY
Office	3	12/2017	79	48		07/2022	London, UK
Mixed Use	3	12/2019	76	2		12/2024	London, UK
Mixed Use	3	12/2019	73	896	Y	06/2025	London, UK
Urban Predevelopment	3	12/2016	73	—		06/2020	Los Angeles, CA
Residential-for-sale: construction	3	12/2018	70	107	Y	12/2023	Manhattan, NY
Multifamily	3	04/2014	70	—		07/2023	Various
Hotel	3	08/2019	67	—		09/2022	Manhattan, NY
Office	3	04/2019	65	95	Y	09/2025	Culver City, CA
Hotel	3	04/2018	63	—		05/2023	Scottsdale, AZ
Hotel	3	09/2019	60	—		10/2024	Miami, FL
Hotel	3	12/2019	59	—		01/2025	Tucson, AZ
Multifamily	3	11/2014	54	—		11/2021	Various
Residential-for-sale: construction	3	01/2018	53	27	Y	01/2023	Manhattan, NY
Hotel	3	05/2019	52	—		06/2024	Chicago, IL
Multifamily	2	06/2018	50	—		06/2020	London, UK
Hotel	3	12/2015	42	—		08/2024	St. Thomas, USVI
Hotel	3	02/2018	38	—		03/2023	Pittsburgh, PA
Residential-for-sale: inventory	2	06/2018	38	—		06/2020	Manhattan, NY
Office	3	04/2019	31	45	Y	08/2022	Birmingham, UK
Office	3	12/2019	31	6		12/2022	Edinburgh, Scotland
Office	3	08/2018	27	175	Y	12/2022	London, UK
Residential-for-sale: construction	3	12/2018	27	75	Y	01/2024	Hallandale Beach, FL
Residential-for-sale: inventory	2	05/2018	24	—		04/2021	Manhattan, NY
Residential-for-sale: construction	3	03/2018	13	101	Y	03/2023	San Francisco, CA
Residential-for-sale: inventory [3]	5	02/2014	12	—		04/2020	Bethesda, MD
Sub-total / Weighted-Average Commercial Mortgage Loans	**3.0**		**$5,327**	**$1,908**	**11%**	**3.4 Years**	

Subordinate Loan and Other Lending Assets Portfolio

Property Type	Risk Rating	Origination Date	Amortized Cost	Unfunded Commitment	Construction Loan (4)	Fully-extended Maturity	Location
Residential-for-sale: construction (2)	3	06/2015	$210	$—	Y	02/2021	Manhattan, NY
Office	3	01/2019	99	—		12/2025	Manhattan, NY
Residential-for-sale: construction	3	12/2017	97	17	Y	06/2022	Manhattan, NY
Healthcare	3	01/2019	93	—		01/2024	Various
Multifamily	3	10/2015	68	—		03/2020	Manhattan, NY
Residential-for-sale: construction	3	12/2017	66	—	Y	04/2023	Los Angeles, CA
Healthcare	3	07/2019	51	—		06/2024	Various
Residential-for-sale: construction (2)	3	11/2017	51	—	Y	02/2021	Manhattan, NY
Mixed Use	3	01/2017	42	—		02/2027	Cleveland, OH
Mixed Use	3	02/2019	39	—	Y	12/2022	London, UK
Residential-for-sale: inventory	2	10/2016	36	—		10/2020	Manhattan, NY
Industrial	2	05/2013	32	—		05/2023	Various
Hotel	2	06/2015	24	—		07/2025	Phoenix, AZ
Mixed Use	3	12/2018	24	28	Y	12/2023	Brooklyn, NY
Hotel	3	06/2015	20	—		12/2022	Washington, DC
Hotel	3	06/2018	20	—		06/2023	Las Vegas, NV
Hotel (1)	3	09/2015	20	—		06/2023	Manhattan, NY
Multifamily	3	05/2018	19	—		05/2028	Cleveland, OH
Office	2	07/2013	14	—		07/2022	Manhattan, NY
Hotel	3	05/2017	8	—		06/2027	Anaheim, CA
Office	3	08/2017	8	—		09/2024	Troy, MI
Mixed Use	3	07/2012	7	—		08/2022	Chapel Hill, NC
Sub-total / Weighted-Average Subordinate Loans and Other Lending Assets	**2.9**		**$1,048**	**$45**	**46%**	**3.1 Years**	
Total / Weighted-Average Loan Portfolio	**3.0**		**$6,375**	**$1,953**	**17%**	**3.3 Years**	

(1) Both loans are secured by the same property.
(2) Both loans are secured by the same property.
(3) Amortized cost for these loans is net of the recorded provisions for loan losses and impairments.
(4) Weighted-average construction loan % is based on the amortized cost of the loans.

The following table shows information on realized and unrealized loan specific losses as of December 31, 2019:

Property Type	Security	Location	Date of Origination	First Date of Loss	Maximum Principal Funded	Amortized Cost	Loss	Type
Retail Center	Mortgage	Cincinnati, OH	11/2014	12/2018	$171,215	$124,609	$47,000	Unrealized
Residential-for-sale: inventory	Mortgage	Bethesda, MD	2/2014	6/2017	80,000	11,695	13,000	Unrealized
Multifamily	Mortgage	Williston, ND	11/2014	6/2016	58,000	—	12,513	Realized
Total					$309,215	$136,304	$72,513	

Our average asset and debt balances for the year ended December 31, 2019 were ($ in thousands):

	Average month-end balances for the year ended December 31, 2019	
Description	Assets	Related debt
Commercial mortgage loans, net	$ 4,489,189	$ 2,326,062
Subordinate loans and other lending assets, net	1,234,910	—

Investment Activity

During the year ended December 31, 2019, we committed $4.2 billion of capital to loans ($3.0 billion of which was funded during the year ended December 31, 2019). In addition, during the year ended December 31, 2019, we funded $416.1 million for loans closed prior to 2019, and received $2.0 billion in repayments.

Net Income Available to Common Stockholders

For the years ended December 31, 2019 and 2018, our net income available to common stockholders was $211.6 million, or $1.40 per diluted share of common stock and $192.6 million, or $1.48 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,		2019 vs. 2018
	2019	2018	$
Net interest income:			
Interest income from commercial mortgage loans	$ 322,475	$ 263,709	$ 58,766
Interest income from subordinate loans and other lending assets	164,933	140,180	24,753
Interest expense	(152,926)	(114,597)	(38,329)
Net interest income	334,482	289,292	45,190
Operating expenses:			
General and administrative expenses	(24,097)	(20,470)	(3,627)
Management fees to related party	(40,734)	(36,424)	(4,310)
Total operating expenses	(64,831)	(56,894)	(7,937)
Other income	2,113	1,438	675
Provision for loan losses and impairments, net of reversals	(20,000)	(20,000)	—
Realized loss on investments	(12,513)	—	(12,513)
Foreign currency gain (loss)	19,818	(30,335)	50,153
Loss on early extinguishment of debt	—	(2,573)	2,573
Gain (loss) on foreign currency forwards	(14,425)	39,058	(53,483)
Unrealized loss on interest rate swap	(14,470)	—	(14,470)
Net income	$ 230,174	$ 219,986	$ 10,188

For a comparison and discussion of our results of operations and other operating and financial data for the fiscal years ended December 31, 2018 and December 31, 2017, 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, 2018, filed with the SEC on February 13, 2019.

Net Interest Income

Net interest income increased by $45.2 million during the year ended December 31, 2019 as compared to the same period in 2018. The increase was primarily due to (i) a net increase in the principal balance of our loan portfolio by $1.5 billion and (ii) a 0.14% increase in average one-month LIBOR for the year ended December 31, 2019 as compared to December 31, 2018. This was partially offset by (i) an increase in interest expense due to an increase in our net debt balance of $1.7 billion as of December 31, 2019 compared to December 31, 2018, and (ii) the increase in average one-month LIBOR discussed above.

For the years ended December 31, 2019 and 2018 we recognized pre-payment penalties and accelerated fees of $6.1 million and $2.3 million, respectively.

Operating Expenses

General and administrative expenses

General and administrative expenses increased by $3.6 million for the year ended December 31, 2019 compared to the same period in 2018. The increase was primarily driven by a $2.3 million increase in non-cash restricted stock and RSU amortization related to shares of common stock awarded under LTIPs, $0.8 million in broken deal related costs incurred, and $0.5 million increase in general operating expenses.

Management fees to related party

Management fee expense increased by $4.3 million during the year ended December 31, 2019, as compared to the same period in 2018. The increase is primarily attributable to an increase in our stockholders' equity (as defined in the Management Agreement) as a result of us completing follow-on public offerings of 17,250,000 shares of our common stock during the second quarter of 2019. Additionally, we issued 1,967,361 shares of our common stock during 2019 related to exchanges and conversions of the 2019 Notes.

Management fees and the relationship between us and the Manager under the Management Agreement are discussed further in the accompanying consolidated financial statements, in "Note 12 - Related Party Transactions."

Provision for loan losses and impairments, net of reversals

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. This was offset by a previously recorded $15.0 million loan loss provision that was reversed during the year.

During the year ended December 31, 2018, we recorded $20.0 million for provision for loan losses and impairments, comprised of a (i) $15.0 million and (ii) $5.0 million loan loss provision against the same loans as in 2019, respectively. Refer to "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net" for further details.

Realized loss on investments

During the second quarter of 2019, the underlying collateral on a first mortgage loan and contiguous subordinate loan secured by a multifamily property located in Williston, ND was sold resulting in a realized loss of $12.5 million. Refer to "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net" for further details.

Derivative instruments and foreign currency gain and (loss)

We use forward currency contracts to economically hedge interest and principal payments due under our loans denominated in currencies other than U.S. dollars. We also use an interest rate swap to manage exposure to variable cash flows on our borrowings under our senior secured term loan. Our interest rate swap allows us to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure. When foreign currency gain and (loss) on derivative instruments are evaluated on a combined basis, the net impact for the years ended December 31, 2019 and 2018 were $5.4 million and $8.7 million, respectively.

Unrealized loss on interest rate swap

We use an interest rate swap to manage exposure to variable cash flows on our senior secured term loan. The interest rate swap agreement allows us to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure. For the year ended December 31, 2019, we had an unrealized loss on the interest rate swap of $14.5 million. We did not have the interest rate swap at any point during the year ended December 31, 2018.

Dividends

For the years ended December 31, 2019 and 2018, we declared the following dividends:

Dividends declared per share of:	2019	2018
Common Stock [(1)]	$1.84	$1.84
Series B Preferred Stock	2.00	2.00
Series C Preferred Stock [(2)]	0.72	2.00

(1) As our aggregate 2019 distributions exceeded our earnings and profits, $0.46 of the January 2020 distribution declared in the fourth quarter of 2019 are payable to common stockholders of record as of December 31, 2019 will be treated as a 2020 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 19 - Subsequent Events" to the accompanying consolidated financial statements for disclosure regarding significant transactions that occurred subsequent to December 31, 2019.

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. The commercial real estate lending market has recovered from the downturn experienced as part of the correction in the global financial markets which began in mid-2007. Property values in many markets and across multiple property types have recovered and the lending market is functioning with both established and new entrants. Based on the current market dynamics, including significant upcoming commercial real estate debt maturities, there remains a compelling opportunity for us to invest capital in our target assets at attractive risk adjusted returns. We will continue to focus on underlying real estate value, and transactions that benefit from our ability to execute complex and sophisticated transactions.

During and immediately following the financial crisis, due to the prevalence of lenders granting extensions across the commercial mortgage loan industry, the demand for new capital to refinance maturing commercial mortgage debt was somewhat tempered. This trend has largely abated as many borrowers refinance legacy loans and pursue new acquisitions.

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.

Provisions for Loan Losses and 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 impairment 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 evaluate our loans for possible impairment on a quarterly basis. We regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations 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 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 loan loss 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. An allowance for loan loss is established when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan.

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 table allocates the carrying value of our loan portfolio based on our internal risk ratings:

Risk Rating	December 31, 2019			December 31, 2018		
	Number of Loans	Carrying Value	% of Loan Portfolio	Number of Loans	Carrying Value	% of Loan Portfolio
1	—	$ —	—%	—	$ —	—%
2	8	348,324	5%	3	138,040	3%
3	61	5,707,555	90%	63	4,573,930	93%
4	1	182,910	3%	—	—	—%
5	2	136,304	2%	3	215,623	4%
	72	$ 6,375,093	100%	69	$ 4,927,593	100%

We evaluate modifications to our loan portfolio to determine if the modifications constitute a troubled debt restructuring ("TDR") and/or substantial modification, under ASC 310, "Receivables." During the second quarter of 2018, we determined that a modification of one commercial mortgage loan, secured by a retail center in Cincinnati, OH, with a principal balance of $171.2 million constituted a TDR as the interest rate spread was reduced from 5.5% over LIBOR to 3.0% over LIBOR. The entity in which we own an interest and which owns the underlying property was deemed to be a variable interest entity ("VIE") and it was determined that we are not the primary beneficiary of that VIE. During the fourth quarter of 2018, we recorded a loan loss provision of $15.0 million and due to factors including continued weakness in the retail sector, we recorded an additional $32.0 million loan loss provision during the third quarter of 2019, bringing the total provision for loan loss to $47.0 million. The carrying value, as a result of the provision, of the loan was $124.6 million and $156.1 million as of December 31, 2019 and 2018, respectively. The loan loss provision was based on the difference between fair value of the underlying collateral, and the carrying value of the loan (prior to the loan loss provision). Fair value of the collateral was determined using the direct capitalization method. The significant unobservable input used in determining the collateral value was the capitalization rate which was 7.75% and 6.75% as of December 31, 2019 and 2018, respectively. Effective September 30, 2019, we ceased accruing all interest associated with the loan and account for the loan on a cost-recovery basis (all proceeds are applied towards the carrying value of the loan for accounting purposes). During the year ended December 31, 2019, $1.4 million of interest paid was applied towards the carrying value of the loan. As of December 31, 2019 and 2018, this loan was assigned a risk rating of 5.

We recorded a $13.0 million loan loss provision and impairment against a commercial mortgage loan secured by fully-built, for-sale residential condominium units located in Bethesda, MD. Each of the loan loss provisions were due to factors including slower than expected sales pace of the underlying condominium units and were comprised of (i) $3.0 million loan loss recorded during the third quarter of 2019, (ii) $5.0 million loan loss recorded during the second quarter of 2018, and (iii)$2.0 million loan loss provision and $3.0 million of impairment recorded during the second quarter of 2017. The impairment was recorded on an investment previously recorded under other assets on our consolidated balance sheet. After the loan loss provisions and related impairment, the amortized cost balance of the loan was $11.7 million and $27.2 million as of December 31, 2019 and 2018, respectively. The loan loss provision and impairment were based on the difference between fair value of the underlying collateral, and the carrying value of the loan (prior to the loan loss provision and related impairment). Fair value of the collateral was determined using a discounted cash flow analysis. The significant unobservable inputs used in determining the collateral value were sales price per square foot and discount rate which were an average of $573 and $662 per square foot across properties and 10% and 15% as of December 31, 2019 and 2018, respectively. Effective April 1, 2017, we ceased accruing all interest associated with the loan and account for the loan on a cost-recovery basis. As of December 31, 2019 and 2018, this loan was assigned a risk rating of 5.

During 2016, we recorded a loan loss provision of $10.0 million on a commercial mortgage loan and $5.0 million on a contiguous subordinate loan secured by a multifamily property located in Williston, ND. The loan loss provision was based on the difference between fair value of the underlying collateral, and the carrying value of the loan (prior to the loan loss provision). Fair value of the collateral was determined using a discounted cash flow analysis. The significant unobservable inputs used in determining the collateral value were terminal capitalization rate and discount rate which were 11% and 10%, respectively. We ceased accruing interest associated with the loan and only recognized interest income upon receipt of cash. As of December 31, 2018, the amortized cost of the loan, net of the loan loss provision, was $32.4 million and was assigned a risk rating of 5. During the second quarter of 2019, the underlying collateral was sold resulting in a realized loss of $12.5 million. Consequently, the previously recorded $15.0 million loan loss provision was reversed.

As of December 31, 2019 and 2018, the aggregate loan loss provision was $57.0 million and $37.0 million for commercial mortgage loans and subordinate loans and other lending assets, respectively.

Current Expected Credit Losses

In June 2016, the FASB issued ASU 2016-13 and in April 2019, the FASB issued 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. We will continue to record Loan Specific Reserves consistent with our existing accounting policy. In addition, we will now record a General CECL Reserve in accordance with the CECL Standard on the remainder of the loan portfolio. The CECL Standard is effective for fiscal years beginning after December 15, 2019 and is to be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective; as such, we will adopt CECL as of January 1, 2020.

The CECL Standard requires entities to take an expected day one General CECL Reserve on assets held at amortized cost. The standard requires an entity to consider historical loss experience, current conditions, and a reasonable and supportable forecast of the macroeconomic environment. The CECL Standard requires the use of significant judgment to arrive at an estimated credit loss. The FASB has recognized what is known as the weighted average remaining maturity (“WARM”) method as an acceptable approach for computing current expected credit losses. 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 its remaining expected life. The WARM method requires consideration of the timing of expected future fundings of existing commitments and repayments over the 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 Reserve. The annual historical loss rate applied in the WARM method was derived from a commercial mortgage backed securities database with historical losses from 1998 to 2019 provided by a third party, Trepp LLC. We applied various filters to include resolved single asset/single borrower, large loan, and CRE CLO deal types, which we believe are the most analogous to our current portfolio from which to determine an appropriate historical loss rate.

In our business, the General CECL Reserve applies to (i) commercial mortgage loans and other lending assets, and (ii) related unfunded loan commitments. The General CECL Reserve on subordinate loans is calculated by incorporating both the loan balance of the structurally senior third-party lender(s) position(s) and the balance of our subordinate loan. The subordinate loan, by virtue of being the first loss position, is required to absorb losses prior to the senior position(s) being impacted, resulting in a higher percentage reserve attributable to the subordinate loan. The General CECL Reserve on unfunded loan commitments is time-weighted based on our expected commitment to fund such obligations. As of December 31, 2019, the estimated weighted average remaining term of our portfolio was approximately 1.8 years.

In determining the General CECL Reserve, 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.

While the CECL Standard is not applicable to our financial statements for the year ended December 31, 2019, we estimated the expected General CECL Reserve based on our loan portfolio as of December 31, 2019. Using the assumptions and factors discussed above, our estimated General CECL Reserve as of December 31, 2019 would be approximately $31.0 million, which equates to 0.50% of $6.2 billion carrying value of our loan portfolio. This reserve excludes two loans that previously had an aggregate of $60 million of Loan Specific Reserves and carrying value of $136.3 million as of December 31, 2019. Upon adoption, the General CECL Reserve will reduce common stockholders’ equity by approximately $31.0 million (or approximately $0.20 of book value per share of common stock). Subsequent adjustments will be recorded through the consolidated statement of operations.

Our secured debt obligations and senior secured term loan financing have a minimum tangible net worth maintenance covenant. The General CECL Reserve has no impact on these covenants as we are permitted to add back the General CECL Reserve for the computation of tangible net worth as defined in the respective agreements. We do not expect CECL to impact cash flows from operations, our investments or our financing decisions.

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.

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.

We also use an interest rate swap to manage exposure to variable cash flows on our borrowings under our senior secured term loan. Our interest rate swap agreement allows us to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure.

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

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. Our cash is used to purchase or originate target assets, repay principal and interest on borrowings, make distributions to stockholders and fund operations. We closely monitor our liquidity position and we believe we have sufficient current 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, 2019	December 31, 2018
Debt to Equity Ratio [1]	1.4x	0.9x

(1) Represents total debt less cash and loan proceeds held by servicer 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, 2019.

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 British pounds and Euros converted to U.S. dollars 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, plus two one-year extensions available, which are subject to the approval of JPMorgan and certain other conditions. The JPMorgan Facility enables us to elect to receive advances in U.S. Dollars, British pounds, or Euros. Margin calls may occur any time at specified aggregate margin deficit thresholds. We have agreed to provide a limited guarantee of the obligations of our indirect wholly-owned subsidiaries under the JPMorgan Facility.

As of December 31, 2019, we had $1.2 billion (including £38.0 million and €84.0 million assuming conversion into U.S. dollars) of borrowings outstanding under the JPMorgan Facility secured by certain of our commercial mortgage loans.

DB Repurchase Facility

In April 2018, through an indirect wholly-owned subsidiary, we entered into a Second Amended and Restated Master Repurchase Agreement with Deutsche Bank AG, Cayman Islands Branch and Deutsche Bank AG, London Branch, which was upsized in September 2019, and provides for advances of up to $1.25 billion, and enables us to elect to receive advances in U.S. dollars, British pounds, or Euros. The repurchase facility matures in March 2020, plus a one-year extension available at our option, subject to certain conditions. Margin calls may occur any time at specified aggregate margin deficit thresholds. We have agreed to provide a guarantee of the obligations of our indirect wholly-owned subsidiaries under this facility.

As of December 31, 2019, we had $513.9 million of borrowings outstanding under the DB Repurchase 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 was upsized in March 2019 from $300.0 million to $500.0 million and matures in November 2020, plus a one-year extension available at our option, subject to certain conditions. Margin calls may occur any time at specified margin deficit thresholds. We have agreed to provide a limited guarantee of the obligations of our indirect wholly-owned subsidiaries under this facility.

As of December 31, 2019, we had $322.2 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 matures in June 2020 (or, if earlier, six months after Credit Suisse AG notifies us of their intention to terminate). Margin calls may occur any time at specified aggregate margin deficit thresholds. We have agreed to provide a guarantee of the obligations of our indirect wholly-owned subsidiary under this facility.

As of December 31, 2019, we had $218.6 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 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 - GBP matures six months after either party notifies the other party of intention to terminate. Margin calls may occur any time at specified aggregate margin deficit thresholds. We have agreed to provide a guarantee of the obligations of our indirect wholly-owned subsidiary under this facility.

As of December 31, 2019, we had $93.9 million (£70.8 million assuming conversion into U.S. dollars) of borrowings outstanding under the CS Facility - GBP secured by one of our commercial mortgage loans.

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 facility is initially scheduled to mature in October 2020 and unless terminated by either party, automatically extends for further periods prior to maturity. Margin calls may occur any time at specified aggregate margin thresholds. We have agreed to provide a guarantee of the obligations of our indirect wholly-owned subsidiary under this facility.

As of December 31, 2019, we had $50.6 million of borrowings under the HSBC Facility - USD secured by one of our commercial mortgage loans.

HSBC Facility - GBP

In September 2018, 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 facility, which was extended in December 2019, is scheduled to mature in June 2020 and, unless terminated by either party, automatically extends for further periods prior to maturity. Margin calls may occur any time at specified aggregate margin deficit thresholds. We have agreed to provide a guarantee of the obligations of our indirect wholly-owned subsidiary under this facility.

As of December 31, 2019, we had $34.6 million (£26.1 million assuming conversion into U.S. dollars) of borrowings outstanding under the HSBC Facility - GBP secured by one of our commercial mortgage loans.

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 facility matures in January 2021. Margin calls may occur any time at specified aggregate margin deficit thresholds. We have agreed to provide a guarantee of the obligations of our indirect wholly-owned subsidiary under this facility.

As of December 31, 2019, we had $154.0 million (€137.4 million assuming conversion into U.S. dollars) of borrowings outstanding under the HSBC Facility - EUR secured by one of our commercial mortgage loans.

Barclays Facility

Beginning in October 2019, through an indirect wholly-owned subsidiary, we entered into three secured debt arrangements pursuant to a Global Master Repurchase Agreement with Barclays Bank plc, which provide for single asset financing. The financings mature in November 2020, March 2022, and October 2022 with extension options to match the duration of the corresponding mortgage loans, subject to certain conditions. We have agreed to provide a limited guarantee of the obligations of our indirect wholly-owned subsidiary under this facility.

As of December 31, 2019, we had $472.9 million (£219.0 million and €162.8 million assuming conversion into U.S. dollars) of borrowings outstanding under the Barclays Facility secured by three of our commercial mortgage loans.

Secured Debt Arrangements Covenants

Each of the guarantees related to our secured debt arrangements contain the following uniform 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 3:1; and (iii) our liquidity cannot be less than an amount equal to the greater of 5% of total recourse indebtedness or $30.0 million.

Senior Secured Term Loan

In May 2019, we entered into the $500.0 million senior secured term loan. For the year ended December 31, 2019, we repaid $2.5 million of principal related to the senior secured term loan. The outstanding balance as of December 31, 2019 was $497.5 million. 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. 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, Net

In two separate offerings during 2014, we issued an aggregate principal amount of $254.8 million of 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 the 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 the 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 were repaid at maturity on March 15, 2019.

During the years 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 the 2022 Notes, for which we received $337.5 million, after deducting the underwriting discount and offering expenses. At December 31, 2019, the 2022 Notes had a carrying value of $337.8 million and an unamortized discount of $7.2 million.

During the fourth quarter of 2018, we issued an aggregate principal amount of $230.0 million of the 2023 Notes, for which we received $223.7 million, after deducting the underwriting discount and offering expenses. At December 31, 2019, the 2023 Notes had a carrying value of $223.8 million and an unamortized discount of $6.2 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.

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.

Other Potential Sources of Financing

Our primary sources of cash currently consist of cash available, which was $452.3 million as of December 31, 2019, 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 such as credit facilities, or conduct additional public and private debt and equity offerings.

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, 2019, our debt-to-equity ratio was 1.4x and our portfolio was comprised of $5.3 billion of commercial mortgage loans and $1.0 billion of subordinate loans and other lending investments. 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. As several of our subordinate loans repaid in 2019 and several others are expected to repay in 2020, we anticipate our debt-to-equity ratio to will increase as we continue to deploy capital towards commercial mortgage loans. 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 these investment guidelines.

Contractual Obligations and Commitments

Our contractual obligations including expected interest payments as of December 31, 2019 are summarized as follows ($ in thousands):

	Less than 1 year [3]	1 to 3 years [3]	3 to 5 years [3]	More than 5 years [3]	Total
Secured debt arrangements, net [1] [2]	$ 852,488	$ 1,307,733	$ 1,168,384	$ —	$ 3,328,605
Convertible senior notes, net [2]	28,750	396,825	240,302	—	665,877
Senior secured term loan, net [2]	27,622	54,438	80,009	475,306	637,375
Unfunded loan commitments [3]	861,087	872,449	219,351	—	1,952,887
Total	$ 1,769,947	$ 2,631,445	$ 1,708,046	$ 475,306	$ 6,584,744

(1) Assumes underlying assets are financed through the fully extended maturity date of the facility.
(2) Based on the applicable benchmark rates as of December 31, 2019 on the floating rate debt for interest payments due.
(3) Based on 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.

Loan Commitments. As of December 31, 2019, we had $2.0 billion of unfunded loan commitments, comprised of $1.9 billion related to our commercial mortgage loan portfolio, and $45.0 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 currently runs through September 29, 2020. 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 2020, 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 U.S. dollars. 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 U.S. dollars at various dates through December 2024. These forward contracts were executed to economically fix the U.S. dollar amounts of foreign denominated cash flows expected to be received by us related to foreign denominated loan investments. Refer to "Note 11 - Derivatives, Net" to the accompanying consolidated financial statements for details regarding our forward currency contracts.

Unrealized loss on interest rate swap. In connection with the senior secured term loan, we 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%. Refer to "Note 10- Derivatives, Net" to the accompanying consolidated financial statements for details regarding our interest rate swap.

Off-balance Sheet Arrangements

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

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, 2019, 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. On or after September 21, 2020, 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.

On June 10, 2019, we redeemed all 6,900,000 shares 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.

Non-GAAP Financial Measures

Operating Earnings

For the years ended December 31, 2019 and 2018, our Operating Earnings were $268.4 million, or $1.80 per share, and $223.4 million, or $1.78 per share, respectively. Operating Earnings is a non-GAAP financial measure that we define as net income available to common stockholders, computed in accordance with GAAP, adjusted for (i) equity-based compensation expense (a portion of which may become cash-based upon final vesting and settlement of awards should the holder elect net share settlement to satisfy income tax withholding), (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 and impairments. Beginning with the quarter ended December 31, 2018, we modified our definition of Operating Earnings to include the impact from forward points on our foreign currency hedges, which reflect the interest rate differentials between the applicable base rate for our foreign currency investments and USD LIBOR. These forward contracts effectively convert the rate exposure to USD LIBOR, resulting in additional interest income earned in U.S. dollar terms. These amounts may not be included in GAAP net income in the same period as this adjustment. Generally these amounts would be included in prior period GAAP net income as unrealized gains on forward currency contracts. Operating 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.

The weighted-average diluted shares outstanding used for Operating 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 Operating 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 Operating 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 Operating Earnings per weighted-average diluted share is consistent with how we treat other unrealized items in our computation of Operating Earnings per weighted-average diluted share; and (iv) we believe that when evaluating our operating performance, investors and potential investors consider our Operating Earnings relative to our actual distributions, which are based on shares outstanding and not shares that might be issued in the future. The table below summarizes the reconciliation from weighted-average diluted shares under GAAP to the weighted-average diluted shares used for Operating Earnings ($ in thousands, except Price):

Weighted-Averages	For the year ended December 31, 2019 [1]			For the year ended December 31, 2018 [1]		
	Face	Price	Shares	Face	Price	Shares
Weighted-average diluted shares - GAAP			175,794,896			153,821,515
2019 Notes [2]	$ 6,531	$17.17	(380,394)	$ 167,264	$17.31	(9,644,920)
2022 Notes	345,000	$19.91	(17,327,970)	345,000	$19.91	(17,327,970)
2023 Notes [3]	230,000	$20.53	(11,205,301)	230,000	$20.53	(2,701,552)
Unvested RSUs	N/A	N/A	1,836,210	N/A	N/A	1,612,676
Weighted-average diluted shares - Operating Earnings			148,717,441			125,759,749

(1) This reconciliation only applies to the years ended December 31, 2019 and 2018 because in reporting periods prior to 2018, the treasury stock method was used when determining the potential share dilution from the Notes in the computation of earnings per share.
(2) Face and Price represent the weighted-average balances during the period.
(3) The 2023 Notes were issued on October 5, 2018, however the weighted-average of the potentially issuable shares due to conversion are taken over the full year.

Computation of Share Count for Operating Earnings

	For the year ended December 31,	
	2019	2018
Basic weighted-average shares of common stock outstanding	146,881,231	124,147,073
Weighted-average unvested RSUs	1,836,210	1,612,676
Weighted-average diluted shares - Operating Earnings	148,717,441	125,759,749

In order to evaluate the effective yield of the portfolio, we use Operating Earnings to reflect the net investment income of our portfolio as adjusted to include the net interest expense related to our derivative instruments. Operating Earnings allows us to isolate the net interest expense associated with our swaps in order to monitor and project our full cost of borrowings. We also believe that our investors use Operating Earnings, or a comparable supplemental performance measure, to evaluate and compare the performance of our company and our peers and, as such, we believe that the disclosure of Operating Earnings is useful to our investors. In addition, as discussed in "Note 9 - Convertible Senior Notes, Net," we recorded a loss on early extinguishment of debt associated with exchanges and conversions of the 2019 Notes. Forward points effectively convert our foreign rate exposure to USD LIBOR, which we believe is a better reflection of our operating results and we believe the inclusion of the resulting gain or loss in Operating Earnings is useful to our investors. We believe it is useful to our investors to also present Operating Earnings excluding realized loss on investments and loss on early extinguishment of debt to reflect our operating results. Our operating results are primarily comprised of earning interest income on our investments net of borrowing and administrative costs.

A significant limitation associated with Operating 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 Operating Earnings may not be comparable to similarly-titled measures of other companies, who may use different calculations. As a result, Operating Earnings should not be considered as a substitute for our GAAP net income as a measure of our financial performance or any measure of our liquidity under GAAP.

The table below summarizes the reconciliation from net income available to common stockholders to Operating Earnings and Operating Earnings excluding realized loss on investments and loss on early extinguishment of debt ($ in thousands):

	Year ended December 31,	
	2019	2018
Net income available to common stockholders	$ 211,649	$ 192,646
Adjustments:		
Equity-based compensation expense	15,897	13,588
Unrealized loss on interest rate swap	14,470	—
(Gain) loss on foreign currency forwards	14,425	(39,058)
Foreign currency (gain) loss, net	(19,818)	30,335
Realized gains relating to interest income on foreign currency hedges, net[1]	1,904	867
Realized gains relating to forward points on foreign currency hedges, net	6,789	1,068
Amortization of the convertible senior notes related to equity reclassification	3,105	3,958
Provision for loan losses and impairments, net of reversals	20,000	20,000
Total adjustments:	56,772	30,758
Operating Earnings	$ 268,421	$ 223,404
Realized loss on investments	12,513	—
Loss on early extinguishment of debt	—	2,573
Operating Earnings excluding realized loss on investments and loss on early extinguishment of debt	$ 280,934	$ 225,977
Diluted Operating Earnings per Share of Common Stock[2]	$ 1.80	$ 1.78
Diluted Operating Earnings excluding realized loss on investments and loss on early extinguishment of debt[2]	$ 1.89	$ 1.80
Basic weighted-average shares of common stock outstanding	146,881,231	124,147,073
Weighted-average diluted shares - Operating Earnings	148,717,441	125,759,749

(1) In order to conform to the 2019 presentation of the reconciliation from net income available to common stockholders to Operating Earnings, $0.9 million was reclassified from net realized gains relating to interest and forward points on foreign currency hedges, net for the year ended December 31, 2018.

(2) For the computation of diluted Operating Earnings per share of common stock, for the years ended December 31, 2019 and 2018, $32.2 million and $33.5 million, respectively, of interest expense related to the Notes is not deducted from the numerator and the potentially dilutive shares related to the Notes are excluded from the denominator.

Book Value Per Share

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

	December 31, 2019	December 31, 2018
Stockholders' Equity	$ 2,629,975	$ 2,509,747
Series B Preferred Stock (Liquidation Preference)	(169,260)	(169,260)
Series C Preferred Stock (Liquidation Preference)	—	(172,500)
Common Stockholders' Equity	$ 2,460,715	$ 2,167,987
Common Stock	153,537,296	133,853,565
Book value per share	$ 16.03	$ 16.20

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

		Book value per share
Book value per share at December 31, 2018	$	16.20
Vesting and issuance of common stock under the LTIPs		(0.09)
Shares issued related to the conversion of the 2019 Notes		0.01
Other		0.01
Book value per share at March 31, 2019	$	16.13
Common stock offering, net of subsequent dividend		0.20
Reversal of loan losses and impairments		0.02
Gain on foreign currency forwards, net		0.02
Unrealized loss on interest rate swap		(0.08)
Other		0.01
Book value per share at June 30, 2019	$	16.30
Provision for loan losses and impairments		(0.22)
Unrealized loss on interest rate swap		(0.07)
Other		0.01
Book value per share at September 30, 2019	$	16.02
Other		0.01
Book value per share at December 31, 2019	$	16.03

		Book value per share
Book value per share at December 31, 2018	$	16.20
Provision for loan losses and impairments, net of reversal		(0.22)
Unrealized loss on interest rate swap		(0.15)
Vesting and issuance of common stock under the LTIPs		(0.09)
Common stock offering, net of subsequent dividend		0.20
Other		0.04
Gain on foreign currency forwards, net		0.02
Reversal of loan losses and impairments		0.02
Shares issued related to the conversion of the 2019 Notes		0.01
Book value per share at December 31, 2019	$	16.03

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 year ended December 31, 2019, assuming an immediate increase or decrease of 50 basis points in the applicable interest rate benchmark by currency ($ in thousands):

		50 basis point increase		50 basis point decrease	
Currency	Net floating rate assets subject to interest rate sensitivity	Increase to net interest income [1][2]	Increase to net interest income (per share) [1][2]	Decrease to net interest income[1][2]	Decrease to net interest income (per share)[1][2]
USD	$ 1,687,107	$ 5,237	$ 0.03	$ (8)	$ —
GBP	826,631	4,100	0.03	(2,346)	(0.02)
EUR	140,648	121	—	—	—
Total:	$ 2,654,386	$ 9,458	$ 0.06	$ (2,354)	$ (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; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loans or loans, as the case may be, which could also cause us to suffer losses.

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 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

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, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

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 Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates 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 matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net and Loan Impairment - 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 for impairment indicators on a quarterly basis. The Company's evaluation involves an assessment of the performance and value of the underlying collateral property on a loan by loan basis to determine whether events or changes in circumstances exist that may indicate it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. Possible indications of impairment may include events or changes in circumstances affecting occupancy, debt yield, cash flow volatility, leasing and tenant profile, loan structure, exit plan, project sponsorship, financial and operating results of the borrower and sponsor, changes in budget and the impact of macroeconomic and microeconomic events.

If an indicator of impairment exists, the Company measures the possible impairment on the loan. A loan is considered impaired when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. Impairment, for collateral dependent loans, is then measured as the difference between the carrying value of the loan and the fair value of the collateral. Upon measurement of impairment, the Company records an allowance to reduce the carrying value of the loan with a corresponding charge to net income. Significant judgments are required in determining impairment, including assumptions regarding the value of the underlying collateral and other provisions, such as guarantees.

We identified the determination of impairment indicators for commercial mortgage loans, subordinate loans and other lending assets and the impairment of commercial mortgage loans, subordinate loans and other lending assets as a critical audit matter because of (1) the significant assumptions required by management when determining whether events or changes in circumstances have occurred indicating that the carrying amounts of commercial mortgage loans and subordinate loans and other lending assets may not be recoverable and (2) for those commercial mortgage loans, subordinate loans and other lending assets where indications of impairment have been identified, 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 (1) whether management appropriately identified impairment indicators and (2) the reasonableness of management's estimate of the loan impairment.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the assessment of commercial mortgage loans, subordinate loans and other lending assets for possible indications of impairment and our procedures related to the determination of the fair value for those assets with impairment indicators included the following, among others:

- We tested the effectiveness of controls over management's identification of possible impairment indicators, and 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 assessment of impairment indicators by:
  - Evaluating the accuracy and determining the relevance of the asset-specific factors utilized during the Company's evaluation
  - Evaluating the period changes on items such as debt yield, occupancy, cash flow volatility, leasing and tenant profile, loan structure, exit plan, project sponsorship, and changes in budgets by (1) evaluating the source information and assumptions used by management and (2) testing the mathematical accuracy of the Company's analysis.
  - Evaluating the financial performance of the collateral associated with each loan
  - Reviewing summaries of third-party reports, where applicable
  - Evaluating the impact of macroeconomic and microeconomic events on the borrower, sponsor, or asset type
  - Reviewing the remittance for all loans in the Company's portfolio to corroborate that the borrowers had the ability to pay their current obligations on the loan
- We evaluated the Company's determination of fair value for those assets with impairment indicators 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
  - Testing the underlying data used to develop the fair value to determine that the information used in the analysis was accurate and complete

- Performing a sensitivity analysis when deemed necessary based on results of other audit procedures performed for comparison to the Company’s fair value analysis
- Considering 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 13, 2020

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, 2019	December 31, 2018
Assets:		
Cash and cash equivalents	$ 452,282	$ 109,806
Commercial mortgage loans, net (includes $4,852,087 and $3,197,900 pledged as collateral under secured debt arrangements in 2019 and 2018, respectively)	5,326,967	3,878,981
Subordinate loans and other lending assets, net	1,048,126	1,048,612
Other assets	52,716	33,720
Loan proceeds held by servicer	8,272	1,000
Derivative assets, net	—	23,700
Total Assets	$ 6,888,363	$ 5,095,819
Liabilities and Stockholders' Equity		
Liabilities:		
Secured debt arrangements, net (net of deferred financing costs of $17,190 and $17,555 in 2019 and 2018, respectively)	$ 3,078,366	$ 1,879,522
Convertible senior notes, net	561,573	592,000
Senior secured term loan, net (net of deferred financing costs of $7,277 and $0 in 2019 and 2018, respectively)	487,961	—
Accounts payable, accrued expenses and other liabilities	100,712	104,746
Derivative liabilities, net	19,346	—
Payable to related party	10,430	9,804
Total Liabilities	4,258,388	2,586,072
Commitments and Contingencies (see Note 15)		
Stockholders' Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized:		
Series B preferred stock, 6,770,393 shares issued and outstanding ($169,260 liquidation preference)	68	68
Series C preferred stock, 0 and 6,900,000 shares issued and outstanding ($0 and $172,500 liquidation preference) in 2019 and 2018, respectively	—	69
Common stock, $0.01 par value, 450,000,000 shares authorized, 153,537,296 and 133,853,565 shares issued and outstanding in 2019 and 2018, respectively	1,535	1,339
Additional paid-in-capital	2,825,317	2,638,441
Accumulated deficit	(196,945)	(130,170)
Total Stockholders' Equity	2,629,975	2,509,747
Total Liabilities and Stockholders' Equity	$ 6,888,363	$ 5,095,819

See notes to consolidated financial statements.

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries

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

	Year Ended December 31, 2019	2018	2017
Net interest income:			
Interest income from commercial mortgage loans	$ 322,475	$ 263,709	$ 158,632
Interest income from subordinate loans and other lending assets	164,933	140,180	179,889
Interest expense	(152,926)	(114,597)	(78,057)
Net interest income	334,482	289,292	260,464
Operating expenses:			
General and administrative expenses (includes equity-based compensation of $15,897 in 2019, $13,588 in 2018, and $13,314 in 2017)	(24,097)	(20,470)	(20,725)
Management fees to related party	(40,734)	(36,424)	(31,652)
Total operating expenses	(64,831)	(56,894)	(52,377)
Loss from unconsolidated joint venture	—	—	(2,847)
Other income	2,113	1,438	940
Provision for loan losses and impairments, net of reversals	(20,000)	(20,000)	(5,000)
Realized loss on investments	(12,513)	—	(42,693)
Unrealized gain on securities	—	—	37,165
Foreign currency gain (loss)	19,818	(30,335)	18,506
Loss on early extinguishment of debt	—	(2,573)	(1,947)
Gain (loss) on foreign currency forwards (includes unrealized gains (losses) of $(28,576) in 2019, $29,345 in 2018, and $(11,523) in 2017)	(14,425)	39,058	(19,180)
Unrealized loss on interest rate swap	(14,470)	—	—
Net income	$ 230,174	$ 219,986	$ 193,031
Preferred dividends	(18,525)	(27,340)	(36,761)
Net income available to common stockholders	$ 211,649	$ 192,646	$ 156,270
Net income per share of common stock:			
Basic	$ 1.41	$ 1.52	$ 1.54
Diluted	$ 1.40	$ 1.48	$ 1.54
Basic weighted-average shares of common stock outstanding	146,881,231	124,147,073	99,859,153
Diluted weighted-average shares of common stock outstanding	175,794,896	153,821,515	101,232,610

See notes to consolidated financial statements.

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income
(in thousands)

	Year Ended December 31,		
	2019	2018	2017
Net income available to common stockholders	$ 211,649	$ 192,646	$ 156,270
Foreign currency translation adjustment	—	—	3,811
Comprehensive income	$ 211,649	$ 192,646	$ 160,081

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					
	Shares	Par	Shares	Par	Additional Paid-In-Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2016	18,350,000	$ 184	91,422,676	$ 914	$ 1,983,010	$ (48,070)	$ (3,811)	$ 1,932,227
Capital increase related to Equity Incentive Plan	—	—	200,859	3	10,977	—	—	10,980
Issuance of common stock	—	—	15,470,000	154	279,673	—	—	279,827
Issuance of restricted common stock[(1)]	—	—	27,700	—	—	—	—	—
Redemption of preferred stock	(4,679,607)	(47)	—	—	(116,955)	—	—	(117,002)
Preferred stock redemption charge	—	—	—	—	3,016	—	—	3,016
Issuance of Notes	—	—	—	—	11,002	—	—	11,002
Offering costs	—	—	—	—	(645)	—	—	(645)
Net income	—	—	—	—	—	193,031	—	193,031
Change in other comprehensive loss	—	—	—	—	—	—	3,811	3,811
Dividends declared on preferred stock	—	—	—	—	—	(36,761)	—	(36,761)
Dividends declared on common stock- $1.84 per share	—	—	—	—	—	(191,343)	—	(191,343)
Balance at December 31, 2017	13,670,393	$ 137	107,121,235	$ 1,071	$ 2,170,078	$ (83,143)	$ —	$ 2,088,143
Capital increase 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
Exchange of Notes for common stock	—	—	10,828,475	108	179,908	—	—	180,016
Offering costs	—	—	—	—	(484)	—	—	(484)
Net income	—	—	—	—	—	219,986	—	219,986
Dividends declared on preferred stock	—	—	—	—	—	(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	—	—	—	—	—	(18,525)	—	(18,525)
Dividends declared on common stock - $1.84	—	—	—	—	—	(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

(1) Rounds to zero.

See notes to consolidated financial statements.

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

	For the year ended December 31,		
	2019	2018	2017
Cash flows (used in) provided by operating activities:			
Net income	$ 230,174	$ 219,986	$ 193,031
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of discount/premium and PIK	(81,611)	(64,269)	(48,062)
Amortization of deferred financing costs	11,969	11,186	6,669
Equity-based compensation	15,897	8,809	10,977
Unrealized loss on securities	—	—	(37,165)
Provision for loan losses and impairment, net of reversals	20,000	20,000	5,000
Loss from unconsolidated joint venture	—	—	2,259
Foreign currency (gain) loss	3,768	29,617	(18,645)
Realized loss on derivative instruments	—	—	289
Unrealized (gain) loss on derivative instruments	43,046	(29,345)	11,523
Loss on early extinguishment of debt	—	2,573	—
Realized loss on investment	12,513	—	42,693
Changes in operating assets and liabilities:			
Proceeds received from PIK	16,469	75,652	—
Other assets	(4,926)	(10,198)	(5,192)
Loan proceeds held by servicer	454	—	(6,306)
Accounts payable, accrued expenses and other liabilities	5,056	317	(3,351)
Payable to related party	626	1,636	1,153
Net cash provided by operating activities	273,435	265,964	154,873
Cash flows used in investing activities:			
New funding of commercial mortgage loans	(2,526,384)	(1,849,100)	(1,136,252)
Add-on funding of commercial mortgage loans	(385,508)	(131,718)	(82,240)
New funding of subordinate loans and other lending assets	(493,017)	(220,809)	(497,629)
Add-on funding of subordinate loans and other lending assets	(30,549)	(149,238)	(112,637)
Proceeds and payments received on commercial mortgage loans	1,428,535	675,140	218,002
Proceeds and payments received on subordinate loans and other lending assets, net	560,089	610,051	376,727
Origination and exit fees received on commercial mortgage and subordinate loans and other lending assets, net	45,882	41,822	27,904
Funding of unconsolidated joint venture	—	—	(726)
Funding of other assets	—	—	(1,379)
Payments on settlements of derivative instruments	—	—	(201)
Increase (decrease) in collateral related to derivative contracts	(34,160)	24,930	(4,952)
Payments and proceeds received on securities	—	—	468,171
Proceeds from sale of investments in unconsolidated joint venture	—	—	24,498
Net cash used in investing activities	(1,435,112)	(998,922)	(720,714)
Cash flows from financing activities:			
Proceeds from issuance of common stock	315,158	275,879	279,816
Redemption of preferred stock	(172,500)	—	(116,990)
Payment of offering costs	(333)	(484)	(924)
Proceeds from secured debt arrangements	3,451,172	2,153,846	1,239,515
Repayments of secured debt arrangements	(2,273,750)	(1,580,343)	(1,045,614)
Repayments of senior secured term loan principal	(2,500)	—	—
Proceeds from issuance of senior secured term loan	497,500	—	—
Proceeds from issuance of Notes	—	226,550	343,275
Exchanges and conversions of Notes	(704)	(40,461)	—
Repayments of participations sold	—	—	(85,081)
Payment of deferred financing costs	(13,688)	(15,337)	(14,254)
Other financing activities	(4,996)	—	—

Dividends on common stock	(269,232)	(227,217)	(183,877)
Dividends on preferred stock	(21,974)	(27,340)	(35,807)
Net cash provided by financing activities	1,504,153	765,093	380,059
Net increase (decrease) in cash and cash equivalents	342,476	32,135	(185,782)
Cash and cash equivalents, beginning of period	109,806	77,671	263,453
Cash and cash equivalents, end of period	$ 452,282	$ 109,806	$ 77,671
Supplemental disclosure of cash flow information:			
Interest paid	$ 133,469	$ 97,880	$ 55,835
Supplemental disclosure of non-cash financing activities:			
Exchange of Notes for common stock	$ 33,778	$ 180,016	$ —
Dividend declared, not yet paid	$ 74,771	$ 69,033	$ 56,576
Loan proceeds held by servicer	$ 7,775	$ 1,000	$ 302,756
Deferred financing costs, not yet paid	$ 5,193	$ —	$ —

See 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 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 reserves and impairment. Actual results could differ from those estimates.

We currently operate in one reporting segment.

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. Prior to 2018, we invested in CMBS which were classified as available-for-sale and recorded at fair value.

Classification of Loans

Loans held-for-investment are stated at the principal amount outstanding, adjusted for deferred fees and impairment, if any, in accordance with GAAP.

Loan Impairment

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 impairment 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 evaluate the loans for possible impairment on a quarterly basis. A loan is considered impaired when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. Impairment, for collateral dependent loans, is then measured as the difference between the carrying value of the loan and the fair value of the collateral. Upon measurement of impairment, we record an allowance to reduce the carrying value of the loan with a corresponding charge to net income. Significant judgments are required in determining impairment, including assumptions regarding, the value of the underlying collateral and other provisions such as guarantees.

Fair Value Election

Securities at estimated fair value consisted of CMBS. In accordance with GAAP, we elected the fair value option for these securities at the date of purchase in order to allow us to measure these securities at fair value with the change in estimated fair value included as a component of earnings in order to reflect the performance of the investments in a timely manner. We have not owned any securities where we elect the fair market value option since December 31, 2017.

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. 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.

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 have been assigned a risk rating of 4 or 5, discussed in "Note 4 - Commercial Mortgage, Subordinate Loans and Other Lending Assets, Net," may be placed on non-accrual. 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.

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, 2019 and 2018, we had $24.5 million and $17.6 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 the three months ended 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, 2019 and 2018 is determined using the "if converted" method whereby 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 U.S. dollars. 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 U.S. dollars at the exchange rate prevailing at the reporting date and income, expenses, gains, and losses are translated at the prevailing exchange rate on the dates that they were recorded.

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 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.

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 treated as collateralized financing transactions, unless they meet sales treatment. Securities financed through a secured debt arrangement remain on our balance sheet as an asset and cash received from the purchaser is recorded on our consolidated balance sheet as a liability. Interest paid in accordance with secured debt arrangements is recorded in interest expense.

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 net of our interest rate swap.

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 non-customary 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 2016 through 2019. 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 or 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."

Securitization/Sale and Financing Arrangements

We periodically sell our financial assets, such as commercial mortgage loans, CMBS and other assets. In connection with these transactions, we may retain or acquire senior or subordinated interests in the related assets. Gains and losses on such transactions are recognized using the guidance in Accounting Standards Codification ("ASC") Topic 860, "Transfers and Servicing", which is based on a financial-components approach that focuses on control. Under this approach, after a transfer of financial assets that meets the criteria for treatment as a sale-legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transferred control an entity recognizes the financial assets it retains and any liabilities it has incurred, derecognizes the financial assets it has sold, and derecognizes liabilities when extinguished. We determine the gain or loss on sale of the assets by allocating the carrying value of the sold asset between the sold asset and the interests retained based on their relative fair values, as applicable. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the sold asset. If the sold asset is being accounted for pursuant to the fair value option, there is no gain or loss.

Recent Accounting Pronouncements

In June 2016, the 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. We will continue to record loan specific reserves consistent with our existing accounting policy ("Loan Specific Reserve"). In addition, we will now record a general reserve in accordance with the CECL Standard on the remainder of the loan portfolio ("General CECL Reserve"). The CECL Standard is effective for fiscal years beginning after December 15, 2019 and is to be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective; as such, we will adopt CECL as of January 1, 2020.

At adoption, on January 1, 2020, we expect the General CECL Reserve to be approximately \$31.0 million, which equates to 0.50% of \$6.2 billion carrying value of our loan portfolio. This excludes two loans that previously had an aggregate of \$60 million of Loan Specific Reserves and carrying value of \$136.3 million as of December 31, 2019.

In June 2018, the FASB issued ASU 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployees Share-Based Payment Accounting" ("ASU 2018-07"). The intention of ASU 2018-07 is to expand the scope of Topic 718 to include share-based payment transactions in exchange for goods and services from nonemployees. These share-based payments will now be measured at grant-date fair value of the equity instrument issued. Upon adoption, only liability-classified awards that have not been settled and equity-classified awards for which a measurement date has not been established should be remeasured through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. ASU 2018-07 is effective for fiscal years beginning after December 15, 2019 and is applied retrospectively. We adopted ASU 2018-07 in the first quarter of 2019 and it did not have any impact on our consolidated financial statements.

Reclassification

To conform to the 2019 presentation of the consolidated income statement, we reclassified \$14.6 million of interest income from securities, from 2017, into interest income from subordinate loans and other lending assets, which included \$4.1 million from CMBS (Held-to-Maturity) and \$10.5 million from CMBS (Fair Value Option). These reclassifications had no impact on our consolidated statement of operations.

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 values. Market based or observable inputs are the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The three levels of the hierarchy 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 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 derivative. 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 value of the interest rate swap is 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. Our derivative instruments are classified as Level II in the fair value hierarchy.

The following table summarizes the levels in the fair value hierarchy into which our financial instruments were categorized as of December 31, 2019 and 2018 ($ in thousands):

	Fair Value as of December 31, 2019				Fair Value as of December 31, 2018			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Derivative assets (liabilities), net	$ —	$ (4,876)	$ —	$ (4,876)	$ —	$ 23,700	$ —	$ 23,700
Interest rate swap liability	—	(14,470)	—	(14,470)	—	—	—	—
Total	$ —	$ (19,346)	$ —	$ (19,346)	$ —	$ 23,700	$ —	$ 23,700

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

Our loan portfolio was comprised of the following at December 31, 2019 and 2018 ($ in thousands):

Loan Type	December 31, 2019	December 31, 2018
Commercial mortgage loans, net	$ 5,326,967	$ 3,878,981
Subordinate loans and other lending assets, net	1,048,126	1,048,612
Total loans, net	$ 6,375,093	$ 4,927,593

Our loan portfolio consisted of 95% and 91% floating rate loans, based on amortized cost, as of December 31, 2019 and 2018, respectively.

Activity relating to our loan investment portfolio, for the year ended December 31, 2019, was as follows ($ in thousands):

	Principal Balance	Deferred Fees/Other Items [(1)]	Provision for Loan Loss [(2)]	Carrying Value
December 31, 2018	$ 4,982,514	$ (17,940)	$ (36,981)	$ 4,927,593

New loan fundings	3,019,401	—	—	3,019,401
Add-on loan fundings [3]	416,056	—	—	416,056
Loan repayments	(2,037,322)	—	—	(2,037,322)
Gain (loss) on foreign currency translation	44,338	(689)	—	43,649
Realized loss on investment, net of provision for loan loss reversal [2]	(12,513)	—	15,000	2,487
Provision for loan losses	—	—	(35,000)	(35,000)
Deferred fees	—	(46,275)	—	(46,275)
PIK interest, amortization of fees and other items	55,368	29,136	—	84,504
December 31, 2019	$ 6,467,842	$ (35,768)	$ (56,981)	$ 6,375,093

(1) Other items primarily consist of purchase discounts or premiums, exit fees and deferred origination expenses, as well as $1.4 million in cost recovery proceeds from a commercial mortgage loan secured by a retail center in Cincinnati, OH.
(2) In addition to the $57.0 million provision for loan loss, we recorded an impairment of $3.0 million against an investment previously recorded under other assets on our consolidated balance sheet. During the second quarter of 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) Represents fundings for loans closed prior to 2019.

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

	December 31, 2019	December 31, 2018
Number of loans	72	69
Principal balance	$ 6,467,842	$ 4,982,514
Carrying value	$ 6,375,093	$ 4,927,593
Unfunded loan commitments [1]	$ 1,952,887	$ 1,095,598
Weighted-average cash coupon [2]	6.5%	8.4%
Weighted-average remaining term [3]	3.3 years	2.8 years
Weighted-average expected maturity [4]	1.8 years	1.9 years

(1) Unfunded loan commitments are primarily funded to finance property improvements or lease-related expenditures by the borrowers. 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.
(3) Assumes all extension options are exercised.
(4) Expected maturity represents our estimated timing of repayments as of December 31, 2019.

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, 2019		December 31, 2018	
Property Type	Carrying Value	% of Portfolio	Carrying Value	% of Portfolio
Hotel	$ 1,660,162	26.0%	$ 1,286,590	26.1%
Office	1,401,400	22.0%	832,620	16.9%
Residential-for-sale: construction	692,816	10.9%	528,510	10.7%
Residential-for-sale: inventory	321,673	5.1%	577,053	11.7%
Urban Retail	643,706	10.1%	—	—%
Urban Predevelopment	409,864	6.4%	683,886	13.9%
Healthcare	371,423	5.8%	156,814	3.2%
Other	874,049	13.7%	862,120	17.5%
Total	$ 6,375,093	100.0%	$ 4,927,593	100.0%

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, 2019		December 31, 2018	
Geographic Location	Carrying Value	% of Portfolio	Carrying Value	% of Portfolio
Manhattan, NY	$ 1,793,570	28.1%	$ 1,669,145	33.9%
Brooklyn, NY	373,917	5.9%	346,056	7.0%
Northeast	110,771	1.7%	23,479	0.5%
West	728,182	11.4%	614,160	12.5%
Midwest	614,337	9.6%	631,710	12.8%
Southeast	564,166	8.9%	559,043	11.3%
United Kingdom	1,274,390	20.0%	700,460	14.2%
Other	915,760	14.4%	383,540	7.8%
Total	$ 6,375,093	100.0%	$ 4,927,593	100.0%

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, 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 table allocates the carrying value of our loan portfolio based on our internal risk ratings at the dates indicated ($ in thousands):

	December 31, 2019			December 31, 2018		
Risk Rating	Number of Loans	Carrying Value	% of Loan Portfolio	Number of Loans	Carrying Value	% of Loan Portfolio
1	—	$ —	—%	—	$ —	—%
2	8	348,324	5%	3	138,040	3%
3	61	5,707,555	90%	63	4,573,930	93%
4	1	182,910	3%	—	—	—%
5	2	136,304	2%	3	215,623	4%
	72	$ 6,375,093	100%	69	$ 4,927,593	100%
Weighted-average risk rating			3.0			3.1

Provision for Loan Losses and Impairment

We evaluate our loans for possible impairment on a quarterly basis. We regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations 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 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 loan loss 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. An allowance for loan loss is established when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan.

We evaluate modifications to our loan portfolio to determine if the modifications constitute a troubled debt restructuring and/or substantial modification, under ASC 310, "Receivables." During the second quarter of 2018, we determined that a modification of one commercial mortgage loan, secured by a retail center in Cincinnati, OH, with a principal balance of $171.2 million constituted a TDR as the interest rate spread was reduced from 5.5% over LIBOR to 3.0% over LIBOR. The entity in which we own an interest and which owns the underlying property was deemed to be a VIE and it was determined that we are not the primary beneficiary of that VIE. During the fourth quarter of 2018, we recorded a loan loss provision of $15.0 million and due to factors including continued weakness in the retail sector, we recorded an additional $32.0 million loan loss provision during the third quarter of 2019, bringing the total provision for loan loss to $47.0 million. The carrying value, as a result of the provision, of the loan was $124.6 million and $156.1 million as of December 31, 2019 and 2018, respectively. The loan loss provision was based on the difference between fair value of the underlying collateral, and the carrying value of the loan (prior to the loan loss provision). Fair value of the collateral was determined using the direct capitalization method. The significant unobservable input used in determining the collateral value was the capitalization rate which was 7.75% and 6.75% as of December 31, 2019 and 2018, respectively. Effective September 30, 2019, we ceased accruing all interest associated with the loan and account for the loan on a cost-recovery basis (all proceeds are applied towards the carrying value of the loan for accounting purposes). During the year ended December 31, 2019, $1.4 million of interest paid was applied towards reducing the carrying value of the loan to $124.6 million at December 31, 2019. As of December 31, 2019 and 2018, this loan was assigned a risk rating of 5.

We recorded an aggregate $13.0 million loan loss provision and impairment against a commercial mortgage loan secured by fully-built, for-sale residential condominium units located in Bethesda, MD. Each of the loan loss provisions were due to factors including slower than expected sales pace of the underlying condominium units and were comprised of (i) $3.0 million loan loss recorded during the third quarter of 2019, (ii) $5.0 million loan loss recorded during the second quarter of 2018, and (iii) $2.0 million loan loss provision and $3.0 million of impairment recorded during the second quarter of 2017. The impairment was recorded on an investment previously recorded under other assets on our consolidated balance sheet. After the loan loss provisions and related impairment, the amortized cost balance of the loan was $11.7 million and $27.2 million as of December 31, 2019 and 2018, respectively. The loan loss provision and impairment were based on the difference between fair value of the underlying collateral, and the carrying value of the loan (prior to the loan loss provision and related impairment). Fair value of the collateral was determined using a discounted cash flow analysis. The significant unobservable inputs used in determining the collateral value were sales price per square foot and discount rate which were an average of $573 and $662 per square foot across properties and 10% and 15% as of December 31, 2019 and 2018, respectively. Effective April 1, 2017, we ceased accruing all interest associated with the loan and account for the loan on a cost-recovery basis. As of December 31, 2019 and 2018, this loan was assigned a risk rating of 5.

During 2016, we recorded a loan loss provision of $10.0 million on a commercial mortgage loan and $5.0 million on a contiguous subordinate loan secured by a multifamily property located in Williston, ND. The loan loss provision was based on the difference between fair value of the underlying collateral, and the carrying value of the loan (prior to the loan loss provision). Fair value of the collateral was determined using a discounted cash flow analysis. The significant unobservable inputs used in determining the collateral value were terminal capitalization rate and discount rate which were 11% and 10%, respectively. We ceased accruing interest associated with the loan and only recognized interest income upon receipt of cash. As of December 31, 2018, the amortized cost of the loan, net of the loan loss provision, was $32.4 million and was assigned a risk rating of 5. During the second quarter of 2019, the remaining underlying collateral was sold resulting in a realized loss of $12.5 million. Consequently, the previously recorded $15.0 million loan loss provision was reversed.

As of December 31, 2019 and 2018, the aggregate loan loss provision was $57.0 million and $37.0 million for commercial mortgage loans and subordinate loans, respectively.

Non-Accrual

On December 31, 2019, the borrower of a $180 million first mortgage predevelopment loan secured by properties in Miami, Florida, ceased paying interest. As of December 1, 2019, we transferred this loan to non-accrual status and will recognize income on a cash basis. The loan was evaluated for potential impairment and we determined that the loan is not impaired. As of December 31, 2019, and 2018 the loan had carrying value of $182.9 million and $222.0 million and was assigned a risk rating of 4 and 3, respectively. The underlying properties are being marketed for sale.

Other Loan and Lending Assets Activity

During the year ended December 31, 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, 2019, our exposure to the property is 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.

During the year ended December 31, 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, 2019, our exposure to the property is limited to a $190.0 million ($128.0 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.

During the years ended December 31, 2019, 2018 and 2017, we recognized PIK interest of $54.6 million, $43.5 million and $25.2 million, respectively. During the years ended December 31, 2019, 2018 and 2017, we collected PIK of $16.5 million, $75.7 million, and $0.0 million, respectively.

During the years ended December 31, 2019, 2018 and 2017, we recognized pre-payment penalties and accelerated fees of $6.1 million, $2.3 million and $5.4 million, respectively.

We previously held CMBS where we elected the fair value option, which were all sold in 2017 resulting in a net realized loss of $5.5 million.

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 $68.3 million as of December 31, 2019. These interests have a weighted average fully-extended maturity of 6.81 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 amortized cost on the consolidated balance sheet. We did not hold any collateral securing our subordinate risk retention interests as of December 31, 2018.

Note 5 – Loan Proceeds Held by Servicer

Loan proceeds held by servicer represents principal payments held by our third-party loan servicer as of the balance sheet date which were remitted to us subsequent to the balance sheet date. Loan proceeds held by servicer were $8.3 million and $1.0 million as of December 31, 2019 and 2018, respectively.

Note 6 – Other Assets

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

	December 31, 2019	December 31, 2018
Interest receivable	$ 35,581	$ 33,399
Collateral deposited under derivative agreements	17,090	—
Other	45	321
Total	$ 52,716	$ 33,720

Note 7 – Secured Debt Arrangements, Net

At December 31, 2019 and 2018, our borrowings had the following secured debt arrangements, maturities and weighted- average interest rates ($ in thousands):

	December 31, 2019 [(2)]			December 31, 2018		
	Maximum Amount of Borrowings	Borrowings Outstanding	Maturity [(1)]	Maximum Amount of Borrowings	Borrowings Outstanding	Maturity [(1)]
JPMorgan Facility (USD)	$ 1,154,109	$ 1,090,160	June 2024	$ 1,333,503	$ 680,141	June 2021
JPMorgan Facility (GBP)	51,702	50,410	June 2024	48,497	48,497	June 2021
JPMorgan Facility (EUR)	94,189	94,189	June 2024	N/A	N/A	N/A
DB Repurchase Facility (USD)	1,250,000	513,876	March 2021	904,181	419,823	March 2021
DB Repurchase Facility (GBP)	N/A	N/A	N/A	150,819	150,819	March 2021
Goldman Facility (USD)	500,000	322,170	November 2021	300,000	210,072	November 2020
CS Facility - USD	226,068	218,644	June 2020	187,117	187,117	June 2019
CS Facility - GBP	93,915	93,915	June 2020	151,773	151,773	June 2019
HSBC Facility - USD	50,625	50,625	October 2020	N/A	N/A	N/A
HSBC Facility - GBP	34,634	34,634	June 2020	48,835	48,835	December 2019
HSBC Facility - EUR	154,037	154,037	January 2021	N/A	N/A	N/A
Barclays Facility (GBP)	538,916	290,347	February 2024	N/A	N/A	N/A
Barclays Facility (EUR)	182,549	182,549	November 2020	N/A	N/A	N/A
Sub-total	4,330,744	3,095,556		3,124,725	1,897,077	
less: deferred financing costs	N/A	(17,190)		N/A	(17,555)	
Total / Weighted-Average	$ 4,330,744	$ 3,078,366		$ 3,124,725	$ 1,879,522	

(1) Maturity date assumes extensions at our option are exercised.
(2) Weighted-average rate as of December 31, 2019 was USD L + 2.07% / GBP L + 1.75% / EUR L + 1.36%.

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 British pounds and Euros converted to U.S. dollars 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, plus two one-year extensions available, which are subject to the approval of JPMorgan and certain other conditions. The JPMorgan Facility enables us to elect to receive advances in U.S. Dollars, British pounds, or Euros. Margin calls may occur any time at specified aggregate margin deficit thresholds. We have agreed to provide a limited guarantee of the obligations of our indirect wholly-owned subsidiaries under the JPMorgan Facility.

As of December 31, 2019, we had $1.2 billion (including £38.0 million and €84.0 million assuming conversion into U.S. dollars) of borrowings outstanding under the JPMorgan Facility secured by certain of our commercial mortgage loans.

DB Repurchase Facility

In April 2018, through an indirect wholly-owned subsidiary, we entered into a Second Amended and Restated Master Repurchase Agreement with Deutsche Bank AG, Cayman Islands Branch and Deutsche Bank AG, London Branch, which was upsized in September 2019, and provides for advances of up to $1.25 billion, and enables us to elect to receive advances in U.S. dollars, British pounds, or Euros. The repurchase facility matures in March 2020, plus a one-year extension available at our option, subject to certain conditions. Margin calls may occur any time at specified aggregate margin deficit thresholds. We have agreed to provide a guarantee of the obligations of our indirect wholly-owned subsidiaries under this facility.

As of December 31, 2019, we had $513.9 million of borrowings outstanding under the DB Repurchase 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 was upsized in March 2019 from $300.0 million to $500.0 million and matures in November 2020, plus a one-year extension available at our option, subject to certain conditions. Margin calls may occur any time at specified margin deficit thresholds. We have agreed to provide a limited guarantee of the obligations of our indirect wholly-owned subsidiaries under this facility.

As of December 31, 2019, we had $322.2 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 matures in June 2020 (or, if earlier, six months after Credit Suisse AG notifies us of their intention to terminate). Margin calls may occur any time at specified aggregate margin deficit thresholds. We have agreed to provide a guarantee of the obligations of our indirect wholly-owned subsidiary under this facility.

As of December 31, 2019, we had $218.6 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 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 - GBP matures six months after either party notifies the other party of intention to terminate. Margin calls may occur any time at specified aggregate margin deficit thresholds. We have agreed to provide a guarantee of the obligations of our indirect wholly-owned subsidiary under this facility.

As of December 31, 2019, we had $93.9 million (£70.8 million assuming conversion into U.S. dollars) of borrowings outstanding under the CS Facility - GBP secured by one of our commercial mortgage loans.

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 facility is initially scheduled to mature in October 2020 and unless terminated by either party, automatically extends for further periods prior to maturity. Margin calls may occur any time at specified aggregate margin thresholds. We have agreed to provide a guarantee of the obligations of our indirect wholly-owned subsidiary under this facility.

As of December 31, 2019, we had $50.6 million of borrowings under the HSBC Facility - USD secured by one of our commercial mortgage loans.

HSBC Facility - GBP

In September 2018, 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 facility, which was extended in December 2019, is scheduled to mature in June 2020 and, unless terminated by either party, automatically extends for further periods prior to maturity. Margin calls may occur any time at specified aggregate margin deficit thresholds. We have agreed to provide a guarantee of the obligations of our indirect wholly-owned subsidiary under this facility.

As of December 31, 2019, we had $34.6 million (£26.1 million assuming conversion into U.S. dollars) of borrowings outstanding under the HSBC Facility - GBP secured by one of our commercial mortgage loans.

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 facility matures in January 2021. Margin calls may occur any time at specified aggregate margin deficit thresholds. We have agreed to provide a guarantee of the obligations of our indirect wholly-owned subsidiary under this facility.

As of December 31, 2019, we had $154.0 million (€137.4 million assuming conversion into U.S. dollars) of borrowings outstanding under the HSBC Facility - EUR secured by one of our commercial mortgage loans.

Barclays Facility

Beginning in October 2019, through an indirect wholly-owned subsidiary, we entered into three secured debt arrangements pursuant to a Global Master Repurchase Agreement with Barclays Bank plc, which provide for single asset financing. The financings mature in November 2020, March 2022, and October 2022 with extension options to match the duration of the corresponding mortgage loans, subject to certain conditions. We have agreed to provide a limited guarantee of the obligations of our indirect wholly-owned subsidiary under this facility.

As of December 31, 2019, we had $472.9 million (£219.0 million and €162.8 million assuming conversion into U.S. dollars) of borrowings outstanding under the Barclays Facility secured by three of our commercial mortgage loans.

At December 31, 2019, our borrowings had the following remaining maturities ($ in thousands):

	Less than 1 year [(1)]	1 to 3 years [(1)]	3 to 5 years	More than 5 years	Total
JPMorgan Facility	$ 143,841	$ 251,002	$ 839,916	$ —	$ 1,234,759
DB Repurchase Facility	32,400	481,476	—	—	513,876
Goldman Facility	—	322,170	—	—	322,170
CS Facility - USD	218,644	—	—	—	218,644
CS Facility - GBP	93,915	—	—	—	93,915
HSBC Facility - USD	50,625	—	—	—	50,625
HSBC Facility - GBP	34,634	—	—	—	34,634
HSBC Facility - EUR	—	154,037	—	—	154,037
Barclays Facility (GBP)	—	—	290,347	—	290,347
Barclays Facility (EUR)	182,549	—	—	—	182,549
Total	$ 756,608	$ 1,208,685	$ 1,130,263	$ —	$ 3,095,556

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

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).

			For the year ended December 31, 2019	
	Balance at December 31, 2019	Amortized Cost of collateral at December 31, 2019	Maximum Month-End Balance	Average Month-End Balance
JPMorgan Facility	$ 1,234,759	$ 1,845,400	$ 1,234,759	$ 947,400
DB Repurchase 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	$ 3,095,556	$ 4,852,087		

We were in compliance with the covenants under each of our secured debt arrangements at December 31, 2019 and 2018.

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.

For the year ended December 31, 2019, we repaid $2.5 million of principal related to the senior secured term loan. The outstanding principal balance as of December 31, 2019 was $497.5 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 $2.2 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, 2019.

Interest Rate Swap

In connection with the senior secured term loan, we 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%.

Note 9 – Convertible Senior Notes, Net

In two separate offerings during 2014, we issued an aggregate principal amount of $254.8 million of 2019 Notes, for which we received $248.6 million, after deducting the underwriting discount 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 the 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 the 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 were 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 and 2017.

In two separate offerings during 2017, we issued an aggregate principal amount of $345.0 million of the 2022 Notes, for which we received $337.5 million, after deducting the underwriting discount and offering expenses. At December 31, 2019, the 2022 Notes had a carrying value of $337.8 million and an unamortized discount of $7.2 million.

During the fourth quarter of 2018, we issued an aggregate principal amount of $230.0 million of 2023 Notes, for which we received $223.7 million, after deducting the underwriting discount and offering expenses. At December 31, 2019, the 2023 Notes had a carrying value of $223.8 million and an unamortized discount of $6.2 million.

The following table summarizes the terms of the Notes ($ 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	2.65 years
2023 Notes	230,000	5.38%	6.16%	48.7187	10/15/2023	3.79 years
Total	$ 575,000					

(1) Effective rate includes the effect of the adjustment for the conversion option (See endnote (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, 2019 of $18.29 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) is 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 the consolidated balance sheet as of December 31, 2019. 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 $29.1 million, $28.2 million and $18.7 million for the years ended December 31, 2019, 2018 and 2017, 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, $7.1 million, and $4.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Note 10 – Derivatives, Net

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

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 U.S. dollars at various dates through December 2024. These forward contracts were executed to economically fix the U.S. dollar 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 forwards and our interest rate swap as of December 31, 2019:

Type of Derivative	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

The following table summarizes our non-designated Fx forwards as of December 31, 2018:

Type of Derivative	December 31, 2018				
	Number of Contracts	Aggregate Notional Amount (in Thousands)	Notional Currency	Maturity	Weighted-Average Years to Maturity
Fx Contracts - GBP	43	270,161	GBP	January 2019 - November 2020	0.69

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 the consolidated statements of operations related to our derivatives for the years ended December 31, 2019, 2018 and 2017 ($ in thousands):

	Location of Gain (Loss) Recognized in Income	Amount of gain (loss) recognized in income 2019	2018	2017
Forward currency contracts	Gain (loss) on derivative instruments - unrealized	$ (28,576)	$ 29,345	$ (11,527)
Forward currency contracts	Gain (loss) on derivative instruments - realized	14,151	9,713	(7,657)
Interest rate caps (1)	Gain on derivative instruments - unrealized	—	—	4
Sub-total		$ (14,425)	$ 39,058	$ (19,180)
Forward currency contracts	Loss from unconsolidated joint venture	—	—	(587)
Total		$ (14,425)	$ 39,058	$ (19,767)

(1) With a notional amount of $0.0 million, $34.9 million, and $40.2 million at December 31, 2019, 2018, and 2017, respectively.

In connection with our senior secured term loan, we entered into an interest rate swap to fix LIBOR at 2.12% or an all-in interest rate of 4.87%. We use our interest rate swap to manage exposure to variable cash flows on our borrowings under our senior secured term loan. Our interest rate swap allows us to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure. Gains or losses related to the interest rate swap are recorded net under interest expense in our consolidated statement of operations.

	Location of Loss Recognized in Income	Amount of loss recognized in income 2019	2018	2017
Interest rate swap (1)	Unrealized loss on interest rate swap	$ (14,470)	$ —	$ —

(1) With a notional amount of $500.0 million, $0.0 million, and $0.0 million at December 31, 2019, 2018, and 2017, respectively.

The following table summarizes the gross asset and liability amounts related to our derivatives at December 31, 2019 and 2018 ($ in thousands).

	December 31, 2019			December 31, 2018		
	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amount of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet
Interest rate swap	$ (14,470)	$ —	$ (14,470)	$ —	$ —	$ —
Forward currency contracts	(12,687)	7,811	(4,876)	23,753	(53)	23,700
Total derivative instruments	$ (27,157)	$ 7,811	$ (19,346)	$ 23,753	$ (53)	$ 23,700

Note 11 – 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, 2019	December 31, 2018
Accrued dividends payable	$ 74,771	$ 69,033
Accrued interest payable	16,089	14,208
Accounts payable and other liabilities	6,922	1,505
Collateral deposited under derivative agreements	2,930	20,000
Total	$ 100,712	$ 104,746

Note 12 – 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, 2020, 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 2020, 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.

For 2019, 2018, and 2017, we incurred approximately $40.7 million, $36.4 million, and $31.7 million, respectively, in base management fees under the Management Agreement.

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 2019, 2018, and 2017, we paid expenses totaling $3.6 million, $3.1 million, and $2.6 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 the consolidated balance sheet based on the nature of the item.

Included in payable to related party on the consolidated balance sheet at December 31, 2019 and 2018 are approximately $10.4 million and $9.8 million, respectively, for base management fees incurred but not yet paid under the Management Agreement.

Unconsolidated Joint Venture

In September 2014, we, through a wholly owned subsidiary, acquired a 59% ownership interest in Champ Limited Partnership, a financial services company ("Champ LP").

We evaluated Champ LP to determine if it met the definition of a VIE in accordance with ASC 810, Consolidation. We determined that Champ LP met the definition of a VIE, however, we were not the primary beneficiary; therefore, we were not required to consolidate the assets and liabilities of the partnership in accordance with the authoritative guidance. Additionally, Champ LP is an Investment Company under GAAP, and is therefore reflected at fair value. Our investment in Champ LP was accounted for as an equity method investment and therefore we recorded our proportionate share of the net asset value in accordance with ASC 323, *Investments - Equity Method and Joint Ventures*.

In May 2017, we sold our remaining ownership interest in Champ LP to unaffiliated third parties for €21.8 million or $24.5 million, resulting in a loss of $3.3 million. We have had no interest in Champ LP since December 2017.

Loans receivable

In June 2017, we increased our outstanding loan commitment through the acquisition of an additional $25.0 million of interests in an existing subordinate loan from a fund managed by an affiliate of the Manager, increasing our total outstanding loan commitment to $100.0 million. Furthermore, in September 2017 we funded an additional $25.0 million to acquire a portion of the same pre-development subordinate loan from a fund managed by an affiliate of the Manager, increasing our total outstanding loan commitment to $125.0 million. In May 2018, we increased our outstanding principal balance through the acquisition of an additional $28.2 million interest in the same subordinate loan from a fund managed by an affiliate of the Manager. The pre-development subordinate loan is for the construction of a residential condominium building in New York, New York and is part of a $300.0 million subordinate loan.

In June 2018, we increased our outstanding loan commitment through the acquisition of £4.8 million ($6.4 million assuming conversion into U.S. dollars) 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.

Senior Secured 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 13 – Share-Based Payments

On September 23, 2009, our board of directors approved the Apollo Commercial Real Estate Finance, Inc., 2009 Equity Incentive Plan and on April 16, 2019, our board of directors approved the Amended and Restated Apollo Commercial Real Estate Finance, Inc. 2019 Equity Incentive Plan, 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 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, 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 and all grants under the LTIPs must be approved by the Compensation Committee.

We recognized stock-based compensation expense of $15.9 million, $13.6 million, and $13.3 million during 2019, 2018 and 2017, respectively, related to restricted stock and RSU vesting. We adopted ASU 2018-07 on January 1, 2019 and the stock-based compensation expense for grants before the adoption of ASU 2018-07 is based on the closing price of our common stock of $16.66 on December 31, 2018, which was the last business day before we adopted ASU 2018-07. Refer to "Note 2 - Summary of Significant Accounting Policies" for further discussion on our adoption of ASU 2018-07.

The following table summarizes the grants, vesting and forfeitures of restricted common stock and RSUs during 2019, 2018 and 2017:

Type	Restricted Stock	RSUs	Grant Date Fair Value ($ in thousands)
Outstanding at December 31, 2016	150,110	1,703,775	
Grant	27,700	912,916	17,496
Vested	(72,249)	(938,541)	N/A
Forfeiture	—	(45,404)	N/A
Outstanding at December 31, 2017	105,561	1,632,746	
Grant	28,070	1,006,800	19,148
Vested	(67,934)	(739,388)	N/A
Forfeiture	—	(47,201)	N/A
Outstanding at December 31, 2018	65,697	1,852,957	
Grant	27,245	1,069,202	20,483
Vested	(67,586)	(877,261)	N/A
Forfeiture	—	(37,543)	N/A
Outstanding at December 31,2019	25,356	2,007,355	

Below is a summary of restricted stock and RSU vesting dates as of December 31, 2019:

Vesting Year	Restricted Stock	RSU	Total Awards
2020	25,356	964,829	990,185
2021	—	686,126	686,126
2022	—	356,400	356,400
Total	25,356	2,007,355	2,032,711

At December 31, 2019, we had unrecognized compensation expense of approximately $35.1 million and $0.1 million, respectively, related to the vesting of RSUs and restricted stock awards noted in the table above.

RSU Deliveries

During 2019, 2018 and 2017, we delivered 433,585, 378,855 and 200,859 shares of common stock, respectively, for 730,980, 741,210 and 938,541 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 the consolidated statement of changes in stockholders' equity. The adjustments were $5.0 million, $4.8 million and $2.3 million in 2019, 2018 and 2017, respectively.

Note 14 – 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, 2019, 153,537,296 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 shares 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.

In October 2017, we concurrently entered into a common stock purchase agreement and a preferred stock repurchase agreement with QH RE Assets Company, LLC ("QHREAC"). Pursuant to the agreements, (i) QHREAC purchased 1,670,000 shares of our common stock, par value $0.01 per share, for cash at an aggregate purchase price of $30.8 million ($18.44 per share), and (ii) we repurchased from QHREAC 1,229,607 shares of our Series B Preferred Stock, par value $0.01 per share, for an aggregate purchase price of $30.8 million (approximately $25.04 per share, made up of $25.00 liquidation value per share, plus $0.04 per share of accumulated and unpaid dividends to, but not including, the closing date of the transaction).

In August 2017, we redeemed all 3,450,000 shares of Series A Preferred Stock. Holders of the Series A Preferred Stock received the redemption price of $25.00 plus accumulated but unpaid dividends to the redemption date of $0.1079 per share.

Dividends. During 2019, 2018 and 2017, we declared the following dividends:

Dividend declared per share of:	2019	2018	2017
Common Stock [(1)]	$1.84	$1.84	$1.84
Series A Preferred Stock [(2)]	N/A	N/A	1.19
Series B Preferred Stock	2.00	2.00	2.00
Series C Preferred Stock [(3)]	0.72	2.00	2.00

(1) As our aggregate 2019 distributions exceeded our earnings and profits, $0.46 of the January 2020 distribution declared in the fourth quarter of 2019 are payable to common stockholders of record as of December 31, 2019 will be treated as a 2020 distribution for U.S. federal income tax purposes.
(2) The Series A Preferred Stock shares were redeemed in full in August 2017.
(3) The Series C Preferred Stock shares were redeemed in full in June 2019.

Common Stock 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. 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 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 the 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 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 second quarter of 2017, we completed a follow-on public offering of 13,800,000 shares of our common stock, including shares issued pursuant to the underwriters' option to purchase additional shares, at a price of $18.05 per share. The aggregate net proceeds from the offering were $248.9 million after deducting estimated offering expenses.

Note 15 – 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, who 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 but have not yet filed their appellate brief. We believe the claims are without merit and plan to vigorously defend the case on appeal. We 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, 2019, we had $2.0 billion of unfunded commitments related to our commercial mortgage and subordinate loan portfolios.

Note 16 – 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 the consolidated balance sheet at December 31, 2019 and 2018 ($ in thousands):

	December 31, 2019		December 31, 2018	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and cash equivalents	$ 452,282	$ 452,282	$ 109,806	$ 109,806
Commercial mortgage loans, net	5,326,967	5,380,693	3,878,981	3,894,947
Subordinate loans and other lending assets, net (1)	1,048,126	1,050,961	1,048,612	1,047,854
Secured debt arrangements, net	(3,078,366)	(3,078,366)	(1,897,077)	(1,897,077)
Senior secured term loan, net	(487,961)	(499,988)	—	—
2019 Notes	—	—	(34,278)	(35,276)
2022 Notes	(337,755)	(348,060)	(335,291)	(326,025)
2023 Notes	(223,818)	(234,600)	(222,431)	(221,964)

(1) As of December 31, 2019 includes subordinate risk retention interests in securitization vehicles with an estimated fair value that approximates their carrying values. We did not hold any such instruments as of December 31, 2018.

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 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 17 – 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, 2019, 2018, and 2017 ($ in thousands except per share data):

	For the year ended		
	2019	2018	2017
Basic Earnings			
Net income	$ 230,174	$ 219,986	$ 193,031
Less: Preferred dividends	(18,525)	(27,340)	(36,761)
Net income available to common stockholders	$ 211,649	$ 192,646	$ 156,270
Less: Dividends on participating securities	(3,867)	(3,405)	(2,913)
Basic Earnings	$ 207,782	$ 189,241	$ 153,357
Diluted Earnings			
Net income	$ 230,174	$ 219,986	$ 193,031
Less: Preferred dividends	(18,525)	(27,340)	(36,761)
Net income available to common stockholders	$ 211,649	$ 192,646	$ 156,270
Add: Interest expense on Notes	35,173	34,779	N/A
Diluted Earnings	$ 246,822	$ 227,425	$ 156,270
Number of Shares:			
Basic weighted-average shares of common stock outstanding	146,881,231	124,147,073	99,859,153
Diluted weighted-average shares of common stock outstanding	175,794,896	153,821,515	101,232,610
Earnings Per Share Attributable to common stockholders			
Basic	$ 1.41	$ 1.52	$ 1.54
Diluted	$ 1.40	$ 1.48	$ 1.54

Prior to the three months ended 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. As of September 30, 2018, we no longer asserted 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 current year periods 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 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, 2019, 2018, and 2017, 1,836,210, 1,612,676 and 1,373,457 weighted-average unvested RSUs, respectively, were excluded from the calculation of diluted net income per share because the effect was anti-dilutive.

Note 18 – Summarized Quarterly Results (Unaudited)

($ in thousands except per share data)

	March 31, 2019	March 31, 2018	June 30, 2019	June 30, 2018	September 30, 2019	September 30, 2018	December 31, 2019	December 31, 2018
Net interest income:								
Interest income from commercial mortgage loans	$ 78,286	$ 52,114	$ 77,458	$ 65,141	$ 81,136	$ 71,179	$ 85,595	$ 75,275
Interest income from subordinate loans and other lending assets	40,839	33,853	41,043	34,075	43,421	37,308	39,630	34,944
Interest expense	(36,295)	(22,740)	(33,511)	(28,437)	(39,341)	(31,007)	(43,779)	(32,413)
Net interest income	82,830	63,227	84,990	70,779	85,216	77,480	81,446	77,806
Operating expenses:								
General and administrative expenses	(6,151)	(4,998)	(6,574)	(5,652)	(5,839)	(5,843)	(5,533)	(3,977)
Management fees to related party	(9,613)	(8,092)	(10,259)	(9,013)	(10,434)	(9,515)	(10,428)	(9,804)
Total operating expenses	(15,764)	(13,090)	(16,833)	(14,665)	(16,273)	(15,358)	(15,961)	(13,781)
Other income	518	203	484	343	429	427	682	465
Reversal of (provision for) loan losses and impairments	—	—	15,000	(5,000)	(35,000)	—	—	(15,000)
Realized loss on investments	—	—	(12,513)	—	—	—	—	—
Foreign currency gain (loss)	6,894	10,125	(7,777)	(29,649)	(19,129)	(4,050)	39,830	(6,761)
Loss on early extinguishment of debt	—	—	—	—	—	(2,573)	—	—
Gain (loss) on foreign currency forwards	(6,720)	(11,032)	11,186	33,538	24,153	6,291	(43,044)	10,261
Gain (loss) on interest rate swap	—	—	(13,113)	—	(10,307)	—	8,950	—
Net income	$ 67,758	$ 49,433	$ 61,424	$ 55,346	$ 29,089	$ 62,217	$ 71,903	$ 52,990
Preferred dividends	(6,835)	(6,835)	(4,919)	(6,834)	(3,385)	(6,836)	(3,386)	(6,835)
Net income available to common stockholders	$ 60,923	$ 42,598	$ 56,505	$ 48,512	$ 25,704	$ 55,381	$ 68,517	$ 46,155
Net income per share of common stock:								
Basic	$0.45	$0.38	$0.38	$0.39	$0.16	$0.42	$0.44	$0.34
Diluted	$0.43	$0.38	$0.37	$0.39	$0.16	$0.40	$0.42	$0.34
Basic weighted-average shares of common stock outstanding	134,607,107	110,211,853	145,567,963	123,019,993	153,531,678	129,188,343	153,537,074	133,852,915
Diluted weighted-average shares of common stock outstanding	164,683,086	111,871,429	174,101,234	124,629,317	153,531,678	153,918,435	182,070,345	163,900,633
Dividend declared per share of common stock	$0.46	$0.46	$0.46	$0.46	$0.46	$0.46	$0.46	$0.46

Note 19 – Subsequent Events

Investment activity. Subsequent to December 31, 2019, we committed capital of $560.9 million ($438.6 million of which was funded at closing) of first mortgage loans.

In addition, we funded approximately $49.2 million for loans closed prior to the quarter.

*Loan Repayments. S*ubsequent to December 31, 2019, we received approximately $191.7 million from loan repayments.

Apollo Commercial Real Estate Finance, Inc.
Schedule IV — Mortgage Loans on Real Estate
As of December 31, 2019
($ 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	4.96%	Dec 2023	Principal and Interest	$ 331,425	$ 328,145	—
Loan B		Urban Retail/Manhattan, NY	4.75%	Sep 2024	Interest Only	318,106	315,561	—
Loan C		Hotel/Spain	3.00%	Aug 2024	Interest Only	244,321	241,674	—
Loan D		Healthcare/United Kingdom	4.56%	Oct 2024	Principal and Interest	229,183	226,761	—
Loan E		Industrial/Brooklyn, NY	5.95%	Feb 2024	Interest Only	197,000	195,940	—
Commercial mortgage loans individually <3%								
First Mortgage	46	Hotel, Office, Multifamily, Residential-for-sale: inventory, Urban Predevelopment, Residential-for-sale: construction, Retail Center, Mixed Use/Various	0.0% - 9.2%	2020-2026	Principal and Interest / Interest Only	4,102,073	4,018,886	—
Total Commercial mortgage loans						**$ 5,422,108**	**$5,326,967**	**—**
Subordinate loans and other lending assets individually >3%								
Loan F		Residential-for-sale: construction/Manhattan, NY	17.22%	Feb 2021	Interest Only	206,624	209,582	—
Subordinate loans and other lending assets individually <3%								
Subordinate Mortgage and other lending assets	20	Residential-for-sale: construction, Hotel, Multifamily, Healthcare, Mixed Use, Residential-for-sale: inventory, Industrial, Office/Various	7.0% - 19.2%	2020-2028	Principal and Interest / Interest Only	839,110	838,544	—
Total Subordinate loans and other lending assets(3)						**$ 1,045,734**	**$1,048,126**	**—**
Total loans (4)						**$ 6,467,842**	**$6,375,093**	**—**

(1) Assumes applicable benchmark rate as of December 31, 2019 for all floating rate loans
(2) Assumes all extension options are exercised.
(3) Subject to prior liens of approximately $4.3 billion.
(4) The aggregate cost for U.S. federal income tax purposes is $6.4 billion.

The following table summarizes the changes in the carrying amounts of our loan investment portfolio during 2019 and 2018 ($ in thousands):

Reconciliation of Carrying Amount of Loans	Year Ended December 31, 2019	Year Ended December 31, 2018
Balance at beginning of year	$ 4,927,593	$ 3,679,758
Loan fundings [1]	3,435,457	2,350,865
Loan repayments [2]	(2,037,322)	(1,066,843)
Gain (loss) on foreign currency translation	43,649	(51,013)
Realized loss on investment, net of provision for loan loss reversal [3]	2,487	—
Provision for loan losses [4]	(35,000)	(20,000)
Deferred Fees	(46,275)	(34,066)
PIK interest, amortization of fees and other items [5]	84,504	68,892
Balance at the close of year	$ 6,375,093	$ 4,927,593

(1) During the year ended December 31, 2018, $34.6 million was purchased from a fund managed by an affiliate of the Manager.
(2) 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.
(3) During the second quarter of 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.
(4) 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. During the year ended December 31, 2018, we recorded $20.0 million for provision for loan losses and impairments, comprised of a (i) $15.0 million and (ii) $5.0 million loan loss provision against the same loans as in 2019, respectively.
(5) Other items primarily consist of purchase discounts or premiums, exit fees and deferred origination expenses, as well as $1.4 million in cost recovery proceeds from a commercial mortgage loan secured by a retail center in Cincinnati, OH.

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, 2019. 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, 2019, 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, 2019 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 53 and 55 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 annual meeting of stockholders to be held on or about June 2, 2020 (the "Proxy Statement"), to be filed with the SEC within 120 days after December 31, 2019.

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, 2019.

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, 2019.

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, 2019.

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, 2019.

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, 2019.

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, 2019.

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, 2019.

PART IV

Item 15. Exhibits, Financial Statement Schedules.
Documents filed as a part of the report.

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 53 through 86 of this annual report on Form 10-K and are incorporated herein by reference. See Item 8. "Financial Statements and Supplementary Data" filed herewithin, for a list of financial statements.

(2) Financial Statement Schedule:
Schedule IV — Mortgage Loans on Real Estate as of December 31, 2019.

(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.
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 Notes 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.
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 for the period ending September 30, 2009.
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 for the period ending September 30, 2009.
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 for the period ending September 30, 2009.

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.
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.
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.
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).
21.1*	Subsidiaries of Registrant.
23.1*	Consent of Deloitte & Touche LLP.
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of 18 U.S.C. Section 1350 as adopted pursuant to the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance 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 13, 2020	By:	/s/ Stuart A. Rothstein
		Stuart A. Rothstein President and Chief Executive Officer

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 13, 2020	By:	/s/ Stuart A. Rothstein
		Stuart A. Rothstein President, Chief Executive Officer and Director (Principal Executive Officer)
February 13, 2020	By:	/s/ Jai Agarwal
		Jai Agarwal Chief Financial Officer, Treasurer, Secretary (Principal Financial Officer and Principal Accounting Officer)
February 13, 2020	By:	/s/ Mark C. Biderman
		Mark C. Biderman Director
February 13, 2020	By:	/s/ Robert A. Kasdin
		Robert A. Kasdin Director
February 13, 2020	By:	/s/ Cindy Z. Michel
		Cindy Z. Michel Director
February 13, 2020	By:	/s/ Eric L. Press
		Eric L. Press Director
February 13, 2020	By:	/s/ Scott S. Prince
		Scott S. Prince Director
February 13, 2020	By:	/s/ Michael E. Salvati
		Michael E. Salvati Director

Exhibit 4.6

DESCRIPTION OF REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The following is a brief summary of the material terms of the securities of Apollo Commercial Real Estate Finance, Inc. (the "Company," "we," "us" or "our") registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This summary description is not meant to be complete. The particular terms of any security are subject to and qualified in their entirety by reference to Maryland law and our charter and bylaws, copies of which have been filed by us with the Securities and Exchange Commission.

General

Apollo Commercial Real Estate Finance, Inc. was formed on June 29, 2009. Our charter provides that we may issue up to 450,000,000 shares of common stock, $0.01 par value per share, and up to 50,000,000 shares of preferred stock, $0.01 par value per share, of which 6,770,393 shares are classified and designated as shares of 8.00% Fixed-to-Floating Series B Cumulative Redeemable Perpetual Preferred Stock (the "Series B Preferred Stock") as of December 31, 2019. Our charter authorizes our board of directors to amend our charter by a majority vote of the entire board of directors to increase or decrease the aggregate number of authorized shares of stock or the authorized number of shares of stock of any class or series without common stockholder approval. Under Maryland law, our stockholders generally will not be personally liable for any of our debts or obligations solely as a result of their status as stockholders.

Power to Reclassify Our Unissued Shares of Stock

Our charter authorizes our board of directors to classify and reclassify from time to time any unissued shares of common or preferred stock into other classes or series of stock, including one or more classes or series of stock that have priority over our common stock with respect to voting rights, dividends or upon liquidation, and to authorize us to issue the newly-classified shares. Prior to the issuance of shares of each new class or series, our board of directors is required by Maryland law and by our charter to set, subject to the provisions of our charter regarding the restrictions on ownership and transfer of our stock, the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption for each class or series. Subject to the rights of holders of any other class or series of our stock, including our Series B Preferred Stock, our board of directors may take these actions without stockholder approval unless stockholder approval is required by applicable law or the rules of any stock exchange or automatic quotation system on which our securities are listed or traded. Therefore, our board of directors could authorize the issuance of shares of common or preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for shares of our common stock or otherwise be in the best interest of our stockholders.

Power to Increase or Decrease Authorized Shares of Stock and Issue Additional Shares of Common and Preferred Stock

We believe that the power of our board of directors to amend our charter to increase or decrease the number of authorized shares of stock, to authorize us to issue additional authorized but unissued shares of common or preferred stock and to classify or reclassify unissued shares of common or preferred stock and thereafter to authorize us to issue such classified or reclassified shares of stock provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise. The additional classes or series, as well as the additional shares of common stock, will be available for issuance without further action by our common stockholders, unless such approval is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors does not currently intend to do so, it could authorize us to issue a class or series of stock that could, depending upon the terms of the particular class or series, delay, defer or prevent a change in control or other transaction that might involve a premium price for shares of our common stock or otherwise be in the best interest of our stockholders.

Common Stock

Subject to the preferential rights of holders of any other class or series of our stock (including the Series B Preferred Stock) and to the provisions of our charter regarding the restrictions on ownership and transfer of our stock, holders of outstanding shares of our common stock are entitled to receive dividends on such shares of common stock out of assets legally available for such purposes if, as and when authorized by our board of directors and declared by us, and the holders of outstanding shares of our common stock are entitled to share ratably in our assets legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up after payment of or adequate provision for all our known debts and liabilities.

Shares of our common stock have been issued by us and do not represent any interest in or obligation of ACREFI Management, LLC ("Manager"), Apollo Global Management, Inc. ("Apollo") or any of their affiliates. Further, the shares are not a deposit or other obligation of any bank, are not an insurance policy of any insurance company and are not insured or guaranteed by the Federal Deposit Insurance Company, any other governmental agency or any insurance company. The shares of common stock will not benefit from any insurance guaranty association coverage or any similar protection.

Subject to the provisions of our charter regarding the restrictions on ownership and transfer of our stock and except as may otherwise be specified in the terms of any class or series of stock, each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors and, except as provided with respect to any other class or series of stock, the holders of shares of common stock will possess the exclusive voting power. A plurality of the votes cast in the election of directors is sufficient to elect a director, subject to our majority vote policy for the election of directors in an uncontested election, described below. In addition, there is no cumulative voting in the election of directors. Consequently, the holders of a majority of the outstanding shares of common stock can elect all of the directors then standing for election (other than any directors elected solely by the holders of any other classes and series of our stock), and the holders of the remaining shares will not be able to elect any directors.

Our Corporate Governance Guidelines sets forth our majority vote policy for the election of directors. Pursuant to this policy, in any uncontested election of directors, any nominee who receives a greater number of votes "withheld" from his or her election than votes "for" such election shall promptly tender his or her resignation to our board of directors following certification of the stockholder vote. The Nominating and Corporate Governance Committee shall promptly consider the resignation and make a recommendation to our board of directors with respect to the tendered resignation. In considering whether to accept or reject the tendered resignation, the Nominating and Corporate Governance Committee shall consider all factors it deems relevant, which may include the stated reasons, if any, why stockholders withheld votes from the director, any alternatives for curing the underlying cause of the withheld votes, the length of service and qualifications of the director, the director's past and expected future contributions to our company, the composition of our board of directors, and such other information and factors as members of the Nominating and Corporate Governance Committee shall determine are relevant.

Holders of shares of common stock have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no pre-emptive rights to subscribe for any securities of our company. Subject to the provisions of our charter regarding the restrictions on ownership and transfer of our stock, shares of common stock will have equal dividend, liquidation and other rights.

Under the Maryland General Corporation Law ("MGCL"), a Maryland corporation generally cannot dissolve, amend its charter, merge or consolidate with or convert into another entity, sell all or substantially all of its assets or engage in a statutory share exchange unless the action is advised by its board of directors and approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter, unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is specified in our charter. Subject to the voting rights of holders of any other class or series of our stock, including the Series B Preferred Stock, our charter provides that these actions (other than certain amendments to the provisions of our charter related to the removal of directors and the restrictions on ownership and transfer of our stock, and the vote required to amend such provisions, which must be approved by the affirmative vote of at least two-thirds of the votes entitled to be cast on the amendment) may be approved by a majority of all of the votes entitled to be cast on the matter.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Equiniti Trust Company.

Preferred Stock

General

Our charter provides that we may issue up to 50,000,000 shares of preferred stock, $0.01 par value per share.

Preferred stock may be issued independently or together with any other securities and may be attached to or separate from the securities. The issuance of preferred stock could adversely affect the voting power, dividend rights and other rights of holders of common stock. Our board of directors or a duly authorized committee could establish another class or series of preferred stock that could depending on the terms of the series delay, defer or prevent a transaction or a change in control of our company that might involve a premium price for the Series B Preferred Stock or otherwise be in the best interest of the holders thereof.

Subject to the limitations prescribed by our charter (including the rights of holders of Series B Preferred Stock to approve the authorization, classification or reclassification of any senior securities, and to approve the issuance of additional shares of Series B Preferred Stock), our board of directors may classify any unissued shares of preferred stock and reclassify any previously classified but unissued shares of any class or series of preferred stock, and may authorize us to issue the newly-classified shares. Prior to issuance of shares of each class or series of preferred stock, our board of directors is required by the MGCL and our charter to set, subject to provisions in our charter regarding restrictions on ownership and transfer, the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption for each class or series.

6,770,393 of our authorized shares of preferred stock have been classified by our board of directors as shares of Series B Preferred Stock.

Series B Preferred Stock Conversion Rights

Definitions

As used herein, the following terms have the following meanings:

A “Change of Control” will be deemed to have occurred at such time after the original issuance of the Series B Preferred Stock when the following have occurred: (i) an Ownership Change of Control; or (ii) a Manager Change of Control.

The “Change of Control Conversion Date” will be a business day specified by us in a Change of Control Notice that is no less than 20 days nor more than 35 days after the date on which we provide the Change of Control Notice.

The “Common Stock Price” will be (i) if the consideration to be received in connection with the transaction that resulted in the Ownership Change of Control by holders of our common stock is solely cash, the amount of cash consideration per share of common stock, (ii) if the consideration to be received in the Ownership Change of Control by holders of our common stock is other than solely cash, including cash, other securities or other property or assets (or any combination thereof), a holder of Series B Preferred Stock will be entitled to receive, upon conversion of such shares of Series B Preferred Stock, the average of the closing prices per share of common stock on the ten consecutive trading days immediately preceding, but not including, the effective date of the Ownership Change of Control, and (iii) if there is not a readily determinable closing price for the common stock or other consideration, the fair market value of our common stock or such other consideration, as determined by our board of directors or a committee thereof (the “Alternative Conversion Consideration”). The Common Stock Conversion Consideration (defined below) or the Alternative Conversion Consideration, as may be applicable to an Ownership Change of Control, are referred to herein as the “Conversion Consideration.”

A “Manager Change of Control” will be deemed to have occurred at such time after the original issuance of the Series B Preferred Stock when our Manager or an affiliate of Apollo is no longer our external manager.

An “Ownership Change of Control” will be deemed to have occurred at such time after the original issuance of the Series B Preferred Stock when the following have occurred:

(i) the acquisition by any person, including any syndicate or group deemed to be a “person” under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of shares of our stock entitling that person to exercise more than 50% of the total voting power of all shares of our stock entitled to vote generally in elections of directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and

(ii) following the closing of any transaction referred to in clause (i) above, neither we nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the New York Stock Exchange ("NYSE"), the NYSE American or the NASDAQ Stock Market ("NASDAQ"), or listed on an exchange that is a successor to the NYSE, NYSE American or the NASDAQ.

Change of Control Redemption

Within 15 days after the occurrence of any Change of Control, we must provide to holders of Series B Preferred Stock a notice of the Change of Control (a "Change of Control Notice") to the holders of Series B Preferred Stock that describes the events constituting the Change of Control and the date of the Change of Control, identifies whether the Change of Control is an Ownership Change of Control and, if the Change of Control is an Ownership Change of Control, provides certain information with respect to the Change of Control Conversion. Upon written notice by the holders of a majority of the shares of Series B Preferred Stock outstanding on the date of the Change of Control, no later than (i) in the case of a Manager Change of Control, 15 days following delivery by the Company of the Change of Control Notice referred to above and (ii) in the case of an Ownership Change of Control, prior to the Change of Control Conversion Date, we will be obligated to redeem the Series B Preferred Stock, in whole (subject to any partial exercise of the Change of Control Conversion Right), as soon as practicable and in any event within 120 days after the date on which such Change of Control has occurred (the "Change of Control Redemption Right"), for cash at a redemption price of $25.00 per share, plus all accumulated and unpaid dividends (whether or not declared) to, but not including, the redemption date, unless the applicable redemption date is after the record date fixed for a Series B Preferred Stock dividend and prior to the corresponding dividend payment date, in which case no additional amount for such accrued and unpaid dividend will be included in the redemption price.

Conversion Upon an Ownership Change of Control

Upon the occurrence of an Ownership Change of Control, each holder of Series B Preferred Stock will have the right, subject to the restrictions on ownership and transfer of our stock contained in our charter, to convert some or all of the shares of Series B Preferred Stock held by such holder (the "Change of Control Conversion Right"), on the relevant Change of Control Conversion Date into a number of shares of our common stock per share of Series B Preferred Stock to be converted (the "Common Stock Conversion Consideration") equal to the quotient obtained by dividing (i) the sum of (x) $25.00, plus (y) an amount equal to any accumulated and unpaid dividends (whether or not declared) to, but not including, the Change of Control Conversion Date, except if such Change of Control Conversion Date is after a record date fixed for a Series B Preferred Stock dividend and prior to the corresponding Series B Preferred Stock dividend payment date, in which case, no amount for such accrued and unpaid dividend will be included in such sum, by (ii) the Common Stock Price; provided, however, that in no event will the total number of shares of common stock to be issued upon conversion (when taken together with any shares of common stock previously issued to the applicable holder) exceed the number of shares of common stock that would be permitted to be issued upon conversion of the Series B Preferred Stock in the absence of a stockholder vote taken in advance of the issuance of the Series B Preferred Stock under Item 312.00 of the Listed Company Manual of the NYSE, as reasonably determined by our board of directors or a committee thereof (this limitation is referred to herein as the "NYSE Conversion Limitation").

If, upon the occurrence of an Ownership Change of Control, holders of any shares of Series B Preferred Stock exercise their right to convert some or all of their Series B Preferred Stock into common stock, but the NYSE Conversion Limitation operates to limit the number of shares of common stock that we may issue to such holders upon such conversion, the Series B Preferred Stock that may be converted in accordance with the NYSE Conversion Limitation will be so converted into shares of common stock in accordance with the preceding paragraph, while the balance of such shares of Series B Preferred Stock will be redeemed for cash at a redemption price equal to the price that would be paid if such remaining shares of Series B Preferred Stock were redeemed pursuant to the Change of Control Redemption Right. If any shares of Series B Preferred Stock that have been properly tendered for conversion into common stock pursuant to the Change of Control Conversion Right will instead be redeemed pursuant to the foregoing sentence, the shares to be so redeemed will be selected *pro rata* (as nearly as practicable without creating fractional shares) among the holders thereof based on the number of shares tendered for conversion by each such holder or by any other equitable method we may choose acting reasonably. If the holders of our common stock have the opportunity to elect the form of consideration to be received in connection with the transaction that resulted in the Ownership Change of Control, the Conversion Consideration will be the kind and amount of consideration actually received by holders of a majority of the shares of our common stock that participated in such election (if electing between two types of consideration) or holders of a plurality of our common stock that voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, *pro rata* reductions applicable to any portion of the consideration payable in connection with the transaction that resulted in the Ownership Change of Control.

We will not issue fractional shares of common stock upon the conversion of the Series B Preferred Stock. Instead, we will pay the cash value of such fractional shares.

Within 15 days following the occurrence of a Change of Control, we will provide to holders of Series B Preferred Stock a Change of Control Notice stating the information required by the Articles Supplementary setting forth the terms of the Series B Preferred Stock. Any failure to give such notice or any defect in the notice or in its mailing will not affect the validity of the proceedings for the conversion of any shares of Series B Preferred Stock except as to the holder to whom notice was defective or not given.

We will issue a press release for publication on the Dow Jones & Company, Inc., Business Wire, PR Newswire, Marketwire or Bloomberg Business News (or, if such organizations are not in existence at the time of issuance of such press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), or post notice on our website, in any event prior to the opening of business on the first business day following any date on which we provide the Change of Control Notice to the holders of Series B Preferred Stock.

In order to exercise the Change of Control Conversion Right, a holder of Series B Preferred Stock must deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of Series B Preferred Stock to be converted, duly endorsed for transfer, together with a written conversion notice completed, to our transfer agent. The conversion notice must state the information required by the Articles Supplementary setting forth the terms of the Series B Preferred Stock.

Holders of Series B Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date, as provided in the Articles Supplementary setting forth the terms of the Series B Preferred Stock.

Shares of Series B Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, but subject to the redemption of certain shares as contemplated above as a result of the NYSE Conversion Limitation and unless, prior to the Change of Control Conversion Date, we have provided or we provide notice of our election to redeem such shares of Series B Preferred Stock pursuant to our optional redemption right. If the Change of Control Conversion date is after a record date fixed for a Series B Preferred Stock dividend and prior to the corresponding dividend payment date, the holders of Series B Preferred Stock at the close of business on such record date will be entitled to receive the dividend payable on such shares on the corresponding dividend payment date, notwithstanding the conversion of such shares prior to such dividend date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all U.S. federal and state securities laws and stock exchange rules in connection with any conversion of Series B Preferred Stock into common stock. No holder of the Series B Preferred Stock will be entitled to convert such Series B Preferred Stock into our common stock to the extent that receipt of such common stock would cause such holder (or any other person) to exceed the stock ownership limits contained in our charter.

These Change of Control conversion and redemption features may make it more difficult for, or discourage, a third party from taking over our company.

Restrictions on Ownership and Transfer

The following summary with respect to restrictions on ownership and transfer of our stock sets forth certain general terms and provisions of our charter documents. This summary does not purport to be complete and is subject to and qualified in its entirety by reference to our charter, a copy of which has been filed by us with the Securities and Exchange Commission.

In order for us to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), shares of our stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months (other than the first year for which an election to be a REIT has been made) or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding shares of our stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year (other than the first year for which an election to be a REIT has been made). To qualify as a REIT, we must satisfy other requirements as well.

Our charter (including the Articles Supplementary setting forth the terms of the Series B Preferred Stock) contains restrictions on the ownership and transfer of our stock. The relevant sections of our charter provide that, subject to the exceptions described below, no person or entity may own, or be deemed to own, beneficially or by virtue of the applicable constructive ownership provisions of the Internal Revenue Code, more than (1) 9.8% in value or number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our common stock; (2) 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of our Series B Preferred Stock; or (3) 9.8% in value or number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of all classes and series of our capital stock. We refer to these limits collectively as the “ownership limit.” An individual or entity is referred to as a “prohibited owner” if, but for the ownership limit or other restrictions on ownership and transfer of our stock described below, had a violative transfer or other event been effective, the individual or entity would have been a record owner and beneficial owner or solely a beneficial owner of shares of our stock.

The constructive ownership rules under the Internal Revenue Code are complex and may cause shares of stock owned actually or constructively by a group of related individuals and/or entities to be owned constructively by one individual or entity. As a result, the acquisition of less than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock, Series B Preferred Stock or all classes and series of our capital stock (or the acquisition of an interest in an entity that owns, actually or constructively, shares of our stock by an individual or entity), could, nevertheless, cause that individual or entity, or another individual or entity, to constructively own shares of our stock in excess of the ownership limit.

Our board of directors may, in its sole discretion, subject to such conditions as it may determine and the receipt of certain representations and undertakings, prospectively or retroactively, waive the ownership limit or establish a different limit on ownership, or excepted holder limit, for a particular person if, among other conditions, the person’s ownership in excess of the ownership limit would not result in our being “closely held” within the meaning of Section 856(h) of the Internal Revenue Code (without regard to whether the ownership interest is held during the last half of a taxable year) or otherwise would result in our failing to qualify as a REIT. As a condition of its waiver or grant of excepted holder limit, our board of directors may, but is not required to, require an opinion of counsel or ruling from the Internal Revenue Service (the "IRS") satisfactory to our board of directors in order to determine or ensure our qualification as a REIT and may impose such other conditions and limitations as our board of directors may determine. As of December 31, 2019, our board of directors has established exemptions from the ownership limits which, subject to the terms of the exemptions, permit QH RE Asset Company LLC to hold up to 6,770,393 shares of the Series B Preferred Stock and 19.9% of our common stock, Apollo and certain of its affiliates to collectively hold up to 25% of our common stock, a certain institutional investor to hold up to 20% 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.

In connection with granting a waiver of the ownership limit, creating an excepted holder limit or at any other time, our board of directors may from time to time increase or decrease the ownership limit unless, after giving effect to such increase, five or fewer individuals could beneficially own in the aggregate more than 49.9% in value of the shares of all classes and series of our capital stock then outstanding or we would otherwise fail to qualify as a REIT. Prior to the modification of the ownership limit, our board of directors may require such opinions of counsel, affidavits, undertakings or agreements as it may deem necessary or advisable in order to determine or ensure our qualification as a REIT. A reduced ownership limit will not apply to any person or entity whose percentage ownership of our common stock, Series B Preferred Stock or stock of all classes and series, as applicable, is in excess of such decreased ownership limit until such time as such individual’s or entity’s percentage ownership of our common stock, Series B Preferred Stock or stock of all classes and series, as applicable, equals or falls below the decreased ownership limit, but any further acquisition of shares of our common stock, Series B Preferred Stock or stock of any other class or series, as applicable, in excess of such percentage ownership of our common stock, Series B Preferred Stock or stock of all classes and series will be in violation of the reduced ownership limit.

Our charter further prohibits:

- any person from beneficially or constructively owning, applying certain attribution rules of the Internal Revenue Code, shares of our stock that would result in our being “closely held” under Section 856(h) of the Internal Revenue Code (without regard to whether the ownership interest is held during the last half of a taxable year) or otherwise cause us to fail to qualify as a REIT; and

- any person from transferring shares of our stock if such transfer would result in shares of our stock being beneficially owned by fewer than 100 persons (determined without reference to any rules of attribution).

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of our stock that will or may violate the ownership limit or any of the other foregoing restrictions on ownership and transfer of our stock, or who would have owned shares of our stock transferred to a trust as described below, must immediately give us written notice of the event or, in the case of an attempted or proposed transaction, must give at least 15 days' prior written notice to us and provide us with such other information as we may request in order to determine the effect of such transfer on our qualification as a REIT. The foregoing restrictions on ownership and transfer of our stock will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT or that compliance with the restrictions and limitations on ownership and transfer of our stock as described above is no longer required in order for us to qualify as a REIT.

If any transfer of shares of our stock would result in shares of our stock being beneficially owned by fewer than 100 persons, such transfer will be null and void and the intended transferee will acquire no rights in such shares. In addition, if any purported transfer of shares of our stock or any other event would otherwise result in any person violating the ownership limit or an excepted holder limit established by our board of directors or in our being "closely held" under Section 856(h) of the Internal Revenue Code (without regard to whether the ownership interest is held during the last half of a taxable year) or otherwise failing to qualify as a REIT, then that number of shares (rounded up to the nearest whole share) that would cause such person to violate such restrictions will be automatically transferred to, and held by, a trust for the exclusive benefit of one or more charitable organizations selected by us and the intended transferee will acquire no rights in such shares. The automatic transfer will be effective as of the close of business on the business day prior to the date of the violative transfer or other event that results in a transfer to the trust. If the transfer to the trust as described above is not automatically effective, for any reason, to prevent violation of the applicable ownership limit or our being "closely held" under Section 856(h) of the Internal Revenue Code (without regard to whether the ownership interest is held during the last half of a taxable year) or otherwise failing to qualify as a REIT, then our charter provides that the transfer of the shares will be null and void.

Shares of stock transferred to the trustee are deemed offered for sale to us, or our designee, at a price per share equal to the lesser of (1) the price paid by the prohibited owner for the shares (or, if the event that resulted in the transfer to the trust did not involve a purchase of such shares of stock at market price, the last reported sales price on the NYSE (or other applicable exchange on which shares of our stock are listed) on the day of the event which resulted in the transfer of such shares of stock to the trust) and (2) the market price on the date we accept, or our designee accepts, such offer. We may reduce this amount by the amount of any dividend or other distribution that we have paid to the prohibited owner before we discovered that the shares had been automatically transferred to the trust and that are then owed to the trustee as described above, and we may pay the amount of any such reduction to the trustee for the benefit of the charitable beneficiary. We have the right to accept such offer until the trustee has sold the shares of our stock held in the trust as discussed below. Upon a sale to us, the interest of the charitable beneficiary in the shares sold terminates, the trustee must distribute the net proceeds of the sale to the prohibited owner and any dividends or other distributions held by the trustee with respect to such shares of stock will be paid to the charitable beneficiary.

If we do not buy the shares, the trustee must, within 20 days of receiving notice from us of the transfer of shares to the trust, sell the shares to a person or entity designated by the trustee who could own the shares without violating the ownership limit or the other restrictions on ownership and transfer of our stock. After the sale of the shares, the interest of the charitable beneficiary in the shares transferred to the trust will terminate and the trustee must distribute to the prohibited owner an amount equal to the lesser of (1) the price paid by the prohibited owner for the shares (or, if the event which resulted in the transfer to the trust did not involve a purchase of such shares at market price, the last reported sales price on the NYSE (or other applicable exchange) on the day of the event which resulted in the transfer of such shares of stock to the trust) and (2) the sales proceeds (net of commissions and other expenses of sale) received by the trust for the shares. The trustee may (or in the case of shares of Series B Preferred Stock transferred to the trust in connection with a violation of the ownership limit applicable to such preferred stock, must) reduce the amount payable to the prohibited owner by the amount of any dividend or other distribution that we paid to the prohibited owner before we discovered that the shares had been automatically transferred to the trust and that are then owed to the trustee as described above. Any net sales proceeds in excess of the amount payable to the prohibited owner must be immediately paid to the beneficiary of the trust, together with any dividends or other distributions thereon. In addition, if, prior to discovery by us that shares of stock have been transferred to a trust, such shares of stock are sold by a prohibited owner, then such shares will be deemed to have been sold on behalf of the trust and, to the extent that the prohibited owner received an amount for or in respect of such shares that exceeds the amount that such prohibited owner was entitled to receive, such excess amount will be paid to the trustee upon demand. The prohibited owner has no rights in the shares held by the trustee.

The trustee will be designated by us and will be unaffiliated with us and with any prohibited owner. Prior to the sale of any shares by the trust, the trustee will receive, in trust for the beneficiary of the trust, all dividends and other distributions paid by us with respect to the shares held in trust and may also exercise all voting rights with respect to the shares held in trust. These rights will be exercised for the exclusive benefit of the beneficiary of the trust. Any dividend or other distribution paid to a prohibited owner prior to our discovery that shares of stock have been transferred to the trust will be paid by the recipient to the trustee upon demand.

Subject to Maryland law, effective as of the date that the shares have been transferred to the trust, the trustee will have the authority, at the trustee's sole discretion:

- to rescind as void any vote cast by a prohibited owner prior to our discovery that the shares have been transferred to the trust; and
- to recast the vote in accordance with the desires of the trustee acting for the benefit of the beneficiary of the trust.

However, if we have already taken irreversible corporate action, then the trustee may not rescind and recast the vote.

In addition, if our board of directors determines in good faith that a proposed transfer or other event would violate the restrictions on ownership and transfer of our stock, our board of directors may take such action as it deems advisable to refuse to give effect to or to prevent such transfer, including, but not limited to, causing us to redeem the shares of stock, refusing to give effect to the transfer on our books or instituting proceedings to enjoin the transfer.

Every owner of more than 5% (or such lower percentage as required by the Internal Revenue Code or the regulations promulgated thereunder) of our stock, within 30 days after the end of each taxable year, must give us written notice, stating the stockholder's name and address, the number of shares of each class and series of our stock that the stockholder beneficially owns and a description of the manner in which the shares are held. Each such owner must provide to us in writing such additional information as we may request in order to determine the effect, if any, of the stockholder's beneficial ownership on our qualification as a REIT and to ensure compliance with the ownership limit applicable to our common stock or all classes and series of our capital stock. Every owner of our Series B Preferred Stock and each person holding Series B Preferred Stock for a beneficial or constructive owner of Series B Preferred Stock must, within 30 days after the end of each taxable year, provide us with a completed questionnaire containing the information regarding its ownership of such shares, as set forth in the regulations promulgated under the Internal Revenue Code, as in effect from time to time, and must, upon demand, provide us in writing with such information as we may request in order to determine the effect, if any, of such person's actual or constructive ownership of our Series B Preferred Stock on our qualification as a REIT or to ensure compliance with the ownership limit applicable to the Series B Preferred Stock, or any applicable excepted holder limit. In addition, each stockholder must provide to us in writing such information as we may request in good faith in order to determine our qualification as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

Any certificates representing shares of our stock bear a legend referring to the restrictions described above. These restrictions on ownership and transfer could delay, defer or prevent a transaction or a change in control that might involve a premium price for the common stock or otherwise be in the best interest of the stockholders.

Description of Certain Provisions of the Maryland General Corporation Law and our Charter and Bylaws

The following summary of certain provisions of Maryland law and of our charter and bylaws does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law and our charter and bylaws, copies of which have been filed by us with the Securities and Exchange Commission.

Our Board of Directors

Our charter and bylaws provide that, except as provided in the terms of our Series B Preferred Stock, the number of directors we have may be established only by our board of directors but may not be fewer than the minimum required under the MGCL, which is currently one, and our bylaws provide that the number of our directors may not be more than 15. Subject to the terms of any class or series of preferred stock, including our Series B Preferred Stock, vacancies on our board of directors may be filled only by a majority of the remaining directors, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will hold office for the remainder of the full term of the directorship in which the vacancy occurred and until his or her successor is duly elected and qualifies.

At each annual meeting of our stockholders, our stockholders will elect each of our directors to serve until the next annual meeting of our stockholders and until his or her successor is duly elected and qualifies. A plurality of the votes cast in the election of directors is sufficient to elect a director, provided, however, that pursuant to our majority vote policy for the election of directors, in an uncontested election, any nominee for director who receives a greater number of votes "withheld" from his or her election than votes "for" such election is required to tender his or her resignation to our board of directors. In addition, holders of shares of common stock will have no right to cumulative voting in the election of directors. Consequently, at each annual meeting of stockholders, subject to any applicable rights of holders of our other securities, the holders of a majority of the shares of common stock entitled to vote will be able to elect all of our directors.

Holders of the Series B Preferred Stock generally have no voting rights in the election of directors. However, if and whenever six quarterly dividends (whether or not consecutive) payable on the Series B Preferred Stock are in arrears, whether or not declared, the number of our directors will be increased automatically by two (unless the number of our directors has previously been so increased pursuant to the terms of any class or series of preferred stock ranking on parity with the Series B Preferred Stock with respect to the payment of dividends and amounts upon our liquidation, dissolution or winding up and upon which like voting rights have been conferred and are exercisable (any such other series, the “parity preferred stock”) and with which the holders of Series B Preferred Stock are entitled to vote together as a single class in the election of such directors) and the holders of Series B Preferred Stock and the holders of any class or series of parity preferred stock with which the holders of Series B Preferred Stock are entitled to vote together as a single class in the election of such directors, voting as a single class, will have the right to elect two directors of our company (the “Preferred Stock Directors”) at any annual meeting of stockholders or properly called special meeting of the holders of the Series B Preferred Stock (including to fill any vacancy on the board of directors resulting from the removal of a Preferred Stock Director), until all such dividends and dividends for the then current quarterly period on the Series B Preferred Stock have been paid or declared and set aside for payment. Whenever all such dividends on the Series B Preferred Stock then outstanding have been paid and full dividends on the Series B Preferred Stock for the then-current quarterly dividend period have been paid in full or declared and set apart for payment in full, then the right of the holders of the Series B Preferred Stock to elect the Preferred Stock Directors will cease and, unless there remain outstanding shares of parity preferred stock of any class or series for which the right to vote in the election of Preferred Stock Directors remains exercisable, the terms of office of the Preferred Stock Directors will terminate automatically and the number of our directors will be reduced accordingly and automatically. However, the right of the holders of the Series B Preferred Stock to elect the Preferred Stock Directors will again vest if and whenever dividends are in arrears for six new quarterly periods, as described above. In no event will the holders of Series B Preferred Stock be entitled to nominate or elect a director if such individual’s election as a director would cause us to fail to satisfy a requirement relating to director independence of any national securities exchange on which any class or series of our stock is listed. In class votes with other parity preferred stock, preferred stock of different series may vote in proportion to the liquidation preference of the preferred stock.

Removal of Directors

Our charter provides that, subject to the rights of holders of one or more classes or series of preferred stock to elect or remove one or more directors, a director may be removed with or without cause and only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. This provision, when coupled with the exclusive power of our board of directors to fill vacancies on our board of directors, precludes stockholders from (1) removing incumbent directors except upon a two-thirds vote and (2) filling the vacancies created by such removal with their own nominees. Preferred Stock Directors may be removed by the affirmative vote of a majority of the votes entitled to be cast in the election of Preferred Stock Directors.

Business Combinations

Under the MGCL, certain “business combinations” (including a merger, consolidation, statutory share exchange or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and an interested stockholder (defined generally as any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the corporation’s outstanding voting stock or an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation) or an affiliate of such an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. Thereafter, any such business combination must generally be recommended by the board of directors of the corporation and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by holders of outstanding voting stock of the corporation and (b) two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom (or with whose affiliate) the business combination is to be effected or held by an affiliate or associate of the interested stockholder, unless, among other conditions, the corporation’s common stockholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares. A person is not an interested stockholder under the statute if the Maryland corporation’s board of directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. The board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by it.

Pursuant to the statute, our board of directors has by resolution exempted 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 or any of its affiliates and associates, or persons acting in concert with any of the foregoing. As a result, any person described above may be able to enter into business combinations with us that may not be in the best interest of our stockholders, without compliance with the supermajority vote requirements and other provisions of the statute.

The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Control Share Acquisitions

The MGCL provides that a holder of "control shares" of a Maryland corporation acquired in a "control share acquisition" has no voting rights with respect to the control shares except to the extent approved by the affirmative vote of at least two-thirds of the votes entitled to be cast by stockholders on the matter, other than: (1) the person who makes or proposes to make a control share acquisition, (2) an officer of the corporation or (3) an employee of the corporation who is also a director of the corporation. "Control shares" are issued and outstanding voting shares of stock which, if aggregated with all other such shares of stock owned by the acquirer, or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power: (A) one-tenth or more but less than one-third; (B) one-third or more but less than a majority; or (C) a majority of all voting power. Control shares do not include shares that the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval or shares acquired directly from the corporation. A "control share acquisition" means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses and delivering an "acquiring person statement" as described in the MGCL), may compel the corporation's board of directors to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the question at any stockholders' meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an "acquiring person statement" as required by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of any meeting of stockholders at which the voting rights of such shares are considered and not approved or, if no such meeting is held, as of the date of the last control share acquisition by the acquirer. If voting rights for control shares are approved at a stockholders' meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The control share acquisition statute does not apply to, among other things, (a) shares acquired in a merger, consolidation or statutory share exchange if the corporation is a party to the transaction or (b) acquisitions approved or exempted by the charter or bylaws of the corporation.

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 is no assurance that such provision will not be amended or eliminated at any time in the future.

Subtitle 8

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of five provisions of the MGCL which provide for:

- a classified board;

- a two-thirds vote requirement for removing a director;
- a requirement that the number of directors be fixed only by vote of the board of directors;
- a requirement that a vacancy on the board be filled only by the remaining directors in office and (if the board is classified) for the remainder of the remaining term of the class of directors in which the vacancy occurred; and
- a majority requirement for the calling of a stockholder-requested special meeting of stockholders.

We have elected in our charter to be subject to the provision of Subtitle 8 that provides that, except as provided in the terms of any class or series of our stock, including our Series B Preferred Stock, vacancies on our board may be filled only by the remaining directors and that directors elected to fill vacancies will serve for the remainder of the term of the directorship in which the vacancy occurred. Through provisions in our charter and bylaws unrelated to Subtitle 8, we already (1) require the affirmative vote of stockholders entitled to cast not less than two-thirds of all of the votes entitled to be cast generally in the election of directors for the removal of any director (other than a Preferred Stock Director) from the board, with or without cause, (2) vest in the board the exclusive power to fix the number of directorships and (3) require, unless called by our chairman of the board, our chief executive officer, our president or our board of directors, the written request of stockholders entitled to cast not less than a majority of all votes entitled to be cast at such a meeting to call a special meeting.

Meetings of Stockholders

Pursuant to our bylaws, a meeting of our stockholders for the election of directors and the transaction of any business will be held annually on a date and at the time and place set by our board of directors. The chairman of our board of directors, our chief executive officer, our president or our board of directors may call a special meeting of our stockholders. Subject to the provisions of our bylaws (and other than a special meeting called as described above for the purpose of electing Preferred Stock Directors), a special meeting of our stockholders to act on any matter that may properly be brought before a meeting of our stockholders will also be called by our secretary upon the written request of the stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting on such matter and containing the information required by our bylaws. Our secretary will inform the requesting stockholders of the reasonably estimated cost of preparing and delivering the notice of meeting (including our proxy materials), and the requesting stockholder must pay such estimated cost before our secretary is required to prepare and deliver the notice of the special meeting.

Amendment to Our Charter and Bylaws

Except for amendments to the provisions of our charter relating to the removal of directors and the restrictions on ownership and transfer of our stock, and the vote required to amend these provisions (each of which must be advised by our board of directors and approved by the affirmative vote of stockholders entitled to cast at least two-thirds of all the votes entitled to be cast on the matter), our charter generally may be amended only if advised by our board of directors and approved by the affirmative vote of stockholders entitled to cast a majority of all of the votes entitled to be cast on the matter. The affirmative vote of at least two-thirds of the votes entitled to be cast by holders of outstanding shares of Series B Preferred Stock and any class or series of parity preferred stock upon which like voting rights have been conferred (voting together as a single class) is required to amend our charter (including the Articles Supplementary setting forth the terms of the Series B Preferred Stock) in a manner that materially and adversely affects the rights of the Series B Preferred Stock and any such class or series of parity preferred stock, except that, if such amendment does not affect equally the rights, preferences, privileges or voting powers of one or more class or series of preferred stock so voting together as a single class, the consent of the holders of at least two-thirds of the outstanding shares of each class or series of preferred stock not affected equally (each voting as a separate class) is required to approve such amendment.

Our board of directors has the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

Exclusive Forum for Certain Litigation

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or if that court does not have jurisdiction, the U.S. district court for the district of Maryland, Baltimore Division, will be the sole and exclusive forum for (a) any derivative action or proceeding brought on our behalf, (b) any action asserting a claim of breach of any duty owed by any director, officer, other employee or agent to us or to our stockholders, (c) any action asserting a claim against us or any director, officer, other employee or agent of ours arising pursuant to any provision of the MGCL or our charter or bylaws or (d) any action asserting a claim against us or any director, officer, other employee or agent that is governed by the internal affairs doctrine.

Dissolution of Our Company

The dissolution of our company must be advised by a majority of our entire board of directors and approved by the affirmative vote of stockholders entitled to cast a majority of all of the votes entitled to be cast on the matter.

Advance Notice of Director Nominations and New Business

Our bylaws provide that, with respect to an annual meeting of stockholders, nominations of individuals for election to our board of directors and the proposal of other business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of our board of directors or (3) by a stockholder who was a stockholder of record both at the time of giving the notice required by our bylaws and at the time of the meeting, who is entitled to vote at the meeting on such business or in the election of such nominee and who has provided notice to us within the time period containing the information specified by the advance notice provisions set forth in our bylaws.

With respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before the meeting. Nominations of individuals for election to our board of directors may be made only (1) by or at the direction of our board of directors or (2) provided that the meeting has been called for the purpose of electing directors, by a stockholder who was a stockholder of record both at the time of giving the notice required by our bylaws and at the time of the special meeting, who is entitled to vote at the meeting in the election of such nominee and who has provided notice to us within the time period containing the information specified by the advance notice provisions set forth in our bylaws.

Anti-Takeover Effect of Certain Provisions of Maryland Law and of Our Charter and Bylaws

Our charter and bylaws and Maryland law contain provisions that may delay, defer or prevent a change in control or other transaction that might involve a premium price for shares of our common stock or otherwise be in the best interests of our stockholders, including business combination provisions, supermajority vote requirements and advance notice requirements for director nominations and stockholder proposals. Likewise, if the provision in our bylaws opting out of the control share acquisition provisions of the MGCL were rescinded or if we were to opt in to the classified board or other provisions of Subtitle 8, these provisions of the MGCL could have similar anti-takeover effects.

REIT Qualification

Our charter provides that our board of directors may authorize us to revoke or otherwise terminate our REIT election, without approval of our stockholders, if it determines that it is no longer in our best interests to continue to qualify as a REIT.

Exhibit 21.1

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 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 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
ACREFI B-II, LLC	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our report dated February 13, 2020, 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 of Apollo Commercial Real Estate Finance, Inc. for the year ended December 31, 2019.

1. Registration Statement No. 333-221483 on Form S-3 pertaining to Apollo Commercial Real Estate Finance Inc.'s Direct Stock Purchase and Dividend Reinvestment Plan
2. 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
3. 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.
4. 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
5. 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

/s/ DELOITTE & TOUCHE LLP

New York, New York
February 13, 2020

Exhibit 31.1

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 13, 2020

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

Exhibit 31.2

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 13, 2020

By: /s/ Jai Agarwal

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

Exhibit 32.1

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, 2019 (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 13, 2020	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, 2019 (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 13, 2020	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.